

WESTWOOD ONE INC /DE/

Form 10-Q

May 08, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

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 0-14691

WESTWOOD ONE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3980449

(I.R.S. Employer
Identification No.)

40 West 57th Street, 5th Floor, New York, NY

(Address of principal executive offices)

10019

(Zip Code)

(212) 641-2000

(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 (Exchange Act) 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 No

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 Accelerated Filer Non-Accelerated Filer 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

Number of shares of stock outstanding at March 31, 2008 (excluding treasury shares):

Common stock, par value \$.01 per share 101,352,476 shares

Class B stock, par value \$.01 per share 291,722 shares

WESTWOOD ONE, INC.
INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements (unaudited)	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4. Controls and Procedures</u>	23
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 3. Defaults Upon Senior Securities</u>	25
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	25
<u>Item 5. Other Information</u>	26
<u>Item 6. Exhibits</u>	26
<u>SIGNATURES</u>	28
<u>Exhibit Index</u>	29
<u>Exhibit 31.a</u>	
<u>Exhibit 31.b</u>	
<u>Exhibit 32.a</u>	
<u>Exhibit 32.b</u>	

Table of Contents**PART I. FINANCIAL INFORMATION**

WESTWOOD ONE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,931	\$ 6,187
Accounts receivable, net of allowance for doubtful accounts of \$3,415 (2008) and \$3,602 (2007)	101,378	108,271
Warrants, current portion		9,706
Prepaid and other assets	10,878	13,990
Total Current Assets	118,187	138,154
PROPERTY AND EQUIPMENT, NET	34,514	33,012
GOODWILL	464,114	464,114
INTANGIBLE ASSETS, NET	3,247	3,443
OTHER ASSETS	23,949	31,034
TOTAL ASSETS	\$ 644,011	\$ 669,757
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturity of long-term debt	\$ 138,100	\$ 17,378
Accounts payable	17,533	30,859
Amounts payable to related parties	16,390	5,815
Deferred revenue	4,621	7,246
Income taxes payable		29,562
Accrued expenses and other liabilities	30,001	
Total Current Liabilities	206,645	90,860
LONG-TERM DEBT	201,783	345,244
OTHER LIABILITIES	6,209	6,022
TOTAL LIABILITIES	414,637	442,126
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Preferred stock: authorized 10,000 shares, none outstanding		
Common stock, \$.01 par value: authorized, 300,000 shares; issued and outstanding, 101,352 (2008) and 87,105 (2007)	1,018	872

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Class B stock, \$.01 par value: authorized, 3,000 shares; issued and outstanding, 292 (2008 and 2007)	3	3
Additional paid-in capital	295,178	290,786
Unrealized gain on available for sale securities	8,503	5,955
Accumulated deficit	(75,328)	(69,985)
TOTAL SHAREHOLDERS EQUITY	229,374	227,631
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 644,011	\$ 669,757

See accompanying notes to consolidated financial statements

Table of Contents

WESTWOOD ONE, INC
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2008	2007
	(Unaudited)	
NET REVENUE	\$ 106,627	\$ 113,959
Operating Costs (includes related party expenses of \$17,827 and \$18,943, respectively)	94,229	97,435
Depreciation and Amortization (includes related party warrant amortization of \$1,618 and \$2,427, respectively)	3,976	5,031
Corporate General and Administrative Expenses (includes related party expenses of \$656 and \$830, respectively)	3,466	3,876
Special Charges	7,956	355
	109,627	106,697
OPERATING (LOSS) INCOME	(3,000)	7,262
Interest Expense	5,399	6,097
Other Income	(41)	
(LOSS) INCOME BEFORE INCOME TAXES	(8,358)	1,165
INCOME TAX EXPENSE (BENEFIT)	(3,020)	450
NET (LOSS) INCOME	\$ (5,338)	\$ 715
EARNINGS (LOSS) PER SHARE		
COMMON STOCK		
BASIC	\$ (0.06)	\$ 0.01
DILUTED	\$ (0.06)	\$ 0.01
CLASS B STOCK		
BASIC	\$	\$ 0.02

DILUTED	\$	\$	0.02
WEIGHTED AVERAGE SHARES OUTSTANDING:			
COMMON STOCK			
BASIC		89,423	86,072
DILUTED		89,423	86,079
CLASS B STOCK			
BASIC		292	292
DILUTED		292	292

Table of Contents

WESTWOOD ONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (5,338)	\$ 715
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,977	5,031
Deferred taxes	522	(257)
Non-cash stock compensation	2,123	2,755
Amortization of deferred financing costs	352	121
	1,636	8,365
Changes in assets and liabilities:		
Accounts receivable	6,893	16,463
Prepaid and other assets	6,652	624
Deferred revenue	(1,194)	(591)
Income taxes payable and prepaid income taxes	(10,894)	(7,167)
Accounts payable and accrued expenses and other liabilities	620	(9,603)
Amounts payable to related parties	(14,469)	8,558
Net Cash (Used) Provided By Operating Activities	(10,756)	16,649
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,664)	(906)
Net Cash Used In Investing Activities	(3,664)	(906)
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance of common stock	22,750	
Borrowings under bank and other long-term obligations		10,000
Debt repayments and payments of capital lease obligations	(7,049)	(30,178)
Dividend payments		(1,731)
Deferred financing costs	(1,537)	
Net Cash Provided By (Used in) Financing Activities	14,164	(21,909)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(256)	(6,166)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,187	11,528

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	5,931	\$	5,362
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Table of Contents

WESTWOOD ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

NOTE 1 Basis of Presentation:

The accompanying Consolidated Balance Sheet at March 31, 2008 and the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows for the three month periods ended March 31, 2008 and 2007 are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation of the financial position, the results of operations and cash flows for the periods presented and have been prepared in a manner consistent with the audited financial statements for the year ended December 31, 2007. Results of operations for interim periods are not necessarily indicative of annual results. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 2 Income Taxes:

The Company uses the asset and liability method of financial accounting and reporting for income taxes required by Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes . Under SFAS 109, deferred income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes.

The Company classifies interest expense and penalties related to unrecognized tax benefits as income tax expense. FIN 48 Accounting for Uncertainty in Income Taxes , clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is recognition, in which the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements.

NOTE 3 Equity Based Compensation:*Equity Compensation Activity*

During the three months ended March 31, 2008, the Company awarded 2,685 shares of Common stock to certain employees. The awards have restriction periods tied solely to employment and vest over three years. The cost of Common stock awards, which is determined to be the fair market value of the shares on the date of grant net of estimated forfeitures, is expensed ratably over the related vesting period. The Company's Common stock activity during the three-month period ended March 31, 2008 follows:

	2008 Shares	Weighted Average Exercise Price
Unvested at December 31, 2007	3,888	\$ 21.86
Granted during the period	2,685	1.82
Forfeited during the period	(226)	18.06
Unvested at March 31, 2008	6,347	\$ 13.52

Total compensation expense for the three months ended March 31, 2008 and 2007 related to stock-based compensation was \$2,123 and \$2,755, respectively. Of that expense, \$1,154 and \$1,376, respectively, was included in Operating costs in the Consolidated Statement of Operations and \$969 and \$1,379, respectively, was included in Corporate, general and administrative expense in the Consolidated Statement of Operations.

Table of Contents

WESTWOOD ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

NOTE 4 Comprehensive (Loss) Income:

Comprehensive (loss) income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive net (loss) income represents net income or loss adjusted for unrealized gains or losses on available for sale securities. Comprehensive (loss) income is as follows (in thousands):

	Three Months Ended March 31,	
	2008	2007
Net (Loss) Income	\$ (5,338)	\$ 715
Other Comprehensive Income (Loss):		
Unrealized Gain	2,548	312
Comprehensive (Loss) Income	\$ (2,790)	\$ 1,027

NOTE 5 Special Charges:

The special charges line item on the Consolidated Statement of Operations is comprised of the following:

	Three Months Ended March 31,	
	2008	2007
Professional and other fees related to the new CBS Agreements	\$ 2,956	\$ 355
Closing payment to CBS Radio related to new CBS Agreements	5,000	
Special Charges	\$ 7,956	\$ 355

NOTE 6 Earnings Per Share:

Basic earnings per share (EPS) excludes all dilution and is calculated using the weighted average number of Common shares outstanding in the period. Diluted earnings per share reflects the potential dilution that would occur if all dilutive financial instruments which may be exchanged for equity securities were exercised or converted to Common stock.

Diluted EPS for Common stock is calculated, utilizing the if-converted method. All other EPS calculations are calculated, utilizing the two-class method, by dividing the sum of distributed earnings to Common and Class B shareholders and undistributed earnings allocated to Common shareholders by the weighted average number of Common shares outstanding during the period. In applying the two-class method, undistributed earnings are allocated to Common shares and Class B stock in accordance with the cash dividend provisions of the Company's articles of incorporation. Such provision provides that payment of a cash dividend to holders of Common shares does not necessitate a dividend payment to holders of Class B stock. Therefore, in accordance with SFAS 128, Earnings Per Share and Emerging Issues Task Force Issue 03-06, the Company has allocated all undistributed earnings to Common shareholders in the calculations of net income per share.

Table of Contents

WESTWOOD ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

The following is a reconciliation of the Company's Common shares and Class B shares outstanding for calculating basic and diluted net (loss) income per share:

	Three Months Ended March 31,	
	2008	2007
Net (Loss) Income	\$ (5,338)	\$ 715
Less: distributed earnings to Common shareholders		1,726
Less: distributed earnings to Class B shareholders		5
Undistributed loss	\$ (5,338)	\$ (1,016)
(Loss) Earnings - Common stock		
<i>Basic</i>		
Distributed earnings to Common shareholders	\$	\$ 1,726
Undistributed loss allocated to Common shareholders	(5,338)	(1,016)
Total (Loss) Earnings - Common stock, basic	\$ (5,338)	\$ 710
<i>Diluted</i>		
Distributed earnings to Common shareholders	\$	\$ 1,726
Distributed earnings to Class B shareholders		
Undistributed loss allocated to Common shareholders	(5,338)	(1,016)
Total (Loss) Earnings - Common stock, diluted	\$ (5,338)	\$ 710
Weighted average Common shares outstanding, basic	89,423	86,072
Share-based compensation shares		7
Warrants		
Weighted average Class B shares		
Weighted average Common shares outstanding, diluted	89,423	86,079
(Loss) Earnings per Common share, basic		
Distributed earnings, basic	\$	\$ 0.02
Undistributed earnings (loss) - basic	(0.06)	(0.01)
Total	\$ (0.06)	\$ 0.01
(Loss) Earnings per Common share, diluted		

Distributed earnings, diluted	\$	\$	0.02
Undistributed earnings (loss) diluted		(0.06)	(0.01)
Total	\$	(0.06)	\$ 0.01

Earnings Class B stock

Basic

Distributed earnings to Class B shareholders	\$	\$	5
Undistributed earnings allocated to Class B Shareholders			
Total Earnings Class B stock, basic	\$	\$	5

Diluted

Distributed Earnings to Class B shareholders			5
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Table of Contents

WESTWOOD ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2008	2007
Undistributed earnings allocated to Class B shareholders		
Total Earnings Class B stock, diluted	\$	\$ 5
Weighted average Class B shares outstanding, basic	292	292
Share-based compensation		
Warrants		
Weighted average Class B shares outstanding, diluted	292	292
Earnings per Class B share, basic		
Distributed earnings, basic	\$	\$ 0.02
Undistributed earnings basic		
Total	\$	\$ 0.02
Earnings per Class B share, diluted		
Distributed earnings, diluted	\$	\$ 0.02
Undistributed earnings diluted		
Total	\$	\$ 0.02

Common equivalent shares are excluded in periods in which they are anti-dilutive. The following options, restricted stock, restricted stock units and warrants (see Note 8 Related Party Transactions for more information) were excluded from the calculation of diluted earnings per share because the combined exercise price, unamortized fair value, and excess tax benefits were greater than the average market price of the Company's Common stock for the periods presented:

	Three Months Ended March 31,	
	2008	2007
Options	6,636	5,907
Restricted Stock	978	1,012
Restricted Stock Units	205	210
Warrants		3,000

The per share exercise price of the options excluded were \$1.63 - \$38.34 for the three months ended March 31, 2008, and \$6.57- \$38.34 for the three months ended March 31, 2007. The per share exercise prices of the warrants excluded, for the three months ended March 31, 2007, was \$59.11 - \$67.98. The warrants were cancelled on March 3, 2008 in

conjunction with the new CBS Radio agreements (See Note 8).

NOTE 7 Debt:

Long-term debt consists