CUMULUS MEDIA INC
Form 10-Q
July 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission file number 000-24525

Cumulus Media Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	36-4159663 (I.R.S. Employer Identification No.)
3280 Peachtree Road, NW Suite 2300, Atlanta, GA (Address of Principal Executive Offices)	30305 (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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of July 23, 2015, the registrant had 233,770,476 outstanding shares of common stock consisting of: (i) 233,125,605 shares of Class A common stock; and (ii) 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 per share data)
(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$32,734	$7,271
Restricted cash	8,421	10,055
Accounts receivable, less allowance for doubtful accounts of $5,677 and $6,004 at June 30, 2015 and December 31, 2014, respectively	242,867	248,308
Trade receivable	3,870	2,455
Assets held for sale	45,157	15,007
Prepaid expenses and other current assets	72,157	87,730
Total current assets	405,206	370,826
Property and equipment, net	189,882	221,497
Broadcast licenses	1,593,939	1,596,715
Other intangible assets, net	209,046	243,640
Goodwill	1,253,065	1,253,823
Other assets	56,490	58,940
Total assets	$3,707,628	$3,745,441
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$117,486	$151,658
Trade payable	4,687	3,964
Total current liabilities	122,173	155,622
Long-term debt, excluding 7.75% senior notes	1,877,239	1,875,127
7.75% senior notes	610,000	610,000
Other liabilities	49,199	55,121
Deferred income taxes	499,502	507,991
Total liabilities	3,158,113	3,203,861
Commitments and Contingencies (Note 11)		
Stockholders' equity:		
Class A common stock, par value $0.01 per share; 750,000,000 shares authorized; 255,443,945 and 254,997,925 shares issued, and 233,048,303 and 232,378,371 shares outstanding, at June 30, 2015 and December 31, 2014, respectively	2,553	2,549
Class C common stock, par value $0.01 per share; 644,871 shares authorized, issued and outstanding at both June 30, 2015 and December 31, 2014	6	6
Treasury stock, at cost, 22,395,642 and 22,619,554 shares at June 30, 2015 and December 31, 2014, respectively	(229,198)	(231,588)
Additional paid-in-capital	1,606,220	1,600,963
Accumulated deficit	(830,066)	(830,350)
Total stockholders' equity	549,515	541,580

Total liabilities and stockholders' equity	$3,707,628	$3,745,441

See accompanying notes to the unaudited 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,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenue	$299,334	$328,247	$570,413	$620,291
Operating expenses:				
Content costs	91,019	101,802	191,826	210,295
Selling, general & administrative expenses	118,548	118,389	234,855	233,724
Depreciation and amortization	25,724	29,071	51,035	57,952
LMA fees	2,572	1,648	5,070	3,205
Corporate expenses (including stock-based compensation expense of $3,880, $4,154, $7,743 and $8,245, respectively)	12,496	19,264	25,963	38,458
(Gain) loss on sale of assets or stations	(84)	(360)	735	(898)
Impairment charges - equity interest in Pulser Media Inc.	1,056	—	1,056	—
Total operating expenses	251,331	269,814	510,540	542,736
Operating income	48,003	58,433	59,873	77,555
Non-operating (expense) income:				
Interest expense	(35,412)	(36,468)	(70,396)	(72,733)
Interest income	27	342	385	672
Other income, net	12,373	3,593	12,757	3,529
Total non-operating expense, net	(23,012)	(32,533)	(57,254)	(68,532)
Income before income taxes	24,991	25,900	2,619	9,023
Income tax expense	(12,692)	(10,763)	(2,335)	(3,155)
Net income	$12,299	$15,137	$284	$5,868
Basic and diluted income per common share (see Note 9, "Earnings Per Share"):				
Basic: Income per share	$0.05	$0.06	$0.00	$0.03
Diluted: Income per share	$0.05	$0.06	$0.00	$0.02
Weighted average basic common shares outstanding	233,278,660	224,456,934	233,202,282	220,104,481
Weighted average diluted common shares outstanding	233,486,283	229,069,397	233,452,205	226,180,298

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$284	$5,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,035	57,952
Amortization of debt issuance costs/discounts	4,712	4,654
Provision for doubtful accounts	2,417	1,828
Loss (gain) on sale of assets or stations	735	(898)
Impairment charges - equity interest in Pulser Media Inc.	1,056	—
Fair value adjustment of derivative instruments	—	21
Deferred income taxes	2,847	3,155
Stock-based compensation expense	7,743	8,245
Changes in assets and liabilities:		
Accounts receivable	3,016	9,334
Trade receivable	(1,415)	94
Prepaid expenses and other current assets	4,244	(8,311)
Other assets	(1,206)	(8,126)
Accounts payable and accrued expenses	(34,545)	(29,354)
Trade payable	723	405
Other liabilities	(5,922)	(3,362)
Net cash provided by operating activities	35,724	41,505
Cash flows from investing activities:		
Restricted cash	1,634	(240)
Proceeds from sale of assets or stations	3,055	14,069
Capital expenditures	(14,860)	(11,248)
Net cash (used in) provided by investing activities	(10,171)	2,581
Cash flows from financing activities:		
Repayment of borrowings under term loans and revolving credit facilities	—	(66,125)
Proceeds from borrowings under term loans and revolving credit facilities	—	10,000
Deferred financing costs	—	(21)
Tax withholding payments on behalf of employees	(93)	(1,320)
Proceeds from exercise of warrants	3	103
Proceeds from exercise of options	—	602
Net cash used in financing activities	(90)	(56,761)
Increase (decrease) in cash and cash equivalents	25,463	(12,675)
Cash and cash equivalents at beginning of period	7,271	32,792
Cash and cash equivalents at end of period	$32,734	$20,117
Supplemental disclosures of cash flow information:		
Interest paid	$64,320	$68,877
Income taxes paid	2,883	10,191
Supplemental disclosures of non-cash flow information:		
Trade revenue	$17,562	$16,582
Trade expense	17,022	17,225
Equity interest in Pulser Media Inc.	2,025	5,390

See accompanying notes to the unaudited condensed consolidated financial statements.

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1. Description of Business, Interim Financial Data and Basis of Presentation:

Description of Business

Cumulus Media Inc. (and its consolidated subsidiaries, except as the context may otherwise require, “Cumulus,” “Cumulus Media,” “we,” “us,” “our,” or the “Company”) is a Delaware corporation, organized in 2002, and successor by merg to an Illinois corporation with the same name that had been organized in 1997.

Nature of Business

The Company combines high-quality local programming with iconic, nationally syndicated media, sports and entertainment brands in order to deliver premium choices for listeners, provide substantial reach for advertisers and create opportunities for shareholders. As the largest pure-play radio broadcaster in the United States, the Company provides exclusive content that is fully distributed through approximately 460 owned and operated stations in 90 U.S. media markets, approximately 8,500 broadcast radio affiliates and numerous digital channels. The Company believes it is well-positioned in the widening digital audio space through a significant stake in the Rdio digital music service, featuring over 30 million songs on-demand in addition to custom playlists and exclusive curated channels. The Company is also the leading provider of country music and lifestyle content through its NASH brand, which serves country fans through radio programming, NASH magazine, concerts, licensed products and television/video.

Interim Financial Data

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company and the notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The accompanying unaudited condensed consolidated financial statements include the condensed consolidated accounts of Cumulus and its wholly-owned subsidiaries, with all intercompany balances and transactions eliminated in consolidation. The December 31, 2014 condensed balance sheet data was derived from audited financial statements. 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 (consisting only of normal, recurring adjustments) necessary for a fair presentation of our results of operations for, and financial condition as of the end of, the interim periods have been made. The results of operations for the three and six months ended June 30, 2015, the cash flows for the six months ended June 30, 2015 and the Company’s financial condition as of June 30, 2015, are not necessarily indicative of the results of operations or cash flows that can be expected for, or the Company’s financial condition that can be expected as of the end of, any other interim period or for the fiscal year ending December 31, 2015.

Use of Estimates

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 disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including significant estimates related to bad debts, intangible assets, income taxes, stock-based compensation, contingencies, litigation, and, if applicable, purchase price allocation. 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 amounts and results may differ materially from these estimates.

Assets Held for Sale

During the six months ended June 30, 2015, the Company entered into an agreement to sell certain land to a third party. The closing of the transaction is subject to various closing conditions, including a due diligence period. The land has been classified as held for sale in the unaudited condensed consolidated balance sheet at June 30, 2015. During the year ended December 31, 2014, the Company entered into an agreement to sell certain land and buildings to a third party of which the Company expects to close in the next twelve months. The identified assets have been classified as held for sale in the unaudited condensed consolidated balance sheets at June 30, 2015 and December 31, 2014. The estimated fair value of the land and buildings for both sales are in excess of the carrying value.

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Insurance Recoveries
During the three months ended June 30, 2015, the Company recorded $14.6 million of insurance proceeds related to a business interruption claim arising from Hurricane Katrina in 2005. Of the $14.6 million proceeds, $11.6 million was received during the quarter and the remainder was received in July 2015. The Company recorded $12.4 million in other income, net and $2.2 million as an offset to corporate expenses in the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2015.
Adoption of New Accounting Standards
ASU 2014-08. In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08. Under this ASU, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. This ASU (1) expands the disclosure requirements for disposals that meet the definition of a discontinued operation, (2) requires entities to disclose information about disposals of individually significant components, (3) defines "discontinued operations" similarly to how it is defined under International Financial Reporting Standards 5, and (4) requires entities to expand their disclosures about discontinued operations to include more information about assets, liabilities, income and expenses. In addition, this ASU also requires entities to disclose the pre-tax income attributable to a disposal of "an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements." The Company adopted this guidance effective January 1, 2015. The adoption of this guidance did not have an impact on the consolidated financial statements.
Recent Accounting Standards Updates
ASU 2014-09. In May 2014, the FASB issued ASU 2014-09. The amended guidance under this ASU outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the single comprehensive revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. This ASU was originally intended to be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. In July 2015, the FASB voted to approve a one-year deferral of the effective date of this ASU. Transition to the new guidance may be done using either a full or modified retrospective method. The Company is currently assessing the expected impact that this ASU will have on the consolidated financial statements.
ASU 2014-15. In August 2014, the FASB issued ASU 2014-15. The amendments in this update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have an impact on the consolidated financial statements.
ASU 2015-01. In January 2015, the FASB issued ASU 2015-01. The amendments in this ASU eliminate the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. The ASU will be effective for fiscal years beginning after December 15, 2015 and subsequent interim periods. Early adoption is permitted. The adoption of this guidance is not expected to have an impact on the consolidated financial statements.
ASU 2015-02. In February 2015, the FASB issued ASU 2015-02. The amendments in this ASU provide modifications to the evaluation of variable interest entities that may impact consolidation of reporting entities. The ASU will be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. Early

adoption is permitted. The Company is currently assessing the expected impact, if any, that this ASU will have on the consolidated financial statements.

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ASU 2015-03. In April 2015, the FASB issued ASU 2015-03. The amendments in this ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of long-term debt, consistent with debt discounts or premiums. Presently, debt issuance costs are reported as an asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The ASU will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The new guidance would be applied retrospectively to all prior reporting periods presented. The Company is currently assessing the expected impact, if any, that this ASU will have on the consolidated financial statements.
ASU 2015-05. In April 2015, the FASB issued ASU 2015-05. The amendments in this ASU provide guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the entity should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. The new guidance does not change an entity’s accounting for service contracts. This ASU will be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. Early adoption is permitted. The Company is currently assessing the expected impact, if any, that this ASU will have on the consolidated financial statements.
ASU 2015-10. In June 2015, the FASB issued ASU 2015-10. The amendments in this ASU are intended to clarify the FASB Accounting Standards Codification (the "ASC"); correct unintended application of guidance; eliminate inconsistencies; and to improve the ASC’s presentation of guidance. This ASU will be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have an impact on the consolidated financial statements.

2. Acquisitions and Dispositions

2014 Acquisitions and Dispositions

Country Weekly Acquisition

On November 7, 2014, the Company completed the purchase of Country Weekly magazine and its related business (“Country Weekly”) for $3.0 million in cash (the "Country Weekly Acquisition"). The Company had previously included NASH branded inserts into the Country Weekly publication.

Wise Brothers Acquisition

On August 1, 2014, the Company completed the purchase of Wise Brother Media, Inc. for $5.5 million in cash (the "Wise Brothers Acquisition"). Revenues attributable to the assets acquired in the Wise Brothers Acquisition were not material to the Company’s condensed consolidated statement of operations for the year ended December 31, 2014.
The table below summarizes the final purchase price allocation in the Wise Brothers Acquisition (dollars in thousands):

Allocation	Amount
Property and equipment	$ 50
Deferred income taxes	100
Other intangible assets	5,025
Goodwill	475
Current liabilities	(75)
Other liabilities	(75)
Total purchase price	$ 5,500

The definite-lived intangible assets acquired in the Wise Brothers Acquisition are being amortized in relation to the expected economic benefits of such assets over their estimated useful lives and consist of the following (dollars in thousands):

Description	Estimated Useful Life in	Fair Value

	Years	
Other intangibles - programming content	4	$5,025

Pro forma financial information for the Country Weekly Acquisition and Wise Brothers Acquisition is not required, as such information is not material to the Company's financial statements.

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3. Restricted Cash
As of June 30, 2015 and December 31, 2014, the Company’s balance sheet included approximately $8.4 million and $10.1 million, respectively, in restricted cash, of which $0.6 million at each date relates to securing the maximum exposure generated by automated clearinghouse transactions in the Company's operating bank accounts and as dictated by the Company's bank's internal policies with respect to cash. In addition, at June 30, 2015 and December 31, 2014, the Company held $7.8 million and $9.5 million, respectively, relating to collateralizing standby letters of credit pertaining to certain leases and insurance policies.

4. Intangible Assets and Goodwill
The following table presents the changes in intangible assets, other than goodwill, during the periods from January 1, 2014 to December 31, 2014 and January 1, 2015 to June 30, 2015, and balances as of such dates (dollars in thousands):

	Indefinite-Lived	Definite-Lived	Total
Intangible Assets:			
Balance as of January 1, 2014	$ 1,596,337	$315,490	$1,911,827
Purchase price allocation adjustments	963	—	963
Acquisitions	—	8,205	8,205
Dispositions	(585)	(74)	(659)
Amortization	—	(79,981)	(79,981)
Balance as of December 31, 2014	1,596,715	243,640	1,840,355
Dispositions	(2,776)	—	(2,776)
Amortization	—	(34,594)	(34,594)
Balance as of June 30, 2015	$ 1,593,939	$209,046	$1,802,985

The following table presents the changes in goodwill and accumulated impairment losses during the periods from January 1, 2015 to June 30, 2015 and January 1, 2014 to June 30, 2014, and balances as of such dates (dollars in thousands):

Goodwill:	2015	2014
Balance as of January 1:		
Goodwill	$1,583,564	$1,586,482
Accumulated impairment losses	(329,741)	(329,741)
Subtotal	1,253,823	1,256,741
Purchase price allocation adjustments	371	(726)
Disposition	(1,129)	—
Balance as of June 30:		
Goodwill	1,582,806	1,585,756
Accumulated impairment losses	(329,741)	(329,741)
Total	$1,253,065	$1,256,015

The Company has significant intangible assets recorded comprised primarily of broadcast licenses and goodwill acquired through acquisitions. The Company performs its annual impairment testing of broadcast licenses and goodwill during the fourth quarter and on an interim basis if events or circumstances indicate that broadcast licenses or goodwill may be impaired. The Company performs this test at the reporting unit level. The calculation of the fair value of each reporting unit is prepared using an income approach and discounted cash flow methodology. If the carrying value exceeds the estimate of fair value, the Company calculates impairment as the excess of the carrying value of goodwill over its estimated fair value and charges the impairment to results of operations in the period in which the impairment occurred. The Company reviews the carrying value of its definite-lived intangible assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

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As a result of certain developments in the Company's business, the Company performed an interim goodwill impairment assessment as of June 30, 2015, based on the income approach for each of the Company's reporting units. The income approach provides an estimate of fair value based on discounted expected future cash flows. Based on the results of this interim goodwill impairment analysis, the Company determined that no impairment was required to be recorded for Reporting Units 1 or 2 as these reporting units passed the first step of goodwill impairment testing. However, the interim impairment test of the Company's goodwill indicated that the fair value of Reporting Unit 1 exceeded its carrying value by less than 10%. The percentage by which the fair value exceeded the carrying value of Reporting Unit 1 as of December 31, 2014 was approximately 30%. Reporting Unit 1 had indicated fair values of $1.9 billion and $2.5 billion as of June 30, 2015 and December 31, 2014, respectively.

Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, near-term and long-term revenue growth, and determining appropriate discount rates, among other assumptions. Any adverse changes in these estimates and assumptions could result in materially different determinations of fair value, and could result in the Company recording goodwill impairment at a future reporting date, which charges could be material. In addition, if market conditions or operational performance of any of the Company's reporting units were to deteriorate, and there was no expectation that conditions or their performance would improve within a reasonable period of time, or if an event was to occur or circumstances change that would reduce the fair value of a reporting unit's goodwill below the amounts reflected in the balance sheet, the Company may be required to recognize an impairment charge in future periods, which could be material.

There were no triggering events related to the Company's broadcast licenses as of June 30, 2015 to necessitate an interim impairment test.

5. Long-Term Debt

The Company’s long-term debt consisted of the following as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Term Loan and Securitization Facility:		
Term loan	$1,903,875	$1,903,875
Securitization facility	—	—
Less: term loan discount	(26,636)	(28,748)
Total Term Loan and Securitization Facility	1,877,239	1,875,127
7.75% senior notes	610,000	610,000
Less: Current portion of long-term debt	—	—
Long-term debt, net	$2,487,239	$2,485,127

Amended and Restated Credit Agreement

On December 23, 2013, the Company entered into an Amended and Restated Credit Agreement (the “Credit Agreement”), among the Company, Cumulus Media Holdings Inc., a direct wholly-owned subsidiary of the Company (“Cumulus Holdings”), as borrower, and certain lenders and agents. The Credit Agreement consists of a $2.025 billion term loan (the “Term Loan”) maturing in December 2020 and a $200.0 million revolving credit facility (the “Revolving Credit Facility”) maturing in December 2018. Under the Revolving Credit Facility, up to $30.0 million of availability may be drawn in the form of letters of credit.

Term Loan borrowings and borrowings under the Revolving Credit Facility bear interest, at the option of Cumulus Holdings, based on the Base Rate (as defined below) or the London Interbank Offered Rate (“LIBOR”), in each case plus 3.25% on LIBOR-based borrowings and 2.25% on Base Rate-based borrowings. LIBOR-based borrowings are subject to a LIBOR floor of 1.0% under the Term Loan. Base Rate-based borrowings are subject to a Base Rate floor of 2.0% under the Term Loan. Base Rate is defined, for any day, as the fluctuating rate per annum equal to the highest of the (i) Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of 1.0%, (ii) prime commercial lending rate of JPMorgan Chase Bank, N.A., as established from time to time, and (iii) 30 day LIBOR plus 1.0%. Amounts outstanding under the Term Loan amortize at a rate of 1.0% per annum of the original principal

amount of the Term Loan, payable quarterly, with the balance payable on the maturity date.
At June 30, 2015, the Term Loan bore interest at 4.25% per annum.

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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 thereunder; (b) the failure to comply with (and not timely remedy, if applicable) certain covenants; (c) certain defaults and accelerations under other indebtedness; (d) the occurrence of bankruptcy or insolvency events; (e) certain judgments against the Company or any of its restricted subsidiaries; (f) the loss, revocation or suspension of, or any material impairment in the ability to use one or more of, any 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; and (h) the occurrence of a Change in Control (as defined in the Credit Agreement). 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.

In the event amounts are outstanding under the Revolving Credit Facility or any letters of credit are outstanding that have not been collateralized by cash as of the end of each quarter, the Credit Agreement requires compliance with a consolidated first lien leverage ratio covenant. The required ratio at June 30, 2015 was 5.50 to 1, and the first lien net leverage ratio covenant periodically decreases until it reaches 4.0 to 1 on March 31, 2018. As the Company currently has no borrowings outstanding under the Revolving Credit Facility, the Company is not required to comply with such ratio. However, as of June 30, 2015, the Company's leverage was greater than the required ratio and, as a result, the Company did not have access to borrowings under the Revolving Credit Facility. The Company will not regain access until the Company is able to satisfy the first lien ratio requirement that would permit such borrowings.

Certain mandatory prepayments on the Term Loan are required upon the occurrence of specified events, including upon the incurrence of certain additional indebtedness, upon the sale of certain assets and upon the occurrence of certain condemnation or casualty events, and from excess cash flow.

The Company’s, Cumulus Holdings’ and their respective restricted subsidiaries’ obligations under the Credit Agreement are collateralized by a first priority lien on substantially all of the Company’s, Cumulus Holdings’ and their respective restricted subsidiaries’ assets (excluding the Company’s accounts receivable collateralizing the Company's revolving accounts receivable securitization facility (the “Securitization Facility”) with General Electric Capital Corporation (“GE”) as described below) in which a security interest may lawfully be granted, including, without limitation, intellectual property and substantially all of the capital stock of the Company’s direct and indirect domestic wholly-owned subsidiaries and 66% of the capital stock of any future first-tier foreign subsidiaries. In addition, Cumulus Holdings’ obligations under the Credit Agreement are guaranteed by the Company and substantially all of its restricted subsidiaries, other than Cumulus Holdings.

At June 30, 2015 and December 31, 2014, the Company had $1.904 billion outstanding under the Term Loan and no amounts outstanding under the Revolving Credit Facility.

7.75% Senior Notes

On May 13, 2011, the Company issued $610.0 million aggregate principal amount of its 7.75% Senior Notes due 2019 (the "7.75% Senior Notes"). Proceeds from the sale of the 7.75% Senior Notes were used to, among other things, repay the $575.8 million outstanding under the term loan facility under the Company's prior credit agreement.

On September 16, 2011, the Company and Cumulus Holdings entered into a supplemental indenture with the trustee under the indenture governing the 7.75% Senior Notes which provided for, among other things, the (i) assumption by Cumulus Holdings of all obligations of the Company; (ii) substitution of Cumulus Holdings for the Company as issuer; (iii) release of the Company from all obligations as original issuer; and (iv) Company’s guarantee of all of Cumulus Holdings’ obligations, in each case under the indenture and the 7.75% Senior Notes.

Interest on the 7.75% Senior Notes is payable on each May 1 and November 1 of each year. The 7.75% Senior Notes mature on May 1, 2019.

Cumulus Holdings, as issuer of the 7.75% Senior Notes, may redeem all or part of the 7.75% Senior Notes at any time on or after May 1, 2015 at a price equal to 100% of the principal amount, plus a “make-whole” premium. If Cumulus Holdings sells certain assets or experiences specific kinds of changes in control, it will be required to make an offer to purchase the 7.75% Senior Notes.

The indenture governing the 7.75% Senior Notes contains representations, covenants and events of default customary for financing transactions of this nature. At June 30, 2015, the Company was in compliance with all required covenants under the indenture governing the 7.75% Senior Notes.

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In connection with the substitution of Cumulus Holdings as the issuer of the 7.75% Senior Notes, the Company has also guaranteed the 7.75% Senior Notes. In addition, each existing and future domestic restricted subsidiary that guarantees the Company's indebtedness, Cumulus Holdings' indebtedness or indebtedness of the Company's subsidiary guarantors (other than the Company's subsidiaries that hold the licenses for the Company's radio stations) guarantees, and will guarantee, the 7.75% Senior Notes. The 7.75% Senior Notes are senior unsecured obligations of Cumulus Holdings and rank equally in right of payment to all existing and future senior unsecured debt of Cumulus Holdings and senior in right of payment to all future subordinated debt of Cumulus Holdings. The 7.75% Senior Notes guarantees are the Company's and the other guarantors' senior unsecured obligations and rank equally in right of payment to all of the Company's and the other guarantors' existing and future senior debt and senior in right of payment to all of the Company's and the other guarantors' future subordinated debt. The 7.75% Senior Notes and the guarantees are effectively subordinated to any of Cumulus Holdings', the Company's or the guarantors' existing and future secured debt to the extent of the value of the assets securing such debt. In addition, the 7.75% Senior Notes and the guarantees are structurally subordinated to all indebtedness and other liabilities, including preferred stock, of the Company's non-guarantor subsidiaries, including all of the liabilities of the Company's and the guarantors' foreign subsidiaries and the Company's subsidiaries that hold the licenses for the Company's radio stations.

Accounts Receivable Securitization Facility

On December 6, 2013, the Company entered into a 5-year, $50.0 million Securitization Facility with GE, as a lender, as swingline lender and as administrative agent (together with any other lenders party thereto from time to time, the "Lenders").

In connection with the entry into the Securitization Facility, pursuant to a Receivables Sale and Servicing Agreement, dated as of December 6, 2013 (the "Sale Agreement"), certain subsidiaries of the Company (collectively, the "Originators") may sell and/or contribute their existing and future accounts receivable (representing all of the Company's accounts receivable) to a special purpose entity and wholly owned subsidiary of the Company (the "SPV"). The SPV may thereafter make borrowings from the Lenders, which borrowings will be secured by those receivables, pursuant to a Receivables Funding and Administration Agreement, dated as of December 6, 2013 (the "Funding Agreement"). Cumulus Holdings services the accounts receivable on behalf of the SPV.

Advances available under the Funding Agreement at any time are subject to a borrowing base determined based on advance rates relating to the value of the eligible receivables held by the SPV at that time. The Securitization Facility matures on December 6, 2018, subject to earlier termination at the election of the SPV. Advances bear interest based on either LIBOR plus 2.50% or the Index Rate (as defined in the Funding Agreement) plus 1.00%. The SPV is also required to pay a monthly fee based on any unused portion of the Securitization Facility. The Securitization Facility contains representations and warranties, affirmative and negative covenants, and events of default that are customary for financings of this type.

At June 30, 2015 and December 31, 2014, there were no amounts outstanding under the Securitization Facility.

For the three and six months ended June 30, 2015, the Company recorded an aggregate of $2.4 million and $4.7 million of amortization of debt discount and debt issuance costs related to its Term Loan, 7.75% Senior Notes, and Securitization Facility, respectively. For the three and six months ended June 30, 2014, the Company recorded an aggregate of $2.3 million and $4.7 million, of amortization of debt discount and debt issuance costs related to its Term Loan, 7.75% Senior Notes, and Securitization Facility, respectively.

6. Fair Value Measurements

The three levels of the fair value hierarchy to be applied to financial instruments when determining fair value 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; and

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.

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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 and liabilities are measured at fair value on a recurring basis and non-financial assets and liabilities are measured at fair value on a non-recurring basis. Fair values as of June 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

	Total Fair Value	Fair Value Measurements at June 30, 2015 Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Equity interest in Pulser Media (1)	$18,308	$—	$—	$18,308
Total assets	$18,308	$—	$—	$18,308
Financial liabilities:				
Other current liabilities				
Contingent consideration (2)	$(181)	$—	$—	$(181)
Total liabilities	$(181)	$—	$—	$(181)

	Total Fair Value	Fair Value Measurements at December 31, 2014 Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Equity interest in Pulser Media (1)	$17,339	$—	$—	$17,339
Total assets	$17,339	$—	$—	$17,339
Financial liabilities:				
Other current liabilities				
Contingent consideration (2)	$(181)	$—	$—	$(181)
Total liabilities	$(181)	$—	$—	$(181)

(1) On September 13, 2013, the Company and Pulser Media Inc. (the parent company of Rdio) ("Pulser"), entered into a five year strategic promotional partnership and sales arrangement (the "Rdio Agreement"). In exchange for $75 million of promotional commitments over five years, Cumulus will receive a 15% equity interest in Pulser, with the opportunity to earn additional equity, see Note 11, "Commitments and Contingencies". The fair value of the equity interest in Pulser was determined using a discounted cash flow model to arrive at an enterprise value and per share price for the investment which are inputs that are supported by little or no market activity (a Level 3 measurement). Due to the volatility in market conditions that have an impact on Pulser's operations, during the six months ended June 30, 2015, the Company recognized an impairment charge of $1.1 million related to the decline in the fair value of the equity interest in Pulser.

(2) Contingent consideration represents the fair value of the additional cash consideration potentially payable as part of the Wise Brothers Acquisition and the Company's 2013 asset exchange with Family Stations, Inc. (the "WFME Asset Exchange"). The fair value of the contingent consideration was determined using inputs that are supported by little or no market activity (a Level 3 measurement).

The reconciliation below contains the components of the change in fair value associated with the equity interest in Pulser from January 1, 2015 to June 30, 2015 (dollars in thousands):

Description	Equity Interest in Pulser
Fair value balance at January 1, 2015	$ 17,339