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NBG RADIO NETWORK INC  
Form 10QSB  
October 15, 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 August 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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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

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

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 October 12, 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  
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	August 31	August 31
	2001	2000
	-----	-----
	(Unaudited)	(Unaudited)

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CURRENT ASSETS

Cash and cash equivalents	\$ 399,623	\$ 565,956
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$60,000 at August 31, 2001 and November 30, 2000; \$1,200 August 31, 2000	4,467,040	4,071,176
Unbilled receivable	-	-
Note receivable	167,200	167,200
Related-party receivable	219,790	107,674
Barter exchange receivables	102,054	109,074
Sales representation agreements, net of amortization	497,776	1,168,566
Prepaid expenses and other current assets	261,399	27,557
	-----	-----
Total current assets	6,114,882	6,217,203
	-----	-----
PROPERTY AND EQUIPMENT, net of accumulated depreciation	172,255	201,426
INTANGIBLE ASSETS, net of amortization	6,666,095	1,349,171
	-----	-----
Total assets	\$ 12,953,232	\$ 7,767,800
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

	August 31 2001	August 31 2000
	-----	-----
	(Unaudited)	(Unaudited)
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 50,000
Accounts payable	928,083	302,958
Accrued liabilities	176,339	9,831
Sales representation agreement liabilities	365,588	948,069
	-----	-----
Total current liabilities	1,470,010	1,310,858
	-----	-----
OTHER LIABILITIES		
Long-term debt, net of discount	4,121,667	-
	-----	-----
Total other liabilities	4,121,667	-
	-----	-----

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STOCKHOLDERS' EQUITY

Preferred stock, 5,000,000 shares authorized,  
and unissued

Common stock, \$.001 par value;

50,000,000 common shares authorized

14,385,651, 12,273,828, and 12,321,831

common shares issued and outstanding at August

31, 2001, August 31, 2000, and November 30,

2000, respectively

Additional paid-in capital

Retained deficit

Stock subscription receivable

14,386

11,290,610

(3,715,901)

(227,540)

12,273

6,769,799

(310,064)

(15,066)

Total stockholders' equity

7,361,555

6,456,942

Total liabilities and stockholders'  
equity

\$ 12,953,232

\$7,767,800

See Accompanying Notes

NBG RADIO NETWORK, INC.  
STATEMENTS OF OPERATIONS

THREE MONTHS ENDED August 31,

	2001	2000	2001
	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUES</b>			
Advertising income	\$ 3,300,823	\$ 2,806,192	\$ 9,4
Kiosk income	385,493	300,800	9
Interest income	1,834	140	
Total revenues	3,688,150	3,107,132	10,3
<b>DIRECT COSTS</b>	3,037,390	1,893,136	8,0
<b>GROSS MARGIN</b>	650,760	1,213,996	2,2
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Wages and employee benefits	791,922	520,056	2,1
Travel and entertainment	79,039	58,132	2
Consulting and professional	697,376	135,142	1,2
Advertising	26,181	24,933	
Depreciation and amortization	410,756	108,196	6
Postage and printing	33,227	52,298	
Rent	36,040	26,465	
Interest	254,437	1,487	2

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Office supplies	9,973	18,562	
Telephone	17,256	26,649	
Other expenses	73,187	31,414	2
	-----	-----	-----
Total general and administrative expenses	2,429,394	1,003,334	5,0
	-----	-----	-----
Net income (loss) before provision for income taxes	(1,778,634)	210,662	(2,79
Provision for income taxes	-	-	
	-----	-----	-----
Net income (loss)	\$ (1,778,634)	\$ 210,662	\$ (2,79
	=====	=====	=====
Basic earnings (loss) per share of common stock	\$ (0.12)	\$ 0.02	\$
	=====	=====	=====
Diluted earnings (loss) per share of common stock	\$ (0.12)	\$ 0.01	\$
	=====	=====	=====
Weighted average number of shares outstanding - basic	14,365,851	12,190,293	13,7
	=====	=====	=====
Weighted average number of shares outstanding - diluted	14,365,851	14,659,301	13,7
	=====	=====	=====

See Accompanying Notes

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

	Common Stock		Additional Paid-In Capital	Retained Deficit	Stock Subscriptions Receivable
	Shares	Amount			
	-----	-----	-----	-----	-----
BALANCE, November 30, 1998	10,490,700	\$ 10,490	\$ 3,930,211	\$ (484,763)	\$ (180,75
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	-	-	-	-	74,7
Net loss for the year	-	-	-	(1,264,275)	

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Change in unrealized loss on marketable securities	-	-	-	-	-
BALANCE, November 30, 1999	12,160,293	12,160	6,708,411	(1,749,038)	(106,010)
Exercise of options	161,538	162	87,308	-	-
Services provided for payment of subscribed shares	-	-	-	-	91,900
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)	\$ (14,110)
Issuance of common shares	1,351,920	1,352	1,800,568	-	-
Exercise of options	577,590	578	312,457	-	-
Issuance of common shares for services	134,000	134	231,870	-	(228,000)
Services provided for payment of subscribed shares	-	-	-	-	-
				14,537	
Allocated value of option for warrants	-	-	2,150,000	-	-
Net Loss	-	-	-	(2,792,975)	-
BALANCE, August 31, 2001	14,385,651	\$ 14,386	\$11,290,610	\$ (3,715,901)	\$ (227,540)

See Accompanying Notes

NBG RADIO NETWORK, INC.  
STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED AUGUST 31, 2001  
(Unaudited)

	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	\$ (2,792,975)
Adjustments to reconcile net income (loss) to cash from operating activities: Depreciation and amortization	625,920
Shares issued for services	4,000
Amortization of long-term debt discount to interest expense	71,667
Services provided in payment of subscribed shares	14,573
Sales representation contract agreement amortization, net of acquisition adjustments	2,440,473
Changes in assets and liabilities:	
Accounts receivable	(546,341)
Loan receivable	-
Unbilled receivables	195,739
Barter exchange receivable	(20,173)
Prepaid expenses and other assets	(283,841)
Securities available for sale	-
Deferred programming revenue	-

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Payments on sales representation agreement liabilities	(2,962,139)	
Accounts payable	269,214	
Accrued liabilities	12,427	
	-----	-----
Net cash from operating activities	(2,971,456)	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Related-party receivables	\$ (137,548)	
Unrealized gain on investment security	-	
Net cash paid for acquisition of Glenn Fisher Entertainment Corporation	(5,253,689)	
Acquisition of property and equipment	(7,262)	
	-----	-----
Net cash from investing activities	(5,398,499)	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of long-term debt	6,200,000	
Issuance of common stock	1,801,920	
Proceeds from stock options exercised and issuance of common stock	313,035	
Shares issued for services	4,000	
Discount on debt	2,150,000	
Net (payments) advances on line of credit	(400,000)	
	-----	-----
Net cash from financing activities	7,914,955	
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(455,000)	
CASH, beginning of year	854,623	
	-----	-----
CASH, end	\$ 399,623	
	=====	=====

NBG R  
STATEM

NINE MONTHS ENDED AUGUST

2001

(Unaudited)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 48,188	
	=====	=====

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Capitalization of programming contract assets and recognition of related liabilities	\$ 288,000	\$
	=====	=====

Allocated value of issued option to acquire warrants to

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additional paid-in capital	\$ 2,150,000	=====	=====
Issuance of common stock for services, net of stock subscription receivable	\$ 228,000	=====	=====

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, the 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 radio stations. The Company offers radio programs to the radio stations in exchange for commercial broadcast time, which the Company sells to national advertisers.

NOTE 2 - BASIS OF PRESENTATION

The accompanying financial statements of NBG Radio Network, Inc. (the "Company") have been prepared in accordance with the instructions to Form 10-QSB. They do not include all information and footnotes necessary for a fair presentation of financial position and results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-KSB for the year ended November 30, 2000. In the opinion of management, all adjustments considered necessary (consisting only of normal recurring adjustments) for a fair presentation have been included in the interim period. Certain reclassifications have been made to prior period financial statements to conform to current period financial statement presentation.

Operating results for the three and nine month periods ended August 31, 2001 and 2000, are not necessarily indicative of the results that may be expected for the year ended November 30, 2001, or any future period.

The interim consolidated financial statements include the accounts of NBG Radio Network, Inc. and its wholly owned subsidiaries, Glenn Fisher Entertainment Corporation ("GFEC"), NBG Solutions, Inc., NBG Travel Exclusives, Inc. and NBG Interactive, Inc., after elimination of inter-company transactions and balances. NBG Travel Exclusives, Inc. and NBG Interactive, Inc. Have had no significant activity since 1999.

NOTE 3 - EARNINGS (LOSS) PER SHARE OF COMMON STOCK

Basic earnings (loss) per share of common stock is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

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### NOTE 4 - ACQUISITION OF GLENN FISHER ENTERTAINMENT CORPORATION

Basis of Presentation - On June 29, 2001, the Company acquired all of the common stock of GFEC for approximately \$5.3 million from GFEC's sole shareholder, Glenn Fisher. As of the date of the acquisition, GFEC became a wholly owned subsidiary of the Company.

The acquisition of GFEC was accounted for using the purchase method of accounting. Under this method of accounting, the assets acquired and liabilities assumed by the Company were recorded at their respective fair market values at the effective date of acquisition as follows:

Goodwill	\$3,792,689
Identifiable intangibles (contract rights)	1,518,688
Assets	733,287
Liabilities	(764,239)
	-----
Total consideration for GFEC	\$5,280,425
	=====

In accordance with the acquisition agreement, the Company was obligated to pay up to \$400,000 for certain tax related matters incurred by the former shareholder of GFEC, with total consideration for GFEC not to exceed \$5.4 million. To date, these costs include, but may not be limited to, a liability of \$280,425.

Identifiable intangible assets (contract rights) of \$1,518,688 have been recognized and will be amortized over the lives of the underlying assets, which have a weighted average life of 2.5 years. Goodwill, the excess of the purchase price over the fair value of the assets acquired and liabilities assumed, has been recorded at \$3,792,689. Amortization of identifiable intangible assets and goodwill resulted in a charge to earnings of approximately \$298,000 for the period from acquisition (June 29, 2001) to August 31, 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No 142, Goodwill and Other Intangible Assets, which will become effective for fiscal years beginning after December 15, 2001. Under the new accounting pronouncement, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets, including recorded contract rights, will continue to be amortized over their useful lives. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets but has not yet determined what the effect of these tests will be on the earnings and financial position of the Company, if any.

Long-term Debt - The Company financed the acquisition of GFEC through a \$6.2 million credit facility with MCG Finance Corporation ("MCG"). 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 additional funding of up to \$10 million. In exchange for \$6.2 million, the Company, along with each and all of its subsidiaries, including GFEC, issued MCG a note with a face value of \$6.2 million. As additional consideration for the \$6.2 million, the Company issued MCG an option to acquire warrants to acquire the Company's common stock. The fair market value of this option is estimated to be \$2.15 million. With the proceeds, the Company acquired the stock of GFEC, retired its outstanding line of credit in the amount of \$500,000, and paid financing fees and costs related to the



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acquisition (see Note 4 to the financial statements). The Company also received excess cash to fund potential purchase price adjustments and meet the Company's working capital obligations. Disbursement of the funds was as follows:

MCG credit facility		\$6,200,000
Acquisition price of GFEC		
common stock	\$(5,000,000)	
Pre-payments by the Company	300,000	
	-----	
Paid to Glenn Fisher		\$(4,700,000)
Pay-off of the Company's line of credit		(500,000)
Prepaid loan fee		(150,000)
Financing Fees and costs		(233,700)
		-----
		(5,583,700)
Net cash to the Company		\$616,300

From the date of acquisition (June 29, 2001) to August 31, 2001, interest expense related to the financing, including deferred interest, was \$158,685. Interest expense recognized for the amortization of the pro rata share allocated to common stock warrants was \$71,666 for the same period.

Pro Forma Results of Operations - The following unaudited pro forma financial information has been prepared using the purchase method of accounting and is based on the historical financial statements of the Company and GFEC assuming the acquisition had been concluded at the beginning of the periods presented. The unaudited pro forma condensed financial information combines GFEC's balance sheet as of December 31, 2000 with the balance sheet of the Company as of November 30, 2000; and, GFEC's statement of income for the three and nine months ended September 30, 2001 with the Company's statement of income for the three and nine months ended August 31, 2001. Certain amounts in the historical financial statements of GFEC have been reclassified and adjusted to conform with the Company's historical financial presentation. All inter-company transactions have been eliminated.

The effect of the Company's acquisition of GFEC is discussed further in "Management's Discussion and Analysis" (see Part I, Item 2).

Intercompany Transactions - Prior to the acquisition of GFEC, the Company and GFEC entered into a number of joint business transactions. In its transactions with the Company, GFEC sold the Company its rights to employment and syndication agreements with radio program personalities or producers pursuant to sales representation agreements. The sales representation agreements were recorded by GFEC as contracts receivable and deferred revenues when the determinable amount of noncancellable agreements were identified. In its transactions with GFEC, the Company recognized its liabilities to GFEC in accordance with the acquired sales representation agreements. The costs of the sales representation agreements were deferred by the Company until such time that they were matched with related programming revenues.

In consolidation, the intercompany contracts receivable and deferred revenue balances recognized by GFEC and the unamortized sales representation agreement costs and contract liabilities recognized by the Company were eliminated, resulting in the recognition of \$539,754

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in additional goodwill.

Acquisition Costs and Anticipated Cost Savings - In connection with the financing with MCG, the Company incurred financing related costs of \$383,700. The costs are primarily related to due diligence and legal costs incurred by the lender, investment banking fees, and loan fees. This figure does not include the Company's legal or accounting costs incurred in connection with the acquisition of GFEC.

The Company expects to increase pre-tax income by achieving annual cost savings of \$855,000, \$772,000 and \$1,129,000 for the years ending November 30, 2001, 2002 and 2003, respectively, by acquiring GFEC and the rights to the employment, production, and syndication agreements. However, there can be no assurance that anticipated operating cost savings will be achieved in the amounts or at the times anticipated.

Consulting Agreement - As part of the acquisition by the Company, Glenn Fisher, the former president and sole shareholder of GFEC, entered into a three-year consulting agreement with the Company. Terms of the consulting agreement provide for monthly payments of \$16,667 to Fisher for the three-year period covered by the consulting agreement (see Exhibit 10.7).

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

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#### Forward Looking Statements

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The information set forth below (and in Note 4 of the interim financial statements) 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:

- o A decline in national and regional advertising
- o 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
- o Loss of executive management personnel
- o Ability to maintain and establish new relations with radio stations
- o Ability to predict public taste with respect to entertainment programs

#### Three Months and Nine Months Ended August 31, 2001 and 2000

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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 nine-month periods ended August 31, 2001, compared to the results of operations for the three-month and nine-month periods ended August 31, 2000, and to the Company's financial condition as of November 30, 2000 and August 31, 2001.

REVENUES. Revenues for the three months ended August 31, 2001 were \$3,688,150 as compared to revenues of \$3,107,132 for the same period in 2000,

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representing an increase of \$581,018, or 19%. Total revenues for the nine months ended August 31, 2001 were \$10,364,171 compared to total revenues of \$8,494,004 for the same period in 2000, representing an increase of \$1,870,167, or 22%. This increase was due to the Company's acquisition of sales representation agreements and new programming over the last six months (including contracts acquired from GFEC). These sales representation agreements complement the Company's current programming lineup. The sales representation agreements allow the Company to sell commercial broadcast inventory on behalf of independent third party program producers. In exchange for this service the Company keeps a commission based upon the advertising time sold within the program. Thus, through these new acquired programs there has been an increase in programming inventory available for sale by the Company. The Company has acquired 17 new programs and services since September 30, 2000. These acquisitions increase the amount of commercial broadcast programming the Company has available to sell and air in the top media markets across the country. In addition to increased programming inventory, the Company's has continued to grow its network of radio station affiliates airing its programs. The Company has increased its listening audience by successfully adding stations in the top media markets. Finally, the Company's wholly owned subsidiary NBG Solutions, Inc. has increased its revenues from \$419,146 for the nine-month period ended August 31, 2000 to \$907,677 for the comparable nine-month period in 2001.

**DIRECT COSTS.** Direct costs for the three months ended August 31, 2001 and 2000 were \$3,037,390 and \$1,893,136, respectively, representing an increase of \$1,144,254, or 60%. Direct costs for the nine months ended August 31, 2001 and 2000 were \$8,068,697 and \$4,474,621 respectively, representing an increase of \$3,594,076, or 80%. The increase for the three-month and nine-month periods is due primarily to the increase in the number of programs and services the Company currently provides. Since September 30, 2000 the Company has added 17 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. In addition to the higher production costs, the new programs acquired by the Company have high profile hosts such as Snoop Dogg, Hollywood Hamilton, and Dave Koz. The Company pays larger fees to these high profiled hosts because their programs are aired in top media markets. In addition to increasing the Company's programming lineup the number of sales representation contracts have increased. Under a sales representation agreement, the Company may sell commercial broadcast time to radio stations on behalf of a third party

program producer. The Company keeps a sales commission and pays the balance of the sale price to the third party program producer. These payments were \$748,145, an increase of \$454,276, or 155% for the three months ended August 31, 2001 compared to the same period in 2000. For the nine months ended August 31, 2001 sales representation payments were \$2,105,165, an increase of 219% compared to the same period in 2000. Finally, on June 29, 2001 the Company completed the acquisition of GFEC. Prior to the Company's acquisition of GFEC, the Company served as the primary sales representation firm for GFEC. As provided for by the sales representation contracts with GFEC the Company made non-refundable deposits for commercial broadcast time. Due to the cancellation of programming a portion of the pre-paid commercial broadcast time was never used. The Company's write-off to direct costs for these non-refundable deposits of unused programming inventory was \$315,123.

**GROSS MARGIN.** Gross margin for the three months ended August 31, 2001 was \$650,760, a decrease of \$563,236, or 46%, compared to the same period in 2000. Gross margin for the nine months ended August 31, 2001 was \$2,295,474, a decrease of \$1,723,909, or 43%, compared to the same period in 2000. The primary

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reason for the decrease for the three-month and nine-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 recognized only an initial portion of the revenues from these new programs in the third quarter of 2001. The Company anticipates recognizing increasing revenues for these new programs in the fourth quarter of 2001. However, the Company has and will continue to have production costs associated with these programs in the interim periods. Due to the economic downturn, advertising rates have decreased throughout the industry. Although the Company has increased its programming lineup and its presence in top media markets, the Company's growth coupled with the decline in advertising rates has resulted in a smaller gross margin for the nine months ended August 31, 2001 compared to the same period in 2000.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses for the three months ended August 31, 2001 were \$2,429,394, representing an increase of \$1,426,060, or 142%, over the same period in 2000. For the nine months ended August 31, 2001 general and administrative expenses increased \$2,653,831, or 103%, over the same period in 2000. The increase for the three-month and nine-month periods is due to increased wages and employee benefits, professional fees, depreciation and amortization, and interest expense. The Company increased the staff size in order to support the Company's growth. Management also decided to provide additional benefits to its employees, including life insurance, disability insurance, and an increase in health and medical benefits. The increase in professional fees is primarily a result of the acquisition of GFEC (see Note 4 to financial statements) and a new investor relations campaign. Amortization expense increased \$298,240 as a result of identifiable intangibles (contract rights) and goodwill acquired in the acquisition of GFEC. Finally, the interest expense for the debt outstanding under the Company's credit facility (discussed below) was \$230,372 for the period ended August 31, 2001.

**INCOME TAXES.** Due to loss carry forwards there was no provision for income taxes during the three months ended August 31, 2001. For the nine months ended August 31, 2001 the Company paid \$125,000 in estimated taxes. The payment will likely be refunded to the Company.

**NET INCOME (LOSS) AND EARNINGS (LOSS) PER SHARE.** Net loss for the three months ended August 31, 2001 was \$1,778,634, or \$.12 per diluted share, compared to net income of \$210,662, or \$.01 per diluted share, for the same period in 2000. Net loss for the nine months ended August 31, 2001 was \$2,792,975, or \$.20 per diluted share, compared to net income of \$1,438,974, or \$.10 per diluted share, for the same period in 2000. The loss for the three-month and nine-month periods in 2001 was primarily due to the overall downturn in economic conditions resulting in the cancellation or changes to advertising revenues. The Company also incurred increased non-cash expenses for the amortization of intangible assets reported in the acquisition of GFEC and interest expense associated with the financing for the GFEC acquisition in the third quarter.

On June 29, 2001 the Company acquired all of the common stock of GFEC for \$5,280,425 and, as of the date of the acquisition, GFEC became a wholly owned subsidiary of the Company. Prior to the acquisition of GFEC, the Company, through sales representation contracts, was the primary sales agent for GFEC. In consideration for the sales representation rights the Company paid a monthly fee to GFEC. The Company anticipates cost savings arising from this acquisition as a result of not having to pay the monthly fee to GFEC but rather only paying monthly operating expenses necessary to service these representation contracts (see Note 4 to the financial statements). In addition to these anticipated cost savings the Company also anticipates that it will recognize additional revenue from the GFEC program the Company was not the sales representative agent for prior to this acquisition.

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Pro-Forma results of operations have been prepared assuming the acquisition had been concluded at the beginning of the periods presented (see Note 4 to the financial statements). The following is a discussion of those results of operations.

PRO-FORMA REVENUES. Total consolidated revenues for the three months ended August 31, 2001 were \$3,688,150 compared to pro-forma revenues of \$3,722,912, representing an increase of \$34,762, or 0.94%. Total consolidated revenues for the nine months ended August 31, 2001 were \$10,364,171 compared to total consolidated pro-forma revenues of \$10,407,158, representing an increase of \$42,987, or 0.4%. This increase was due to the recognition of revenue from one program owned by GFEC that the Company was not the sales representative for prior to the acquisition of GFEC.

PRO-FORMA NET (LOSS) AND EARNINGS (LOSS) PER SHARE. Net consolidated loss for the three months ended August 31, 2001 was \$1,778,634, or \$0.08 per share, compared to a net consolidated pro-forma loss of \$2,627,036, or \$0.18 per share, representing an increase in the loss of \$848,802. Net consolidated loss for the nine months ended August 31, 2001 was \$2,792,975, or \$0.23 per share, compared to a net consolidated pro-forma loss of \$4,881,996, or \$0.40 per share, representing an increase of \$2,089,021. The main reason for the increased loss is the amortization and interest expense increase as a result of the acquisition of GFEC. For the three months ended August 31, 2001 amortization of goodwill and intangibles on a pro-forma basis increased \$447,360 and interest expense increased \$343,563. For the nine months ended August 31, 2001 amortization of goodwill and intangibles on a pro-forma basis increased \$1,188,492 and interest expense increased \$1,029,180.

### Liquidity and Capital Resources

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Historically, the Company has financed its working capital requirements through cash flows generated from operations and financing activities. The Company's working capital at August 31, 2001 was \$4.46 million compared to \$5.11 million at August 31, 2000. The primary cause for the Company's decrease in working capital was the acquisition of GFEC. When the Company acquired GFEC, it could no longer recognize its sales representation contracts with GFEC on its balance sheet because generally accepted accounting principles prohibit the recognition of intercompany transactions (see Note 4 to the financial statements).

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 per share 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 per share 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 per share and expire on March 31, 2003. The Company received \$1,050,000 from the private placement.

On June 29, 2001, the Company acquired GFEC for approximately \$5.3 million

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in cash. The acquisition was financed through a \$6.2 million credit facility with MCG. The surplus funds from the credit facility were used to retire the Company's \$500,000 line of credit with Western Bank, pay various fees and costs associated with the acquisition, and increase the Company's working capital. The MCG credit facility is secured by all of the Company's assets, including its intellectual property and the stock of its subsidiaries. The credit facility is structured to allow for the possibility of an additional \$10 million in future financing. The interest rate on the amounts outstanding under the credit facility is comprised of two parts; a deferred fixed rate of 3.0% and a variable rate. Currently the interest rate, including both the fixed and variable components, is 14.71% per annum. The variable portion of the interest rate is due quarterly while the deferred fixed portion is due upon the termination of the credit facility. The terms of the credit facility prohibit the Company from paying dividends or repurchasing its common stock. The Company was also required by the credit facility to make certain amendments to the employment agreements for John Holmes and Dean Gavoni. The credit facility terminates in June 2006 unless prepaid earlier by the Company.

As part of the consideration for the credit facility, the Company issued an option to acquire warrants to purchase shares of common stock to MCG. To exercise the option, MCG must agree to forgo collection of one-half of the fixed portion of the interest rate. The option is exercisable immediately and will expire upon the termination of the credit facility. If the option is exercised, MCG will receive warrants to acquire 4,850,235 shares of the Company's common stock. The warrants provide that 4,084,408 of these common shares may be acquired at an exercise price of \$1.20 per share and the remaining 765,827 common shares may be acquired at an exercise price of \$3.00 per share. The warrants become immediately exercisable and will expire on June 30, 2011.

On June 29, 2001, the Company issued 200,000 warrants to purchase common shares to principals at Colebrooke Capital, Inc., the Company's investment banker. The warrants were issued as compensation for the services rendered to the Company by Colebrooke Capital, Inc. during the acquisition of GFEC and the negotiation of the Company's credit facility with MCG. The warrants are exercisable immediately and will expire on June 29, 2006. The exercise price for the warrants is \$1.22 per share.

On June 30, 2001, the Company loaned a total of \$250,000 to four of its officers in exchange for unsecured promissory notes. The notes carried an interest rate of 6% and are payable in ten equal annual installments of principal and interest starting July 1, 2002. All of these notes were assigned to MCG as additional collateral for the credit facility.

Management believes that its available cash together with operating revenues will be sufficient to fund the Company's working capital requirements through November 30, 2002.

On June 29, 2001 the Company acquired all of the common stock of GFEC for \$5,280,425 and, as of the date of the acquisition, GFEC became a wholly owned subsidiary of the Company. Prior to the acquisition of GFEC, the Company, through sales representation contracts, was the primary sales agent for GFEC. In consideration for the sales representation rights the Company paid a monthly fee to GFEC. The Company anticipates cost savings arising from this acquisition as a result of not having to pay the monthly fee to GFEC but rather only paying monthly operating expenses necessary to service these representation contracts (see Note 4 to the financial statements). In addition to these anticipated cost savings the Company also anticipates that it will recognize additional revenue from the GFEC program the Company was not the sales representative agent for prior to this acquisition.

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## PART II - OTHER INFORMATION

### Item 2. Changes in Securities

(c) As part of the consideration for the credit facility, the Company issued an option to acquire warrants to purchase shares of common stock to MCG. To exercise the option, MCG must agree to forgo collection of one-half of the fixed portion of the interest rate. The option is exercisable immediately and will expire upon the termination of the credit facility. If the option is exercised, MCG will receive warrants to acquire 4,850,235 shares of the Company's common stock. The warrants provide that 4,084,408 of these common shares may be acquired at an exercise price of \$1.20 per share and the remaining 765,827 common shares may be acquired at an exercise price of \$3.00 per share. The warrants become immediately exercisable and will expire on June 30, 2011.

On June 29, 2001, the Company issued 200,000 warrants to purchase common shares to principals at Colebrooke Capital, Inc., the Company's investment banker. The warrants were issued as compensation for the services rendered to the Company by Colebrooke Capital, Inc. during the acquisition of GFEC and the negotiation of the Company's credit facility with MCG. The warrants are exercisable immediately and will expire on June 29, 2006. The exercise price for the warrants is \$1.22 per share.

Under the terms of the credit facility, the Company is prohibited from paying dividends on its common stock.

### Item 4. Submission of Matters to a Vote of Security Holders

- (a) The annual meeting of the Company was held on July 27, 2001.
- (b) The only matter of vote was the election of the Board of Directors. The following were elected as Directors of the Company: John A. Holmes, Dick Versace, Peter Jacobsen, and Ernie Capobianco.
- (c) The following are the results of the election of Directors:

- John A. Holmes	9,520,608 votes for.	0 votes against.	0 abstain.
- Dick Versace	9,302,608 votes for.	218,000 votes against.	0 abstain.
- Peter Jacobsen	9,302,608 votes for.	218,000 votes against.	0 abstain.
- Ernie Capobianco	9,520,608 votes for.	0 votes against.	0 abstain.

### Item 6. Exhibits and Reports on Form 8-K

- (a) The following are exhibits required by Item 601 of Regulation S-B:

- 2.1. Stock Purchase Agreement dated October 6, 2000 among NBG Radio Network, Inc., Glenn Fisher Entertainment Corporation, and Glenn Fisher (including First Amendment to Stock Purchase Agreement dated October 25, 2000 and Sixth Amendment to Stock Purchase Agreement dated June 29, 2001) (Filed as Exhibit 2.1 to Form 8-K)

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filed on July 13, 2001).

- 4.1 Credit Facility Agreement dated June 29, 2001 between MCG Finance Corporation and NBG Radio Network, Inc., including each of its direct and indirect subsidiaries (filed with the Form 13D by MCG Finance Corporation on July 11, 2001).
- 4.2 Master Security Agreement, Collateral Assignment and Equity Pledge dated June 29, 2001 by NBG Radio Network, Inc. and Glenn Fisher Entertainment Corporation in favor of MCG Finance Corporation (filed as Exhibit 2 to Schedule 13D by MCG Finance Corporation on July 11, 2001).
- 4.3 Intellectual Property Security Agreement dated June 29, 2001 by NBG Radio Network, Inc. in favor of MCG Finance Corporation.
- 4.4 Intellectual Property Agreement dated June 29, 2001 by Glenn Fisher Entertainment Corporation in favor of MCG Finance Corporation.
- 4.5 Option and Warrant Purchase Agreement dated June 29, 2001 between MCG Finance Corporation and NBG Radio Network, Inc. (filed as Exhibit 3 to Schedule 13D by MCG Finance Corporation filed on July 11, 2001).
- 4.6 Warrant Agreement by and between NBG Radio Network, Inc. and Sean Kenlon dated June 29, 2001.
- 4.7 Warrant Agreement by and between NBG Radio Network, Inc. and Patrick Flanagan dated June 29, 2001.
- 4.8 Warrant Agreement by and between NBG Radio Network, Inc. and Dakota Trust c/o Jay Landesman and Stephen R. Field, Trustees dated June 29, 2001.
- 10.1 Amended and Restated Employment Agreement between John A. Holmes, III and NBG Radio Network, Inc. dated July 1, 2001
- 10.2 Amended and Restated Employment Agreement between Dean Gavoni and NBG Radio Network, Inc. dated July 1, 2001
- 10.3 Promissory Note and Collateral Assignment by John A. Holmes III in favor of NBG Radio Network, Inc. dated June 30, 2001.
- 10.4 Promissory Note and Collateral Assignment by Dean Gavoni in favor of NBG Radio Network, Inc. dated June 30, 2001.
- 10.5 Promissory Note and Collateral Assignment by JJ Brumfield in favor of NBG Radio Network, Inc. dated June 30, 2001.
- 10.6 Promissory Note and Collateral Assignment by Oliver Holmes in favor of NBG Radio Network, Inc. dated June 30, 2001.
- 10.7 Consulting Agreement between Glenn Fisher Entertainment Corporation and Glenn Fisher dated June 29, 2001.

(b) The Company filed a report on Form 8-K on July 13, 2001, which reported the acquisition of GFEC. The Company filed a report on Form 8-K/A on September 14, 2001, which included the financial statements required in connection with the acquisition of GFEC.



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SIGNATURES

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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: October 15, 2001 By:

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