WESTWOOD ONE INC /DE/
Form 10-Q
November 13, 2001

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2001   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, 5TH FLOOR, NEW YORK, NEW YORK 10019
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (310) 204-5000

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

As of October 31, 2001, 106,578,966 shares of Common Stock, excluding treasury shares, and 703,466 shares of Class B Stock were outstanding.

WESTWOOD ONE, INC.

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

	September 30, 2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 8,657
Accounts receivable, net of allowance for doubtful accounts of $10,441 (2001) and $9,356 (2000)	113,076
Other current assets	8,911
Total Current Assets	130,644
PROPERTY AND EQUIPMENT, NET	58,992
INTANGIBLE ASSETS, NET	1,014,978
OTHER ASSETS	11,231
TOTAL ASSETS	$1,215,845
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$42,305
Current maturity of long-term debt	7,500
Other accrued expenses and liabilities	75,568
Total Current Liabilities	125,373
LONG-TERM DEBT	151,250
OTHER LIABILITIES	32,550
TOTAL LIABILITIES	309,173
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, 131,206 (2001) and 129,300 (2000)	1,312
Class B stock, $.01 par value: authorized, 3,000 shares: issued and outstanding, 704 (2001 and 2000)	7
Additional paid-in capital	1,206,880
Accumulated earnings	93,584
Accumulated other comprehensive loss	-
	1,301,783
Less treasury stock, at cost; 25,045 (2001) and 21,612 (2000) shares	(395,111)
TOTAL SHAREHOLDERS' EQUITY	906,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,215,845

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Sep
	2001	2000	2001
GROSS REVENUES	$144,215	$161,533	$439,990
Less Agency Commissions	20,232	22,519	60,754
NET REVENUES	123,983	139,014	379,236
Operating Costs and Expenses Excluding Depreciation and Amortization	82,183	96,980	259,339
Depreciation and Amortization	17,015	15,834	51,131
Corporate General and Administrative Expenses	1,674	2,020	5,338
	100,872	114,834	315,808
OPERATING INCOME	23,111	24,180	63,428
Interest Expense	2,075	2,486	7,010
Other Income	(75)	(164)	1,005
INCOME BEFORE INCOME TAXES	21,111	21,858	55,413
INCOME TAXES	10,930	11,988	28,500
NET INCOME	$10,181	$9,870	$26,913

NET INCOME PER SHARE:			
BASIC	$ .10	$ .09	$ .25
	=======	=======	=======
DILUTED	$ .09	$ .09	$ .24
	=======	=======	=======
WEIGHTED AVERAGE SHARES OUTSTANDING:			
BASIC	106,852	110,057	107,698
	=======	=======	=======
DILUTED	111,165	114,929	112,219
	=======	=======	=======

See accompanying notes to consolidated financial statements.

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

	Nine Months Septemb
	2001
CASH FLOW FROM OPERATING ACTIVITIES:	
Net income	$26,913
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	51,131
Deferred taxes and other	2,885
	80,929
Changes in assets and liabilities:	
Decrease in accounts receivable	23,174
Decrease in other assets	2,034
Increase in accounts payable and accrued liabilities	18,442
Net Cash Provided By Operating Activities	124,579
CASH FLOW FROM INVESTING ACTIVITIES:	
Acquisition of companies and other	(6,211)
Capital expenditures	(5,934)
Net Cash Used For Investing Activities	(12,145)
CASH PROVIDED BEFORE FINANCING ACTIVITIES	112,434
CASH FLOW FROM FINANCING ACTIVITIES:	
Issuance of common stock	18,471
Debt repayments and payments of capital lease obligations	(21,366)
Repurchase of common stock	(107,639)
NET CASH (USED IN) FINANCING ACTIVITIES	(110,534)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,900

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,757
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$8,657

See accompanying notes to consolidated financial statements.

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 September 30, 2001, the consolidated statements of operations for the three and nine month periods ended September 30, 2001 and 2000 and the consolidated statements of cash flows for the nine months ended September 30, 2001 and 2000 are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation of the financial position and the results of operations for the periods presented.

These consolidated 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 - Reclassification:

Certain prior period amounts have been reclassified to conform to the current presentation.

NOTE 3 - Earnings Per Share:

Net income per share is computed in accordance with SFAS No. 128. 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 that 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,	
	2001	2000	2001	2000
Warrants	1,083	1,379	1,345	1,530
Options	3,230	3,493	3,176	4,238

NOTE 4 - Debt:

At September 30, 2001 the Company had outstanding borrowings of $158,750 under its bank revolving credit facility and available borrowings of $156,000.

In April 2001, the Company entered into a one year interest rate swap agreement covering $25,000 principal value of its outstanding borrowing to effectively fix the interest rate at 4.27% plus the Applicable Margin (typically the Company borrows at a variable interest rate of three-month LIBOR plus the Applicable Margin).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands, except per share amounts)

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2000

Westwood One derives substantially all of its revenue from the sale of advertising time to advertisers. Net revenue decreased $15,031, or 11%, to $123,983 in the third quarter of 2001 from $139,014 in the comparable prior year quarter. The decrease in net revenue was primarily attributable to the non-recurrence of revenues from the 2000 Summer Olympics, a reduction of spending by internet companies, and a slowdown in the advertising market generally. The Company's third quarter 2001 revenues were also adversely affected by lost revenue from the cancellation and rescheduling of programming and advertiser commitments due to the events of September 11.

Operating costs and expenses excluding depreciation and amortization decreased $14,797 or 15%, to $82,183 in the third quarter of 2001 from $96,980 in the third quarter of 2000. The decrease was due principally to the non-recurrence of broadcast rights fees and other related costs associated with the 2000 Summer Olympics, tight cost controls and reductions in affiliate and personnel costs, partially offset by additional operating costs associated with the operations of SmartRoute Systems, Inc. ("SmartRoute"), whose assets were acquired in mid-November 2000.

Depreciation and amortization expense increased $1,181, or 7%, to $17,015 in the third quarter of 2001 as compared with $15,834 in the third quarter of 2000. The increase is principally attributable to the amortization of goodwill resulting from the acquisition of the operating assets of SmartRoute.

Corporate general and administrative expenses decreased $346, or 17%, to $1,674 in the third quarter of 2001 from $2,020 in the comparable 2000 quarter. The decrease is principally attributable to lower management compensation.

Operating income decreased $1,069, or 4%, to $23,111 in the third quarter of 2001 from $24,180 in the third quarter of 2000 due to higher depreciation and amortization.

Interest expense decreased 17% to $2,075 in the third quarter of 2001 from $2,486 in 2000. The decrease is principally attributable to lower interest rates.

Income taxes decreased $1,058, or 9%, to $10,930 in the third quarter of 2001 from $11,988 in the third quarter of 2000. The Company's effective income tax rate in the first nine months of 2001 was approximately 51% due principally to non-deductible goodwill and lower state taxes.

Net income increased $311, or 3%, to $10,181 ($.10 per basic share and $.09 per diluted share) in the third quarter of 2001 from $9,870 ($.09 per basic and diluted share) in the third quarter of 2000.

Weighted average shares outstanding for the third quarter of 2001 were 106,852 basic shares and 111,165 diluted shares as compared to 110,057 basic shares and 114,929 diluted shares in the third quarter of 2000, a decrease of 3% for both basic and diluted shares. The decrease is attributable to the Company's stock repurchase program.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2000

Net revenue for the first nine months of 2001 decreased 5% to $379,236 from $397,617 in the first nine months of 2000. The decrease in net revenue was due to the non-recurrence of revenues from the 2000 Summer Olympics, a reduction of spending by internet companies, the cancellation of programming and advertising commitments due to the events of September 11 and a slowdown in the advertising market generally.

Operating costs and expenses excluding depreciation and amortization decreased 8% to $259,339 in the first nine months of 2001 from $280,635 in the comparable 2000 period. The decrease was primarily attributable to the non-recurrence of broadcast rights fees and related costs associated with the 2000 Summer Olympics, tight cost controls and reductions in affiliate and personnel costs, partially offset by operating costs associated with the operations of SmartRoute.

Depreciation and amortization expense increased 9% to $51,131 in the first nine months of 2001 as compared with $46,957 in the first nine months of 2000. The increase is principally attributable to depreciation and amortization related to the acquisition of the operating assets of SmartRoute.

Corporate general and administrative expenses decreased 13% to $5,338 in the first nine months of 2001 from $6,104 in the comparable 2000 period. The decrease is principally attributable to lower management compensation.

Interest expense decreased 8% to $7,010 in the first nine months of 2001 from $7,612 in the comparable 2000 period. The decrease results from lower average debt levels and higher interest rates.

Net income increased 10% to $26,913 ($.25 per basic share and $.24 per diluted share) in the first nine months of 2001 from $24,470 ($.22 per basic share and $.21 per diluted share) in the comparable 2000 period.

Weighted average shares outstanding for the first nine months of 2001 were 107,698 basic shares and 112,219 diluted shares as compared with 111,397 basic shares and 117,165 diluted shares in the first mine months of 2000. The decrease in shares was primarily attributable to the Company's stock repurchase program.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, the Company's cash and cash equivalents were $8,657, an increase of $1,900 from December 31, 2000.

For the nine months ended September 30, 2001, net cash provided by operating activities was $124,579 as compared with $127,752 for the nine months ended September 30, 2000, a decrease of $3,173. The cash flow from operations was principally used to fund the Company's stock buy-back program and to reduce debt.

At September 30, 2001, the Company had available borrowings of $156,000 on its revolving credit facility. The Company has used its available cash to repurchase its Common Stock. In the nine month period ended September 30, 2001, the Company repurchased approximately 4,433 shares of Common Stock and warrants at a cost of approximately $107,639. In October 2001, the Company repurchased an additional 430 shares of Common Stock at a cost of $10,119.

Recently Issued Accounting Standards

In July 2001, the Financial Standards Board (FASB) issued FASB Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets." FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of FAS 142, goodwill will be tested at the reporting unit annually and whenever events or circumstances occur indicating that goodwill might be impaired. Amortization of goodwill, including goodwill recorded in past business combinations, will cease. The adoption date for the Company will be January 1, 2002. The Company has not yet determined what the impact of FAS 142 will be on the Company's results of operations and financial position.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." This statement establishes a single accounting model for the impairment of long-lived assets. The Company does not expect adoption of this standard to have a material effect on its results of operations and financial position. The Company will adopt this statement on January 1, 2002.

PART II OTHER INFORMATION

Items 1 through 5

These items are not applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits
None

(b) Reports on Form 8-K
None

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/ FARID SULEMAN

FARID SULEMAN
Chief Financial Officer

Dated: November 12, 2001