

CUMULUS MEDIA INC  
Form 10-Q  
May 10, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007.**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For or the transition period from to  
Commission file number 000-24525**

**CUMULUS MEDIA INC.**  
*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**36-4159663**  
*(I.R.S. Employer  
Identification No.)*

**14 Piedmont Center Suite 1400, Atlanta, GA**  
*(Address of Principal Executive Offices)*

**30305**  
*(ZIP Code)*

**(404) 949-0700**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 30, 2007, the registrant had outstanding 43,154,996 shares of common stock consisting of (i) 36,700,934 shares of Class A Common Stock; (ii) 5,809,191 shares of Class B Common Stock; and (iii) 644,871 shares of Class C Common Stock.

**Table of Contents**

**CUMULUS MEDIA INC.  
INDEX**

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2007 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<u>PART II. OTHER INFORMATION</u>	20
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 3. Defaults Upon Senior Securities</u>	21
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	21
<u>Item 5. Other Information</u>	21
<u>Item 6. Exhibits</u>	21
<u>Signatures</u>	22
<u>Exhibit Index</u>	23
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>	
<u>EX-32.1 SECTION 906 CERTIFICATION OF THE CEO AND CFO</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**CUMULUS MEDIA INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except for share and per share data)  
(Unaudited)

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,997	\$ 2,392
Accounts receivable, less allowance for doubtful accounts of \$2,111 and \$1,942, in 2007 and 2006, respectively	46,233	55,013
Prepaid expenses and other current assets	8,136	5,477
Total current assets	59,366	62,882
Property and equipment, net	68,700	71,474
Intangible assets, net	934,138	934,140
Goodwill	176,791	176,791
Investment in affiliates	70,865	71,684
Other assets	13,919	16,176
Total assets	\$ 1,323,779	\$ 1,333,147
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 28,407	\$ 30,826
Current portion of long-term debt	7,500	7,500
Total current liabilities	35,907	38,326
Long-term debt	738,750	743,750
Other liabilities	17,597	17,020
Deferred income taxes	193,457	197,044
Total liabilities	985,711	996,140
Stockholders equity:		
Preferred stock, 20,262,000 shares authorized, par value \$0.01 per share, including: 250,000 shares designated as 13 3/4% Series A Cumulative Exchangeable Redeemable Stock due 2009, stated value \$1,000 per share, and 12,000 shares designated as 12% Series B Cumulative Preferred Stock, stated value \$10,000 per share; 0 shares issued and outstanding		
Class A common stock, par value \$.01 per share; 100,000,000 shares authorized; 60,215,054 and 58,850,286 shares issued, 36,683,402 and 35,318,634 shares outstanding, in 2007 and 2006, respectively.	602	588
	58	66

Edgar Filing: CUMULUS MEDIA INC - Form 10-Q

Class B common stock, par value \$.01 per share; 20,000,000 shares authorized;  
5,809,191 and 6,630,759 shares issued and outstanding, in 2007 and 2006,  
respectively

Class C common stock, par value \$.01 per share; 30,000,000 shares authorized;  
644,871 shares issued and outstanding

Class A Treasury stock, at cost, 23,531,652 shares	6	6
Accumulated other comprehensive income	(282,195)	(282,194)
Additional paid-in-capital	7,027	7,028
Accumulated deficit	981,350	978,480
	(368,780)	(366,967)
 Total stockholders' equity	 338,068	 337,007
 Total liabilities and stockholders' equity	 \$ 1,323,779	 \$ 1,333,147

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

**CUMULUS MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except for share and per share data)  
(Unaudited)

	<b>Three Months Ended March 31, 2007</b>	<b>Three Months Ended March 31, 2006</b>
Broadcast revenues	\$ 71,401	\$ 75,269
Management fee from affiliate	1,000	
Net revenues	72,401	75,269
Operating expenses:		
Station operating expenses, excluding depreciation, amortization and LMA fees (including provision for doubtful accounts of \$645 and \$909 in 2007 and 2006, respectively)	51,646	53,567
Depreciation and amortization	3,871	4,813
LMA fees	165	205
Corporate general and administrative (including non-cash stock compensation of \$2,341 and \$3,503, in 2007 and 2006, respectively)	6,728	7,689
Total operating expenses	62,410	66,274
Operating income	9,991	8,995
Nonoperating income (expense):		
Interest expense	(14,627)	(6,670)
Interest income	84	144
Other (expense), net	(29)	(362)
Total nonoperating expenses, net	(14,572)	(6,888)
Income (loss) before income taxes	(4,581)	2,107
Income tax expense (benefit)	(3,587)	1,250
Equity loss in affiliate	(819)	
Net income (loss)	\$ (1,813)	\$ 857
<b>Basic and diluted income per common share:</b>		
Basic income per common share	\$ (0.04)	\$ 0.01
Diluted income per common share	\$ (0.04)	\$ 0.01
Weighted average common shares outstanding	43,206,683	60,074,811
Weighted average diluted common shares outstanding	43,206,683	61,531,604



**Table of Contents**

**CUMULUS MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(Unaudited)

	<b>Three months ended March 31, 2007</b>	<b>Three Months Ended March 31, 2006</b>
Cash flows from operating activities:		
Net income (loss)	\$ (1,813)	\$ 857
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,862	4,658
Amortization of intangible assets and other	9	155
Amortization of debt issuance costs	111	223
Provision for doubtful accounts	645	909
Change in the fair value of derivative instruments	1,994	(850)
Deferred income taxes	(3,587)	1,250
Non-cash stock compensation	2,341	3,503
Net gain on disposition of fixed assets	16	16
Equity loss in affiliate	819	
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	8,132	3,387
Prepaid expenses and other current assets	(2,657)	(790)
Accounts payable and accrued expenses	(1,458)	4,541
Other assets	131	1,355
Other liabilities	147	(98)
Net cash provided by operating activities	8,692	19,116
Cash flows from investing activities:		
Dispositions		33
Purchase of intangible assets		(306)
Escrow deposits on pending acquisitions		306
Capital expenditures	(1,104)	(3,722)
Other	(13)	(36)
Net cash used in investing activities	(1,117)	(3,725)
Cash flows from financing activities:		
Proceeds from bank credit facility		21,000
Repayments of borrowings from bank credit facility	(5,000)	(14,000)
Proceeds from issuance of common stock	30	287
Payments for repurchases of common stock		(25,714)
Net cash provided by (used in) financing activities	(4,970)	(18,427)
Increase (Decrease) in cash and cash equivalents	2,605	(3,036)
Cash and cash equivalents at beginning of period	2,392	5,121



Edgar Filing: CUMULUS MEDIA INC - Form 10-Q

Cash and cash equivalents at end of period	\$	4,997	\$	2,085
Non-cash operating, investing and financing activities:				
Trade revenue	\$	3,629	\$	3,717
Trade expense		3,642		3,719
Interest paid	\$	13,302	\$	6,604

*See accompanying notes to condensed consolidated financial statements.*

5

---

**Table of Contents**

**CUMULUS MEDIA INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. Interim Financial Data and Basis of Presentation**

***Interim Financial Data***

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Cumulus Media Inc. ( Cumulus , we or the Company ) and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of results of the interim periods have been made and such adjustments were of a normal and recurring nature. The results of operations and cash flows for the three months ended March 31, 2007 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2007.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, intangible assets, derivative financial instruments, income taxes, restructuring and contingencies and litigation. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

***Recent Accounting Pronouncement***

*FIN 48.* In July 2006, the FASB issued SFAS Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of SFAS Statement No. 109.* FIN 48 applies to all tax positions accounted for under SFAS 109. FIN 48 refers to tax positions as positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include the following:

a decision not to file a tax return in a particular jurisdiction for which a return might be required,

an allocation or a shift of income between taxing jurisdictions,

the characterization of income or a decision to exclude reporting taxable income in a tax return, or

a decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 clarifies that a tax benefit may be reflected in the financial statements only if it is more likely than not that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. This is a change from prior practice, whereby companies was able to recognize a tax benefit only if it is probable a tax position will be sustained.

The Company adopted the provisions of FIN 48 on January 1, 2007. The Company classifies interest and penalties relating to uncertain tax positions in income taxes. The Company files numerous income tax returns at the United States federal jurisdiction and for various state jurisdictions. One of our subsidiaries is subject to filing in a foreign jurisdiction. For U.S. federal purposes, due to the net operating losses available, we are no longer subject to examination for years prior to 1997. With few exceptions we are no longer subject to state and local or non-U.S. income tax examinations for the years before 2003.

The Company has identified one uncertain tax position related to state income tax matters. Prior to the adoption of FIN 48, management identified this issue and recorded a contingent liability for estimated income tax, interest and penalties. The Company reorganized its corporate structure and eliminated this type of transaction. The audit for the state with the largest potential liability was settled in late 2006 and subsequently paid. The Company determined that the income tax positions taken with these other states are not more likely than not to be sustained, and thus retained the contingencies previously recorded for these other states and will reverse them as the open years are no longer subject to examination, principally in the third and fourth quarters of 2007. On January 1, 2007, the contingency recorded for these remaining states was approximately \$5.7 million, including penalties and interest of approximately \$2.4 million. This entire amount, if recognized, would affect the effective tax rate.

**Table of Contents**

**2. Share-Based Compensation**

On March 1, 2007, the Compensation Committee of the Board of Directors granted 110,000 restricted shares of its Class A Common Stock to certain officers, other than the Chief Executive Officer. The restricted shares were granted pursuant to the Cumulus Media Inc. 2004 Equity Incentive Plan, and are subject to the continued employment of the recipient for a specified period of time. Consistent with the terms of the awards, one-half of the shares granted will vest after two years of continuous employment. An additional one-eighth of the remaining restricted shares will vest each quarter during the third and fourth years following the date of grant. The fair value at the date of grant of these shares was \$1.1 million. Stock compensation expense for these fixed awards will be accounted for as liability classified awards which will require revaluation at the end of each accounting period.

On March 1, 2007, the Compensation Committee of the Board of Directors granted 320,000 restricted shares of its Class A Common Stock to Mr. L. Dickey, the Company's Chief Executive Officer. The restricted shares were granted pursuant to Mr. L. Dickey's Third Amended and Restated Employment Agreement and are comprised of 160,000 shares of time-vested restricted Class A common stock which were previously accounted for in December 2006, as a result of the shares being effectively awarded at that time. Vesting of performance restricted shares is dependent upon achievement of compensation committee-approved criteria for the three-year period beginning on January 1 of the fiscal year of the date of grant.

**3. Derivative Financial Instruments**

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard requires the Company to recognize all derivatives on the balance sheet at fair value. Derivative value changes are recorded in income for any contracts not classified as qualifying hedging instruments. For derivatives qualifying as cash flow hedge instruments, the effective portion of the derivative fair value change must be recorded through other comprehensive income, a component of stockholders equity.

In May 2005, Cumulus entered into a forward-starting LIBOR-based interest rate swap arrangement (the May 2005 Swap) to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rate of LIBOR. The May 2005 Swap, which became effective as of March 13, 2006, the end of the term of the Company's prior swap (see further discussion below) and will expire March 13, 2009, unless extended pursuant to its terms, changes the variable-rate cash flow exposure on \$400 million of the Company's long-term bank borrowings to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the May 2005 Swap, Cumulus receives LIBOR-based variable interest rate payments and makes fixed interest rate payments, thereby creating fixed-rate long-term debt. The May 2005 Swap was previously accounted for as a qualifying cash flow hedge of the future variable rate interest payments in accordance with SFAS No. 133, whereby changes in the fair market value are reflected as adjustments to the fair value of the derivative instrument as reflected on the accompanying balance sheets.

**Table of Contents**

For the three months ended March 31, 2007 the May 2005 Swap did not qualify as a cash flow hedging instrument and accordingly, this swap was, and will be henceforth, accounted for by mark-to-market accounting. Interest expense for the three months ended March 31, 2007 includes a charge of \$2.0 million for the mark-to-market adjustment.

The fair value of the May 2005 Swap is determined periodically by obtaining quotations from Bank of America, the financial institution that is the counterparty to the Company's swap arrangement. The fair value represents an estimate of the net amount that Cumulus would receive if the agreement was transferred to another party or cancelled as of the date of the valuation. The balance sheet as of March 31, 2007 and December 31, 2006 reflects other long-term assets of \$7.4 million and \$9.4 million, respectively, to reflect the fair value of the May 2005 Swap. During the three-month period ended March 31, 2007 and 2006, \$1.3 million and \$1.5 million, respectively, were reported as a reduction of interest expense, which represents yield adjustments on the hedged obligation.

In May 2005, Cumulus also entered into an interest rate option agreement (the May 2005 Option), which provides for Bank of America to unilaterally extend the period of the swap for two additional years, from March 13, 2009 through March 13, 2011. This option may only be exercised in March of 2009. This instrument is not highly effective in mitigating the risks in cash flows, and therefore is deemed speculative and its changes in value are accounted for as a current element of non-operating results. Interest expense for the three months ended March 31, 2006 included \$1.0 million of net gains related to the 2005 swap. The balance sheets as of March 31, 2007 and December 31, 2006 reflect other long-term liabilities of \$1.2 million and \$1.2 million, respectively, to reflect the fair value of the May 2005 Option.

Cumulus had previously entered into a LIBOR-based interest rate swap arrangement in March 2003 (the March 2003 Swap) to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rate of LIBOR. The March 2003 Swap, which expired by its terms on March 13, 2006, changed the variable-rate cash flow exposure on \$300.0 million of the Company's long-term bank borrowings to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the March 2003 swap, Cumulus received LIBOR-based variable interest rate payments and made fixed interest rate payments, thereby creating fixed-rate long-term debt. The March 2003 Swap was accounted for as a qualifying cash flow hedge of the future variable rate interest payments in accordance with SFAS No. 133, whereby changes in the fair market value are reflected as adjustments to the fair value of the derivative instrument as reflected on the accompanying balance sheets.

The fair value of the March 2003 Swap was determined periodically by obtaining quotations from the financial institution that was the counterparty to the March 2003 Swap. The fair value represented an estimate of the net amount that Cumulus would have received if the agreement was transferred to another party or cancelled as of the date of the valuation. Changes in the fair value of the March 2003 Swap have been reported in accumulated other comprehensive income, or AOCI, which is an element of stockholders' equity. These amounts subsequently have been reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings. During the three months ended March 31, 2006, \$1.5 million of income related to the March 2003 Swap was reported as a reduction of interest expense and represents a yield adjustment of the hedged debt obligation. The March 2003 Swap arrangement was closed out in March 2006 and the assets and liabilities on the balance sheet were adjusted accordingly.

**4. Acquisitions*****Completed Acquisitions***

The Company did not complete any station acquisitions during the three months ended March 31, 2007 and 2006.

At March 31, 2007 and 2006 the Company operated four and three stations, respectively, under local marketing agreements (LMAs). The consolidated statements of operations for the three months ended March 31, 2007 and 2006 include the revenue and broadcast operating expenses related to four and three radio stations and any related fees associated with the LMAs, respectively.

**Table of Contents****5. Investment in Affiliate**

On October 31, 2005, the Company announced that, together with Bain Capital Partners, The Blackstone Group and Thomas H. Lee Partners, it had formed a new private partnership, Cumulus Media Partners, LLC ( CMP ). CMP is a private partnership created by the Company and the equity partners to acquire the radio broadcasting business of Susquehanna Pfaltzgraff Co. Each of the Company and the equity partners holds a 25% equity ownership in CMP. Under the terms of the partnership arrangement, if certain performance targets are met, the Company's participation in the distribution of assets from CMP may be increased to up to 40%, with the respective participations in such distributions by each equity partner reduced to as low as 20%.

On May 5, 2006, the Company announced that the acquisition of the radio broadcasting business of Susquehanna Pfaltzgraff Co. by CMP was completed at a purchase price of approximately \$1.2 billion. Susquehanna's radio broadcasting business consisted of 33 radio stations in 8 markets: San Francisco, Dallas, Houston, Atlanta, Cincinnati, Kansas City, Indianapolis and York, Pennsylvania.

In connection with the formation of CMP, the Company contributed four radio stations (including related licenses and assets) in the Houston, Texas and Kansas City, Missouri markets and approximately \$6.2 million in cash in exchange for its membership interests in CMP. The Company recognized a gain of \$2.5 million from the transfer of assets to CMP. In addition, upon consummation of the acquisition, the Company received a payment of approximately \$3.5 million as consideration for advisory services provided in connection with the acquisition. The payment was recorded by the Company as a reduction in Cumulus's investment in CMP.

The Company's investment in CMP is accounted for under the equity method. For the three months ended March 31, 2007, the Company recorded approximately \$0.8 million, as equity in losses of affiliate. This amount is presented as part of nonoperating income (loss) on the accompanying condensed consolidated statement of operations. For the three months ended March 31, 2007, the affiliate generated revenues of \$48.8 million, operating expense of \$28.9 million and a net loss of \$2.0 million.

Concurrently with the consummation of the acquisition, the Company entered into a management agreement with a subsidiary of CMP, pursuant to which the Company's management will manage the operations of CMP's subsidiaries. The agreement provides for the Company to receive, on a quarterly basis, a management fee that is expected to be approximately 1% of the subsidiaries' annual EBITDA or \$4.0 million, whichever is greater. For the three months ended March 31, 2007, the Company recorded as net revenues approximately \$1.0 million in management fees from CMP.

**6. Long-Term Debt**

The Company's long-term debt consisted of the following at March 31, 2007 and December 31, 2006 (dollars in thousands):

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Term loan and revolving credit facilities at 7.4% and 7.6%, respectively	\$ 746,250	\$ 751,250
Less: Current portion of long-term debt	(7,500)	(7,500)
	<b>\$ 738,750</b>	<b>\$ 743,750</b>

**2006 Refinancing**

On June 23, 2006, the Company announced the completion of a tender offer for 11.5 million outstanding shares of our Class A Common Stock. In connection with the tender offer, we also agreed to repurchase 5.0 million shares of our outstanding Class B Common Stock.

In connection with the tender offer and common stock repurchase, on June 7, 2006, the Company entered into a new \$850 million credit facility, which provides for a \$100.0 million six-year revolving credit facility and a seven-year \$750.0 million term loan facility. The proceeds were used by the Company to repay all amounts

outstanding under its 2005 credit facility (approximately \$588.2 million) and to purchase the 11.5 million shares of the Company's Class A Common Stock and 5.0 million shares of the Company's Class B Common Stock, which

**Table of Contents**

occurred on June 23, 2006 and June 29, 2006, respectively, and to pay fees and expenses related to the foregoing. The remaining proceeds are being used to provide ongoing working capital (which may, in the future, include the funding of future acquisitions of radio stations) and for other general corporate purposes, including capital expenditures. As of March 31, 2007, the Company had an outstanding balance of \$30.5 million under the revolving credit facility.

The credit facility also provides for additional, incremental revolving credit or term loan facilities in an aggregate principal amount of up to an additional \$200.0 million, subject to the satisfaction of certain conditions and upon the Company providing notice prior to June 30, 2009. These incremental credit facilities are permitted from time to time, and may be used to fund future acquisitions of radio stations and for other general corporate purposes, including capital expenditures. Any incremental credit facilities will be secured and guaranteed on the same basis as the term loan and revolving credit facility.

The Company's obligations under the credit facility are collateralized by substantially all of its assets in which a security interest may lawfully be granted (including FCC licenses held by its subsidiaries), including, without limitation, intellectual property and all of the capital stock of the Company's direct and indirect domestic subsidiaries (except for Broadcast Software International, Inc.) and 65% of the capital stock of certain first-tier foreign subsidiaries. In addition, the Company's obligations under the credit facility are guaranteed by certain of its subsidiaries.

The term loan facility will mature on June 7, 2013 and amortizes in equal quarterly installments which commenced on September 30, 2006, with 0.25% of the initial aggregate advances payable each quarter during the first six years of the term, and 23.5% due in each quarter during the seventh year. The term loan facility also contains certain minimum excess cash flow payment requirements. During the three months ended March 31, 2007, the company made such a payment for \$30.5 million by drawing down on the revolving credit facility. The revolving credit facility will mature on June 7, 2012 and, except at our option, the commitment will remain unchanged up to that date.

Borrowings under the term loan facility bear interest, at the Company's option, at a rate equal to LIBOR plus 2.0% or the Alternate Base Rate (defined as the higher of the Bank of America Prime Rate and the Federal Funds rate plus 0.50%) plus 1.0%. Borrowings under the revolving credit facility will bear interest, at the Company's option, at a rate equal to LIBOR plus a margin ranging between 0.675% and 2.0% or the Alternate Base Rate plus a margin ranging between 0.0% and 1.0% (in either case dependent upon the Company's leverage ratio).

As of March 31, 2007, prior to the effect of the May 2005 Swap, the effective interest rate of the outstanding borrowings pursuant to the credit facility was approximately 7.7%.

Certain mandatory prepayments of the term loan facility would be required upon the occurrence of specified events, including upon the incurrence of certain additional indebtedness (other than under any incremental credit facilities) and upon the sale of certain assets. Under the terms of the credit agreement governing the credit facility, the Company is subject to certain restrictive financial and operating covenants including, but not limited to, maximum leverage covenants, minimum interest coverage covenants, and limitations on capital expenditures, asset dispositions and the payment of dividends. The failure to comply with the covenants would result in an event of default, which in turn would permit acceleration of debt under the credit facility. At March 31, 2007, the Company was in compliance with such financial and operating covenants.

The terms of the credit agreement contain events of default after expiration of applicable grace periods including, but not limited to, failure to make payments on the credit facility, breach of covenants, breach of representations and warranties, invalidity of the credit agreement and related documents, cross default under other agreements or conditions relating to the Company's indebtedness or that of our restricted subsidiaries, certain events of liquidation, moratorium, insolvency, bankruptcy or similar events, enforcement of security, certain litigation or other proceedings, and certain events relating to changes in control. Upon the occurrence of an event of default under the terms of the credit agreement, the majority of the lenders are able to declare all amounts under the credit facility to be due and payable and take certain other actions, including enforcement of rights in respect of the collateral. The majority of the banks extending credit under each term loan facility and the majority of the banks under each



**Table of Contents**

revolving credit facility may terminate such term loan facility and such revolving credit facility, respectively, upon an event of default.

In connection with the retirement of the Company's pre-existing credit facilities, in June 2006 the Company recorded a loss on early extinguishment of debt of \$2.3 million, which was comprised of previously capitalized loan origination expenses. In connection with the new credit facility, the Company capitalized approximately \$1.6 million of debt issuance costs, which will be amortized to interest expense over the life of the debt.

**7. Share Repurchases**

On September 28, 2004, the Company announced that its Board of Directors had authorized the repurchase, from time to time, of up to \$100.0 million of the Company's Class A Common Stock, subject to the terms of the Company's then-existing credit agreement. Subsequently, on December 7, 2005, the Company announced that its Board had authorized the purchase of up to an additional \$100.0 million of the Company's Class A Common Stock. During the three months ended March 31, 2007, the Company did not repurchase any shares of its Class A Common Stock in the open market. The Company has authority to repurchase an additional \$57.0 million of its Class A Common Stock. Due to restrictions in our credit agreement, however, the actual maximum dollar value of shares that may be purchased under our Board-approved repurchase plan as of March 31, 2007 is limited to \$2.0 million.

**8. Earnings Per Share**

The following table sets forth the computation of basic and diluted income (loss) per share for the three-month periods ended March 31, 2007 and 2006 (dollars in thousands, except per share data).

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
Numerator:		
Net (loss) income	\$ (1,813)	\$ 857
Denominator:		
Denominator for basic income per common share:		
Weighted average common shares outstanding	43,207	60,075
Effect of dilutive securities:		
Options		1,271
Restricted Shares		186
Shares applicable to diluted income per common share	43,207	61,532
Basic income per common share	\$ (0.04)	\$ 0.01
Diluted income per common share	\$ (0.04)	\$ 0.01

The Company has issued restricted shares and options to key executives and employees to purchase shares of common stock as part of the Company's stock option plans. At March 31, 2007, there were restricted shares (excluding 1,260,000 restricted shares awarded to Mr. L. Dickey and certain officers of the Company that are classified as liabilities) and options issued and outstanding to purchase the following classes of common stock:

	<b>March 31,</b>
	<b>2007</b>
Restricted shares of Class A Common Stock	255,00
Options to purchase Class A Common Stock	7,459,023
Options to purchase Class C Common Stock	1,469,440

Edgar Filing: CUMULUS MEDIA INC - Form 10-Q

For the three months ended March 31, 2007, there were 7,001,165 options not included in the calculation of weighted average diluted common shares outstanding because the exercise price of the options exceeded the average share price for the period and their effect would be anti-dilutive. For the three months ended March 31, 2006,

**Table of Contents**

7,437,688 options were not included in the calculation of weighted average diluted common shares outstanding because the exercise price of the options exceeded the average share price for the same period and this effect would be anti-dilutive.

**9. Comprehensive Income**

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting comprehensive income. Comprehensive income includes net income (loss) as currently reported under accounting principles generally accepted in the United States of America, and also considers the effect of additional economic events that are not required to be reported in determining net income, but rather are reported as a separate component of stockholders equity. The Company reports changes in the fair value of derivatives qualifying as cash flow hedges as components of comprehensive income. The components of comprehensive income are as follows (dollars in thousands):

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2007</b>	<b>2006</b>
Net (loss) income	\$ (1,813)	\$ 857
Change in the fair value of derivative instrument		2,938
Comprehensive income	\$ (1,813)	\$ 3,795

**10. Commitments and Contingencies**

The contract with Katz as described in Note 1 contains termination provisions which, if exercised by the Company during the term of the contract, would obligate the Company to pay a termination fee to Katz, calculated based upon a formula set forth in the contract.

The radio broadcast industry's principal ratings service is Arbitron, which publishes periodic ratings surveys for domestic radio markets. The Company has a five-year agreement with Arbitron under which the Company receives programming ratings materials in a majority of its markets. The Company's remaining obligation under the agreement with Arbitron totals approximately \$16.2 million as of March 31, 2007 and will be paid in accordance with the agreement through July 2009.

In December 2004, the Company purchased 240 perpetual licenses from iBiquity Digital Corporation, which will enable the Company to convert to and utilize HD Radio technology on 240 of the Company's stations. Under the terms of the agreement, the Company has committed to convert the 240 stations over a seven year period beginning in the second half of 2005. The conversion of stations to the HD Radio technology will require an investment in certain capital equipment over the next five years. Management estimates its investment will be approximately \$0.1 million per station converted.

The Company has been subpoenaed by the Office of the Attorney General of the State of New York, as were some of the other radio broadcasting companies operating in the state of New York, in connection with the New York Attorney General's investigation of promotional practices related to record companies' dealings with radio stations. We are cooperating with the Attorney General in this investigation.

The Company is also a defendant from time to time in various other lawsuits, which are generally incidental to its business. The Company is vigorously contesting all such matters and believes that their ultimate resolution will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our consolidated financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes thereto included elsewhere in this quarterly report. This discussion, as well as various other sections of this quarterly report, contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to the intent, belief or current expectations of our officers primarily with respect to our future operating performance. Any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. Risks and uncertainties that may effect forward-looking statements in this document include, without limitation, risks and uncertainties relating to leverage, the need for additional funds, FCC and government approval of pending acquisitions, our inability to renew one or more of our broadcast licenses, changes in interest rates, consummation of our pending acquisitions, integration of acquisitions, our ability to eliminate certain costs, the management of rapid growth, the popularity of radio as a broadcasting and advertising medium, changing consumer tastes, the impact of general economic conditions in the United States or in specific markets in which we currently do business, industry conditions, including existing competition and future competitive technologies and cancellation, disruptions or postponements of advertising schedules in response to national or world events. Many of these risks and uncertainties are beyond our control. This discussion identifies important factors that could cause such differences. The unexpected occurrence of any such factors would significantly alter the results set forth in these statements.

**Overview**

The following discussion of our financial condition and results of operations includes the results of acquisitions and local marketing, management and consulting agreements. As of March 31, 2007, we owned and operated 306 stations in 59 U.S. markets and provided sales and marketing services under local marketing, management and consulting agreements (pending FCC approval of acquisition) to four stations in two U.S. markets. In addition, we, along with three private equity firms, formed Cumulus Media Partners, LLC ( CMP ), which acquired the radio broadcasting business of Susquehanna Pfaltzgraff Co. ( Susquehanna ) in May 2006. The acquisition included 33 radio stations in 8 markets.

As a result of our investment in CMP and the acquisition of Susquehanna's radio operations, we continue to be the second largest radio broadcasting company in the United States based on number of stations and believe that, based upon the stations we own or manage through CMP, we are the third largest radio broadcasting company based on net revenues. Upon completion of all the Company's pending acquisitions, we, directly and through our investment in CMP, will own or operate a total of 344 radio stations in 67 U.S. markets.

**Advertising Revenue and Station Operating Income**

Our primary source of revenue is the sale of advertising time on our radio stations. Our sales of advertising time are primarily affected by the demand for advertising time from local, regional and national advertisers and the advertising rates charged by our radio stations. Advertising demand and rates are based primarily on a station's ability to attract audiences in the demographic groups targeted by its advertisers, as measured principally by Arbitron on a periodic basis—generally one, two or four times per year. Because audience ratings in local markets are crucial to a station's financial success, we endeavor to develop strong listener loyalty. We believe that the diversification of formats on our stations helps to insulate them from the effects of changes in the musical tastes of the public with respect to any particular format.

The number of advertisements that can be broadcast without jeopardizing listening levels and the resulting ratings is limited in part by the format of a particular station. Our stations strive to maximize revenue by managing their on-air inventory of advertising time and adjusting prices based upon local market conditions. In the broadcasting industry, radio stations sometimes utilize trade or barter agreements that exchange advertising time for goods or services such as travel or lodging, instead of for cash.

Our advertising contracts are generally short-term. We generate most of our revenue from local advertising, which is sold primarily by a station's sales staff. During the three months ended March 31, 2007 and 2006,

**Table of Contents**

approximately 88.3% and 85.0% of our revenues were from local advertising, respectively. We generate national advertising revenue with the assistance of an outside national representation firm. We engaged Katz Media Group, Inc. ( Katz ) to represent the Company as our national advertising sales agent.

Our revenues vary throughout the year. As is typical in the radio broadcasting industry, we expect our first calendar quarter will produce the lowest revenues for the year, and the fourth calendar quarter will generally produce the highest revenues for the year, with the exception of certain of our stations such as those in Myrtle Beach, South Carolina, where the stations generally earn higher revenues in the second and third quarters of the year because of the higher seasonal population in those communities.

Our operating results in any period may be affected by the incurrence of advertising and promotion expenses that typically do not have an effect on revenue generation until future periods, if at all. Our most significant station operating expenses are employee salaries and commissions, programming expenses, advertising and promotional expenditures, technical expenses, and general and administrative expenses. We strive to control these expenses by working closely with local station management. The performance of radio station groups, such as ours, is customarily measured by the ability to generate station operating income. See the definition of this non-GAAP measure, including a description of the reasons for its presentation, as well as a quantitative reconciliation to its most directly comparable financial measure calculated and presented in accordance with GAAP, below.

**Results of Operations**

*Analysis of Consolidated Statements of Operations.* The following analysis of selected data from the Company's consolidated statements of operations and other supplementary data should be referred to while reading the results of operations discussion that follows (dollars in thousands):

	<b>Three Months Ended March 31,  2007</b>	<b>Three Months Ended March 31,  2006</b>	<b>Dollar Change 2007 vs. 2006</b>	<b>Percent Change 2007 vs. 2006</b>
<b>STATEMENT OF OPERATIONS DATA:</b>				
Net revenues	\$ 72,401	\$ 75,269	\$ (2,868)	-3.8%
Station operating expenses excluding depreciation, amortization and LMA fees	51,646	53,567	(1,921)	-3.6%
Depreciation and amortization	3,871	4,813	(942)	-19.6%
LMA fees	165	205	(40)	-19.5%
Corporate general and administrative (including non-cash stock compensation expense)	6,728	7,689	(961)	-12.5%
Operating income	9,991	8,995	996	11.1%
Interest expense, net	14,543	6,526	8,017	122.8%
Other expense (income), net	848	362	486	134.3%
Income tax expense (benefit)	(3,587)	1,250	(4,837)	-387.0%
Net income (loss)	\$ (1,813)	\$ 857	\$ (2,670)	-311.6%

**OTHER DATA:**