CUMULUS MEDIA INC
Form 10-Q
November 07, 2008

Table of Contents

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008.

o **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	**36-4159663**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
3280 Peachtree Road, NW Suite 2300, Atlanta, GA	**30305**
(Address of Principal Executive Offices)	*(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 31, 2008, the registrant had 42,486,964 outstanding shares of common stock consisting of (i) 36,032,902 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.

CUMULUS MEDIA INC.
INDEX

PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007	3
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	24
PART II. OTHER INFORMATION	24
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits	27
Signatures	28
Exhibit Index	29
EX-31.1	
EX-31.2	
EX-32.1	

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)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 61,291	$ 32,286
Accounts receivable, less allowance for doubtful accounts of $1,859 and $1,839, in 2008 and 2007, respectively	50,481	52,496
Prepaid expenses and other current assets	4,846	5,835
Total current assets	116,618	90,617
Property and equipment, net	57,549	61,735
Intangible assets, net	784,728	783,638
Goodwill	98,300	98,300
Investment in affiliate	23,939	22,252
Other assets	4,099	4,000
Total assets	$ 1,085,233	$ 1,060,542
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 19,427	$ 23,916
Other current liabilities	6,901	
Current portion of long-term debt	7,400	13,490
Total current liabilities	33,728	37,406
Long-term debt	717,260	722,810
Other liabilities	12,668	18,158
Deferred income taxes	174,356	162,890
Total liabilities	938,012	941,264
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 Preferred Stock due 2009, stated value $1,000 per share, 0 shares issued and outstanding in both 2008 and 2007 and 12,000 shares designated as 12% Series B Cumulative Preferred Stock, stated value $10,000		

per share, 0 shares issued and outstanding in both 2008 and 2007		
Class A common stock, par value $.01 per share; 100,000,000 shares authorized; 59,572,592 and 59,468,086 shares issued, 36,035,749 and 37,101,154 shares outstanding, in 2008 and 2007, respectively	596	595
Class B common stock, par value $.01 per share; 20,000,000 shares authorized; 5,809,191 shares issued and outstanding in both 2008 and 2007	58	58
Class C common stock, par value $.01 per share; 30,000,000 shares authorized; 644,871 shares issued and outstanding in both 2008 and 2007	6	6
Class A Treasury stock, at cost, 23,536,843 and 22,366,932 shares in 2008 and 2007, respectively	(266,858)	(267,084)
Accumulated other comprehensive income	1,821	4,800
Additional paid-in-capital	969,913	971,267
Accumulated deficit	(558,315)	(590,364)
Total stockholders equity	147,221	119,278
Total liabilities and stockholders equity	$ 1,085,233	$ 1,060,542

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Broadcast revenues	$ 78,950	$ 83,183	$ 233,478	$ 240,922
Management fee from affiliate	1,000	1,000	3,000	3,000
Net revenues	79,950	84,183	236,478	243,922
Operating expenses:				
Station operating expenses (excluding depreciation, amortization and LMA fees)	50,795	52,241	154,920	157,469
Depreciation and amortization	2,965	3,624	9,386	11,184
LMA fees	71	163	571	494
Corporate general and administrative (including non-cash stock compensation of $1,015, $2,679, $3,882 and $7,028, respectively)	5,006	6,981	14,562	19,761
Impairment of goodwill and intangible assets		81,335		81,335
Cost associated with terminated transaction	82	2,413	1,975	2,413
Total operating expenses	58,919	146,757	181,414	272,656
Operating income (loss)	21,031	(62,574)	55,064	(28,734)
Non-operating income (expense):				
Interest expense	(8,234)	(17,309)	(28,796)	(42,500)
Interest income	262	162	873	352
Loss on early extinguishment of debt				(986)
Terminated transaction fee			15,000	
Other income (expense), net	6	7		(163)
Total non-operating expense, net	(7,966)	(17,140)	(12,923)	(43,297)
Income (loss) before income taxes and equity in net income (loss) of affiliate	13,065	(79,714)	42,141	(72,031)
Income tax (expense) benefit	(7,349)	9,973	(11,780)	4,573
Equity in net income (loss) of affiliate	284	(789)	1,687	(2,347)
Net income (loss)	$ 6,000	$ (70,530)	$ 32,048	$ (69,805)
Basic and diluted income (loss) per common share:				
Basic income (loss) per common share	$ 0.14	($1.63)	$ 0.75	($1.62)
Diluted income (loss) per common share	$ 0.14	($1.63)	$ 0.75	($1.62)

Weighted average basic common shares outstanding	41,909,633	43,259,634	42,674,857	43,180,618
Weighted average diluted common shares outstanding	41,909,633	43,259,634	42,690,122	43,180,618

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 32,048	$ (69,805)
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt		986
Depreciation	9,378	11,148
Amortization of intangible assets	8	36
Amortization of debt issuance costs	314	323
Amortization of derivative gain	(2,979)	(828)
Provision for doubtful accounts	2,525	2,272
Gain on sale of assets or stations	(12)	(28)
Adjustment of the fair value of derivative instruments	2,034	6,093
Deferred income taxes	11,466	(2,983)
Non-cash stock compensation	3,882	7,028
Impairment of goodwill and intangible assets		81,335
Equity (income) loss on investment in unconsolidated affiliate	(1,687)	2,347
Changes in assets and liabilities:		
Accounts receivable	(511)	(3,677)
Prepaid expenses and other current assets	989	760
Accounts payable and accrued expenses	(1,602)	(3,438)
Other assets	(460)	131
Other liabilities	(1,147)	(2,605)
Net cash provided by operating activities	54,246	29,095
Cash flows from investing activities:		
Purchase of intangible assets	(1,027)	(975)
Capital expenditures	(5,203)	(3,714)
Net cash used in investing activities	(6,230)	(4,689)
Cash flows from financing activities:		
Proceeds from bank credit facility		750,000
Repayments of borrowings from bank credit facility	(11,640)	(763,100)
Payments for debt issuance costs		(997)
Tax withholding paid on behalf of employees	(2,401)	(311)
Proceeds from issuance of common stock	52	303
Payments for repurchase of common stock	(5,022)	(244)
Net cash used in financing activities	(19,011)	(14,349)
Increase in cash and cash equivalents	29,005	10,057
Cash and cash equivalents at beginning of period	32,286	2,392

Cash and cash equivalents at end of period	$ 61,291	$ 12,449
Supplemental disclosures:		
Trade revenue	$ 10,512	$ 12,513
Trade expense	$ 10,394	$ 12,498
Interest paid	$ 27,890	$ 41,020

See accompanying notes to condensed consolidated financial statements.

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, 2007. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair statement 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 nine months ended September 30, 2008 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2008.

The preparation of financial statements in conformity with GAAP 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, 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 Pronouncements

SFAS No. 141(R). Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS 141(R)), was issued in December 2007. SFAS 141(R) requires that upon initially obtaining control, an acquirer should recognize 100% of the fair values of acquired assets, including goodwill and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. SFAS 141(R) also modifies the recognition for pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141(R) amends SFAS No. 109, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Company expects to adopt SFAS 141(R) on January 1, 2009. SFAS 141(R) s impact on accounting for business combinations is dependent upon acquisitions at that time.

SFAS 157. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157), which defines fair value, provides guidance for measuring fair value and requires additional disclosures. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. For financial assets and liabilities, SFAS 157 is effective for financial statements issued for fiscal years beginning after December 31, 2007. The Company adopted these provisions of SFAS 157 effective January 1, 2008. The related disclosures are included in Note 6. On February 12, 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 , which delays the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

FSP No. 157-3. In October 2008 the FASB issued FSP SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When The*

Market for That Asset Is Not Active, or FSP 157-3, to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Company s September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect the Company s results of operations or financial condition as of and for the periods ended September 30, 2008.

SFAS 159. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, SFAS or No 159. SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Such entities are also required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS No. 159 was effective for the Company as of January 1, 2008. The Company did not elect to adopt SFAS No. 159 on current assets and liabilities, but may elect to do so in the future.

SFAS 161. In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). The Statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 will require entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently assessing the impact this statement has on its consolidated financial statements.

FSP No. 142-3. In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Lives of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. This interpretation is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. The Company is assessing the potential impact of adoption on its consolidated financial statements.

2. Stock Based Compensation

For the three and nine months ended September 30, 2008, the Company recognized approximately $1.0 million and $3.9 million, respectively, in non-cash stock-based compensation expense.

During the nine months ended September 30, 2008, the Company issued Mr. L. Dickey 160,000 restricted performance based shares and 160,000 restricted time vested shares. The fair value on the date at grant for each of these shares was $6.07. In addition, during the nine months ended September 30, 2008 the Company issued 133,000 time vested restricted shares with a fair value on the date of grant of $5.04 per share to non-employee directors and executive officers (other than Mr. L. Dickey) of the Company.

3. Investment in affiliate

The Company s investment in Cumulus Media Partners, LLC (CMP) is accounted for under the equity method. For the three and nine months ended September 30, 2008, the Company recorded approximately $0.3 million and $1.7 million as equity income in affiliate, respectively. For the three and nine months ended September 30, 2008, the affiliate generated revenues of $55.9 million and $161.7 million, operating expense of $34.8 million and $98.3 million and net income of $1.1 million and $6.7 million, respectively. For the three and nine months ended September 30, 2007, the affiliate generated revenues of $62.6 million and $174.6 million, operating expense of $35.4 million and $100.3 million and net loss of $3.2 million and $8.1 million, respectively.

Concurrent with the consummation of the acquisition of CMP, the Company entered into a management agreement with a subsidiary of CMP, pursuant to which the Company s personnel 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 CMP subsidiaries annual EBITDA or $4.0 million, whichever is greater. For the three and nine months ended September 30, 2008, the Company recorded as net revenues approximately $1.0 million and $3.0 million, respectively, in management fees from CMP.

On July 30, 2008 CMP received the resignations of Kent Weldon, Soren Oberg, Ian Loring, and John Connaughton from CMP s board of directors, each effective on such date.

The foregoing resignations were in connection with certain modifications to corporate governance rights related to CMP. As previously disclosed, in October 2005 CMP and its four members entered into an equityholders agreement (the Equityholders Agreement) that, among other things, governs the economic and voting characteristics of the units representing limited liability company membership interests in CMP, and certain rights and obligations regarding CMP s subsidiaries. The Equityholders Agreement originally provided that the boards of directors of each of CMP and its applicable subsidiaries (including the Company) would be comprised of eight members: two directors designated by each member, and each member would agree to vote for the board nominees of the others. Pursuant to an amendment to the Equityholders Agreement, which took effect on July 30, 2008, two of the members of CMP have elected to assume non-attributable ownership status for their interests in CMP for regulatory purposes, and therefore have waived their rights to designate board members of the registrant and agreed that their respective board designees will resign. Consequently, Cumulus and an affiliate of The Blackstone Group (Blackstone), as the remaining members who have not assumed non-attributable ownership status of CMP, will each have the right to appoint one-half of the directors on the boards of CMP and its applicable subsidiaries (including the Company), and have agreed that any significant action taken by the board of directors of CMP or its direct subsidiary, Holdings, including certain significant actions with respect to the Company, must be approved by a majority of the directors present at the board meeting and by a majority of the directors designated by Blackstone.

In connection with the amendment to the Equityholders Agreement described above, the members of CMP also amended the previously disclosed Advisory Services Agreement pursuant to which the equity members of CMP excluding Cumulus provide certain ongoing advisory and consulting services for an aggregate cash annual fee equal to the greater of $1.0 million or 1% of Holdings Adjusted EBITDA (as defined in the Advisory Services Agreement). Pursuant to the amendment, those members of CMP who have elected to assume non-attributable ownership status of CMP for regulatory purposes have ceased providing such services effective July 30, 2008 and, as a result, CMP s annual aggregate payment obligation for such services will be reduced by two-thirds and will be payable solely to Blackstone, as the sole remaining member continuing to provide such services.

The Company treated the above modifications to the Equityholders Agreement as a reconsideration event as defined by Financial Interpretation No. 46 (revised), *Consolidation of Variable Interest Entities* (FIN 46R). Based upon review of the reconsideration event under FIN 46R, the Company determined that the equity method of accounting for our investment in CMP continues to be appropriate.

4. Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133. This Statement 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.

May 2005 Swap

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 became effective as of March 13, 2006, the end of the term of the Company s prior swap, and will expire on March 13, 2009, unless extended pursuant to its terms. The May 2005 Swap changes the variable-rate cash flow exposure on $400 million of the Company s long-term bank borrowings to fixed-rate cash flows. 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. Starting in June 2006, the May 2005 Swap no longer qualified as a cash-flow hedging instrument. Accordingly, the changes in its fair value have since been reflected in the statement of operations instead of accumulated other comprehensive income (AOCI). Interest for the three-months ended September 30, 2008 and 2007 includes income of $2.5 million and charges of $4.9 million, respectively, related to the change in fair value. Interest

for the nine months ended September 30, 2008 and 2007 includes charges of $0.6 million and $5.5 million, respectively, related to the change in fair value.

The fair value of the May 2005 Swap was determined under the provisions of SFAS 157 using observable market based inputs (a level two measurement). The fair value represents an estimate of the net amount that Cumulus would pay if the agreement was transferred

to another party or cancelled as of the date of the valuation. The balance sheets as of September 30, 2008 and December 31, 2007 include other current liabilities of $1.0 million and other long-term liabilities of $0.4 million, respectively, to reflect the fair value of the May 2005 Swap.

May 2005 Option

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 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 interest expense. The balance sheets as of September 30, 2008 and December 31, 2007 reflect other current liabilities of $5.9 million and other long-term liabilities of $4.4 million, respectively, to include the fair value of the May 2005 Option. During the three months and nine months periods ended September 30, 2008 and 2007, the Company reported $2.1 million and $1.4 million of interest expense, respectively and $1.5 million and $0.6 million of interest expense, respectively, representing the change in fair value of the May 2005 option.

5. Long Term Debt

The Company s long-term debt consisted of the following at September 30, 2008 and December 31, 2007 (dollars in thousands):

	September 30, 2008	**December 31, 2007**
Term loan	$724,660	$736,300
Less: Current portion of long-term debt	7,400	13,490
	$717,260	$722,810

2007 Refinancing

On June 11, 2007, we entered into an amendment to our existing credit agreement, dated June 7, 2006, by and among the Company, Bank of America, N.A., as administrative agent, and the lenders party thereto. The credit agreement, as amended, is referred to herein as the Credit Agreement.

The Amended Credit Agreement provides for a replacement term loan facility, in the original aggregate principal amount of $750.0 million, to replace the prior term loan facility, which had an outstanding balance of approximately $713.9 million, and maintains the pre-existing $100.0 million revolving credit facility. The proceeds of the replacement term loan facility, fully funded on June 11, 2007, were used to repay the outstanding balances under the prior term loan facility and under the revolving credit facility.

The Company s obligations under the Credit Agreement are collateralized by substantially all of its assets to the extent 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.). In addition, the Company s obligations under the Credit Agreement are guaranteed by certain of its subsidiaries.

The Credit Agreement contains terms and conditions customary for financing arrangements of this nature. The replacement term loan facility will mature on June 11, 2014 and has been decreasing in equal quarterly installments since September 30, 2007, with 0.25% of the then current aggregate principal payable each quarter during the first six years of the term, and 23.5% due in each quarter during the seventh year. The revolving credit facility will mature on June 7, 2012 and, except at the option of the Company, the commitment will remain unchanged up to that date.

Borrowings under the term facility bear interest, at the Company s option, at a rate equal to LIBOR plus 1.75% 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 0.75%. Borrowings under the revolving credit facility 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 September 30, 2008, prior to the effect of the May 2005 Swap, the effective interest rate of the outstanding borrowings pursuant to the credit facility was approximately 4.35%. As of September 30, 2008, the effective interest rate inclusive of the May 2005 Swap was approximately 5.08%. Certain mandatory prepayments of the term loan facility will be required upon the occurrence of specified events, including upon the incurrence of certain additional indebtedness (other than under any incremental credit facilities under the Credit Agreement) and upon the sale of certain assets.

The representations, covenants and events of default in the Credit Agreement are customary for financing transactions of this nature. Events of default in the Credit Agreement include, among others, (a) the failure to pay when due the obligations owing under the credit facilities; (b) the failure to perform (and not timely remedy, if applicable) certain covenants; (c) cross default and cross acceleration; (d) the occurrence of bankruptcy or insolvency events; (e) certain judgments against the Company or any of its subsidiaries; (f) the loss, revocation or suspension of, or any material impairment in the ability to use any of our material FCC licenses; (g) any representation or warranty made, or report, certificate or financial statement delivered, to the lenders subsequently proven to have been incorrect in any material respect; (h) the occurrence of a Change in Control (as defined in the Credit Agreement); and (i) violation of certain financial covenants. Upon the occurrence of an event of default, the lenders may terminate the loan commitments, accelerate all loans and exercise any of their rights under the Credit Agreement and the ancillary loan documents as a secured party.

6. Fair Value Measurements

The Company adopted the provisions of SFAS No. 157 on January 1, 2008 as they relate to certain items, including those within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and financial and nonfinancial derivatives within the scope of SFAS No. 133. SFAS No. 157 requires, among other things, enhanced disclosures about investments that are measured and reported at fair value and establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company s financial assets are measured at fair value on a recurring basis. Financial liabilities measured at fair value on a recurring basis as of September 30, 2008 were as follows (dollars in thousands):

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash equivalents:				
Money market funds	$51,668	$21,638	$30,031	$
Treasuries	5,380	5,380		

Total assets	**$57,048**	**$27,018**	**$30,031**	**$**
Financial Liabilities:				
Other current liabilities				
Interest rate swap	$ 1,013	$	$ 1,013	$
Interest rate swap option	5,888		5,888	
Total liabilities	$ 6,901	$	$ 6,901	$

10

Cash Equivalents. A majority of the Company s domestic cash equivalents are invested in an institutional money market fund. The Company s Level 1 cash equivalents are valued using quoted prices in active markets for identical investments. The Company s Level 2 cash equivalents are not publicly traded, but valuation is based on quoted prices for similar assets.

Derivative Instruments. The Company s derivative financial instruments consist solely of interest rate cash flow hedges in which the Company pays a fixed rate and receives a variable interest rate that is observable based upon a forward interest rate curve and is therefore considered a Level 2 input.

The fair value of our derivatives are determined based on the present value of future cash flows using observable inputs, including interest rates, yield curves, and option volatility. In accordance with the requirements of FAS 157, derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the Company.

7. Share Repurchase

On May 21, 2008, the Board of Directors of Cumulus authorized the purchase, from time to time, of up to $75 million of its shares of Class A Common Stock. Repurchases may be made in the open market or through block trades, in compliance with Securities and Exchange Commission guidelines, subject to market conditions, applicable legal requirements and various other factors, including the requirements of the Company s credit facility. Cumulus has no obligation to repurchase shares under the repurchase program, and the timing, actual number and value of shares to be purchased will depend on the performance of Company s stock price, general market conditions, and various other factors within the discretion of management.

During the nine months ended September 30, 2008, the Company has repurchased in the aggregate approximately 1.6 million shares of Class A Common Stock for approximately $5.0 million in cash under the repurchase plan.

8. Earnings per Share

The following table sets forth the computation of basic and diluted income per share for the three and nine month periods ended September 30, 2008 and 2007 (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Numerator:				
Net income (loss)	$ 6,000	$ (70,530)	$ 32,048	$ (69,805)
Denominator:				
Denominator for basic income per common share:				
Weighted average common shares outstanding	41,910	43,260	42,675	43,181
Effect of dilutive securities:				
Options			15	
Restricted shares				
Shares applicable to diluted income per common share	41,910	43,260	42,690	43,181
Basic income (loss) per common share	$ 0.14	$ (1.63)	$ 0.75	$ (1.62)
Diluted income (loss) per common share	$ 0.14	$ (1.63)	$ 0.75	$ (1.62)

The Company has issued to key executives and employees, restricted stock and stock options to purchase shares of common stock as part of the Company s stock incentive plans. At September 30, 2008, the following restricted stock and stock options to purchase the following classes of common stock were issued and outstanding:

11

Table of Contents

	September 30, 2008
Restricted shares of Class A Common Stock	951,438
Options to purchase Class A Common Stock	6,275,931
Options to purchase Class C Common Stock	500,000

For the nine months ended September 30, 2008, 6,702,554, 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 period.

9. Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income,* establishes standards for reporting comprehensive income. Comprehensive income includes net income 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 components of comprehensive income are as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss)	$6,000	$(70,530)	$32,048	$(69,805)
Yield adjustment interest rate swap arrangement, net of tax	(993)	(828)	(2,979)	(828)
Comprehensive income (loss)	$5,007	$(71,358)	$29,069	$(70,633)

10. Commitments and Contingencies

The Company s national advertising representation contract with Katz Media Group Inc, (Katz) 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 that expires April 2014.

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 $2.0 million as of September 30, 2008 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 was 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 has not yet determined what effect the inquiry will have, if any, on its financial position, results of operations or cash flows.

In May 2007, the Company received a request for information and documents from the FCC related to the Company s sponsorship of identification policies and sponsorship identification practices at certain of its radio stations as requested by the FCC. The Company is cooperating with the FCC in this investigation and is in the process of producing documents and other information requested by the

---

FCC. The Company has not yet determined what effect the inquiry will have, if any, on its financial position, results of operations or cash flows.