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| | ----- May 31 (Unaudited) ----- 2002 ----- | May 31 (Unaudited) ----- 2001 ----- |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 136,026 | \$ 548,832 |
| Receivables: | | |
| Accounts receivable, net of allowance for doubtful accounts of \$60,000 in 2002 and in 2001 | 3,360,603 | 4,766,069 |
| Unbilled receivable | - | 152,865 |
| Note receivable | - | 167,200 |
| Related-party receivables | 229,354 | 5,790 |
| Barter exchange receivables | - | 81,880 |
| Sales representation agreements, net of amortization | 216,805 | 2,243,920 |
| Prepaid expenses and other current assets | 30,295 | 457,539 |
| | ----- | ----- |
| Total current assets | 3,973,083 | 8,424,095 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization | 155,592 | 170,482 |
| GOODWILL, net of amortization | 2,496,881 | 903,203 |
| INTANGIBLE ASSETS, net of amortization | 669,561 | 160,243 |
| OTHER ASSETS | 122,500 | - |
| | ----- | ----- |
| Total assets | \$ 7,417,617 | \$ 9,658,023 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY

| | | |
|-------------------------------------------------------------------------|-----------|------------|
| CURRENT LIABILITIES | | |
| Line of credit | \$ - | \$ 500,000 |
| Accounts payable | 1,526,286 | 536,490 |
| Accrued liabilities | 319,220 | 3,216 |
| Barter exchange payables | 19,243 | - |
| Sales representation agreement liabilities | 1,242,461 | 1,751,915 |
| Current portion of long-term debt | 600,000 | - |
| | ----- | ----- |
| Total current liabilities | 3,707,210 | 2,791,621 |
| | ----- | ----- |
| LONG-TERM DEBT | 3,844,167 | - |
| STOCKHOLDERS' (DEFICIT) EQUITY | | |
| Preferred stock, \$.001 par value, 5,000,000 authorized and unissued | - | - |
| Common stock, \$.001 par value; 50,000,000 common shares | - | - |

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| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| authorized 14,585,651, 14,321,651, and 14,385,651 common shares issued and outstanding at May 31, 2002, May 31, 2001, and November 30, 2001 respectively | 14,586 | 14,326 |
| Additional paid-in-capital | 11,450,411 | 9,016,882 |
| Retained deficit | (11,379,495) | (1,937,266) |
| Stock subscription receivable | (219,262) | (227,540) |
| | ----- | ----- |
| Total stockholders' (deficit) equity | (133,760) | 6,866,402 |
| | ----- | ----- |
| Total liabilities and stockholders' (deficit) equity | \$ 7,417,617 | \$ 9,658,023 |
| | ===== | ===== |

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED MAY 31, 2002 and MAY 31, 2001 (Unaudited) | | SIX MONTHS ENDED MAY 31, 2002 (Unaudited) |
|----------------------------------------------|--------------------------------------------------------------------|--------------|-------------------------------------------------|
| | 2002 | 2001 | 2002 |
| | ----- | ----- | ----- |
| REVENUES | | | |
| Advertising income | \$ 3,046,420 | \$ 3,322,821 | \$ 5,754,973 |
| Kiosk income | 147,703 | 432,684 | 489,866 |
| | ----- | ----- | ----- |
| Total revenues | 3,194,123 | 3,756,036 | 6,244,839 |
| | | | |
| DIRECT COSTS | 2,133,288 | 2,780,662 | 4,483,579 |
| | ----- | ----- | ----- |
| GROSS MARGIN | 1,060,835 | 975,374 | 1,761,260 |
| | ----- | ----- | ----- |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | |
| Wages and employee benefits | 518,219 | 921,620 | 1,015,614 |
| Travel and entertainment | 32,984 | 81,099 | 60,800 |
| Consulting and professional | 178,936 | 394,528 | 978,396 |
| Advertising | 7,197 | 9,198 | 22,314 |
| Depreciation and amortization | 381,622 | 107,648 | 763,244 |
| Postage and printing | 34,443 | 31,355 | 68,433 |
| Rent | 42,458 | 15,893 | 87,937 |
| Office supplies | 10,014 | 10,253 | 27,704 |
| Telephone | 19,972 | 27,965 | 32,891 |
| Other expenses | 50,864 | 34,909 | 131,763 |
| | ----- | ----- | ----- |
| Total general and administrative expenses | 1,276,709 | 1,634,468 | 3,189,096 |
| | ----- | ----- | ----- |
| Loss before provision for other expense | | | |

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| | | | |
|-------------------------------------------------------------------|--------------|--------------|----------------|
| and provision for income taxes | (215,874) | (659,094) | (1,427,836) |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 480 | - | 2,055 |
| Interest expense | (326,700) | (4,357) | (642,359) |
| Total other income (expense) | (326,220) | (4,357) | (640,304) |
| Loss before provision for income taxes | (542,094) | (663,451) | (2,068,140) |
| Provision for income taxes | 4,548 | (125,000) | 4,548 |
| Net loss | \$ (546,642) | \$ (538,451) | \$ (2,072,688) |
| Basic and diluted loss per share of common stock | \$ (0.04) | \$ (0.04) | \$ (0.14) |
| Weighted average number of shares outstanding - basic and diluted | 14,519,651 | 13,897,275 | 14,452,316 |

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY

| | Common Stock | | Additional Paid-In Capital | Retained Deficit | Su R |
|----------------------------------------------------------------------------|--------------|-----------|----------------------------------|---------------------|---------|
| | Shares | Amount | | | |
| BALANCE, November 30, 2000 (audited) | 12,321,831 | \$ 12,322 | \$ 6,795,719 | \$ (922,926) | \$ |
| Issuance of common shares | 1,351,920 | 1,352 | 1,800,568 | - | |
| Exercise of options | 577,900 | 578 | 312,458 | - | |
| Issuance of common shares and common share subscription for services | 134,000 | 134 | 231,866 | - | |
| Services provided for payment of subscribed shares | - | - | - | - | |
| Allocated value of warrants issued in debt financing | - | - | 2,150,000 | - | |
| Net loss for the year | - | - | - | (8,383,881) | |

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| | | | | | |
|------------------------------------------------------|----------------|---------------|------------------|---------------------|--------|
| BALANCE November 30, 2001 (audited) | 14,385,651 | \$ 14,386 | \$11,290,611 | \$ (9,306,807) | \$ |
| Issuance of common shares | 200,000 | 200 | 159,800 | - | |
| Service provided for payment of subscribed shares | - | - | - | - | |
| Net loss for the period | - | - | - | (2,072,688) | |
| | ----- | ----- | ----- | ----- | ----- |
| BALANCE May 31, 2002 (unaudited) | 14,585,651 | \$ 14,586 | \$11,450,411 | \$ (11,379,495) | \$ |
| | ===== | ===== | ===== | ===== | ===== |

See Accompanying Notes

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED MAY 31, (Unaudited) | |
|----------------------------------------------------------------------|-----------------------------------------|----------------|
| | 2002 | 2001 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$ (2,072,688) | \$ (1,014,000) |
| Adjustments to reconcile net loss to cash from operating activities: | | |
| Depreciation and amortization | 763,244 | 215,000 |
| Amortization of discount on long-term debt | 215,000 | |
| Sales representation contract agreement amortization | 185,832 | 946,000 |
| Services provided in payment of subscribed shares | 3,135 | 14,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 585,200 | (852,000) |
| Unbilled receivable | - | 42,000 |
| Related party receivable | (10,000) | 76,000 |
| Barter exchange receivable/payable | (10,096) | |
| Prepaid expenses and other current assets | 853 | (329,000) |
| Net change in programming contract liabilities | 39,366 | (1,287,000) |
| Accounts payable | 87,904 | (44,000) |
| Accrued liabilities | (31,689) | (160,000) |
| | ----- | ----- |
| Net cash from operating activities | (180,561) | (2,394,000) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (4,815) | (6,000) |
| | ----- | ----- |
| Net cash from investing activities | (4,815) | (6,000) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of common stock | - | 1,714,000 |
| Stock options exercised | - | 280,000 |
| Net advances on line of credit | - | 100,000 |
| | ----- | ----- |

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| | | |
|-------------------------------------------|------------|---------|
| Net cash from financing activities | - | 2,095, |
| | ----- | ----- |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (185,376) | (305, |
| CASH, beginning of year | 321,402 | 854, |
| | ----- | ----- |
| CASH, end of year | \$ 136,026 | \$ 548, |
| | ===== | ===== |

NBG RADIO NETWORK, INC.
STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED MAY 31, (Unaudited) | |
|-----------------------------------------------------------------------------------------|-----------------------------------------|---------|
| | 2002 | 2001 |
| | ----- | ----- |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 642,359 | \$ 20, |
| | ===== | ===== |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Capitalization of programming contract assets and recognition of related liabilities | \$ - | \$ 288, |
| | ===== | ===== |
| Issuance of common stock in payment of accrued expenses | \$ 160,000 | \$ |
| | ===== | ===== |

See Accompanying Notes

NOTE 1 - ORGANIZATION AND BUSINESS ACTIVITY

NBG Radio Network, Inc. ("NBG" or "the Company") was organized under the laws of the State of Nevada on March 27, 1996, with the name of Nostalgia Broadcasting Corporation. In January 1998, the stockholders approved the Company's name change to NBG Radio Network, Inc. The Company creates, produces, distributes and is a sales representative for national radio programs and offers other related services to the radio industry. The Company offers radio programs to radio stations in exchange for advertising time on those stations, which the Company then sells to national advertisers.

In June 2001, NBG Radio Network, Inc., completed the acquisition of Glenn Fisher Entertainment Corporation ("GFEC") (see Note 5), which became a wholly-owned subsidiary of the Company involved in the creation, production, and distribution of national radio programs. The Company also owns and operates NBG Solutions, Inc. a wholly owned subsidiary involved in providing design, installation, and support for interactive kiosks. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

NOTE 2 - PRINCIPLES OF CONSOLIDATION

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The interim consolidated financial statements include the accounts of NBG Radio Network, Inc. and its wholly owned subsidiaries, NBG Solutions, Inc., and GFEC, after elimination of inter-company transactions and balances.

The interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The financial information included in this interim report has been prepared by management without audit by independent public accountants. The Company's annual report contains 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 six months ended May 31, 2002 are not necessarily indicative of results to be anticipated for the year ending November 30, 2002.

NOTE 3 - REVENUE RECOGNITION

The Company recognizes revenues from the sale of advertising after the commercial advertisements are broadcast. This is generally billed monthly. If the Company is required to guarantee a certain rating as a condition of the sale, then revenue is not recognized until the advertisement is broadcast and the Company has confirmed it delivered the required rating. Revenues recognized from the design, installation, and support for interactive kiosks produced through NBG Solutions, Inc., are recognized when the product is delivered or services performed.

NOTE 4 - LOSS PER COMMON SHARE

Basic and diluted loss per common share is calculated by dividing net loss by the weighted average basic and diluted shares outstanding, respectively.

NOTE 5 - ACQUISITION OF GLENN FISHER ENTERTAINMENT CORPORATION

On June 29, 2001, the Company acquired all of the common stock of GFEC for \$5,280,425 and, as of the date of the acquisition, GFEC became a wholly owned subsidiary of the Company.

The acquisition was accounted for as a purchase. Accordingly, the excess of the fair value of assets acquired over liabilities assumed was recognized as goodwill, and is being amortized over its expected useful life of five years. In addition, identifiable intangible assets (sales representation contract rights) have been recognized and will be amortized over the lives of the underlying assets, which have a weighted average life of 2.5 years. The following summarizes the fair value of the assets acquired and liabilities assumed in the Company's purchase of GFEC.

| | | |
|---------------------------------------------------------------------------|----|-----------|
| Goodwill | \$ | 4,332,443 |
| Identifiable intangibles (sales representation contract rights) | | 1,518,688 |
| Assets acquired | | 733,287 |
| Liabilities assumed | | (764,239) |
| Non-refunded prepayments on contracts with GFEC terminated at acquisition | | (539,754) |
| | | ----- |
| Total cash paid for GFEC | \$ | 5,280,425 |
| | | ===== |

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

At the time of acquisition, the contracts receivable and deferred revenue balances recognized by GFEC and the unamortized sales representation agreement costs of \$1,653,228 and contract liabilities of \$1,113,474 recognized by the Company were eliminated for consolidation purposes, resulting in the recognition of an additional \$539,754 in goodwill. Accordingly, the total amount of goodwill recognized by the Company in its acquisition of GFEC was \$4,332,443.

As part of the acquisition by NBG, Glenn Fisher, the former president and sole shareholder of GFEC, entered into a three-year consulting agreement with NBG. Terms of the consulting agreement provided for monthly payments of \$16,667 to Mr. Fisher for the three-year period covered by the agreement. The Company and Mr. Fisher agreed to terminate Mr. Fisher's consulting agreement on June 1, 2002.

The following pro forma condensed financial information has been prepared using the purchase method of accounting and is based on the historical financial statements of the Company and GFEC assuming the acquisition had been concluded at the beginning of the periods presented. The pro forma condensed financial information combines GFEC's statements of operations for the six months ended June 30, 2001, with the statement of operations of the Company for the six months ended May 31, 2001, and GFEC's year ended December 31, 2001 with the statement of operations of the Company for the year ended November 30, 2001. Certain amounts in the historical financial statements of GFEC have been reclassified and adjusted to conform with the

Company's historical financial presentation. All inter-company transactions have been eliminated.

| | Six Months Ended May 31, | | Years Ended November 30, | |
|---------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | 2001 Historical | 2001 Pro Forma | 2001 Historical | 2001 Pro Forma |
| Revenues | \$ 6,671,903 | \$ 6,696,128 | \$ 13,546,176 | \$ 13,546,176 |
| Net loss | \$ (1,014,341) | \$ (2,665,103) | \$ (8,383,881) | \$ (8,383,881) |
| Net loss per share (diluted) | \$ (0.08) | \$ (0.20) | \$ (0.60) | \$ (0.60) |

NOTE 6 -- ABILITY TO CONTINUE AS A GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the Company incurred significant losses in 2001, the first two quarters of 2002, and had incurred additional losses in other years since its inception in 1996 such that, as of May 31, 2002, the Company had recorded an accumulated deficit of \$11,379,495.

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Furthermore, the Company is subject to several restrictive borrowing covenants, which are contained in its Credit Facility Agreement with MCG Finance Corporation ("MCG") dated June 29, 2001. If it is unable to meet the borrowing covenants on the predetermined measurement dates, repayment of the Company's outstanding indebtedness to MCG may be accelerated and the Company may be unable to meet the accelerated repayment requirements.

In addition to the benefit that a national economic recovery will have in improving its sales revenues, the Company is seeking to increase income and cash flow by also increasing sales to existing customers and through sales and marketing efforts to new customers. In addition, the Company has successfully negotiated with selected creditors more favorable repayment terms that will assist in maintaining appropriate levels of cash flow to sustain operating activities.

However, the Company's ability to operate as a going concern is dependent on its ability to regain and sustain profitable operations; to comply with existing debt covenants; and, to generate sufficient cash flow from operations to meet its obligations as they become payable. Although no assurances can be given, management believes that the Company will be able to continue operations into the future. Accordingly, no adjustment has been made to the accompanying consolidated financial statements in anticipation of the Company not being able to continue as a going concern.

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:

- o A decline in national and regional advertising
- o Preference by customers of other forms of advertising such as newspapers and magazines, outdoor advertising, network radio advertising, yellow page directories and point of sale advertising
- o Loss of executive management personnel
- o Ability to maintain and establish new relations with radio stations to air its programs
- o Ability to maintain relationships with program hosts and ability to attract new program hosts

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- o Ability to predict public taste with respect to entertainment programs

Three Months and Six Months Ended May 31, 2002 and 2001

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, 2001, 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 and six month periods ended May 31, 2002, compared to the results of operations for the three and six month periods ended May 31, 2001, and to changes in the Company's financial condition from November 30, 2001 to May 31, 2002.

REVENUES. Total revenues for the three months ended May 31, 2002 were \$3,194,123 compared to revenues of \$3,756,036 for the same period in 2001, representing a decrease of \$561,913, or 15%. For the six months ended May 31, 2002, total revenues were \$6,244,839 representing a decrease of \$427,064, or 6% compared to the same period in 2001. Revenues generated from the sale of advertising time related to radio programs produced by the Company were \$3,204,902 for the six-month period ending May 31, 2002. Revenues generated from the sale of advertising related to sales representation contracts were \$2,550,071 for the six months ending May 31, 2002. The Company's decline in revenue resulted from three factors. First, advertising rates have fallen significantly in 2002 compared to the rates seen in the first and second quarters in 2001. Second, in 2001 the Company cancelled three programs that failed to maintain adequate ratings. In 2002, the Company has not developed or otherwise acquired new programs to fill the inventory lost as a result of the cancellation of these programs. As a result, the Company had less inventory available for sale in 2002 compared to 2001. Finally, the Company's kiosk subsidiary's total sales decreased from \$432,684 for the three months ended May 31, 2001 to \$147,703 for the three months ended May 31, 2002. The main reason for this was the lack of development of new clients and a reduction in orders from current clients.

DIRECT COSTS. Direct costs for the three months ended May 31, 2002 and 2001 were \$2,133,288 and \$2,780,662, respectively, representing a decrease of \$647,374, or 23%. For the six months ended May 31, 2002 direct costs decreased \$401,937, or 8% compared to the same

period last year. Several factors contributed to the reduction in the Company's direct costs. First, most of the Company's agreements with its hosts and program producers are structured to compensate the host or producers based on a percentage of revenue generated from the respective program. As the Company's revenues declined as a result of the drop in advertising rates, so did its obligations to compensate its hosts and producers. Second, the Company renegotiated the contracts with several of its hosts and producers to reflect the depressed economic conditions in the radio industry. In most cases, these hosts or producers agreed to switch from a guaranteed payment to a payment based on a percentage of the program's revenues. Third, in response to the economic conditions in the industry, the Company cut its program productions costs on the programs that it produces internally. The combination of these factors have allowed the Company to control its costs in declining economic conditions.

GROSS MARGIN. Gross margin for the three months ended May 31, 2002 was \$1,060,835, an increase of \$85,461, or 9%, compared to the same period 2001. For the six months ended May 31, 2002 gross margin decreased \$25,127, or 1% compared to the same period last year. The Company's gross margin was hurt by the difficult economic conditions in the radio industry. Advertising rates have fallen significantly since last year. The Company was able to offset much of the

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decrease in advertising rates by renegotiating its contracts with its program hosts and producers. The renegotiated contracts have significantly reduced the amount of guaranteed payments by the Company.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the three months ended May 31, 2002 was \$1,276,709, representing a decrease of \$357,759, or 22% over the same period in 2001. The decrease resulted from:

- (1) a reduction in staff size,
- (2) pay cuts for all remaining employees,
- (3) reductions in the budgets for travel and entertainment, and
- (4) a reduction in the Company's investor relations campaign.

A portion of these savings were offset by an increase in depreciation and amortization expenses resulting from amortization of assets acquired in the GFEC acquisition. For the six months ended May 31, 2002 general and administrative expenses were \$3,189,096 representing an increase of \$384,250, or 13%. The increase resulted from fees paid to the Company's lender which were recorded in the first quarter of the 2002 fiscal year and increased depreciation and amortization expenses. The lender fees included a \$200,000 amendment fee charged to amend the covenants in the Company's Credit Facility Agreement and a \$400,000 advisory fee paid to the Company's lender. Depreciation and amortization expense increased \$548,080 primarily due to an increase in amortization expense from the acquisition of GFEC on June 29, 2001.

OTHER INCOME (EXPENSES). In the three months ending on May 30, 2002, the Company included \$326,220 in other expenses, which were primarily a result of interest payments made to the Company's lender under its Credit Facility Agreement.

INCOME TAXES. In the second quarter of 2002, the Company paid \$4,548 in estimated taxes due resulting from the GFEC acquisition in 2001. For the same period in 2001 the Company received a refund of \$125,000.

NET LOSS AND EARNINGS PER SHARE. Net loss for the three months ended May 31, 2002 was \$546,642, or \$.04 per share. Net loss for the three months ended May 31, 2001 was \$538,451, or \$.04 per share. For the six months ended May 31, 2002 and May 31, 2001, net loss was \$2,072,688 and \$1,014,341 respectively. The loss for 2002 was due to the reduction of advertising rates arising from the current economic conditions, to the increase in non-recurring consulting and professional fees of \$600,000, and to \$548,080 in depreciation and amortization expense primarily due to the increase in amortization from the acquisition of GFEC on June 29, 2001.

Basic and dilutive earnings per share are based upon a weighted average of 14,452,316 and 13,500,106 shares outstanding on May 31, 2002 and May 31, 2001, 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 May 31, 2002 was \$265,873 compared to \$5.63 million at May 31, 2001. The decrease in working capital was due to:

- (1) the elimination of sales representation contracts as a result of the GFEC acquisition on June 29, 2001,

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- (2) the reduction of accounts receivable due to lower advertising rates, and
- (3) an increase in accounts payable, and the debt the Company incurred to finance the GFEC acquisition.

The Company has renegotiated the payment terms with several of its vendors allowing for repayment of its accounts over the course of the next twelve months with little or no interest. In addition, \$600,000 or 39% of the Company's accounts payable are attributable to the lender's amendment fee and advisory fee. These fees become payable if the Company closes a corporate development or financing transaction, such as a merger or acquisition, before November 30, 2002. If the Company does not close on such a transaction before November 30, 2002, then the Company is required to make a payment to its lender equal to the lesser of 25% of (1) the amount of the fees, or (2) its excess cash flow for the trailing twelve-month period ending November 30, 2002. If the Company does not generate sufficient cash flows to pay the lender the entire amount of fees owed, then the remaining balance of the fees owed will be added to the outstanding principal balance of the Company's credit facility.

In January 2001 the Company completed a private placement of 547,000 units at \$1.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable immediately. The warrants are exercisable for \$1.50 and expire on January 19, 2003. The Company received proceeds of \$547,000 from the private placement.

In March of 2001, the Company completed another private placement of 204,920 units at \$1.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock, exercisable beginning September 5, 2001. The warrants are exercisable for \$1.50 and expire on March 5, 2003. The Company received proceeds of \$204,920 from the private placement.

In March of 2001, the Company completed another private placement of 600,000 units at \$1.75 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock exercisable immediately. The warrants are exercisable for \$2.00 and expire on March 31, 2003. The Company received \$1,050,000 from the private placement.

On June 29, 2001, the Company acquired GFEC for approximately \$5.3 million in cash. The acquisition was financed through a \$6.2 million credit facility with MCG Finance Corporation ("MCG"). The credit facility was amended on February 28, 2002 and subsequently on July 19, 2002. The surplus funds from the credit facility were used to retire the Company's \$500,000 line of credit with Western Bank, pay various fees and costs associated with the acquisition, and increase the Company's working capital. The credit facility is secured by all of the Company's assets, including its intellectual property and the stock of its subsidiaries. The credit facility is structured to allow for the possibility of an additional \$10 million in future financing. The interest rate on the amounts outstanding under the credit facility is comprised of two parts; a deferred fixed rate of 3.0% and a variable rate. On May 31, 2002, the variable interest rate equaled 10.03% per annum. The variable portion of the interest rate is due quarterly while the deferred fixed portion is due upon the termination of the credit facility. The credit facility terminates in June 2006 unless prepaid earlier by the Company.

The terms of the credit facility require the Company to comply with several affirmative and negative covenants. These covenants include interest coverage ratios, total charge coverage ratios, cash flow leverage ratios, maximum programming obligations and affiliate stations expenses, minimum adjusted operating cash flow, maximum capital expenditures, restrictions on the

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issuance of equity instruments or additional indebtedness, as well as other elements. These covenants are typically measured on a quarterly basis. On May 31, 2002, the Company failed to meet the minimum adjusted operating cash flow covenant and the minimum adjusted operating cash flow covenant. MCG waived these covenant violations and modified one of the Company's future covenant requirements without charge (except for a \$500 documentation fee) in an agreement dated July 19, 2002. Accordingly, because a waiver has been obtained for existing covenant violations and management's analysis indicates the Company should be in compliance at future measurement dates, the long-term portion of the Company's credit facility remains classified as long-term in the Company's consolidated balance sheets dated May 31, 2002. If the Company is not able to meet the future covenants on the predetermined measurement dates, the lender may refuse to grant a waiver and could accelerate the entire balance of the credit facility.

In addition to the financial covenants, the credit facility also places restrictions on the Company's ability to issue equity instruments, pay dividends, repurchase its stock, and incur indebtedness. The terms of an Option and Warrant Agreement between the Company and MCG provide MCG with certain antidilution provisions, which may further complicate the Company's ability to issue additional equity securities in the future.

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

Despite the unfavorable operating results for 2001 and the first two quarters of 2002, management believes that its operating cash flows will be sufficient to meet its prospective needs for working capital for the next twelve months. However, if the Company does not perform as management expects, then it may become necessary to seek additional or alternative sources of financing. There is no assurance that the Company will be able to locate a source of financing willing to offer terms satisfactory to the Company. In addition, the Company's indebtedness presents other risks to investors, including the possibility that the Company may be unable to generate cash sufficient to make the principal and interest payments when due or comply with financial covenants. Should the Company fail to make such a payment or fail to comply with the financial covenants, then the entire balance of the Company's credit facility may become due and immediately payable. These actions would likely have a material adverse effect on the Company.

Recently Issued Accounting Standards

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic

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effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company's management does not expect that the application of the provisions of this statement will have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 clarifies the accounting for the impairment of long-lived assets and for long-lived assets to be disposed of, including the disposal of business segments and major lines of business. SFAS No. 144 will be effective for the Company in the first quarter of the fiscal year end November 30, 2002. The Company's management does not expect that the application of the provisions of this statement will have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 will be effective for the Company in the first quarter of 2002. The Company's management does not expect that the application of the provisions of this statement will have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB also issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to cease amortizing goodwill and certain intangible assets with an indefinite useful life created by business combinations accounted for using the purchase method of accounting. Instead, goodwill and intangible assets deemed to have an indefinite useful life will be subject to an annual review for impairment. Implementation of SFAS No. 141 had no

effect on the Company's 2001 and 2000 consolidated financial statements. The new standards of SFAS No. 142 will be effective for the Company in the first quarter of the fiscal year ending November 30, 2003.

On December 1, 2002, the Company will no longer amortize goodwill. Based on the current recorded balance of goodwill, this accounting change will reduce annual amortization expense by approximately \$829,000. The impact of ceasing to record goodwill amortization will be an increase in the Company's annual net income, after taxes, of approximately \$557,000.

Goodwill will, however, be subject to an annual review for impairment upon adoption of SFAS No. 142. The Company is in the process of determining whether any such impairment would be required upon adoption of the new accounting standard. If the Company concludes that a charge for goodwill impairment is necessary, such a charge would be reported as a cumulative effect of an accounting change.

PART II - OTHER INFORMATION

Item 1. Exhibits and Reports on Form 8-K

(a) The following exhibit is attached:

10.1 Waiver and Amendment Number Two to Credit Facility Agreement dated July 19, 2002.

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(b) No reports on form 8-K were required to be filed during the quarter ended May 31, 2002.

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: July 19, 2002

By: /s/ John J. Brumfield

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