CUMULUS MEDIA INC
Form 10-Q
August 09, 2006

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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 JUNE 30, 2006.

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.)*
14 Piedmont Center, Suite 1400, 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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 July 31, 2006, the registrant had 43,150,857 outstanding shares of common stock consisting of (i) 35,875,227 shares of Class A Common Stock; (ii) 6,630,759 shares of Class B Common Stock; and (iii) 644,871 shares of Class C Common Stock.

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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)

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 13,027	$ 5,121
Accounts receivable, less allowance for doubtful accounts of $1,838 and $2,404, respectively	55,935	54,258
Prepaid expenses and other current assets	12,441	11,705
Deferred tax assets	154	154
Total current assets	81,557	71,238
Property and equipment, net	76,235	87,588
Intangible assets, net	984,352	1,041,340
Goodwill	185,814	185,517
Investment in affiliate	74,396	
Other assets	23,650	20,683
Total assets	$ 1,426,004	$ 1,406,366
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 31,573	$ 29,561
Current portion of long-term debt	7,500	
Total current liabilities	39,073	29,561
Long-term debt	772,250	569,000
Other liabilities	16,493	17,925
Deferred income taxes	209,220	203,870
Total liabilities	1,037,036	820,356
Preferred stock, 20,262,000 shares authorized, par value $0.01 per share, including: 250,000 shares designated as 13 3/4% Series A Cumulative Exchangeable Redeemable Stock due 2009, stated value $1,000 per share, and 12,000 shares designated as 12% Series B Cumulative Preferred Stock, stated value $10,000 per share: 0 shares issued and outstanding		
Class A common stock, par value $.01 per share; 100,000,000 shares authorized; 58,484,879 and 58,307,248 shares issued, respectively; 36,202,727 and 49,536,596 shares outstanding, respectively	585	583

Class B common stock, par value $.01 per share; 20,000,000 shares authorized; 11,630,759 shares issued and 6,630,759 and 11,630,759 shares outstanding, respectively	116	116
Class C common stock, par value $.01 per share; 30,000,000 shares authorized; 644,871 shares issued and outstanding	6	6
Treasury Stock, at cost, 27,282,152 and 8,770,652 shares, respectively	(327,222)	(110,379)
Accumulated other comprehensive income	12,934	7,401
Additional paid-in-capital	1,025,401	1,016,687
Accumulated deficit	(317,860)	(323,412)
Loan to officer	(4,992)	(4,992)
Total stockholders equity	388,968	586,009
Total liabilities and stockholders equity	$ 1,426,004	$ 1,406,366

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Broadcast revenues	$ 86,716	$ 87,440	$ 161,985	$ 159,563
Management fee from affiliate	626		626	
Net revenues	87,342	87,440	162,611	159,563
Operating expenses:				
Station operating expenses, excluding depreciation, amortization and LMA fees (including non-cash termination costs of $0 in 2006 and $13,571 for the three and six months in 2005)	55,163	68,286	108,731	118,804
Depreciation and amortization	4,513	5,455	9,326	10,812
Gain on assets transferred to affiliate	(2,548)		(2,548)	
LMA fees	192	198	397	546
Corporate general and administrative (including non-cash stock compensation expense of $3,565, $1,697, $7,068 and $1,668, respectively)	8,080	5,547	15,768	9,263
Restructuring credits		(215)		(215)
Total operating expenses	65,400	79,271	131,674	139,210
Operating income	21,942	8,169	30,937	20,353
Non-operating income (expense):				
Interest expense	(9,059)	(6,575)	(15,729)	(11,796)
Interest income	159	459	303	793
Loss on early extinguishment of debt	(2,284)		(2,284)	
Other income (expense), net	525	(19)	162	(21)
Total nonoperating expenses, net	(10,659)	(6,135)	(17,548)	(11,024)
Income before income taxes	11,283	2,034	13,389	9,329
Income tax expense	(4,100)	(7,008)	(5,350)	(13,480)
Equity in income (loss) of affiliate	(2,487)		(2,487)	
Net income (loss)	$ 4,696	$ (4,974)	$ 5,552	$ (4,151)

Basic and diluted income per common share:								
Basic income (loss) per common share	$	.08	$	(0.07)	$	.09	$	(0.06)
Diluted income (loss) per common share	$	.08	$	(0.07)	$	.09	$	(0.06)
Weighted average basic common shares outstanding		58,458,708		69,127,823		59,261,743		69,107,566
Weighted average diluted common shares outstanding		59,775,116		69,127,823		60,693,194		69,107,566

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities:		
Net income (loss)	$ 5,552	$ (4,151)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Write-off of debt issue costs	2,284	
Depreciation	9,034	10,457
Amortization of intangible assets and other assets	285	356
Amortization of debt issuance costs	7	129
Provision for doubtful accounts	1,792	1,638
Non-cash contract termination costs		13,571
Adjustment of the fair value of derivative instruments	(1,129)	703
Deferred income taxes	5,350	13,480
Non-cash stock compensation	7,068	1,668
Net gain on disposition of fixed assets	16	(480)
Adjustment of restructuring charges		(215)
Gain on transfer of assets to unconsolidated affiliate	2,548	
Equity gain (loss) on investment in unconsolidated affiliate	(2,487)	
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(5,484)	(8,879)
Prepaid expenses and other current assets	(74)	2,822
Accounts payable and accrued expenses	7,384	2,969
Other assets	(2,006)	(3,217)
Other liabilities	(331)	1,684
Net cash provided by operating activities	29,809	32,535
Cash flows from investing activities:		
Acquisitions, including investment in affiliate	(2,712)	(47,389)
Purchase of intangible assets	(5,234)	(34,908)
Escrow deposits on pending acquisitions	300	(1,500)
Capital expenditures	(5,887)	(3,762)
Proceeds from sale of fixed assets	33	750
Other	(107)	(367)
Net cash used in investing activities	(13,607)	(87,176)
Cash flows from financing activities:		
Proceeds from bank credit facility	814,750	57,000
Repayments of borrowings from bank credit facility	(604,000)	(32,038)

Payments for debt issuance costs		1,029		(73)
Payment for repurchase of common stock		(220,075)		461
Net cash provided by (used in) financing activities		(8,296)		25,350
Increase (decrease) in cash and cash equivalents		7,906		(29,291)
Cash and cash equivalents at beginning of period	$	5,121	$	31,960
Cash and cash equivalents at end of period	$	13,027	$	2,669
Supplemental disclosure of cash flow information:				
Interest paid		15,071		12,581
Income taxes paid				
Non-cash operating and financing activities:				
Trade revenue	$	8,611	$	8,232
Trade expense		8,482		8,001

See accompanying notes to condensed consolidated financial statements.

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 or the Company) and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The accompanying unaudited 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 10.01 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 presentation of results of the interim periods have been made and such adjustments were of a normal and recurring nature. The results of operations and cash flows for the three and six months ended June 30, 2006 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2006.

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, restructuring, 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 from these estimates under different assumptions or conditions.

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payment*. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured based on the fair value of the equity or liability instruments issued. The Company adopted SFAS No. 123(R) using the modified prospective method effective January 1, 2006. See Note 2 for further discussion of the Company s adoption of SFAS No. 123(R).

On March 30, 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations,* which clarifies when an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN 47, which also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, was effective for the three and six months ended June 30, 2006. The adoption by the Company of FIN 47 did not have an effect on the Company s financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and SFAS No. 3*. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring that a voluntary change in accounting principle be applied retrospectively with all prior periods financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle and corrections of errors in previously issued financial statements should be termed a restatement . SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes that the adoption of SFAS No. 154 will not have an effect on the Company s condensed consolidated financial statements.

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments,* which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This statement is effective for all financial instruments acquired or issued after the beginning of the Company s fiscal year 2007 and is not expected to have a material impact on the Company s financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, which defines the threshold for recognizing the benefits or liabilities of tax return positions in a company s financial statements. The Interpretation is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company has not yet determined the impact of this new pronouncement, however, the Company will begin to assess its tax return position in order to apply the provisions of the new Interpretation for its fiscal year beginning January 1, 2007.

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Accounting for National Advertising Agency Contract

In May 2005, the Company was released from its pre-existing national advertising sales agency contract with Interep National Radio, Inc and engaged Katz Media Group, Inc (Katz) as its new national advertising sales agent. The contract has several economic elements which principally reduce the overall expected commission rate below the stated base rate. The Company estimates the overall expected commission rate over the entire contract period and applies that rate to commissionable revenue throughout the contract period with the goal of estimating and recording a stable commission rate over the life of the contract.

The following are the principal economic elements of the contract that can affect the base commission rate:

A $13.6 million non-cash charge related to the termination of our contract with our former national advertising agent.

Potential commission rebates from Katz should revenue from national advertising not meet certain targets for certain periods during the contract term. These amounts are measured annually with settlement to occur shortly thereafter. The amounts deemed probable for the periods presented of settlement relate to national advertising revenues from the first year and a portion of the second year of the Katz contract.

Potential additional commissions in excess of the base rates if Katz should exceed certain revenue targets. No additional commission payments have been assumed for the periods presented.

The potential commission adjustments are estimated and combined in the balance sheet with the contractual termination liability. That liability is adjusted to commission expense to effectuate the stable commission rate over the course of the Katz contract.

The Company s accounting for and calculation of commission expense to be realized over the life of the Katz contract requires management to make estimates and judgments that affect reported amounts of commission expense. Actual results may differ from management s estimates. Over the course of the Company s contractual relationship with Katz, management will continually update its assessment of the effective commission expense attributable to national sales in an effort to record a consistent commission rate over the term of the Katz contract.

2. Stock Based Compensation

Effective January 1 2006, the Company adopted SFAS No. 123R. See Note 1 for a description of the adoption of SFAS No. 123R. The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of the awards on the date of grant, using an option-pricing model, is affected by the Company s stock price, as well as assumptions regarding a number of complex and subjective variables and is based principally on the historical volatility. These variables include its expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends.

The Company estimates the expected term of options granted by first segregating the awards into two categories, those granted to (1) executives and (2) non-executive employees. No stock options were awarded during the three and six months ended June 30, 2006. In February 2005, the Company awarded 367,000 options. Stock options vest over four years and have a maximum contractual term of ten years. The Company estimates the volatility of its common stock by using a weighted average of historical stock price volatility over the expected term of the options. Due to the long life of expected options, management believes historical volatility is a better measure than implied volatility. The Company bases the risk-free interest rate that it uses in its option pricing model on U.S. Treasury Zero Coupon strip issues with remaining terms similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods, if actual forfeitures differ from those estimates. Similar to the expected-term assumption used in the valuation of awards, the Company splits its population into two categories, (1) executives and (2) non-executive employees. Stock-based compensation expense is recorded only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. The assumptions used for valuation of the 2005 option awards were an expected term of

7.5 years; volatility of 81%; risk-free rate of 4.2%; and an expected dividend rate of 0%.

For the three and six months ended June 30, 2006, the Company recognized approximately $3.6 million and $7.1 million, respectively, in non-cash stock-based compensation expense relating to stock options. There is no tax benefit associated with this expense due to the Company s net operating loss position. Under the previously acceptable accounting method, there would have been no compensation expense recognized in the three and six months ended June 30, 2006.

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The Company has also issued restricted stock awards to certain key employees. Generally, the restricted stock vests over a four-year period, thus the Company recognizes compensation expense over the four-year period equal to the grant date value of the shares awarded to the employee. Should the non-vested stock awards include performance or market conditions, management will examine the appropriate requisite service period to recognize the cost associated with the award on a case-by-case basis. The Company has several different plans under which stock options or restricted stock awards have been or may be granted. A complete description of these plans is contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The Company also has an Employee Stock Purchase Plan (ESPP) that allows qualifying employees to purchase shares Class A Common Stock at the end of each calendar year at 85% of the lesser of the fair market value of the Class A Common Stock on the first and last trading days of the year. Due to the significant discount offered and the inclusion of a look-back feature, the Company s current ESPP is considered compensatory upon adoption of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25.* The following table illustrates the pro forma effect on net income if the fair value-based method had been applied to all outstanding and unvested awards in the three and six months ended June 30, 2005 (dollars in thousands except for per share data).

		Three Months Ended June 30, 2005		**Six Months Ended June 30, 2005**
Net loss, as reported	$	(4,974)	$	(4,151)
Add: Stock-based compensation expense included in reported net income		1,697		1,668
Deduct: Total stock based compensation expense determined under fair value-based method		(4,700)		(7,933)
Pro forma net income	$	(7,977)	$	(10,416)
Basic loss per common share:				
As reported	$	(0.07)	$	(0.06)
Pro forma	$	(0.12)	$	(0.15)
Diluted loss per common share:				
As reported	$	(0.07)	$	(0.06)
Pro forma	$	(0.12)	$	(0.15)

As of June 30, 2006, there was $14.9 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options which will be recognized over 3.0 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

The following table sets forth the summary of option activity under the Company s stock option plan for the three and six months ended June 30, 2006:

	Shares	Exercise Price per share		Weighted Avg Exercise Price
Balance December 31, 2005	10,073,220	$ 2.79 27.88	$	14.40
Granted				
Exercised	(45,814)	$ 5.92 6.44	$	6.29
Forfeited	(25,638)	$ 5.58 19.51	$	10.05

Balance March 31, 2006	10,001,768			$	14.44
Granted					
Exercised	(7,219)	$ 5.92	6.44	$	6.28
Forfeited	(24,426)	$ 5.92	19.25	$	14.23
Balance June 30, 2006	9,970,123			$	14.44

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The following table summarizes information about stock options outstanding at June 30, 2006:

Range of Exercise Prices	Outstanding as of June 30, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of June 30, 2006	Weighted Average Exercise Price
$2.79 - $5.58	73,377	4.4 years	$ 3.94	73,377	$ 3.94
$5.58 - $8.36	2,449,484	4.5 years	$ 6.20	2,449,484	$ 6.20
$8.36 - $11.15	30,000	4.8 years	$ 9.14	30,000	$ 9.14
$11.15 - 13.94	180,000	5.3 years	$ 12.80	180,000	$ 12.80
$13.94 - 16.73	4,429,501	5.1 years	$ 14.35	3,973,217	$ 14.38
$16.73 - 19.51	1,616,448	6.8 years	$ 19.02	1,059,328	$ 18.74
$19.51 - 22.30	171,994	2.0 years	$ 20.67	171,994	$ 20.67
$22.30 - 25.09	93,815	2.0 years	$ 24.19	93,815	$ 24.19
$25.09 27.88	925,504	3.2 years	$ 27.88	925,504	$ 27.88
	9,970,123	5.0 years	$ 14.44	8,956,719	$ 14.15

3. Non-Vested (Restricted) Stock Awards

On April 25, 2005, the Compensation Committee of the Board of Directors granted 145,000 restricted shares of its Class A Common Stock to certain officers. The restricted shares were granted pursuant to the Cumulus Media Inc. 2004 Equity Incentive Plan, and are subject to the continued employment of the recipient for a specified period of time. Consistent with the terms of the awards, one-half of the shares granted will vest after two years of continuous employment. An additional one-eighth of the remaining restricted shares will vest each quarter during the third and fourth years following the date of grant. The fair value at the date of grant of these shares was $1.9 million. Stock compensation expense for these fixed awards will be recognized on a straight-line basis over each award s vesting period. For the three and six months ended June 30, 2006, the Company recognized $0.20 million and $0.35 million, respectively, of non-cash stock compensation expense related to these restricted shares. No tax benefit is recognized due to the Company s net operating loss position.

On March 3, 2006, the Compensation Committee of the Board of Directors granted 110,000 restricted shares of its Class A Common Stock to certain officers. The restricted shares were granted pursuant to the Cumulus Media Inc. 2004 Equity Incentive Plan, and are subject to the continued employment of the recipient for a specified period of time. Consistent with the terms of the awards, one-half of the shares granted will vest after two years of continuous employment. An additional one-eighth of the remaining restricted shares will vest each quarter during the third and fourth years following the date of grant. The fair value at the date of grant of these shares was $1.3 million. Stock compensation expense for these fixed awards will be recognized on a straight-line basis over each award s vesting period. For the three and six months ended June 30, 2006, the Company recognized $0.08 million and $0.11 million, respectively, of non-cash stock compensation expense related to these restricted shares.

On October 14, 2004, the Company entered into a new employment agreement with its Chairman, President and Chief Executive Officer, Lewis W. Dickey, Jr. This agreement provided that Mr. Dickey would be granted 250,000 restricted shares of Class A Common Stock in each of 2005, 2006 and 2007.

In accordance with his agreement, on April 25, 2005, the Compensation Committee of the Board of Directors granted 250,000 restricted shares to Mr. Dickey. Following the award, management concluded that, in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, Mr. Dickey s employment agreement created an effective grant date for accounting purposes as of the execution date of the agreement (October 14, 2004), for the restricted shares issued in April 2005 and the restricted shares the Company subsequently issued on March 3, 2006, as well as the restricted shares the Company is obligated to award Mr. Dickey in 2007. Non-cash stock compensation expense attributable to Mr. Dickey s shares for the three and six months ended June 30, 2006 totaled $0.5 million and $1.1 million, respectively.

The fair value on the effective grant date (October 14, 2004) of the restricted shares to be issued to Mr. Dickey, pursuant to his employment agreement, was $10.2 million.

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Consistent with terms of the awards and Mr. Dickey s employment agreement, of the restricted shares issued to Mr. Dickey in April 2005 and March 2006, 125,000 shares from each award were granted as time-vested restricted shares and 125,000 from each award were issued as performance restricted shares. The time-vested restricted shares are subject to the continued employment of Mr. Dickey. One-half of the time-vested shares will vest after two years of continuous employment from the date of grant. An additional one-eighth of the remaining time-vested shares will vest each quarter during the third and fourth years following the date of grant.

Vesting of one-half of the performance restricted shares in each grant is dependent upon the achievement of certain board-approved financial targets for the first fiscal year following the date of grant and two years of continuous employment. Vesting of the remaining one-half of the performance restricted shares in each grant is dependent upon achievement of certain board approved financial targets for the second fiscal year following the date of grant and two years of continuous employment. Any performance restricted shares that do not vest based on the performance measures will vest on the eighth anniversary of the grant date, provided that Mr. Dickey has remained employed with the Company through that date.

Subsequent to December 31, 2005, the Compensation Committee of the Board of Directors determined that the approved financial target for the first fiscal year following the date of grant and associated with one-half of the performance restricted shares granted in April 2005 was not achieved. As a result, those shares converted to time-vested shares and will vest on the eighth anniversary of the grant date.

As of June 30, 2006, management believes it is probable that the remaining performance targets associated with Mr. Dickey s performance restricted shares will be met in future years.

4. Derivative Financial Instruments

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

In May 2005, Cumulus entered into a forward-starting LIBOR-based interest rate swap arrangement (the May 2005 Swap) to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rate of LIBOR. The May 2005 Swap, effective March 2006 through March 2009, changes the variable-rate cash flow exposure on the Company s long-term bank borrowings to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the May 2005 Swap, Cumulus receives LIBOR-based variable interest rate payments and make fixed interest rate payments, thereby creating fixed-rate long-term debt. The May 2005 Swap is accounted for as a qualifying cash flow hedge of the future variable rate interest payments in accordance with SFAS No. 133, whereby changes in the fair market value are reflected as adjustments to the fair value of the derivative instrument as reflected on the accompanying condensed consolidated balance sheet.

The fair value of the May 2005 Swap is determined periodically by obtaining quotations from the financial institution that is the counterparty to the Company s swap arrangement. The fair value represents an estimate of the net amount that Cumulus would receive if the agreement was transferred to another party or cancelled as of the date of the valuation. Changes in the fair value of the May 2005 Swap are reported in accumulated other comprehensive income, or AOCI, which is an element of stockholders equity. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings. The condensed consolidated balance sheet as of June 30, 2006 reflects other long-term assets of $15.8 million to reflect the fair value of the May 2005 Swap.

In order to affect the lowest fixed rate under the May 2005 Swap, Cumulus also entered into an interest rate option agreement in May 2005 (the May 2005 Option), which provides for the counterparty to the May 2005 Swap, Bank of America, to unilaterally extend the period of the swap for two additional years, from March 2009 through March 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 operating results. Interest expense for the three and six months ended June 30, 2006 includes $0.3 million and $1.3 million, respectivel