NBG RADIO NETWORK INC
Form 10QSB
July 16, 2001

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended May 31, 2001
Commission File Number: 0-24075

NBG RADIO NETWORK, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	88-0362102
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

520 SW Sixth Avenue, Suite 750
Portland, Oregon 97204
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code: (503) 802-4624

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

The registrant has one class of Common Stock with 14,385,651 shares outstanding as of July 13, 2001.

Transitional Small Business Issuer Disclosure Format (check one): Yes [ ] No [X].

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NBG RADIO NETWORK, INC.
BALANCE SHEETS

ASSETS

	May 31 (Unaudited)	May 31 (Unaudited)

	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	$ 548,832	$ 480,948
Marketable equity securities, at fair value	-	468,750
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of $60,000 in 2001 and $1,200 in 2000	4,766,063	3,536,402
Unbilled receivable	152,865	-
Note receivable	167,200	167,200
Related-party receivable	5,790	99,742
Barter exchange receivables	81,880	171,494
Sales representation agreements, net of amortization	2,243,920	1,633,670
Prepaid expenses and other current assets	457,539	28,724
Total current assets	8,424,089	6,586,930
PROPERTY AND EQUIPMENT, net of accumulated depreciation	170,482	209,923
INTANGIBLE ASSETS, net of amortization	1,063,446	1,444,413
Total assets	$ 9,658,017	$ 8,241,266

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of credit	$ 500,000	$ -
Accounts payable	536,490	252,197
Accrued liabilities	3,216	10,323
Deferred programming revenue	-	500,000
Sales representation agreement liabilities	1,751,915	1,327,559
Total current liabilities	2,791,621	2,090,079
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value; 50,000,000 common shares authorized		

14,321,651 and 12,220,293 common shares issued and outstanding and 5,000,000 preferred shares authorized 0 issued and outstanding at May 31, 2001 and 2000, respectively	14,322	12,220	
Additional paid-in-capital	9,016,881	6,740,852	
Retained deficit	(1,937,267)	(520,726)	
Stock subscription receivable	(227,540)	(49,909)	
Unrealized loss on marketable equity securities, net of tax	-	(31,250)	
Total stockholders' equity	6,866,396	6,151,187	
Total liabilities and stockholders' equity	$ 9,658,017	$ 8,241,266	

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MAY 31, 2001 and MAY 31, 2000 (Unaudited)		SIX MONTHS ENDED MA and MAY 31, (Unaudited	
	2001	2000	2001	
REVENUES				
Advertising income	$ 3,322,821	$ 3,414,227	$ 6,149,719	
Kiosk income	432,684	42,630	522,184	
Interest income	531	32	4,118	
Total revenues	3,756,036	3,456,889	6,676,021	
DIRECT COSTS	2,780,662	1,858,824	4,885,516	
GROSS MARGIN	975,374	1,598,065	1,790,505	
GENERAL AND ADMINISTRATIVE EXPENSES				
Wages and employee benefits	921,620	397,394	1,547,228	
Travel and entertainment	81,099	52,812	172,779	
Consulting and professional	394,528	114,024	503,624	
Advertising	9,198	12,208	23,107	
Depreciation and amortization	107,648	110,366	215,164	
Postage and printing	31,355	41,330	61,666	
Rent	15,893	24,689	46,952	
Interest	4,357	857	20,678	
Office supplies	10,253	14,690	33,049	
Telephone	27,965	28,301	52,864	

Other expenses	34,909	26,613	127,735	
Total general and administrative expenses	1,638,825	823,284	2,804,846	
Net income (loss) before provision for income taxes	(663,451)	774,781	(1,014,341)	
Provision for income taxes	(125,000)	-	-	
Net income (loss)	$(538,451)	$ 774,781	$(1,014,341)	$
Basic loss per share of common stock	$ (0.04)	$ 0.06	$ (0.08)	
Weighted average number of shares outstanding	13,897,275	12,190,293	13,500,106	

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Stock Subscripti Receivable
	Shares	Amount			
BALANCE, November 30, 1998	10,490,700	$ 10,490	$ 3,930,211	$ (484,763)	$ (180,7
Issuance of common shares for business acquisition	350,000	350	1,266,650	-	
Exercise of options and warrants	1,319,593	1,320	1,511,550	-	
Services provided for payment of subscribed shares		-	-	-	
Net loss for the year	-	-	-	(1,264,275)	
Change in unrealized loss on marketable securities	-	-	-	-	
BALANCE, November 30, 1999	12,160,293	12,160	6,708,411	(1,749,038)	(106,0
Exercise of options	161,538	162	87,308	-	
Services provided for payment of subscribed shares	-	-	-	-	91,9
Net income for the year	-	-	-	826,112	
Change in unrealized loss on marketable securities	-	-	-	-	

Balance November 30, 2000	12,321,831	$ 12,322	$ 6,795,719	$ (922,926)	$ (14,1
Issuance of common shares	1,351,920	1,352	1,713,279	-	
Exercise of options	517,900	518	280,013	-	
Services provided for payment of subscribed shares	130,000	130	227,870	-	(213,4
Net Income (Loss)	-	-	-	(1,014,341)	
Balance May 31, 2001	14,321,651	$ 14,322	$ 9,016,881	$ (1,937,267)	$ (227,5

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED MAY 31 (Unaudited) 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/Loss	$ (1,014,341)	$ 803,328
Adjustments to reconcile net income/loss to cash from operating activities:		
Depreciation and amortization	215,164	216,906
Services provided in payment of subscribed shares	14,573	56,104
Changes in assets and liabilities:		
Accounts receivable	(852,364)	(1,415,195)
Loan receivable	-	(167,200)
Unbilled receivable	42,874	-
Related party receivable	76,452	(52,280)
Barter exchange receivable	1	(23,358)
Prepaid expenses and other current assets	(329,981)	1,554
Sales representation agreements	946,083	(477,981)
Payments on programming contract liabilities	(1,287,812)	596,854
Accounts payable	(44,640)	72,548
Accrued liabilities	(160,696)	(21,292)
Net cash from operating activities	(2,394,687)	(410,012)
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of common stock	$ 1,714,631	$ 32,500
Stock options exercised	280,531	-
Acquisition of property and equipment	(6,266)	(33,632)
Net cash from investing activities	1,988,896	(1,132)
CASH FLOWS FROM FINANCING ACTIVITIES		

Net advances on line of credit	100,000	-
Net cash from financing activities	100,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(305,791)	(411,144)
CASH, beginning of year	854,623	892,092
CASH, end	$ 548,832	$ 480,948

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED MAY 31 (Unaudited)	
	2001	2000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 20,678	$ 1,490
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capitalization of programming contract assets and recognition of related liabilities	$ 288,000	$ 1,354,994
Issuance of common stock for services, net of stock subscription receivable (($227,540) and ($55,125))	$ 14,573	$ 56,104

See Accompanying Notes

NOTE 1 - ORGANIZATION AND BUSINESS ACTIVITY

NBG Radio Network, Inc. (the Company) was organized under the laws of the state of Nevada on March 27, 1996, with the name of Nostalgia Broadcasting Corporation. In January 1998, stockholders approved the Company's name change to NBG Radio Network, Inc. The Company creates, produces, distributes and is a sales representative for national radio programs, and offers other miscellaneous services to the radio industry. The Company offers radio programs to the industry in exchange for commercial broadcast time, which the Company sells to national advertisers.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The interim consolidated financial statements include the accounts of NBG Radio Network, Inc. and its wholly owned subsidiaries, NBG Solutions, Inc., NBG Travel

Exclusives, Inc. and NBG Interactive, Inc., after elimination of inter-company transactions and balances.

The interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this interim report has been prepared by management without audit by independent public accountants who do not express an opinion thereon. The Company's annual report will contain audited financial statements. In the opinion of management, all adjustments, including normal recurring accruals necessary for fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three months anfd six months ended May 31, 2001 are not necessarily indicative of results to be anticipated for the year ending November 30, 2001.

NOTE 3 - EARNINGS PER COMMON SHARE

Earnings per common share is calculated by dividing net income by the weighted average shares outstanding.

NOTE 4 - SUBSEQUENT EVENTS

On June 29, 2001 the Company completed its acquisition (the "Acquisition") of Glenn Fisher Entertainment Corporation, a California corporation ("Fisher Entertainment"). The Acquisition was made pursuant to a Stock Purchase Agreement dated October 6, 2000, as amended (the "Agreement"), among the Company, Fisher Entertainment, and Glenn Fisher.

The Company acquired Fisher Entertainment by purchasing the outstanding stock held by its founder and sole shareholder, Glenn Fisher, for approximately $5.3 million in cash. The amount and terms of the consideration were determined through arms-length negotiations among the parties. The acquisition was financed through a $6.2 million credit facility with MCG Finance Corporation. The credit facility is secured by all of the assets of the Company - including the stock of the Company's subsidiaries - and is structured to allow for the possibility of an additional $10 million in funding to finance future strategic acquisitions.

Fisher Entertainment is engaged in the business of creating, producing and distributing syndicated radio programs and services and affiliating radio stations and providing related products and services. The assets of Fisher Entertainment include advertising rights, radio syndication rights, and employment contracts. The Acquisition also includes certain physical property used by Fisher Entertainment in the operation of its business. The Company intends that Fisher Entertainment continue to use the physical property in the operation of its business.

Glenn Fisher will hold no formal management position with the Company or Fisher Entertainment, but has signed a three-year exclusive consulting contract with Fisher Entertainment.

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward Looking Statements

The information set forth below relating to matters that are not historical facts are "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and involve risks and uncertainties which could cause actual results to differ materially from those contained in such forward looking statements. Such risks and uncertainties include, but are not limited to, the following:

- A decline in national and regional advertising
- Preference by customers of other forms of advertising such as newspapers and magazines, outdoor advertising, network radio advertising, yellow page directories and point of sale advertising
- Loss of executive management personnel
- Ability to maintain and establish new relations with radio stations
- Ability to predict public taste with respect to entertainment programs

Three Months and Six Months Ended May 31, 2001 and 2000

Reference is made to Item 6, "Management's Discussion and Analysis or Plan of Operation" included in the Company's annual report on Form 10-KSB for the year ended November 30, 2000, as amended, on file with the Securities and Exchange Commission. The following discussion and analysis pertains to the Company's results of operations for the three-month and six-month periods ended May 31, 2001, compared to the results of operations for the three-month and six-month periods ended May 31, 2000, and to changes in the Company's financial condition from November 30, 2000 to May 31, 2001.

REVENUES. Total revenues for the three months ended May 31, 2001 were $3,756,036 compared to revenues of $3,456,889 for the same period in 2000, representing an increase of $299,147, or 8%. This increase was principally due to NBG Solutions, Inc. increasing its total sales from $42,630 for the three months ended May 31, 2000 to $432,684 for the three months ended May 31, 2001. Total revenues for the six months ended May 31, 2001 were $6,676,021 compared to total revenues of $5,386,872 for the same period in 2000, representing an increase of $1,289,149, or 24%. This increase was due to the Company's acquisition of sales representation agreements and new programming over the last six months. Sales representation agreements are a great way for the Company to complement its current programming lineup. The sales representation agreements allow the Company to sell commercial broadcast inventory on behalf of an independent third party program producer. In exchange for this service the Company keeps a commission based upon the advertising time sold within the program. Thus, through these new agreements and new programming there has been an increase in inventory available for sale by the Company. In addition to this, the Company's has continued to grow its network of radio station affiliates airing their programs. Not only has the Company been able to increase its listening audience it has been successful in adding stations in the top media markets. The combination of more listeners in top markets has enabled the Company to charge more for its commercial broadcast time. The increase in rates has led to an increase in revenues. Finally, the Company's wholly owned subsidiary NBG Solutions, Inc. has increase it's revenue from $118,346 in 2000 to $522,184 in 2001.

DIRECT COSTS. Direct costs for the three months ended May 31, 2001 and 2000 were $2,780,662 and $1,858,824, respectively, representing an increase of $921,838 , or 50% . Direct costs for the six months ended May 31, 2001 and 2000 were $4,885,516 and $3,006,469, respectively, representing an increase of $1,879,047, or 63%. The increase for the 3-month and six-month periods is due primarily to the increase in the number of programs and services the Company currently provides. Since September of 2000 the Company has added 16 new programs or services to its lineup. These additions have lead to the increase in the total cost of producing the Company's programs. Long-form programs are more expensive to produce due to the increase cost of delivery of the program via satellite and the extra telephone charges incurred for caller driven programs. Short-form programs are distributed on CD via the mail, a much less expensive form of distribution.

GROSS MARGIN. Gross margin for the three months ended May 31, 2001 was $975,374, a decrease of $622,691, or 39%, compared to the same period in 2000. Gross margin for the six months ended May 31, 2001 was $1,790,505, a decrease of $589,898, or 25%, compared to the same period in 2000. The primary reason for the decrease for the three-month and six-month periods is that the Company acquired a majority of its new programs and services during the fourth quarter of 2000. In the Company's industry it is typical to sell commercial advertising six to twelve months in advance. As a result, the Company will begin to recognize revenues for these new programs in the third quarter of 2001. However, the Company has and will continue to have production costs associated with these programs in the interim periods. Gross margin percentage will be reduced until revenues are recognized for the remainder of 2001.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the three months ended May 31, 2001 was $1,638,825, representing an increase of $815,541, or 99%, over the same period in 2000. For the six months ended May 31, 2001 general and administrative expenses increased $1,227,771, or 78%, over the same period in 2000. The increase for the three-month and six-month periods is due to increased wages and employee benefits and professional fees. This increase is mainly due to the increase in staff size necessary to support the growth of the Company. Management also decided to provide additional benefits to its employees, including life insurance, disability insurance, and an increase in health and medical benefits. In addition, professional fees have increased due to a new investor relations campaign and additional legal and accounting fees related to the acquisition of new programming.

INCOME TAXES. During the three months ended February 28, 2001, the Company paid $125,000 in estimated income taxes. Due to loss carry forwards there was no provision for income taxes during the three months and six months ended May 31, 2001

NET LOSS AND EARNINGS PER SHARE. Net loss for the three months ended May 31, 2001 was $538,451, or $.04 per share, compared to net income of $774,781, or $.06 per share, for the same period in 2000. Net loss for the six months ended May 31, 2001 was $1,014,341, or $.08 per share, compared to net income of $803,328, or $.07 per share, for the same period in 2000. The loss for the three-month and six-month periods in 2001 was mainly due to the addition of many new programs that will not recognize any revenue until later in 2001 but will continue to have production expenses in the interim periods.

Earnings per share are based upon a weighted average of 13,897,275 and 12,190,293 shares outstanding on May 31, 2001 and May 31, 2000, respectively.

Liquidity and Capital Resources

Historically, the Company has financed its cash flow requirements through cash flows generated from operations and financing activities. The Company's working capital at May 31, 2001 was $5.63 million compared to $4.50 million at May 31, 2000. The increase in working capital was primarily due to an increase in accounts receivable in connection with the growth in total revenues of the Company.

In January 2001 the Company completed a private placement of 547,000 units at $1.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable immediately. The warrants are exercisable for $1.50 and expire on January 19, 2003. The Company received proceeds of $547,000 from the private placement.

In March of 2001 the Company completed a private placement of 204,920 units at $1.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable September 5, 2001. The warrants are exercisable for $1.50 and expire on March 5, 2003. The Company received proceeds of $204,920 from the private placement.

In March of 2001 the Company completed a private placement of 600,000 units at $1.75 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock exercisable immediately. The warrants are exercisable for $2.00 and expire on March 31, 2003. The Company received $1,050,000 from the private placement.

On June 29, 2001, the Company acquired Glenn Fisher Entertainment Corporation for approximately $5.3 million in cash. The acquisition was financed through a $6.2 million credit facility with MCG Finance Corporation. The credit facility retired the Company's $500,000 line of credit with Western Bank. The credit facility is secured by all of the assets of NBG - including the stock of NBG's subsidiaries - and is structured to allow for the possibility of an additional $10 million in funding to finance future strategic acquisitions. Amounts outstanding under the credit facility accrue interest at a variable rate, currently 14.71% per annum. Under the terms of the credit facility, the Company is prohibited from paying dividends on its common stock. The credit facility terminates in June 2006.

Management believes that its available cash together with operating revenues will be sufficient to fund the Company's working capital requirements through November 30, 2001. The Company's management further believes it has sufficient liquidity to implement its expansion and acquisition strategies.

PART II - OTHER INFORMATION

Item 2. Changes in Securities

(c) In March 2001, the Company completed a private placement of 204,920 units at $1.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable after September 5, 2001. The warrants are exercisable for $1.50 per share and expire on March 5, 2003. The private placement was made to four accredited investors, who are currently officers with the Company, and was exempt from registration under Sections 4(2) and 4(6) of the Securities Act of 1933 and under Rule 506 of Regulation D.

In March 2001, the Company completed a private placement of 600,000 units at $1.75 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable immediately. The warrants are exercisable for $2.00 per share and expire on March 31, 2003. The private placement was made to five accredited investors and was exempt from registration under Sections 4(2) and 4(6) of the Securities Act of 1933 and under Rule 506 of Regulation D.

Item 6. Exhibits and Reports on Form 8-K

(b) No reports on Form 8-K were required to be filed during the quarter ended May 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NBG RADIO NETWORK, INC.,
a Nevada corporation

Date: July 16, 2001

By:/s/JOHN J. BRUMFIELD

John J. Brumfield, Chief Financial Officer
Vice President, Finance
(Principal Financial and Accounting Officer)