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WESTWOOD ONE INC /DE/  
Form 10-Q  
November 09, 2004

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 September 30, 2004

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 0-13020  
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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, 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 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 X No \_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No \_\_\_

Number of shares of Stock Outstanding at November 5, 2004 (excluding treasury shares):

Common Stock, par value \$.01 per share - 95,719,487 shares  
Class B Stock, par value \$.01 per share - 291,796 shares

WESTWOOD ONE, INC.

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Item 1 - Financial Statements

WESTWOOD ONE, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	September 30, 2004 ----- (Unaudited)	December 2003 -----
ASSETS		
-----		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,188	\$ 8,

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Accounts receivable, net of allowance for doubtful accounts of \$3,019 (2004) and \$4,334 (2003)	124,051	135,
Prepaid and other assets	27,188	21,
	-----	-----
Total Current Assets	160,427	165,
PROPERTY AND EQUIPMENT, NET	49,151	50,
GOODWILL	990,472	990,
INTANGIBLE ASSETS, NET	6,469	7,
OTHER ASSETS	39,265	47,
	-----	-----
TOTAL ASSETS	\$ 1,245,784	\$ 1,262,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES:		
Accounts payable	\$ 15,164	\$ 13,
Amounts payable to related parties	22,821	18,
Deferred revenue	11,831	12,
Income taxes payable	-	3,
Accrued expenses and other liabilities	31,125	32,
	-----	-----
Total Current Liabilities	80,941	79,
LONG-TERM DEBT	343,952	300,
DEFERRED INCOME TAXES	40,126	36,
OTHER LIABILITIES	8,465	8,
	-----	-----
TOTAL LIABILITIES	473,484	426,
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock: authorized 10,000 shares, none outstanding	-	
Common stock, \$.01 par value: authorized, 261,715 shares; issued and outstanding, 95,720 (2004) and 99,057 (2003)	957	
Class B stock, \$.01 par value: authorized, 3,000 shares; issued and outstanding, 292 (2004) and 704 (2003)	3	
Additional paid-in capital	388,180	517,
Accumulated earnings	384,909	319,
	-----	-----
	774,049	837,
Less treasury stock, at cost; 90 (2004) and 35 (2003) shares	(1,749)	(1,
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	772,300	835,
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,245,784	\$ 1,262,
	=====	=====

See accompanying notes to consolidated financial statements.

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WESTWOOD ONE, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(Unaudited)

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	Three Months Ended September 30,	
	2004	2003
	-----	-----
NET REVENUES	\$141,422	\$134,680
	-----	-----
Operating Costs (includes related party expenses of \$19,784, \$19,289 , \$64,111 , and \$60,777, respectively)	94,162	83,274
Depreciation and Amortization (includes related party warrant amortization of \$2,427, \$338, \$5,191, and \$1,014, respectively)	4,964	2,889
Corporate General and Administrative Expenses (includes related party expenses of \$759, \$703, \$2,221, and \$2,090, respectively)	1,877	1,735
	-----	-----
	101,003	87,898
	-----	-----
OPERATING INCOME	40,419	46,782
Interest Expense	2,911	2,546
Other Income	(41)	(8)
	-----	-----
INCOME BEFORE INCOME TAXES	37,549	44,244
INCOME TAXES	14,313	16,534
	-----	-----
NET INCOME	\$ 23,236	\$ 27,710
	=====	=====
NET INCOME PER SHARE:		
BASIC	\$ 0.24	\$ 0.28
	=====	=====
DILUTED	\$ 0.24	\$ 0.27
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC	96,457	100,575
	=====	=====
DILUTED	97,224	102,868
	=====	=====

See accompanying notes to consolidated financial statements

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

Nine Months Ended  
September 30,

-----

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	2004	2003
	----	----
	(Unaudited)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$65,889	\$68,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,073	8,629
Deferred taxes	1,232	2,998
Amortization of deferred financing costs	625	477
	-----	-----
	80,819	81,064
Changes in assets and liabilities:		
Accounts receivable	11,669	7,497
Prepaid and other assets	2,998	1,661
Deferred revenue	(384)	(887)
Income taxes payable	7,989	1,441
Accounts payable and accrued and other liabilities	1,039	3,743
Amounts payable to related parties	4,141	69
	-----	-----
Net Cash Provided By Operating Activities	108,271	94,588
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,020)	(3,307)
Other	7	(63)
	-----	-----
Net Cash Used In Investing Activities	(5,013)	(3,370)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance of common stock	36,234	5,867
Borrowings under bank and other long-term obligations	170,000	55,000
Debt repayments and payments of capital lease obligations	(125,447)	(419)
Repurchases of common stock	(182,239)	(145,610)
Deferred financing costs	(1,283)	-
	-----	-----
Net Cash Used In Financing Activities	(102,735)	(85,162)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	523	6,056
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,665	7,371
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$9,188	\$13,427
	=====	=====

See accompanying notes to consolidated financial statements.

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

NOTE 1 - Basis of Presentation:

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The accompanying consolidated balance sheet as of September 30, 2004, the consolidated statements of operations and the consolidated statements of cash flows for the three and nine month periods ended September 30, 2004 and 2003 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

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cash flows for the periods presented. Results of operations for interim periods are not necessarily indicative of annual results. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

### NOTE 2 - Earnings Per Share:

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

The Company has issued options and warrants which may have a dilutive effect on reported earnings if they were exercised or converted to Common Stock. The following numbers of shares related to options and warrants were added to the basic weighted average shares outstanding to arrive at the diluted weighted average shares outstanding for each period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Options	767	2,293	1,295	2,429

Common equivalent shares are excluded in periods in which they are anti-dilutive. The following options were excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the Company's Common Stock for each period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Options	4,229	2,931	3,726	1,590

The per share exercise prices of the options were \$22.57-\$38.34 in 2004, and \$32.25-\$38.34 in 2003. Also excluded were 4,500 warrants issued in May 2002 in conjunction with an extension of the terms of the Company's management agreement with a related party.

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### NOTE 3 - Debt:

Long-term debt consists of the following at:

	September 30, 2004	December 31, 2003
Term Loan	\$120,000	-
Revolving Credit Facility	25,000	\$100,000
4.64% Senior Unsecured Notes	50,000	50,000
5.26% Senior Unsecured Notes	150,000	150,000
Fair market value of Swap (a)	(1,048)	366
	-----	-----
	\$343,952	\$300,366
	=====	=====

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- (a) write-up (write-down) to market value adjustments for debt with qualifying hedges that are recorded as debt on the balance sheet.

On March 3, 2004, the Company refinanced its existing senior loan agreement with a syndicate of banks led by JP Morgan Chase Bank and Bank of America. The new facility is comprised of a five-year \$120,000 term loan and a five-year \$180,000 revolving credit facility (collectively the "New Facility"). In connection with the closing of the New Facility, the Company borrowed the full amount of the term loan, the proceeds of which were used to repay the outstanding borrowings under the prior facility. Interest on the New Facility is payable at the prime rate plus an applicable margin of up to .25% or LIBOR plus an applicable margin of up to 1.25%, at the Company's option. The New Facility contains covenants relating to dividends, liens, indebtedness and interest coverage and leverage ratios. At September 30, 2004, the Company had available borrowings under the New Facility of \$155,000.

### NOTE 4 - Related Party Transactions:

In return for receiving services under a management agreement (the "Management Agreement"), the Company compensates Infinity Broadcasting Corporation ("Infinity"), a wholly-owned subsidiary of Viacom Inc, via an annual base fee and provides Infinity the opportunity to earn an incentive bonus if the Company exceeds pre-determined targeted cash flows. In addition to the base fee and incentive compensation, the Company also granted Infinity fully vested and non-forfeitable warrants to purchase Company Common Stock.

In addition to the Management Agreement, the Company also enters into other transactions with Infinity in the normal course of business. These transactions are more fully described in the Company's Annual Report on Form 10-K.

The Company incurred the following expenses relating to transactions with Infinity or its affiliates for the three and nine-month periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Representation Agreement	\$6,612	\$6,862	\$20,529	\$20,793
Programming and Affiliations	13,172	12,427	43,582	39,984
Management Agreement (excluding warrant amortization)	759	703	2,221	2,090
Warrant Amortization	2,427	338	5,191	1,014
	\$22,970	\$20,330	\$71,523	\$63,881

### NOTE 5 - Stock Options:

The Company applies APB 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for its plans. For the three and nine-month periods ended September 30, 2004 and 2003, had compensation cost been determined in accordance with the methodology prescribed by SFAS 123, the Company's net income and earnings per share would have been reduced by approximately \$2,261 (\$.02 per basic share and diluted share) and \$2,209 (\$.02 per basic and diluted share) for the three-month periods, respectively and \$6,809 (\$.07 per basic and diluted share) and \$6,364

(\$.06 per basic and diluted share) for the nine month periods, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net Income as Reported	\$23,236	\$27,710	\$65,889	\$68,889
Deduct: Total Stock Based Employee Compensation Expense, Net of Tax	(2,261)	(2,209)	(6,809)	(6,809)
Pro Forma Net Income	\$20,975	\$25,501	\$59,080	\$62,080
Net Income Per Share:				
Basic - As Reported	\$.24	\$.28	\$.67	\$.67
Basic - Pro Forma	\$.22	\$.25	\$.60	\$.60
Diluted - As Reported	\$.24	\$.27	\$.66	\$.66
Diluted - Pro Forma	\$.22	\$.25	\$.60	\$.60

NOTE 6 - Shareholders' Equity:

On September 27, 2004 a Shareholder converted 411,670 shares of Class B Stock into Common Stock. Common Stock is entitled to one vote per share while Class B Stock is entitled to 50 votes per share, and Class B Stock is convertible to Common Stock on a share-for-share basis.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (In thousands except for share and per share amounts)

EXECUTIVE OVERVIEW

Westwood One supplies radio and television stations with information services and programming. The Company is the largest domestic outsource provider of traffic reporting services and the nation's largest radio network, producing and distributing national news, sports, talk, music and special event programs, in addition to local news, sports, weather, video news and other information programming. The commercial airtime that we sell to our advertisers is acquired from radio and television affiliates in exchange for our programming, content, information, and in certain circumstances, cash compensation.

The radio broadcasting industry has experienced a significant amount of



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consolidation in recent years. As a result, certain major radio station groups, including Infinity and Clear Channel Communications, have emerged as leaders in the industry. Westwood One is managed by Infinity under a Management Agreement, which expires on March 31, 2009. While Westwood One provides programming to all major radio station groups, the Company has affiliation agreements with most of Infinity's owned and operated radio stations, which in the aggregate, provide the Company with a significant portion of the audience that it sells to advertisers. Accordingly, the Company's operating performance could be materially adversely impacted by its inability to continue to renew its affiliate agreements with Infinity stations.

The Company derives substantially all of its revenues from the sale of :10 second, :30 second and :60 second commercial airtime to advertisers. Our advertisers who target local/regional audiences generally find the most effective method is to purchase shorter duration :10 second advertisements, which are principally correlated to traffic and information related programming and content. Our advertisers who target national audiences generally find the most cost effective method is to purchase longer :30 or :60 second advertisements, which are principally correlated to news, talk, sports and music and entertainment related programming and content. Generally, the greater amount of programming we provide our affiliates the greater amount of commercial airtime is available for the Company to sell. Additionally, over an extended period of time an increase in the listening audience results in our ability to generate more revenues. Our goal is to maximize the yield of our available commercial airtime to optimize revenues.

In managing our business, we develop programming and exploit the commercial airtime by concurrently taking into consideration the demands of our advertisers on both a market specific and national basis, the demands of the owners and management of our radio station affiliates, and the demands of our programming partners and talent. Our continued success and prospects for growth are dependent upon our ability to manage the aforementioned factors in a cost effective manner. Our results may also be impacted by overall economic conditions, trends in demand for radio related advertising, competition, and risks inherent in our customer base, including customer attrition and our ability to generate new business opportunities to offset any attrition.

There are a variety of factors that influence the Company's revenues on a periodic basis including but not limited to: (i) economic conditions and the relative strength or weakness in the United States economy, (ii) advertiser spending patterns and the timing of the broadcasting of our programming, principally the seasonal nature of sports programming, (iii) advertiser demand on a local/regional or national basis for the Company's related advertising products, (iv) increases or decreases in our portfolio of program offerings and related audiences, including changes in the demographic composition of our audience base and (v) competitive and alternative programs and advertising mediums.

Our ability to specifically isolate the relative historical aggregate impact of price and volume is not practical as commercial airtime is sold and managed on an order-by-order basis. It should be noted, however, that the Company closely monitors advertiser commitments for the current calendar year, with particular emphasis placed on the next three month period. Factors impacting the pricing of commercial airtime include, but are not limited to: (i) the dollar value, length and breadth of the order, (ii) the desired reach and audience demographic, (iii) the level of commercial airtime available for the desired demographic requested by the advertiser for sale at the time their order is negotiated; and (iv) the proximity of the date of the order placement to the

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desired broadcast date of the commercial airtime. Our commercial airtime is perishable, and accordingly, our revenues are significantly impacted by the commercial airtime available at the time we enter into an arrangement with an advertiser.

The principal critical components of our operating expenses are programming, production and distribution costs (including affiliate compensation and broadcast rights fees), selling expenses (including bad debt expenses, commissions and promotional expenses), depreciation and amortization, and corporate, general and administrative expenses. Corporate general and administrative expenses are primarily comprised of costs associated with the Infinity Management Agreement, personnel costs and other administrative expenses, including those associated with new corporate governance regulations.

We consider the Company's operating cost structure to be predominantly fixed in nature, and as a result, the Company needs at least several months lead-time to make reductions in its cost structure to react to what it believes are more than temporary declines in advertiser demand. This factor is important in predicting the Company's performance in periods when advertiser revenues are increasing or decreasing. In periods where advertiser revenues are increasing, the fixed nature of a substantial portion of our costs means that Operating Income will grow faster than the related growth in revenue. Conversely, in a period of declining revenue Operating Income will decrease by a greater percentage than the decline in revenue because of the lead-time needed to reduce the Company's operating cost structure. Furthermore, if the Company perceives a decline in revenue to be temporary, it may choose not to reduce its fixed costs, or may even increase its fixed costs, so as to not limit its future growth potential when the advertising marketplace rebounds.

### Results of Operations

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Three Months Ended September 30, 2004 Compared  
With Three Months Ended September 30, 2003

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#### Revenues

Revenues presented by type of commercial advertisements are as follows for the three-month periods ending September 30:

	2004		2003	
	\$	% of total	\$	% of total
Local/Regional	\$75,374	53%	\$71,740	53%
National	66,048	47%	62,940	47%
Total (1)	\$141,422	100%	\$134,680	100%
	=====	=====	=====	=====

- (1) As described above, the Company currently aggregates revenue data based on the type of commercial airtime sold. A number of advertisers purchase both local/regional and national commercial airtime. Accordingly, this factor should be considered in evaluating the relative revenues generated on a local/regional versus national basis. Our objective is to optimize total revenues from advertisers.

Revenues for the third quarter of 2004 increased \$6,742, or 5%, to \$141,422 compared with \$134,680 in the third quarter of 2003. Both local/regional and national revenues increased in the quarter compared with the comparable 2003

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period.

During the third quarter of 2004, revenues aggregated from the sale of local/regional airtime increased approximately 5%, or approximately \$3,634, and national based revenues increased approximately 5%, or \$3,108 compared with the third quarter of 2003.

In the third quarter of 2004, the increase in our aggregated local/regional based revenues was the result of an increase in demand for our products and services. The increase in national based revenue was primarily attributable to revenues associated with the Company's exclusive broadcast of the 2004 Summer Olympic games.

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Operating Costs

Operating costs for the three months ended September 30, 2004 and 2003 were as follows:

	2004		2003	
	\$	% of total	\$	% of total
Programming, production and distribution expenses	\$72,451	77%	\$63,029	76%
Selling expenses	11,772	12%	13,574	16%
Other operating expenses	9,939	11%	6,672	8%
	-----	-----	-----	-----
	\$94,162	100%	\$83,275	100%
	=====	=====	=====	=====

Operating costs increased approximately 13%, or \$10,888, to \$94,162 in 2004 from \$83,274 in the third quarter of 2003. That increase was principally attributable to increases in programming, production and distribution expenses resulting from the investment in additional network audiences and adding station affiliations, expanding into new traffic and information markets, the development of new program offerings, and costs associated with our exclusive broadcast of the 2004 Summer Olympic games, which were partially offset by lower selling expenses. In addition, during the third quarter of 2003, the Company received proceeds of \$2.6 million from an insurance settlement related to claims attributable to the September 11, 2001 terrorist attacks which offset reported operating expenses for the quarter ended September 30, 2003.

Depreciation and Amortization

Depreciation and amortization increased \$2,075, or 72%, to \$4,964 in the third quarter of 2004 from \$2,889 in the third quarter of 2003. The increase was principally attributable to higher amortization resulting from an increase in the fair market value of the warrants issued to Infinity as part of the extension of the Management Agreement which commenced in the second quarter of 2004.

Corporate General and Administrative Expenses

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Corporate general and administrative expenses increased \$141, or 8%, to \$1,877 in the third quarter of 2004 from \$1,735 in the third quarter of 2003. The increase was principally attributable to higher expenses associated with our corporate governance activities, including fees incurred for professional services.

### Operating Income

Operating income decreased \$6,363, or 14% to \$40,419 in the third quarter of 2004 from \$46,782 in the third quarter of 2003.

### Interest Expense

Interest expense increased 14% in the third quarter of 2004 to \$2,911 from \$2,546 in 2003. The increase was principally attributable to higher average debt outstanding.

### Provision for income taxes

Income tax expense in the third quarter of 2004 was \$14,313 compared with \$16,534 in the third quarter of 2003. The Company's effective income tax rate in the third quarter of 2004 was approximately 38.1% compared with 37.4% in the comparable period of 2003.

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### Net income

Net income in the third quarter of 2004 was \$23,236 compared with \$27,710 in the third quarter of 2003, a decrease of \$4,474, or 16%. Net income per basic share decreased approximately \$.04, or 14%, to \$.24 compared with \$.28 in the third quarter of 2003. Net income per diluted share decreased approximately \$.03, or 11%, to \$.24 compared with \$.27 in the comparable 2003 period.

### Earnings per share

Weighted averages shares outstanding used to compute basic and diluted earnings per share decreased approximately 4% and 6%, respectively, to 96,457 and 97,224, respectively, in the third quarter of 2004 from 100,575 and 102,868, respectively, in the third quarter of 2003. The decrease in weighted average shares outstanding is principally attributable to the Company's stock repurchase program.

Nine Months Ended September 30, 2004 Compared  
With Nine Months Ended September 30, 2003

### Revenues

Revenues presented by type of commercial advertisements are as follows for the nine-month periods ending September 30:

	2004		2003	
	\$	% of total	\$	% of total
Local/Regional	\$ 216,421	53%	\$ 209,044	53%
National	194,194	47%	184,106	47%

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Total (1)	\$ 410,615	100%	\$ 393,150	100%
	=====	====	=====	====

(1) As described above, the Company currently aggregates revenue data based on the type of commercial airtime sold. A number of advertisers purchase both local/regional and national commercial airtime. Accordingly, this factor should be considered in evaluating the relative revenues generated on a local/regional versus national basis. Our objective is to optimize total revenues from advertisers.

Revenues for the first nine months of 2004 increased \$17,465, or 4%, to \$410,615 compared with \$393,150 in the first nine months of 2003. Both local/regional and national revenues increased in the first nine months compared with the comparable 2003 period.

During the first nine months of 2004, revenues aggregated from the sale of local/regional airtime increased approximately 4%, or approximately \$7,377, and national based revenues increased approximately 5%, or \$10,088 compared with the first nine months of 2003. The increase is a result of higher demand for our products and services.

In the first nine months of 2004, the increase in our aggregated national based revenues was accomplished through attaining higher revenues in the news and entertainment programming categories and through adding station affiliations. Additionally, in the first nine months of 2004 National based revenue includes revenues associated with the Company's exclusive broadcast of the 2004 Summer Olympic games.

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Operating Costs

Operating costs for the nine months ended September 30, 2004 and 2003 were as follows:

	2004		2003	
	\$	% of total	\$	% of total
	-----	-----	-----	-----
Programming, production and distribution expenses	\$206,312	74%	\$191,446	73%
Selling expenses	39,944	15%	42,049	16%
Other operating expenses	31,163	11%	28,335	11%
	-----	----	-----	----
	\$277,419	100%	\$261,830	100%
	=====	====	=====	====

Operating costs increased approximately 6%, or \$15,589, to \$277,419 in 2004 from \$261,830 in the first nine months of 2003. The increase was principally attributable to increases in programming, production and distribution expenses resulting from the investment in additional network audiences and adding station affiliations, expanding into new traffic and information markets, the development of new program offerings, and costs associated with our exclusive broadcast of the 2004 Summer Olympic Games, which were partially offset by lower selling expenses. In addition, during the third quarter of 2003, the Company received proceeds of \$2.6 million from an insurance settlement related to claims attributable to the September 11, 2001 terrorist attacks which offset reported operating expenses for the nine months ended September 30, 2003.

Depreciation and Amortization

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Depreciation and amortization increased \$4,445, or 52%, to \$13,074 in the first nine months of 2004 from \$8,629 in the comparable 2003 period. The increase was principally attributable to higher amortization resulting from an increase in the fair market value of the warrants issued to Infinity as part of the extension of the Management Agreement which was effective in the second quarter of 2004.

We expect depreciation and amortization expense will increase by approximately \$2,100 for the remaining quarter in 2004 versus the comparable period in the prior year due to increased warrant amortization.

### Corporate General and Administrative Expenses

Corporate general and administrative expenses increased \$626, or 13%, to \$5,653 in the first nine months of 2004 from \$5,026 in the comparable period of 2003. The increase was principally attributable to higher expenses associated with our corporate governance activities, including fees incurred for professional services.

We expect our corporate general and administrative costs will continue to increase in the last quarter of 2004 compared with 2003. We expect to incur increased expenses relating to our compliance and corporate governance activities. Further, we note that our incentive bonus arrangement with Infinity is variable, contingent upon our performance.

### Operating Income

Operating income decreased \$3,196, or 3%, to \$114,469 in the first nine months of 2004 from \$117,665 in the same period of 2003.

### Interest Expense

Interest expense increased 14% in the first nine months of 2004 to \$8,528 from \$7,493 in 2003. The increase was attributable to higher debt outstanding as well as to the amortization of \$325 of previously capitalized deferred debt costs attributable to the refinancing of our bank credit facility.

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We expect that our interest expense will continue to increase in the last quarter of 2004 versus the comparable period in the prior year commensurate with our anticipated higher average debt levels.

### Provision for income taxes

Income tax expense in the first nine months of 2004 was \$40,166 compared with \$41,256 in the first nine months of 2003. The Company's effective income tax rate in the first nine months of 2004 was approximately 37.8%, compared with 37.4% in the comparable 2003 period.

### Net income

Net income in the first nine months of 2004 was \$65,889 compared with \$68,960 in the comparable 2003 period, a decrease of \$3,017, or 5%. Net income per basic share was \$.67 compared with \$.68 in the first nine months of 2003. Net income per diluted share was \$.66 compared with \$.66 in the comparable 2003 period.

### Earnings per share

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Weighted averages shares outstanding used to compute basic and diluted earnings per share decreased approximately 4% and 5%, respectively, to 97,806 and 99,101, respectively, in the first nine months of 2004 compared with 101,803 and 104,232, respectively, in the same period of 2003. The decrease is principally attributable to the Company's stock repurchase program.

### Liquidity and Capital Resources

The Company continually projects anticipated cash requirements, which include share repurchases, acquisitions, capital expenditures, and principal and interest payments on its outstanding indebtedness. Funding requirements are financed through cash flow from operations, short-term borrowings and/or the issuance of long-term debt.

At September 30, 2004, the Company's principal sources of liquidity were its cash and cash equivalents of \$9,188 and available borrowings under its bank facility which is further described below.

The Company has and continues to expect to generate significant cash flows from operating activities. For the nine month periods ended September 30, 2004 and 2003, net cash provided by operating activities were \$108,271 and \$94,588, respectively.

At September 30, 2004, the Company had an unsecured \$120,000 term loan and a \$180,000 bank revolving credit facility (the "New Facility"), \$50,000 in senior unsecured notes due in 2009 and \$150,000 in senior unsecured notes due in 2012 (collectively the "Notes"). At September 30, 2004, the Company had available borrowings of \$155,000 under its New Facility.

In conjunction with the Company's objective of enhancing shareholder value, the Company's Board of Directors has authorized a stock repurchase program. In the first nine months of 2004, the Company principally used cash flow from operations and bank borrowings to purchase approximately 6,936 shares of the Company's Common Stock for a total cost of approximately \$182,239. In the first nine months of 2003, the Company purchased approximately 4,412 shares of the Company's Common Stock for a total cost of \$145,610. In the month of October, the Company repurchased an additional 475 shares of Common Stock at a cost of approximately \$9,942. The Company expects to continue to use its cash flow to repurchase its Common Stock. At October 30, 2004, the Company had authorization to repurchase up to an additional \$186,459 of its Common Stock.

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The Company's business does not require, and is not expected to require, significant cash outlays for capital expenditures.

The Company believes that its cash, other liquid assets, operating cash flows and available bank borrowings, taken together, provide adequate resources to fund ongoing operating requirements.

### Forward-Looking Statements and Factors Affecting Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on the behalf of the Company. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are based on management's views and assumptions at the time the statements are made; however, no assurances can be given that management's

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expectations will come to pass. The forward-looking statements included in this document are only made as of the date of this document and the Company does not have any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.

### Factors That May Affect Forward-Looking Statements

A wide range of factors could materially affect future developments and performance including the following:

-- The Company is managed by Infinity under the terms of the Management Agreement, which expires in 2009. In addition, the Company has extensive business dealings with Infinity and its affiliates in its normal course of business. The Company's business prospects could be adversely affected by its inability to retain Infinity's services under the Management Agreement beyond the contractual term.

-- The Company competes in a highly competitive business. Its radio programming competes for audiences and advertising revenues directly with radio and television stations and other syndicated programming, as well as with such other media as newspapers, magazines, cable television, outdoor advertising and direct mail. Audience ratings and revenue shares are subject to change and any adverse change in a particular geographic area could have a material and adverse effect on the Company's ability to attract not only advertisers in that region, but national advertisers as well. Future operations are further subject to many factors which could have an adverse effect upon the Company's

financial performance. These factors include:

- economic conditions, both generally and relative to the broadcasting industry;
- shifts in population and other demographics;
- the level of competition for advertising dollars;
- fluctuations in programming costs;
- technological changes and innovations;
- changes in labor conditions; and
- changes in governmental regulations and policies and actions of federal regulatory bodies.

Although the Company believes that its radio programming will be able to compete effectively and will continue to attract audiences and advertisers, there can be no assurance that the Company will be able to maintain or increase the current audience ratings and advertising revenues.

-- The radio broadcasting industry has experienced a significant amount of consolidation in recent years. As a result, certain major station groups, including Infinity and Clear Channel Communications, have emerged as leaders in the industry. Given the size and financial resources of these station groups, they may be able to develop their own programming as a substitute to that offered by the Company. Alternatively, they could seek to obtain programming from the Company's competitors. Any such occurrences, or merely the threat of

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such occurrences, could adversely affect the Company's ability to negotiate favorable terms with its station affiliates, to attract audiences and to attract advertisers.

-- Changes in U.S. financial and equity markets, including market



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disruptions and significant interest rate fluctuations, could impede the Company's access to, or increase the cost of, external financing for its operations and investments.

- Changes in tax rates may adversely affect the Company's profitability.
- The Company believes relations with its employees and independent contractors are satisfactory. However, the Company may be adversely affected by future labor disputes, which may lead to increased costs or disruption of operations in any of the Company's business units.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means all inclusive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

### Item 3. Qualitative and Quantitative Disclosures about Market Risk

In the normal course of business, the Company employs established policies and procedures to manage its exposure to changes in interest rates using financial instruments. The Company uses derivative financial instruments (fixed-to-floating interest rate swap agreements) for the purpose of hedging specific exposures and holds all derivatives for purposes other than trading. All derivative financial instruments held reduce the risk of the underlying hedged item and are designated at inception as hedges with respect to the underlying hedged item. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment.

In order to achieve a desired proportion of variable and fixed rate debt, in December 2002, the Company entered into a seven year interest rate swap agreement covering \$25 million notional value of its outstanding fixed rate borrowings to effectively float the interest rate at three-month LIBOR plus 74 basis points and two ten year interest rate swap agreements covering \$75 million notional value of its outstanding borrowings to effectively float the interest rate at three-month LIBOR plus 80 basis points.

These swap transactions allow the Company to benefit from short-term declines in interest rates. The instruments meet all of the criteria of a fair-value hedge. The Company has the appropriate documentation, including the risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument's effectiveness offsets the exposure to changes in the hedged item's fair value or variability in cash flows attributable to the hedged risk.

With respect to the borrowings pursuant to the Company's revolving credit facility, the interest rate on the borrowings is based on the prime rate plus an applicable margin of up to .25%, or LIBOR plus an applicable margin of up to 1.25%, as chosen by the Company. Historically, the Company has typically chosen the LIBOR option with a three month maturity. Every .25% change in interest rates has the effect of increasing or decreasing our annual interest expense by \$5,000 for every \$2 million of outstanding debt.

The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments, and does not anticipate nonperformance by the counterparties.

The Company's receivables do not represent a significant concentration of credit risk due to the wide variety of customers and markets in which the Company operates.

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Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) within 90 days of the filing date of this report, and have concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities and Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date.

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PART II. OTHER INFORMATION

Item 1

This item is not applicable.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Number of Shares Purchased in Period	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Value of Shares Purchased as Part of Publicly Announced Plans or Programs
July 2004	950,000	\$23.03	9,076,224	\$
August 2004	1,025,000	23.60	10,101,224	
September 2004	615,000	20.79	10,716,224	
	2,590,000	\$22.72		

(A) Represents remaining authorization from the \$250 million repurchase authorization approved on September 25, 2002 and the additional \$250 million repurchase authorization approved by the Company's Board of Directors on February 24, 2004.

Items 3 through 5

These items are not applicable.

Item 6 - Exhibits

(a)	EXHIBIT NUMBER	DESCRIPTION
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- 10.1 Form of Stock Option Agreement under Westwood One, Inc. 1999 Stock Incentive Plan (1)
- 31.a Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.b Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.a Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.b Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- (1) Filed as an exhibit to Registrant's current report on Form 8-K dated October 12, 2004 and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTWOOD ONE, INC.

By: /S/ Shane Coppola  
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Shane Coppola  
Chief Executive Officer

By: /S/ Andrew Zaref  
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Andrew Zaref  
Chief Financial Officer

Dated: November 9, 2004

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