WESTWOOD ONE INC /DE/
Form 10-Q
November 14, 2011

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2011
OR

o	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 001-14691

WESTWOOD ONE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-3980449 (I.R.S. Employer Identification No.)
220 W. 42nd St. New York, NY (Address of principal executive offices)	10036 (Zip Code)

(212) 419-2900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-X during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer, "accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act (Check One):
Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding as of November 4, 2011 (excluding treasury shares) was Class A common stock, par value $.01 per share: 22,667,591; Class B common stock, par value $.01 per share: 34,237,638; and Series A Preferred Stock, par value $.01per share: 9,691.374.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

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

	September 30, 2011 (unaudited)	December 31, 2010 (derived from audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$4,733	$2,938
Accounts receivable, net of allowance for doubtful accounts of $1,300 (2011) and $143 (2010)	37,489	49,672
Prepaid and other assets	15,431	16,583
Current assets discontinued operations	590	48,723
Total current assets	58,243	117,916
Property and equipment, net	23,080	23,502
Intangible assets, net	23,769	26,262
Goodwill	25,796	25,796
Other assets	6,131	1,642
Non-current assets discontinued operations	—	93,156
TOTAL ASSETS	$137,019	$288,274
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$24,587	$33,957
Amounts payable to related parties	963	859
Accrued and other current liabilities	17,534	20,148
Current liabilities discontinued operations	11,244	32,357
Total current liabilities	54,328	87,321
Long-term debt	27,000	136,407
Deferred tax liability	12,989	24,188
Due to Gores	10,610	10,222
Other liabilities	14,428	15,951
Non-current liabilities discontinued operations	5,938	20,177
TOTAL LIABILITIES	125,293	294,266
Commitments and Contingencies	—	—
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $.01 par value: authorized: 5,000,000 shares issued and outstanding: 22,605 (2011) and 21,314 (2010)	226	213
Class B stock, $.01 par value: authorized: 3,000 shares; issued and outstanding: 0	—	—
Additional paid-in capital	100,731	88,652
Accumulated deficit	(89,231)	(94,857)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	11,726	(5,992)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$137,019	$288,274

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	$40,878	$44,224	$133,372	$139,835
Operating costs	39,228	41,610	133,972	130,338
Depreciation and amortization	1,677	1,467	5,070	4,313
Corporate general and administrative expenses	1,931	2,083	6,604	8,254
Restructuring charges	137	84	1,911	243
Special charges	2,550	1,350	4,474	3,878
Total expenses	45,523	46,594	152,031	147,026
Operating loss	(4,645)	(2,370)	(18,659)	(7,191)
Interest expense	923	2,095	3,512	5,343
Other (income) expense	(4,946)	1,920	(6,042)	1,918
Loss from continuing operations before income tax	(622)	(6,385)	(16,129)	(14,452)
Income tax provision (benefit) from continuing operations	60	(1,917)	(6,908)	(5,816)
Net loss from continuing operations	(682)	(4,468)	(9,221)	(8,636)
Net income (loss) from discontinued operations, net of income taxes	1,678	(2,771)	(4,879)	(10,744)
Gain on disposal of discontinued operations, net of income tax	413	—	19,726	—
Net income (loss)	$1,409	$(7,239)	$5,626	$(19,380)
Income (loss) per common share - basic and diluted:				
Continuing operations	$(0.03)	$(0.21)	$(0.41)	$(0.42)
Discontinued operations	$0.09	$(0.14)	$0.66	$(0.52)
Net income (loss)	$0.06	$(0.35)	$0.25	$(0.94)
Weighted average shares outstanding:				
Basic and diluted	22,601	20,921	22,317	20,671

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended September 30, 2011	2010
Cash Flows from Operating Activities:		
Net income (loss)	$5,626	$(19,380)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on sale of discontinued operation	(19,726)	—
Gain on sale of assets	(4,908)	—
Depreciation and amortization	8,913	13,691
Deferred taxes	(9,915)	(12,167)
Paid-in-kind interest - paid	(10,895)	—
Paid-in-kind interest - accrued	2,011	4,348
Federal tax refund	—	12,940
Non-cash equity-based compensation	2,426	2,671
Change in fair value of derivative liability	(1,096)	1,920
Amortization of deferred financing costs	17	17
Net change in other assets and liabilities	2,796	3,386
Net cash (used in) provided by operating activities	(24,751)	7,426
Cash Flows from Investing Activities:		
Proceeds from Metro Traffic Sale	115,000	—
Capital expenditures	(2,761)	(7,058)
Proceeds from sale of assets	4,950	—
Net cash provided by (used in) investing activities	117,189	(7,058)
Cash Flows from Financing Activities:		
Repayments of Senior Notes	(92,180)	(15,500)
Issuance of common stock to Gores	10,000	5,000
Proceeds from exercise of stock options	583	—
Payments of finance and capital lease obligations	(1,046)	(634)
Repayment of Revolving Credit Facility	(8,000)	—
Proceeds from Revolving Credit Facility	—	10,000
Net cash used in financing activities	(90,643)	(1,134)
Net increase (decrease) in cash and cash equivalents	1,795	(766)
Cash and cash equivalents, beginning of period	2,938	4,824
Cash and cash equivalents, end of period	$4,733	$4,058

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)
(unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance as of January 1, 2011	21,314	$213	$88,652	$(94,857)	$(5,992)
Net income	—	—	—	5,626	5,626
Equity-based compensation	—	—	2,426	—	2,426
Issuance of common stock to Gores	1,186	12	9,988	—	10,000
Exercise of stock options, net of tax	105	1	(335)	—	(334)
Balance as of September 30, 2011	22,605	$226	$100,731	$(89,231)	$11,726

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

In this report, “Westwood One,” “Westwood,“ “Company,” “registrant,” “we,” “us” and “our” refer to Westwood One, Inc. Th accompanying unaudited consolidated financial statements have been prepared by us pursuant to the rules of the Securities and Exchange Commission (“SEC”) and do not include the results of the Verge Media Companies, LLC ("Verge") with whom we merged on October 21, 2011 (after the quarter ended on September 30, 2011). These financial statements should be read in conjunction with the audited financial statements and footnotes included in our Current Report on Form 8-K dated August 30, 2011 and filed with the SEC on September 6, 2011 to update our 2010 Form 10-K and retrospectively present our Metro Traffic business (“Metro”) as a discontinued operation.

In the opinion of management, all adjustments, consisting of normal and recurring adjustments necessary for a fair statement of the financial position, the results of operations and cash flows for the periods presented have been recorded.

As described in more detail under Note 2 - Discontinued Operations, in connection with the sale of our Metro Traffic business (the “Metro Sale Transaction”) to an affiliate of Clear Channel Communications (“Clear Channel”), on April 29, 2011, we amended the terms of our Securities Purchase Agreement and the Credit Agreement (which agreements were terminated on October 21, 2011 in connection with our merger with Verge), principally to provide for the consent of the lenders to the sale of the Metro Sale Transaction and the release of the liens on the assets sold in the sale. As part of these amendments, our then senior debt leverage covenant was eliminated from both the Securities Purchase Agreement and the Credit Agreement and we paid off all of the Senior Notes held by non-Gores holders from the proceeds of the Metro Sale Transaction. Also as a result of these amendments, certain, but not all, of our non-financial covenants were eliminated or modified.

On October 21, 2011, we closed our merger (the "Merger") with Verge pursuant to the Agreement and Plan of Merger (the "Merger Agreement") we entered into on July 30, 2011. As part of the Merger, we refinanced our old debt (described below in Note 7 - Debt) and entered into New Credit Facilities (as described in Note 16 - Subsequent Events). More information related to the Merger is in Note 16 - Subsequent Events.

The Merger will be accounted for as a reverse acquisition of the Company by Verge under the acquisition method of accounting in conformity with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC 805) “Business Combinations.” The combined company will account for the transaction by using Verge historical information and accounting policies and applying fair value estimates to the Company. Under such guidance, the transaction will be recorded as the acquisition of the Company by Verge. Upon consummation of the acquisition, the historical accounting of the Company will be that of Verge and the acquisition purchase price of the Company will be recorded based on the fair value of the Company on the date of acquisition. The purchase price will be allocated to the assets and liabilities of the Company based on the fair value of such assets and liabilities with any residual value recorded in goodwill.

Financial Statement Presentation

The preparation of our financial statements in conformity with the authoritative guidance of the Financial Accounting Standards Board for generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments including those related to allowances for doubtful accounts, useful lives of property, plant and equipment, recoverability of goodwill, intangible assets and the valuation of such, barter inventory, fair value of stock options granted, forfeiture rate of equity based compensation grants, income taxes and valuation allowances on such and other contingencies. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable in the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

Segment Reporting

Prior to April 29, 2011, we operated as two segments, Network Radio and Metro Traffic. As noted below in Note 2 - Discontinued Operations, we completed the sale of our Metro Traffic business on April 29, 2011; therefore, it is no longer included in continuing operations, and our financial statements are shown as one segment. We have classified the Metro Traffic operating results, including the gain on the Metro Sale Transaction, as discontinued operations in the consolidated statement of operations and consolidated balance sheet for all periods presented.

Earnings Per Share

Basic earnings per share excludes the effect of common stock equivalents and is computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares re-acquired during the period shall be weighted for the portion of the period that they were outstanding. Diluted earnings per share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share assumes the exercise of stock options using the treasury stock method and the conversion of other equity securities (if outstanding during the period) using the “if-converted” method. For the three and nine month periods ended September 30, 2011, the effect of outstanding stock options and other common stock equivalents of 23 and 121, respectively, were excluded from the calculations of diluted loss per share because the effect was anti-dilutive.

Common equivalent shares are excluded in periods in which they are anti-dilutive. Options, restricted stock units (“RSUs”) and restricted stock (see Note 9 - Equity-Based Compensation) are excluded from the calculations of diluted earnings per share if the combined exercise price, unamortized fair value and excess tax benefits are greater than the average market price of our common stock for the periods presented.

Reclassification and Revisions

Certain reclassifications to our previously reported financial information have been made to the financial information that appears in this report to conform to the current period presentation consisting principally of items related to the discontinued operations of Metro as described in Note 2 - Discontinued Operations.

During the three months ended September 2011, we determined that the provision for income taxes and certain tax liabilities had not been properly stated as of and for the period ended of March 31, 2011 and June 30, 2011 due to errors in the calculation of the state tax provision. This resulted in an additional $457 income tax provision from continuing operations, of which $352 and $105 should have been recorded in the three month periods ended March 31, 2011 and June 30, 2011, respectively. In addition, an income tax benefit from discontinued operations of $131 was recorded, of which $36 and $95 should have been recorded in the three month periods ended March 31, 2011 and June 30, 2011, respectively. For the three months ended September 30, 2011, as a result of the adjustments listed above, we increased our income tax provision from continuing operations by $457 and increased our income tax benefit from discontinued operations by $131.

For the year ended December 31, 2009, we understated our income tax receivable asset due to an error in how the deductibility of certain costs for the period from April 24, 2009 to December 31, 2009 (referred to as the successor period) was determined. This resulted in an additional income tax benefit of $650 that should have been recorded in the successor period ended December 31, 2009 being recorded in the nine months ended September 30, 2010. We also understated our accrued liabilities at December 31, 2009 by $653 in connection with our failure to record an employment claim settlement related to an employee termination that occurred prior to 2008, but which was probable and estimable as of December 31, 2009. This resulted in an additional $653 of corporate general and administrative expense that should have been recorded in the successor period ended December 31, 2009 being recorded in the nine-month period ended September 30, 2010.

For the year ended December 31, 2010, we understated our current liabilities discontinued operations and understated our loss from discontinued operations due to an error in calculation. This resulted in an understatement of our loss from discontinued operations of $168 being recorded in the nine months ended September 30, 2011 that should have been recorded in the twelve month period ended December 31, 2010. For the successor period, we overstated our current assets related to discontinued operations by $250 and understated our current liabilities related to discontinued operations by $919. These errors were corrected during the nine-month period ended September 30, 2010 and increased our loss from discontinued operations by $1,169.

We have determined that the impact of these adjustments, individually and in the aggregate, recorded in the respective periods as described above were immaterial to our results of operations in all applicable prior interim and annual periods and to the estimated results for the full fiscal year 2011. As a result, we have not restated any prior period amounts.

Recent Accounting Pronouncements

In June 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, the new rule will require an entity to present net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We expect to adopt this new rule in the first quarter of 2012. While the adoption of this new rule will change the presentation of comprehensive income, we do not believe it will impact the determination of our results of operations, cash flows, or financial position.

In September 2011, FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This update simplifies how an entity tests goodwill for impairment. It provides an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Given this option, an entity no longer would be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We will adopt this standard during our fourth quarter impairment review process. We do not expect adoption of this standard to have a material impact on our cons