NBG RADIO NETWORK INC
Form 10QSB
April 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 February 28, 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)

(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 13,321,831 shares outstanding as of April 9, 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

	February 28	February 29	November 30

	(Unaudited) 2001	(Unaudited) 2000	(Audited) 2000
CURRENT ASSETS			
Cash and cash equivalents	$ 238,607	$ 340,742	854,623
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	3,919,712	2,691,601	3,913,699
Unbilled receivable	172,865	-	195,739
Note receivable	167,200	-	167,200
Related-party receivable	5,790	47,462	82,242
Barter exchange receivables	81,880	144,934	81,881
Sales representation agreements, net of amortization	2,972,086	2,098,774	3,190,003
Prepaid expenses and other current assets	232,539	27,557	127,558
Total current assets	7,790,679	5,819,820	8,612,945
PROPERTY AND EQUIPMENT, net of accumulated depreciation	179,373	192,853	188,896
INTANGIBLE ASSETS, net of amortization	1,158,688	1,539,655	1,253,930
Total assets	$ 9,128,740	$ 7,552,328	$ 10,055,771

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) 2001	(Unaudited) 2000	(Audited) 2000
CURRENT LIABILITIES			
Line of credit	400,000	$ -	$ 400,000
Accounts payable	340,692	129,376	581,130
Accrued liabilities	3,939	10,762	163,912
Deferred programming revenue	-	500,000	-
Sales representation agreement liabilities	2,182,049	1,998,484	3,039,727
Total current liabilities	2,926,680	2,638,622	4,184,769
STOCKHOLDERS' EQUITY			
Common stock, $.001 par value; 50,000,000 common shares authorized 13,321,831 and 12,160,293 common shares issued and outstanding and 5,000,000 preferred shares authorized 0 issued and outstanding at February 28, 2001 and February 29, 2000, respectively	13,322	12,160	12,322
Additional paid-in-capital	7,587,094	6,708,412	6,795,719
Retained deficit	(1,398,816)	(1,720,491)	(922,926)
Stock subscription receivable	460	(55,125)	(14,113)
Unrealized loss on marketable equity securities, net of tax	-	(31,250)	-
Total stockholders' equity	6,202,060	4,913,706	5,871,002
Total liabilities and stockholders' equity	$ 9,128,740	$ 7,552,328	$ 10,055,771

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED FEBRUARY 28, 2001 and FEBRUARY 29, 2000 (Unaudited)	
	2001	2000
REVENUES		
Advertising income	$ 2,826,898	1,849,007
Kiosk income	89,500	75,716
Interest income	3,587	5,260
Total revenues	2,919,985	1,929,983
DIRECT COSTS	2,104,854	1,147,645
GROSS MARGIN	815,131	782,338
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages and employee benefits	625,608	367,244
Travel and entertainment	91,680	35,802
Consulting and professional	109,096	94,681
Advertising	13,909	10,303
Depreciation and amortization	107,516	106,540
Postage and printing	30,311	28,865
Rent	31,059	24,347
Interest	16,321	633
Office supplies	22,796	12,653
Telephone	24,899	11,776
Other expenses	92,826	60,947
Total general and administrative expenses	1,166,021	753,791
Net income (loss) before provision for income taxes	(350,890)	28,547
Provision for income taxes	125,000	-
Net income (loss)	$ (475,890)	$ 28,547
Basic loss per share of common stock	$ (0.04)	$ 0.00
Weighted average number of shares outstanding	12,955,341	12,160,293

See Accompanying Notes

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

	Common Stock		Additional Paid-In Capital	Retained Deficit	Stock Subscription Receivable
	Shares	Amount			
BALANCE, November 30, 1998	10,490,700	$ 10,490	$ 3,930,211	$ (484,763)	$(180,757)
Issuance of common shares for business acquisition	350,000	350	1,266,650	-	-
Exercise of options and	1,319,593	1,320	1,511,550	-	-
Services provided for payment of subscribed shares	-	-	-	-	74,744
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)	(106,013)
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)	$(14,113)
Issuance of common shares	547,000	547	546,453	-	-
Exercise of options	453,000	453	244,922	-	-
Services provided for payment of subscribed shares	-	-	-	-	14,573
Net Income (Loss)	-	-	-	(475,890)	
	13,321,831	$ 13,322	$7,587,094	$(1,398,816)	$ 460

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED
FEBRUARY 28 and 29
(Unaudited)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/Loss	(475,890)	$ 28,547
Adjustments to reconcile net income/loss to cash from operating activities: Depreciation and amortization	107,516	106,540
Services provided in payment of subscribed shares	14,573	50,888
Changes in assets and liabilities:		
Accounts receivable	(6,013)	3,202
Unbilled receivable	22,874	(570,394)
Related party receivable	76,452	
Barter exchange receivable	1	
Prepaid expenses and other current assets	(104,981)	2,721
Sales representation agreements	217,917	(943,085)
Payments on programming contract liabilities	(857,678)	842,795
Accounts payable	(240,438)	(50,273)
Accrued liabilities	(159,973)	(20,853)
Net cash from operating activities	(1,405,640)	(549,912)
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of common stock	$ 547,000	$ -
Stock options exercised	245,375	-
Acquisition of property and equipment	(2,751)	(1,438)
Net cash from investing activities	789,624	(1,438)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash from financing activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(616,016)	(551,350)
CASH, beginning of year	854,623	892,092
CASH, end of year	$ 238,607	$ 340,742

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED FEBRUARY 28 and 29 (Unaudited)	
	2001	2000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		

Cash paid for interest	$ 16,321	$ 633
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capitalization of programming contract assets and recognition of related liabilities	$ 288,000	$1,138,996
Issuance of common stock for services, net of stock subscription receivable ($460 and ($55,125))	$ 14,573	$ 50,888

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.

In January 1999, NBG Radio Network, Inc. completed the acquisition of M-Tek Technical Services, Inc. (see Note 3), which became NBG Solutions, Inc., a wholly-owned subsidiary of the Company involved in providing design, installation, and support for interactive kiosks and card-based customer loyalty programs. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

The interim consolidated financial statements include the accounts NBG Radio Network, Inc. and its wholly owned subsidiary, NBG Solutions, 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 ended February 28, 2001, are not necessarily indicative of results to be anticipated for the year ending November 30, 2001. Certain amounts for 2000 have been restated to conform with the 2001 presentation.

NOTE 3 - EARNINGS PER COMMON SHARE

Earnings per common share is calculated by dividing net income by the weighted average shares outstanding. The weighted average number of shares and common share equivalents have been adjusted to give retroactive effect to the 3 for 1 stock split in July 1998.

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 Ended February 28, 2001 and February 29, 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 period ended February 28, 2001, compared to the results of operations for the three-month period ended February 29, 2000, and to changes in the Company's financial condition from November 30, 2000 to February 28, 2001.

REVENUES. Total revenues for the three months ended February 28, 2001 were $2,919,985 compared to revenues of $1,929,983 for the same period in 1999, representing an increase of $990,002, or 51%. This increase was principally due to the Company's acquisition of sales representation agreements 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, the increase in inventory available for sale by the Company has resulted in significant revenue growth. 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 also 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 higher rates for its commercial broadcast time. The increase in rates has led to an increase in revenues.

DIRECT COSTS. Direct costs for the three months ended February 28, 2001 and 2000 were $2,104,854 and $1,147,645, respectively, representing an increase of $957,209, or 83%. The

increase 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 increased 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 February 28, 2001 was $815,131, an increase of $32,793, or 4%, compared to the same period 2000. The increase in gross margin during the first quarter of 2000 was principally due to the Company's significant increase in total revenues for the first three months of 2000. As a percentage of total revenues, gross margin was 28% in 2001 and 41% 2000. The primary reason for the decrease in percentage is that the Company acquired a majority of its new programs and services during the fourth quarter of 2000. In the Company's industry, commercial advertising is typically sold six to twelve months in advance. As a result, the Company will begin to recognize revenues for these new programs in the second and 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 February 28, 2001 was $1,166,021, representing an increase of $412,230, or 55% over the same period in 2000. The increase is partially due to an increase in wages and employee benefits of $258,364, or 70%, from $367,244 for the three months ended February 29, 2000 to $625,608 for the same period in 2001. 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. Travel and entertainment increased 156% from $35,802 in 2000 to $91,680 in 2001, due to the increased size of the Company's advertising and affiliate sales staff. The increased travel lead to an increase in advertising sales and the number of radio station affiliates in top media markets airing the Company's programs. Management expects general and administrative expenses to continue growing as the Company pursues acquisition of new programming and continues to develop existing programs.

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 ended February 29, 2000.

NET LOSS AND EARNINGS PER SHARE. Net loss for the three months ended February 28, 2001 was $475,890, or $.04 per share. Net income for the three months ended February 29, 2000 was $28,547, or $.00 per share. The loss for 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 12,955,341 and 12,160,293 shares outstanding on February 28, 2001 and February 29, 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 February

28, 2001 was $4.86 million compared to $3.18 million at February 29, 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 February 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 31, 2003. The Company received proceeds of $547,000 from the private placement.

The Company has no long-term debt. Currently the Company has a line of credit of up to $500,000 from Western Bank, which is secured by accounts receivable, inventory, equipment, and intangibles. The line of credit is to be paid back on July 15, 2001 at an interest rate of prime plus one-half percent. As of February 28, 2001 the Company had advances of $400,000 on the line of credit.

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 1. Exhibits and Reports on Form 8-K

(a) No reports on form 8-K were required to be filed during the quarter ended February 28, 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: April 16, 2001 By: /s/JOHN J. BRUMFIELD

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