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WESTWOOD ONE INC /DE/  
Form 10-Q  
August 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 June 30, 2004

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 0-13020

WESTWOOD ONE, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-3980449

(State or other jurisdiction of  
incorporation or organization)

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

40 West 57th Street, New York, NY

10019

(Address of principal executive offices)

(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 July 30, 2004 (excluding treasury  
shares):

Common Stock, par value \$.01 per share - 96,537,417 shares

Class B Stock, par value \$.01 per share - 703,466 shares

WESTWOOD ONE, INC.

INDEX

## PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3.	Qualitative and Quantitative Disclosures About Market Risk	16
Item 4.	Controls and Procedures	17

## PART II. OTHER INFORMATION

Item 2.	Use of Proceeds and Issuer Purchases of Equity Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 6.	Exhibits and Reports on Form 8K	19
	SIGNATURES	21
	CERTIFICATIONS	22

## Item 1 - Financial Statements

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

	June 30, 2004
	-----
	(Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 13,649
Accounts receivable, net of allowance for doubtful accounts of \$4,097 (2004) and \$4,334 (2003)	125,293
Prepaid and other assets	21,828
	-----
Total Current Assets	160,770
PROPERTY AND EQUIPMENT, NET	48,637

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GOODWILL	990,472
INTANGIBLE ASSETS, NET	6,762
OTHER ASSETS	40,322
	-----
TOTAL ASSETS	\$1,246,963
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 13,024
Amounts payable to related parties	18,836
Deferred revenue	12,689
Income taxes payable	-
Accrued expenses and other liabilities	34,741
	-----
Total Current Liabilities	79,290
LONG-TERM DEBT	342,557
DEFERRED INCOME TAXES	40,012
OTHER LIABILITIES	8,627
	-----
TOTAL LIABILITIES	470,486
	-----
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, 96,261 (2004) and 99,057 (2003)	963
Class B stock, \$.01 par value: authorized, 3,000 shares: issued and outstanding, 704 (2004 and 2003)	7
Additional paid-in capital	420,283
Accumulated earnings	361,673
	-----
	782,926
Less treasury stock, at cost; 275 (2004) and 35 (2003) shares	(6,449)
	-----
TOTAL SHAREHOLDERS' EQUITY	776,477
	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,246,963
	=====

See accompanying notes to consolidated financial statements.

3

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

Three Months Ended June 30,	
-----	
2004	2003
----	----

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	(Unaudited)	
NET REVENUES	\$139,585	\$132,675
	-----	-----
Operating Costs (includes related party expenses of \$21,812, \$20,360, \$44,327 and \$41,488, respectively)	89,761	86,504
Depreciation and Amortization (includes related party warrant amortization of \$2,427, \$338, \$2,765 and \$676, respectively)	4,956	2,860
Corporate General and Administrative Expenses (includes related party expenses of \$759, \$703, \$1,462, and \$1,386, respectively)	1,806	1,647
	-----	-----
	96,523	91,011
	-----	-----
OPERATING INCOME	43,062	41,664
Interest Expense	2,700	2,496
Other (Income) Expense	(33)	(16)
	-----	-----
INCOME BEFORE INCOME TAXES	40,395	39,184
INCOME TAXES	15,289	14,848
	-----	-----
NET INCOME	\$25,106	\$24,336
	=====	=====
EARNINGS PER SHARE:		
BASIC	\$ .26	\$ .24
	=====	=====
DILUTED	\$ .26	\$ .23
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC	96,285	101,771
	=====	=====
DILUTED	97,910	104,253
	=====	=====

See accompanying notes to consolidated financial statements.

- 4 -

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

CASH FLOW FROM OPERATING ACTIVITIES:

Six Months End  
June 30,

-----  
2004                      2

-----  
(Unaudited)

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Net income	\$42,653	\$41
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,110	5
Deferred taxes	339	2
Amortization of deferred financing costs	542	
	-----	-----
	51,644	49
Changes in assets and liabilities:		
Accounts receivable	10,427	14
Prepaid and other assets	4,089	5
Deferred revenue	474	
Income taxes payable	6,678	1
Accounts payable and accrued and other liabilities	2,526	(5)
Amounts payable to related parties	156	2
	-----	-----
Net Cash Provided By Operating Activities	75,994	68
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,372)	(2)
Acquisition of companies and other	6	
	-----	-----
Net Cash Used In Investing Activities	(2,366)	(2)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance of common stock	11,308	5
Borrowings under bank and other long-term obligations	155,000	35
Debt repayments and payments of capital lease obligations	(110,295)	
Repurchase of common stock	(123,388)	(107)
Deferred financing costs	(1,269)	
	-----	-----
Net Cash Used In Financing Activities	(68,644)	(66)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,984	
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,665	7
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$13,649	\$6
	=====	=====

See accompanying notes to consolidated financial statements.

- 5 -

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

NOTE 1 - Basis of Presentation:

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

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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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Options	1,625	2,482	1,831	2,521

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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Options	3,751	1,289	3,751	2,521

The per share exercise prices of the options were \$30.19-\$38.34 in 2004, and \$35.19-\$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.

6

### NOTE 3 - Debt:

Long-term debt consists of the following at:

	June 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)	(2,443)	366
	-----	-----
	\$342,557	\$300,366
	=====	=====

(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

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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 June 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 six-month periods ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Representation Agreement	\$6,963	\$7,164	\$13,917	\$13,931
Programming and Affiliations	14,849	13,196	30,410	27,557
Management Agreement (excluding warrant amortization)	759	703	1,462	1,386
Warrant Amortization	2,427	338	2,765	676
	\$24,998	\$21,401	\$48,554	\$43,550
	=====	=====	=====	=====

### 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 six-month periods ended June 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 \$2,275 (\$.02 per basic share and \$.03 diluted share) and \$2,118 (\$.02 per basic and diluted share) for the three-month

periods, respectively and \$4,548 (\$.05 per basic and diluted share) and \$4,155 (\$.04 per basic and diluted share) for the six month periods, respectively.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	----- 2004 -----	2003 -----	----- 2004 -----	2003 -----
Net Income as Reported	\$25,106	\$24,336	\$42,653	\$41,250
Deduct: Total Stock Based Employee Compensation Expense, Net of Tax	(2,275)	(2,118)	(4,548)	(4,155)
Pro Forma Net Income	\$22,831 =====	\$22,218 =====	\$38,105 =====	\$37,095 =====
Net Income Per Share:				
Basic - As Reported	\$.26 =====	\$.24 =====	\$.44 =====	\$.40 =====
Basic - Pro Forma	\$.24 =====	\$.22 =====	\$.39 =====	\$.36 =====
Diluted - As Reported	\$.26 =====	\$.23 =====	\$.43 =====	\$.39 =====
Diluted - Pro Forma	\$.23 =====	\$.21 =====	\$.38 =====	\$.35 =====

8

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 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,



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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

9

is negotiated; and (iv) the proximity of the date of the order placement to the 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.

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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

Three Months Ended June 30, 2004 Compared  
With Three Months Ended June 30, 2003  
-----

#### Revenues

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

	2004		2003	
	\$	% of total	\$	% of total
Local/Regional	\$76,397	55%	\$73,907	56%
National	63,188	45%	58,768	44%
Total (1)	\$139,585	100%	\$132,675	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 second quarter of 2004 increased \$6,910, or 5%, to \$139,585 compared with \$132,675 in the second quarter of 2003. Both local/regional and national revenues increased in the quarter compared with the comparable 2003 period.

During the second quarter of 2004, revenues aggregated from the sale of local/regional airtime increased approximately 3%, or approximately \$2,490, and national based revenues increased approximately 8%, or \$4,420 compared with the second quarter of 2003. This increase is the result of an increase in demand for our local/regional products and services.

In the second quarter 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.

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### Operating Costs

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

	2004		2003	
	\$	% of total	\$	% of total
Programming, production and distribution expenses	\$55,877	62%	\$53,531	62%
Selling expenses	9,317	11%	10,984	13%
Other operating expenses	24,567	27%	21,989	25%
	\$89,761	100%	\$86,504	100%
	\$89,761	100%	\$86,504	100%

Operating costs increased approximately 4%, or \$3,257, to \$89,761 in 2004 from \$86,504 in the second quarter of 2003. The increase was principally attributable to (i) increases in programming, production and distribution expenses resulting from the investment in additional network audiences as a result of adding station affiliations, expanding into new traffic and information markets and the development of new program offerings, (ii) lower selling expenses related to decreasing the size of our sales management, and lower bad debt expense (approximately \$360) and (iii) higher other operating expenses due principally to increases in personnel and personnel related costs.

### Depreciation and Amortization

Depreciation and amortization increased \$2,096, or 73%, to \$4,956 in the second quarter of 2004 from \$2,860 in the second 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

Corporate general and administrative expenses increased \$159, or 10%, to \$1,806 in the second quarter of 2004 from \$1,647 in the second 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 increased \$1,398, or 3%, to \$43,062 in the second quarter of 2004 from \$41,664 in the second quarter of 2003.

### Interest Expense

Interest expense increased 8% in the second quarter of 2004 to \$2,700 from \$2,496 in 2003. The increase was principally attributable to higher debt outstanding.

### Provision for income taxes

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Income tax expense in the second quarter of 2004 was \$15,289 compared with \$14,848 in the second quarter of 2003. The Company's effective income tax rate in the second quarter of 2004 was approximately 37.8% which was consistent with the rate experienced in the comparable period of 2003.

11

### Net income

Net income in the second quarter of 2004 was \$25,106 compared with \$24,336 in the second quarter of 2003, an increase of \$770, or 3%. Net income per basic share increased approximately \$.02, or 9%, to \$.26 compared with \$.24 in the second quarter of 2003. Net income per diluted share increased approximately \$.03, or 10%, to \$.26 compared with \$.23 in the comparable 2003 period.

### Earnings per share

Weighted averages shares outstanding used to compute basic and diluted earnings per share decreased approximately 6% to 96,285 and 97,910, respectively, in the second quarter of 2004 from 101,771 and 104,253, respectively, in the second quarter of 2003. The decrease is principally attributable to the Company's stock repurchase program.

Six Months Ended June 30, 2004 Compared  
With Six Months Ended June 30, 2003  
-----

### Revenues

Revenues presented by type of commercial advertisements are as follows for the six-month periods ending June 30, :

	2004		2003	
	\$	% of total	\$	% of total
Local/Regional	\$ 141,048	52%	\$ 137,269	53%
National	128,145	48%	121,201	47%
<b>Total (1)</b>	<b>\$ 269,193</b>	<b>100%</b>	<b>\$ 258,470</b>	<b>100%</b>
	=====	=====	=====	=====

- (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 half of 2004 increased \$10,723, or 4%, to \$269,193 compared with \$258,470 in the first half of 2003. Both local/regional and national revenues increased in the first half compared with the comparable 2003 period.

During the first six months of 2004, revenues aggregated from the sale of local/regional airtime increased approximately 3%, or approximately \$3,779, and national based revenues increased approximately 6%, or \$6,944 compared with the first half of 2003. The increase is a result of higher demand for our products and services.

In the first half of 2004, the increase in our aggregated national based

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revenues was accomplished through attaining higher revenues in the news and entertainment programming categories and through adding station affiliations.

We expect our revenues for the second half of 2004 to increase compared with 2003, resulting primarily from an anticipated overall increase in demand for our product offerings due to higher audience delivery, the Company's exclusive U.S. radio broadcast of the 2004 Summer Olympics, inventory management initiatives, and the development of new distribution alternatives for our content.

12

### Operating Costs

Operating costs for the six months ended June 30, 2004 and 2003 were as follows:

	2004		2003	
	\$	% of total	\$	% of total
Programming, production and distribution expenses	\$115,796	63%	\$110,774	62%
Selling expenses	20,512	11%	21,124	12%
Other operating expenses	46,949	26%	46,658	26%
	\$183,257	100%	\$178,556	100%

Operating costs increased approximately 3%, or \$4,701, to \$183,257 in 2004 from \$178,556 in the first six months of 2003. The increase was principally attributable to (i) increases in programming, production and distribution expenses resulting from the investment in additional network audiences as a result of adding station affiliations, expanding into new traffic and information markets and the development of new program offerings, and (ii) decreased selling expenses related to lower bad debt expense (approximately \$950).

We currently anticipate that operating costs will continue to increase in the second half of 2004 compared with 2003 due to expenses attributable to the Company's broadcast of the 2004 Summer Olympics, additional investments in our national network audiences and programs, and normal recurring contractual cost increases.

### Depreciation and Amortization

Depreciation and amortization increased \$2,370, or 41%, to \$8,110 in the first six months of 2004 from \$5,740 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 two quarters in 2004 versus the comparable period in the prior year due to increased warrant amortization.

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### Corporate General and Administrative Expenses

Corporate general and administrative expenses increased \$485, or 15%, to \$3,776 in the first half of 2004 from \$3,291 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 second half 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 increased \$3,167, or 4%, to \$74,050 in the first half of 2004 from \$70,883 in the same period of 2003.

### Interest Expense

Interest expense increased 14% in the first half of 2004 to \$5,617 from \$4,947 in 2003. The increase was attributable to higher debt outstanding as well

13

as the \$325 amortization of previously capitalized deferred debt costs attributable to the refinancing of our bank credit facility.

We expect that our interest expense will continue to increase in the second half 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 six months of 2004 was \$25,853 compared with \$24,722 in the first six months of 2003. The Company's effective income tax rate in the first half of 2004 was approximately 37.7%, which is consistent with the rate experienced in the comparable 2003 period.

### Net income

Net income in the first six months of 2004 was \$42,653 compared with \$41,250 in the comparable 2003 period, an increase of \$1,403, or 3%. Net income per basic share increased approximately \$.04, or 9%, to \$.44 compared with \$.40 in the first half of 2003. Net income per diluted share increased approximately \$.04, or 10%, to \$.43 compared with \$.39 in the comparable 2003 period.

### Earnings per share

Weighted averages shares outstanding used to compute basic and diluted earnings per share decreased approximately 5% and 6% respectively to 97,144 and 98,975, respectively, in the first six months of 2004 compared with 102,417 and 104,938, 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, and the issuance of short-term

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borrowings and/or long-term debt.

At June 30, 2004, the Company's principal sources of liquidity were its cash and cash equivalents of \$13,649 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 three month periods ended June 30, 2004 and 2003, net cash provided by operating activities were \$75,994 and \$68,708, respectively.

At June 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 June 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 half of 2004, the Company principally used cash flow from operations and bank borrowings to purchase approximately 4,346 shares of the Company's Common Stock for a total cost of approximately \$123,388. In the first six months of 2003, the Company purchased approximately 3,179 shares of the Company's Common Stock for a total cost of \$107,102. In the month of July, the Company repurchased an additional 950 shares of Common Stock at a cost of approximately \$21,877. The Company expects to continue to use its cash flow to repurchase its Common Stock. At July 30, 2004, the Company had authorization to repurchase up to an additional \$233,375 of its Common Stock.

14

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 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

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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

15

Company's competitors. Any such occurrences, or merely the threat of 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 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



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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 borrowing 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 borrowing 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.

### 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-14 and 15d-14 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

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could significantly affect these controls subsequent to the evaluation date.

17

PART II. OTHER INFORMATION

Item 1

This item is not applicable.

Item 2 - Use of Proceeds and 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 Plan or Program	Approximate Value of Shares Purchased
April 2004	437,500	\$31.60	6,318,224	\$30
May 2004	788,000	27.40	7,106,224	27
June 2004	1,020,000	24.20	8,126,224	25
	2,245,500	\$26.77		

(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

This item is not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Shareholders of the Company was held on May 13, 2004.

(b) The Matters voted upon and the related voting results were as follows (holders of Common Stock and Class B Stock voted together on all matters except for the election of Class I Directors, for which holders of Common Stock voted alone for the election of Mr. Holt and Mr. Smith).

(1) Election of Class I Directors:

	FOR	WITHHELD
Shane Coppola	123,556,769	1,617,728
Dennis Holt	88,690,935	1,314,562
Mel Karmazin	121,862,720	3,311,777
Norman J. Pattiz	124,138,763	1,035,734

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Joseph B. Smith 88,677,661 1,327,836

(2) Ratification of the selection of PricewaterhouseCoopers LLP as the independent accountants of the Company for Fiscal 2004.

FOR	124,126,805
AGAINST	1,010,618
ABSTAIN	37,074

18

Item 5

This item is not applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a)	EXHIBIT NUMBER	DESCRIPTION
	3.1	Restated Certificate of Incorporation, as filed on October 25, 2002. (14)
	3.2	Bylaws of Registrant as currently in effect. (6)
	4.1	Note Purchase Agreement, dated December 3, 2002, between Registrant and the Purchasers. (15)
*	10.1	Employment Agreement, dated April 29, 1998, between Registrant and Norman J. Pattiz. (8)
*	10.2	Amendment to Employment Agreement, dated October 27, 2003, between Registrant and Norman J. Pattiz.
	10.3	Form of Indemnification Agreement between Registrant and its Directors and Executive Officers. (1)
	10.4	Credit Agreement, dated March 2, 2004, between Registrant and The Lenders and JPMorgan Chase Bank as Administrative Agent.
	10.5	Purchase Agreement, dated as of August 24, 1987, between Registrant and National Broadcasting Company, Inc. (2)
	10.6	Agreement and Plan of Merger among Registrant, Copter Acquisition Corp. and Metro Networks, Inc. dated of June 1, 1999 (9)
*	10.7	Amendment No. 1 to the Agreement and Plan Merger, dated as of August 20, 1999, by and among Registrant, Copter Acquisition Corp. and Metro Networks, Inc. (10)
	10.8	Management Agreement, dated as of March 30, 1999, and amended on April 15, 2002 between Registrant and Infinity Broadcasting Corporation. (9) (13)
	10.9	Representation Agreement, dated as of March 31, 1997, between Registrant and CBS, Inc. (7) (13)
	10.10	Westwood One Amended 1999 Stock Incentive Plan. (9)
	10.11	Westwood One, Inc. 1989 Stock Incentive Plan. (3)
	10.12	Amendments to the Westwood One, Inc. Amended 1989 Stock Incentive Plan. (4) (5)
	10.13	Leases, dated August 9, 1999, between Lefrak SBN LP and Westwood One, Inc. and between Infinity and Westwood One, Inc. relating to New York, New York offices. (11)
	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

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of 2002.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the second quarter of 2004. A Form 8-K was furnished on February 18, 2004 in connection with the Company's disclosure of certain earnings information.

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\*Indicates a management contract or compensatory plan

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19

- (1) Filed as part of Registrant's September 25, 1986 proxy statement and incorporated herein by reference.
- (2) Filed an exhibit to Registrant's current report on Form 8-K dated September 4, 1987 and incorporated herein by reference.
- (3) Filed as part of Registrant's March 27, 1992 proxy statement and incorporated herein by reference.
- (4) Filed as an exhibit to Registrant's July 20, 1994 proxy statement and incorporated herein by reference.
- (5) Filed as an exhibit to Registrant's May 17, 1996 proxy statement and incorporated herein by reference.
- (6) Filed as an exhibit to Registrant's Quarterly report on Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference.
- (7) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
- (8) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.
- (9) Filed as an exhibit to Registrant's August 24, 1999 proxy statement and incorporated herein by reference.
- (10) Filed as an exhibit to Registrant's current report on Form 8-K dated October 1, 1999 and incorporated herein by reference.
- (11) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.
- (12) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.
- (13) Filed as an exhibit to Registrant's April 29, 2002 proxy statement and incorporated herein by reference.
- (14) Filed as an exhibit to Registrant's Quarterly report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference.
- (15) Filed as an exhibit to Registrant's current report on Form 8-K dated December 3, 2002 and incorporated herein by reference.

20

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: July 30, 2004