WESTWOOD ONE INC /DE/
Form 10-Q
November 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-14691

WESTWOOD ONE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3980449**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
40 West 57th Street, 5th Floor, 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 (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 x No ¨

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 ¨ No ¨

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 ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares of stock outstanding at November 6, 2009 (excluding treasury shares):

Common stock, par value $.01 per share 20,312,000 shares

WESTWOOD ONE, INC.

INDEX

PART I. FINANCIAL INFORMATION

WESTWOOD ONE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	Successor Company September 30, 2009 (unaudited)		Predecessor Company December 31, 2008 (derived from audited)	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	4,568	$	6,437
Accounts receivable		80,864		94,273
Prepaid and other assets		21,834		18,758
Total Current Assets		107,266		119,468
Property and equipment, net		34,385		30,417
Goodwill		35,752		33,988
Intangible assets, net		106,519		2,660
Deferred tax asset				14,220
Other assets		2,498		4,335
TOTAL ASSETS	$	286,420	$	205,088
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	$	38,268	$	27,807
Amounts payable to related parties		213		22,680
Deferred revenue		7,229		2,397
Accrued expenses and other liabilities		23,834		25,565
Current maturity of long-term debt				249,053
Total Current Liabilities		69,544		327,502
Long-term debt		129,395		
Deferred tax liability		45,650		
Due to Gores		11,027		
Other liabilities		10,298		6,993
TOTAL LIABILITIES		265,914		334,495
Redeemable Preferred Stock: $.01 par value, authorized: 10,000 shares; issued and outstanding: 75 shares of 7.5% Series A Convertible Preferred Stock; liquidation preference $1,000 per share, plus accumulated dividends				73,738
TOTAL PREFERRED STOCK				73,738
SHAREHOLDERS (DEFICIT) EQUITY				
Common stock, $.01 par value: authorized: 5,000,000 shares (2009) and 300,000 (2008); issued and outstanding: 20,312 (2009) and		203		1,013

101,308 (2008)				
Class B stock, $.01 par value: authorized: 3,000 shares; issued and outstanding: -0- (2009) and 292 (2008)				3
Additional paid-in capital		80,076		293,120
Net unrealized gain		(38)		267
Accumulated deficit		(59,735)		(497,548)
TOTAL SHAREHOLDERS EQUITY (DEFICIT)		20,506		(203,145)
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS EQUITY (DEFICIT)	$	286,420	$	205,088

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
NET REVENUE	$ 78,474	$ 136,518	$ 96,299	$ 111,474	$ 303,298
Operating Costs	74,922	127,039	86,142	111,580	265,782
Depreciation and Amortization	8,064	13,909	2,366	2,585	8,763
Corporate General and Administrative Expenses	2,930	5,337	4,049	4,248	8,510
Goodwill and Intangible Impairment	50,501	50,501			206,053
Restructuring Charges	1,372	2,826	10,598	3,976	10,598
Special Charges	820	1,188	699	12,819	9,756
	138,609	200,800	103,854	135,208	509,462
OPERATING (LOSS) INCOME	(60,135)	(64,282)	(7,555)	(23,734)	(206,164)
Interest Expense	4,925	9,618	3,758	3,222	13,509
Other Expense (Income)	70	66	(12,453)	(359)	(12,538)
(Loss) Income before Income Tax	(65,130)	(73,966)	1,140	(26,597)	(207,135)
Income Tax (Benefit) Expense	(11,581)	(14,231)	1,150	(7,635)	(2,044)
NET (LOSS)	$ (53,549)	$ (59,735)	$ (10)	$ (18,962)	$ (205,091)
NET (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (131,686)	$ (141,283)	$ (1,451)	$ (22,037)	$ (206,720)
(Loss) per Share					
Common Stock					
Basic	$ (10.03)	$ (18.19)	$ (2.88)	$ (43.64)	$ (426.03)
Diluted	$ (10.03)	$ (18.19)	$ (2.88)	$ (43.64)	$ (426.03)
Class B Stock					
Basic	$	$	$	$	$
Diluted	$	$	$	$	$
Weighted Average Shares Outstanding:					
Common Stock					
Basic	13,135	7,769	504	505	485
Diluted	13,135	7,769	504	505	485

Class B Stock *				
Basic	146	292	292	292
Diluted		292	292	292

* Class B Stock was converted into Common Stock prior to effectiveness of reverse stock split

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(unaudited)

	Successor Company	Predecessor Company	
	For the Period April 24, 2009 to September 30, 2009	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
CASH FLOW FROM OPERATING ACTIVITIES:			
Net (loss)	$ (59,735)	$ (18,961)	$ (205,091)
Adjustments to reconcile net (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,909	2,585	8,763
Goodwill and Intangible asset impairment	50,501		206,053
Loss on disposal of property and equipment	173	188	
Deferred taxes	(15,824)	(6,874)	(10,149)
Non-cash stock compensation	2,385	2,110	4,240
Gain on sale of marketable securities			(12,420)
Amortization of deferred financing costs		331	1,272
Net change in assets and liabilities (net of effect of Refinancing):	(7,887)	19,844	16,533
Net Cash (Used) in/Provided by Operating Activities	(16,478)	(777)	9,201
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,355)	(1,384)	(6,222)
Proceeds from sale of marketable securities			12,741
Net Cash (Used) in/Provided by Investing Activities	(2,355)	(1,384)	6,519
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock			22,750
Issuance of series A convertible preferred stock and warrants			74,178
Issuance of series B convertible preferred stock	25,000		
Debt repayments	(25,000)		(113,000)
Payments of capital lease obligations	(376)	(271)	(358)
Proceeds from term loan	20,000		
Deferred financing costs			(1,688)
Deferred stock issuance costs	(228)		
Net Cash Provided by/(Used) in Financing Activities	19,396	(271)	(18,298)
Net Increase (Decrease) in Cash and Cash Equivalents	563	(2,432)	(2,578)
Cash and Cash Equivalents at Beginning of Period	4,005	6,437	6,187
Cash and Cash Equivalents at End of Period	$ 4,568	$ 4,005	$ 3,609

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands, except per share amounts)

(unaudited)

	Successor Company For the Period April 24, 2009 to September 30, 2009	Predecessor Company For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Supplemental disclosure of cash flow information:			
Non-cash financing activities			
Cancellation of long-term debt		252,060	
Issuance of new long-term debt	117,500		
Preferred stock conversion to common stock	(81,551)		
Class B conversion to common stock	(3)		

(1) All of the Series A Preferred Stock was exchanged for all of the Series A-1 Preferred Stock.

(2) 34,962 shares of the Series B Preferred Stock was issued to our lenders in exchange in part for the cancellation of our prior indebtedness.

See accompanying notes to consolidated financial statements

6

WESTWOOD ONE, INC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands, except per share amounts)

Predecessor Company

	Common Stock		Class B Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Total Share-holders Equity	Accumulated Other Compre-hensive (Loss)
December 31, 2008	101,253	$ 1,013	292	$ 3	$ 293,120	$ (497,548)	$ 267	$ (203,145)	$ (433,251)
Net (loss)						(18,961)		(18,961)	(18,961)
Comprehensive income							219	219	219
Equity based compensation					2,110			2,110	
Issuance of common stock under equity based compensation plans	777	7			(939)			(932)	
Issuance of common stock									
Preferred stock accretion					(6,157)			(6,157)	
Cancellations of vested equity grants					(890)			(890)	
April 23, 2009	102,030	$ 1,020	292	$ 3	$ 287,244	$ (516,509)	$ 486	$ (227,756)	$ (451,993)

Successor Company

	Common Stock		Class B Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Total Share-holders Equity	Accumulated Other Compre-hensive (Loss)
Revalued Capital	510	$ 5	292	$ 3	$ 2,256			$ 2,264	
Net loss						(59,735)		(59,735)	(59,735)
Comprehensive (loss)							(38)	(38)	(38)
Equity based compensation					2,384			2,384	
Issuance of common stock under equity based compensation plans					(19)			(19)	
Class B conversion			(292)	(3)				(3)	
Preferred stock conversion	19,802	198			81,353			81,551	
Preferred stock accretion					(4,661)			(4,661)	
Cancellations of vested equity grants					(1,237)			(1,237)	
Beneficial conversion feature					76,887			76,887	
Beneficial conversion feature accretion					(76,887)			(76,887)	
September 30, 2009	20,312	$ 203			$ 80,076	$ (59,735)	$ (38)	$ 20,506	$ (59,773)

See accompanying notes to consolidated financial statements

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

(unaudited)

NOTE 1 Basis of Presentation:

In this report, Westwood One, Company, registrant, we , us and our refer to Westwood One, Inc. The accompanying unaudited cons financial statements have been prepared by us pursuant to the rules of the Securities and Exchange Commission (SEC). These financial statements should be read in conjunction with the audited financial statements and footnotes included in our Current Report on Form 8-K filed on August 26, 2009.

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. The results of operations for the periods ended April 23, 2009 and September 30, 2009 are not necessarily indicative of the operating results for a full fiscal year.

On April 23, 2009, we completed a refinancing of substantially all of our outstanding long-term indebtedness (approximately $241,000 in principal amount) and a recapitalization of our equity (the Refinancing). As part of the Refinancing we entered into a Purchase Agreement (the Purchase Agreement) with Gores Radio Holdings, LLC (currently our ultimate parent) (together with certain related entities Gores). In exchange for the then outstanding shares of Series A Preferred Stock held by Gores, we issued 75,000 shares of 7.50% Series A-1 Convertible Preferred Stock, par value $0.01 per share (the Series A-1 Preferred Stock). In addition Gores purchased 25,000 shares of 8.0% Series B Convertible Preferred Stock (the Series B Preferred Stock and together with the Series A-1 Preferred Stock, the Preferred Stock), for an aggregate purchase price of $25,000.

Additionally and simultaneously, we entered into a Securities Purchase Agreement (Securities Purchase Agreement) with: (1) holders of our then outstanding Senior Notes (Old Notes) both series of which were issued under the Note Purchase Agreement, dated as of December 3, 2002 and (2) lenders under the Credit Agreement, dated as of March 3, 2004 (the Old Credit Agreement). Gores purchased at a discount approximately $22,600 in principal amount of our then existing debt held by debt holders who did not wish to participate in the New Senior Notes, which upon completion of the Refinancing was exchanged for $10,797 of the New Senior Notes. Gores also agreed to guarantee the Senior Credit Facility and a $10,000 contractual commitment by one of our wholly owned subsidiaries. Gores currently holds $11,027 (including PIK interest) of the New Senior Notes shown in the line item Due to Gores on our balance sheet. Pursuant to the Securities Purchase Agreement, in consideration for releasing all of their respective claims under the Senior Notes and the Old Credit Agreement, the participating debt holders collectively received in exchange for their outstanding debt: (1) $117,500 of new senior secured notes maturing July 15, 2012 (the New Senior Notes); (2) 34,962 shares of Series B Preferred Stock, and (3) a one-time cash payment of $25,000.

On July 9, 2009, Gores converted 3.5 shares of Series A-1 Convertible Preferred Stock into 103,513 shares of common stock (without taking into account the reverse stock split). Pursuant to the terms of our Certificate of Incorporation, the 292 outstanding shares of our Class B common stock were automatically converted into 292 shares of common stock (without taking into account the 200:1 reverse stock split that occurred on August 3, 2009 as described in more detail below) because as a result of such conversion by Gores the voting power of the Class B common stock, as a group, fell below ten percent (10%) of the aggregate voting power of issued and outstanding shares of common stock and Class B common stock.

On August 3, 2009, we held a special meeting of our stockholders to consider and vote upon, among other proposals, amending our Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 300,000 to 5,000,000 and to amend the Certificate of Incorporation to effect a 200 for 1

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

reverse stock split of our outstanding common stock (the Charter Amendments). On August 3, 2009, the stockholders approved the Charter Amendments, which resulted in the automatic conversion of all shares of preferred stock into common stock and the cancellation of warrants to purchase 50 shares of common stock issued to Gores as part of their investment in our Series A Preferred Stock. There are no longer any issued and outstanding warrants to purchase our common stock or any shares of our capital stock that have any preference over the common stock with respect to voting, liquidation, dividends or otherwise. Under the Charter Amendments, each of the newly authorized shares of common stock has the same rights and privileges as previously authorized common stock. Adoption of the Charter Amendments did not affect the rights of the holders of our currently outstanding common stock nor did it change the par value of the common stock.

As a result of the Refinancing, Gores acquired approximately 75.1% of our equity (in preferred and common stock) and our then existing lenders acquired approximately 23.0% of our equity (in Preferred and common stock). We have considered the ownership held by Gores and our existing debt holders as a collaborative group in accordance with the authoritative guidance, Push Down Accounting . As a result, we have followed the acquisition method of accounting, as required by the Business Combinations Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 805), and have applied the SEC rules and guidance regarding push down accounting treatment. Accordingly, our consolidated financial statements and transactional records prior to the closing of the Refinancing reflect the historical accounting basis in our assets and liabilities and are labeled predecessor company, while such records subsequent to the Refinancing are labeled successor company and reflect the push down basis of accounting for the new fair values in our financial statements. This is presented in our consolidated financial statements by a vertical black line division which appears between the columns entitled predecessor company and successor company on the statements and relevant notes. The black line signifies that the amounts shown for the periods prior to and subsequent to the Refinancing are not comparable.

References are made in this report to a potential offering by us. On June 22, 2009, we filed a Registration Statement on Form S-1 with the SEC for an offering of our common stock in an amount of up to $50,000. We amended the S-1 on August 24, 2009, October 16, 2009, October 30, 2009 and November 4, 2009, respectively. There can be no assurance that such offering will occur on the terms described or at all.

Based on the complex structure of the Refinancing described above, a valuation was performed to determine the acquisition price using the Income Approach employing a Discounted Cash Flow (DCF) methodology. The DCF method explicitly recognizes that the value of a business enterprise is equal to the present value of the cash flows that are expected to be available for distribution to the equity and/or debt holders of a company. In the valuation of a business enterprise, indications of value are developed by discounting future net cash flows available for distribution to their present worth at a rate that reflects both the current return requirements of the market and the risk inherent in the specific investment.

We used a multi-year DCF model to derive a Total Invested Capital (TIC) value which was adjusted for cash, non-operating assets and any negative net working capital to calculate a Business Enterprise Value (BEV) which was then used to value our equity. In connection with the Income Approach portion of this exercise, we made the following assumptions: (a) the discount rate was based on an average of a range of scenarios with rates between 15% and 16%; (b) management s estimates of future performance of our operations; and (c) a terminal growth rate of 2%. The discount rate and market growth rate reflect the risks associated with the general

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

economic pressure impacting both the economy in general and more specifically and substantially the advertising industry. All costs and professional fees incurred as part of the Refinancing totaling approximately $15,777 have been expensed as special charges in periods ended April 23, 2009 and prior (the predecessor company).

The allocation of Business Enterprise Value at April 24, 2009 is as follows:

Current Assets	$ 104,902
Goodwill	86,153
Intangibles	116,910
Property, Plant and Equipment, Net	36,270
Other Assets	21,913
Current Liabilities	81,160
Deferred Income Taxes	77,879
Due to Gores	10,797
Other Liabilities	10,458
Long-term Debt	106,703
Total Business Enterprise Value	$ 79,151

We expect to finalize the valuation and complete the allocation of the Business Enterprise Value as soon as practicable but no later than one year from the acquisition date of April 23, 2009.

In 2009, the television upfronts (where advertisers purchase commercial airtime for the upcoming television season several months before the season begins), which in prior years concluded in the second quarter, were extended through August to complete the upfront advertising sales. During this period, advertisers were slow to commit to buying commercial airtime for the third quarter of 2009. We believed that the conclusion of the television upfronts would help bring more clarity to both purchasers and sellers of advertising; however, once such upfronts concluded in August, it became increasingly evident from our quarterly bookings, backlog and pipeline data that the downturn in the economy was continuing and affecting advertising budgets and orders. The decrease in advertising budgets and orders is evidenced by our revenue decreasing to $78,474 in the third quarter of 2009 from $96,299 in the third quarter of 2008, which represents a decrease of approximately 18.5%. These conditions, namely the weak third quarter and the likely continuation of the current economic conditions into the fourth quarter and the immediate future, caused us to reduce our forecasted results for the remainder of 2009 and 2010. We believe these new forecasted results constituted a triggering event and therefore we conducted a goodwill impairment analysis. The new forecast would more likely than not reduce the fair value of one or more of our reporting units below its carrying value. Accordingly, we performed a Step 1 analysis in accordance with Accounting Standards Codification 350 Intangible, Goodwill and Others (ASC 350) by comparing our recalculated fair value based on our new forecast to our current carrying value. The results indicated an impairment in our Metro Traffic segment and we performed a Step 2 analysis to compare the implied fair value of goodwill for Metro Traffic with the carrying value of its goodwill. As a result of the Step 2 analysis we recorded a non-cash charge of $50,401. The majority of the goodwill impairment charge is not deductible for income tax purposes.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

The following unaudited pro forma financial summary for the three and nine months ended September 30, 2008 and 2009 gives effect to the Refinancing, and the resultant acquisition accounting. The pro forma information does not purport to be indicative of what the financial condition or results of operations would have been had the Refinancing been completed on the applicable dates of the pro forma financial information.

	Unaudited Pro Forma			
	Three Months ended September 30,		Nine Months ended September 30,	
	2009	2008	2009	2008
Revenue	$ 78,474	$ 96,299	$ 247,992	$ 303,298
Net Loss	(53,483)	(9,259)	(93,207)	(234,289)

In the 23-day period ended April 23, 2009, we determined that we had incorrectly recorded a credit to interest expense, which should have been recorded in the three month period ended March 31, 2009, for the settlement of an amount owed to a former employee. We determined that this error was not significant to any prior period results and accordingly reduced the 23-day period s interest expense by $754. Also in the period ended April 23, 2009, we determined that we incorrectly calculated the accretion of our preferred shares to redemption value which should have been recorded in the three-month period ended March 31, 2009. We determined that this error was not significant to any prior results and does not affect our Net (Loss) Income. However, it does reduce the 23-day period s Net Loss attributable to Common Stockholders by $1,262.

Additionally, in the 23-day period ended April 23, 2009, we recorded a charge to special charges for insurance expense of $261 which should have been capitalized and expensed through April 2010. The amount of insurance expense that should have been recorded in the period ended June 30, 2009 was $43. For the period April 24, 2009 to June 30, 2009, we failed to record the added depreciation expense for the increase in fixed assets values associated with our purchase accounting. The amount of depreciation expense that should have been recorded in the period ended June 30, 2009 was $401. Additionally, for the period ended June 30, 2009, we failed to accrue severance costs of $145 for employees terminated in June 2009. These correcting adjustments were recorded in the three months ending September 30, 2009. We do not believe these adjustments are material to our current period consolidated financial statements or to any prior period s consolidated financial statements. As a result, we have not restated any prior period amounts.

NOTE 2 Earnings Per Share:

Prior to the Refinancing described in Note 1 Basis of Presentation, we had outstanding two classes of common stock (common stock and Class B stock) and a class of preferred stock (7.5% Series A Convertible Preferred Stock, referred to herein as the Series A Preferred Stock). Both the Class B stock and the Series A Preferred Stock were convertible into common stock. To the extent declared by our board of directors, the common stock was entitled to cash dividends of at least ten percent higher than those declared and paid on our Class B stock, and the Series A Preferred Stock was also entitled to receive such dividends on an as-converted basis if and when declared by the Board.

As described in more detail above, as part of the Refinancing, we issued Series A-1 Preferred Stock and Series B Preferred Stock. To the extent declared by our board of directors, the Series A Preferred Stock and Series B Preferred Stock were also entitled to receive such dividends on as as-converted basis if and when

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

declared by the board of directors. The Series A Preferred Stock, Series A-1 Preferred Stock and Series B Preferred Stock are considered participating securities requiring use of the two-class method for the computation of basic net income (loss) per share as required by the Earnings per Share Topic of the FASB Accounting Standards Codification (ASC 260). Losses were not allocated to the Series A Preferred Stock, Series A-1 Preferred Stock or Series B Preferred Stock in the computation of basic earnings per share (EPS) as the Series A Preferred Stock, Series A-1 Preferred Stock and the Series B Preferred Stock were not obligated to share in losses. Diluted earnings per share is computed using the if-converted method.

Basic EPS excludes the effect of common stock equivalents and is computed using the two-class computation method, which divides the sum of distributed earnings to common and Class B stockholders and undistributed earnings allocated to common stockholders and preferred stockholders on a pro rata basis, after Series A Preferred Stock dividends, by the weighted average number of shares of common stock outstanding during the period. 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 Class B stock, Series A Preferred Stock, Series A-1 Preferred Stock and Series B Preferred Stock using the if-converted method.

Common equivalent shares are excluded in periods in which they are anti-dilutive. Options, restricted stock, restricted stock units, warrants (see Note 11 Equity Based Compensation) and Series A Preferred Stock were excluded from the predecessor company calculations of diluted earnings per share because the conversion price, combined exercise price, unamortized fair value and excess tax benefits were greater than the average market price of our common stock for the periods presented. Options, restricted stock, restricted stock units, warrants, Series A-1 Preferred Stock and Series B Preferred Stock were excluded from the successor company calculations of diluted earnings per share because the conversion price, combined exercise price, unamortized fair value and excess tax benefits were greater than the average market price of our common stock for the periods presented. EPS calculations for all periods reflect the effects of the 200:1 reverse stock split.

A special meeting of stockholders to consider certain amendments to our Certificate of Incorporation (the Charter Amendments) was held on August 3, 2009 where such amendments were approved by our stockholders. The Charter Amendments: (1) increased the number of authorized shares of our common stock from 300,000 to 5,000,000 (2) effected a reverse stock split of our outstanding common stock at a ratio of two hundred to one (200:1), (3) defined the term Continuing Directors that was used but not defined in the Certificate of Incorporation, (4) amended the Certificate of Incorporation to delete Article Sixteenth of the Certificate of Incorporation that set forth higher approval thresholds than those required under the Delaware General Corporation Law with respect to certain amendments of the Certificate of Incorporation and (5) amended the Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth.

The Charter Amendments were made in connection with the refinancing of our debt which closed on April 23, 2009. On such date, the Series A-1 Convertible Preferred Stock and Series B Convertible Preferred Stock (collectively, the Preferred Stock) was issued but not converted because we did not have sufficient authorized shares of common stock into which the Preferred Stock could be converted. The Certificates of Designation for the Series A-1 Preferred Stock and Series B Preferred Stock, state that when the authorized shares of common stock were increased by a sufficient amount to allow the conversion of all Preferred Stock, the Preferred Stock would convert automatically, without further action required by us or any shareholder, into shares of common stock.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

As previously disclosed, on July 9, 2009, Gores converted 3.5 shares of Series A-1 Convertible Preferred Stock into 103,513 shares of common stock. Such conversion triggered the conversion of 292 shares of Class B Common into 292 shares of common stock pursuant to the terms of our Charter.

The conversion of Preferred Stock that occurred on August 3, 2009 increased the number of shares of common stock issued and outstanding from 206,263 to 4,062,446 on a pre-split basis, which was reduced to 20,312 shares after the 200:1 reverse stock split. While such technically resulted in substantial dilution to our common stockholders, the ownership interest of each of our common stockholders did not change substantially after the conversion of the Preferred Stock into common stock as the Preferred Stock that was issued on April 23, 2009 when our Refinancing closed from the time of its issuance participated on an as-converted basis with respect to voting, dividends and other economic rights as the common stock. Effective August 3, 2009, when the Charter Amendments were approved, the warrants issued to Gores on June 19, 2008 were cancelled.

In connection with the Refinancing and the issuance of the preferred shares, we had determined that the preferred shares contained a beneficial conversion feature (BCF), that was partially contingent. The BCF is measured as the spread between the effective conversion price and the market price of common stock on the commitment date and then multiplying this spread by the number of conversion shares, as adjusted for the contingent shares. A portion of the BCF had been recognized at issuance and was being amortized using the effective yield methog over the period until conversion. The total BCF, which was limited to the carrying value of the preferred stock, was $76,455,prior to conversion and upon conversion resulted in, among other effects, a deemed dividend that is included in the earnings per share calculation.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	**For the Period April 24, 2009 to September 30, 2009**	**Three Months Ended September 30, 2008**	**For the Period January 1, 2009 to April 23, 2009**	**Nine Months Ended September 30, 2008**
Net (Loss)	$ (53,549)	$ (59,735)	$ (10)	$ (18,961)	$ (205,091)
Less: Accumulated Preferred Stock dividends and accretion	(1,682)	(4,661)	(1,441)	(3,076)	(1,629)
Less: Deemed dividends from Beneficial Conversion Feature	(76,455)	(76,887)			
Less: Distributed earnings to common stockholders					
Less: Distributed earnings to Class B stockholders					
Undistributed earnings	$ (131,686)	$ (141,283)	$ (1,451)	$ (22,037)	$ (206,720)
Earnings common stock					
Basic					
Distributed earnings to common stockholders	$	$	$	$	$
Undistributed earnings allocated to common stockholders	(131,686)	(141,283)	(1,451)	(22,037)	(206,720)
Total Earnings common stock, basic	$ (131,686)	$ (141,283)	$ (1,451)	$ (22,037)	$ (206,720)
Diluted					
Distributed earnings to common stockholders	$	$	$	$	$
Distributed earnings to Class B stockholders					
Undistributed earnings allocated to common stockholders	(131,686)	(141,283)	(1,451)	(22,037)	(206,720)
Total Earnings common stock, diluted	$ (131,686)	$ (141,283)	$ (1,451)	$ (22,037)	$ (206,720)
Weighted average common shares outstanding, basic					
Share-based compensation	13,135	7,769	504	505	485
Warrants					
Weighted average Class B shares					
Weighted average common shares outstanding, diluted	13,135	7,769	504	505	485
(Loss) Earnings per common share, basic					

Distributed earnings, basic	$		$		$		$		$	
Undistributed earnings basic		(10.03)		(18.19)		(2.88)		(43.64)		(426.03)
Total	$	(10.03)	$	(18.19)	$	(2.88)	$	(43.64)	$	(426.03)
(Loss) Earnings per common share, diluted										
Distributed earnings, diluted	$		$		$		$		$	
Undistributed earnings diluted		(10.03)		(18.19)		(2.88)		(43.64)		(426.03)
Total	$	(10.03)	$	(18.19)	$	(2.88)	$	(43.64)	$	(426.03)

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Earnings per share Class B Stock					
Basic					
Distributed earnings to Class B stockholders	$	$	$	$	$
Undistributed earnings allocated to Class B stockholders					
Total Earnings Class B Stock, basic	$	$	$	$	$
Diluted					
Distributed earnings to Class B stockholders	$	$	$	$	$
Undistributed earnings allocated to Class B stockholders					
Total Earnings Class B Stock, diluted	$	$	$	$	$
Weighted average Class B shares outstanding, basic		146	292	292	292
Share-based compensation					
Warrants					
Weighted average Class B shares outstanding, diluted			292	292	292
Earnings per Class B share, basic					
Distributed earnings, basic	$	$	$	$	$
Undistributed earnings basic					
Total	$	$	$	$	$
Earnings per Class B share, diluted					
Distributed earnings, diluted	$	$	$	$	$
Undistributed earnings diluted					
Total	$	$	$	$	$

NOTE 3 Related Party Transactions:

On March 3, 2008, we closed the new Master Agreement with CBS Radio, which documents a long-term arrangement through March 31, 2017. As part of the new arrangement, CBS Radio agreed to broadcast certain of our local/regional and national commercial inventory through March 31, 2017 in exchange for certain programming and/or cash compensation. Additionally, the News Programming Agreement, the Technical Services Agreement and the Trademark License Agreement were amended and restated and extended through March 31, 2017. The previous Management Agreement and Representation Agreement were cancelled on March 3, 2008 and $16,300 of compensation previously paid to CBS Radio under those agreements, was added to the maximum potential compensation CBS Radio affiliate stations could earn pursuant to their affiliations with us. In addition, all warrants previously granted to CBS Radio were cancelled on March 3, 2008.

Expenses incurred for the Representation Agreement and programming and affiliate arrangements are included as a component of operating costs in the accompanying Consolidated Statement of Operations. Expenses incurred for the Management Agreement (excluding warrant amortization) and amortization of the

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

warrants granted to CBS Radio under the Management Agreement are included as a component of corporate general and administrative expenses and depreciation and amortization, respectively, in the accompanying Consolidated Statement of Operations. The expense incurred upon closing of the Master Agreement is included as a component of special charges in the accompanying Consolidated Statement of Operations. The description and amounts regarding related party transactions set forth in these consolidated financial statements and related notes, also reflect transactions between us and Viacom. Viacom is an affiliate of CBS Radio, as National Amusements, Inc. beneficially owns a majority of the voting power of all classes of common stock of each of CBS Corporation and Viacom. As a result of the Charter Amendments approved on August 3, 2009, CBS Radio which previously owned approximately 15.8% of our common stock, now owns less than 1% of our common stock. As a result of this change in ownership and the fact that CBS Radio ceased to manage us in March 2008, we no longer consider CBS Radio to be a related party effective as of August 3, 2009 and are no longer recording payments to CBS as related party expenses or amounts due to related parties effective August 3, 2009.

We incurred the following expenses relating to transactions with CBS Radio and/or its affiliates:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	**For the Period April 24, 2009 to September 30, 2009**	**Three Months Ended September 30, 2008**	**For the Period January 1, 2009 to April 23, 2009**	**Nine Months Ended September 30, 2008**
Representation Agreement	$	$	$	$	$ 2,583
News Agreement	1,121	3,623	3,247	4,107	9,609
Programming and Affiliate Arrangements	4,189	13,877	14,444	20,884	41,819
Management Agreement (excluding warrant amortization)					610
Warrant Amortization					1,618
Payment upon closing of Master Agreement					5,000
	$ 5,310	$ 17,500	$ 17,691	$ 24,991	$ 61,239

Gores Radio Holdings

We have a related party relationship with Gores. As a result of our Refinancing, Gores created a holding company which owns approximately 75.1% of our equity and is our ultimate parent company. Gores currently also holds $11,027 (including PIK interest) of our New Senior Notes as a result of purchasing debt from certain of our former debt holders who did not wish to participate in the issuance of the New Senior Notes on April 23, 2009 in connection with our Refinancing. Such debt is classified as Due to Gores on our balance sheet.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

We recorded fees related to consultancy and advisory services rendered by, and incurred on behalf of, Gores and Glendon Partners, an operating group associated with Gores as follows:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Consultancy and Advisory Fees	$	$ 227	$	$ 1,533	$
Gores Radio Holdings, LLC			250	230	250
Glendon Partners Fees	514	810		754	
	$ 514	$ 1,037	$ 250	$ 2,517	$ 250

POP Radio

We also have a related party relationship, including a sales representation agreement, with our investee, POP Radio, L.P. We recorded fees as follows:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Program commission expense	$ 333	$ 581	$ 218	$ 416	$ 1,398
	$ 333	$ 581	$ 218	$ 416	$ 1,398

Summary of Related Party Expense by Category:

	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Operating Costs	$ 5,643	$ 18,081	$ 17,909	$ 25,407	$ 55,409
Depreciation and Amortization					1,618
Corporate, General and Administrative					610
Consulting Fees	514	1,037	250	2,517	250
Special Charges					5,000
	$ 6,157	$ 19,118	$ 18,159	$ 27,924	$ 62,887

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

NOTE 4 Property and Equipment:

Property and equipment is recorded at cost and is summarized as follows:

	Successor Company September 30, 2009	Predecessor Company December 31, 2008
Land, buildings and improvements	$ 15,186	$ 11,999
Recording, broadcasting and studio equipment	72,834	75,907
Furniture, equipment and other	13,997	18,445
	$ 102,017	$ 106,351
Less: Accumulated depreciation	67,632	75,934
Property and equipment, net	$ 34,385	$ 30,417

Depreciation expense is recorded as follows:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Depreciation Expense	2,791	4,113	2,171	2,354	6,559

Also we have a capital lease for satellite transponders totaling $7,355. Accumulated amortization related to the capital lease was $5,552 for the period ended September 30, 2009 and $4,930 for the period ended December 31, 2008.

For the period April 24, 2009 to June 30, 2009, we failed to record the added depreciation expense for the increase in fixed assets values associated with our purchase accounting. The amount of depreciation expense that should have been recorded was $401. This amount was recorded in the three months ended September 30, 2009.

NOTE 5 Goodwill

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. In accordance with ASC 350 the value assigned to goodwill and indefinite lived intangible assets is not amortized to expense, but rather the estimated fair value of the reporting unit is compared to its carrying amount on at least an annual basis to determine if there is a potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit goodwill and intangible assets is less than their carrying value. On an annual basis and upon the occurrence of certain events, we are required to perform impairment tests on our identified intangible assets with indefinite lives, including goodwill, which testing could impact the value of our business.

Prior to the fourth quarter 2008, we operated as a single reportable operating segment: the sale of commercial time. As part of our Metro re-engineering initiative implemented in the fourth quarter of 2008, we installed separate management for the Network and Metro Traffic businesses in order to provide discrete financial information and management oversight. Accordingly, we have determined that each business is an operating segment. A reporting unit is the operating segment or a business which is one level below the operating segment. Our reporting units are consistent with our operating segments and impairment is assessed at this level.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

As a result of the Refinancing described in Note 1 Basis of Presentation, we have followed the acquisition method of accounting, as described by Accounting Standards Codification 805 Business Combinations (ASC 805). Accordingly, we have revalued our assets and liabilities using our best estimate of current fair value which was calculated using the income approach and were based on our then most current forecast. The assumptions underlying our forecasted values were derived from the Company s then best estimates including the industry s general forecast of the advertising market which assumed an improvement in the economy and in advertising market conditions in the later half of 2009. The majority of goodwill is not expected to be tax deductible. The increase in the value of goodwill was primarily attributable to deferred taxes associated with the fair value of our intangible assets (see Note 6 Intangibles) and deferred taxes arising from the cancellation of our prior indebtedness. The value assigned to goodwill is not amortized but rather the estimated fair value of the reporting unit is compared to its carrying amount on at least an annual basis to determine if there is a potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit s goodwill and intangible assets is less than its carrying value. Our consolidated financial statements prior to the closing of the Refinancing reflect the historical accounting basis in our assets and liabilities and are labeled predecessor company, while the periods subsequent to the Refinancing are labeled successor company and reflect the push down basis of accounting for the fair values which were allocated to our segments based on the Business Enterprise Value of each.

In 2009, the television upfronts (where advertisers purchase commercial airtime for the upcoming television season several months before the season begins), which in prior years concluded in the second quarter, were extended through August to complete the upfront advertising sales. During this period, advertisers were slow to commit to buying commercial airtime for the third quarter of 2009. We believed that the conclusion of the television upfronts would help bring more clarity to both purchasers and sellers of advertising; however, once such upfronts concluded in August, it became increasingly evident from our quarterly bookings, backlog and pipeline data that the downturn in the economy was continuing and affecting advertising budgets and orders. The decrease in advertising budgets and orders is evidenced by our revenue decreasing to $78,474 in the third quarter of 2009 from $96,299 in the third quarter of 2008, which represents a decrease of approximately 18.5%. These conditions, namely the weak third quarter and the likely continuation of the current economic conditions into the fourth quarter and the immediate future, caused us to reduce our forecasted results for the remainder of 2009 and 2010. We believe these new forecasted results constituted a triggering event and therefore we conducted a goodwill impairment analysis. The new forecast would more likely than not reduce the fair value of one or more of our reporting units below its carrying value. Accordingly, we performed a Step 1 analysis in accordance with ASC 350 by comparing our recalculated fair value based on our new forecast to our current carrying value. The results indicated an impairment in our Metro Traffic segment and we performed a Step 2 analysis to compare the implied fair value of goodwill for Metro Traffic with the carrying value of its goodwill. As a result of the Step 2 analysis we recorded a non-cash impairment charge of $50,401. The majority of the goodwill impairment charge is not deductible for income tax purposes.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

The fair values in our financial statements including goodwill as presented in the table below.

	Total	**Metro**	**Network**
GOODWILL			
Predecessor Company			
Balance at April 23, 2009	$ 33,988	$ 23,792	$ 10,196
Successor Company			
Balance at April 24, 2009	$ 86,414	$ 61,354	$ 25,060
Accumulated Impairment Losses			
Balance at April 24, 2009	86,414	61,354	25,060
Adjustments	(261)	(261)	
Goodwill Impairment Losses	(50,401)	(50,401)	
Balance at September 30, 2009	86,153	61,093	25,060
Accumulated Impairment	(50,401)	(50,401)	
Balance at September 30, 2009	$ 35,752	$ 10,692	$ 25,060

In the 23-day period ended April 23, 2009, we recorded a charge to special charges for insurance expense of $261 which should have been capitalized and expensed through April 2010. The correcting adjustments, including an adjustment to our opening balance of goodwill at April 24, 2009, were recorded in the three months ended September 30, 2009.

NOTE 6 Intangibles

In accordance with ASC 805 which is applicable to the Refinancing described in Note 1 Basis of Presentation, we have revalued our intangibles using our best estimate of current fair value. The value assigned to our only indefinite lived intangible assets, our trademarks, are not amortized to expense but tested at least annually for impairment or upon a triggering event. Our identified definite lived intangible assets are: our relationship with radio and television affiliates, or other distribution partners from which we obtain commercial airtime we sell to advertisers; internally developed software for systems unique to our business; contracts which provide information and talent for our programming; real estate leases; and insertion order commitments from advertisers. The values assigned to definite lived assets are amortized over their estimated useful life using, where applicable, contract completion dates, lease expiration dates, historical data on affiliate relationships and software usage. On an annual basis and upon the occurrence of certain events, we are required to perform impairment tests on our identified intangible assets with indefinite lives, including goodwill, which testing could impact the value of our business.

As a result of the conditions described in Note 5 Goodwill above, namely the weak third quarter and the likely continuation of the current economic conditions into the fourth quarter and the immediate future, we reduced our forecasted results for the remainder of 2009 and 2010. We believe these new forecasted results constituted a triggering event and therefore we conducted an impairment analysis of our indefinite and definite lived intangible assets. A fair value appraisal, using the discounted cash flow method, was conducted on our trademarks, our only indefinite lived intangible assets, and an impairment of $100 was recorded for the reduction in the value of the Metro Traffic trademark.

Based on a comparison of carrying values to undiscounted cash flows for our definite lived assets, we have concluded there was no impairment on our definitive lived assets.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

		Successor Company		Predecessor Company		
	Estimated Life	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Trademarks	Indefinite	$ 20,900	$ 20,900	$	$	$
Affiliate Relationships	10 years	70,752	72,100	3,040	2,661	3,407
Internally Developed Software	5 years	5,270	5,600			
Client Contracts	5 years	8,560	8,930			
Leases	7 years	950	980			
Insertion Orders	9 months	5,600	8,400			
Opening Balance		112,032	116,910	3,040	2,661	3,407
Amortization Expense		5,413	10,291	184	231	551
Trademark Impairment		100	100			
Ending Balance		$ 106,519	$ 106,519	$ 2,856	$ 2,430	$ 2,856

NOTE 7 Acquisitions and Investments:

TrafficLand

On December 22, 2008, Metro Networks Communications, Inc. entered into a License and Services Agreement with TrafficLand (the License Agreement) which provides us with a three-year license to market and distribute TrafficLand services and products. Concurrent with the execution of the License Agreement, Westwood One, Inc. (Metro s parent), TLAC, Inc. (a wholly-owned subsidiary of Westwood formed for such purpose) and TrafficLand entered into an option agreement with TrafficLand granting us the right to acquire 100% of the stock of TrafficLand pursuant to the terms of a Merger Agreement which the parties have negotiated and placed in escrow. As a result of payments previously made under the License Agreement, we have the right to cause the Merger Agreement to be released from escrow at any time on or prior to December 1, 2009 (such date has been extended from the original date of March 31, 2009). The Merger Agreement, if released, would remain subject to closing conditions, including the consent of our lenders. Upon consummation of the closing of the merger, the License Agreement would terminate.

As TrafficLand qualifies as a variable interest entity, we have considered qualitative and quantitative factors to determine if we are the primary beneficiary pursuant to FIN 46(R) of this variable interest entity. In connection with the TrafficLand arrangement, as of September 30, 2009, we did not hold an equity interest or a debt interest in the variable interest entity, and we did not absorb a majority of the expected losses or residual returns. Therefore, we do not qualify as the primary beneficiary and, accordingly, we have not consolidated TrafficLand.

NOTE 8 Debt:

On April 23, 2009, we completed the Refinancing of our outstanding long-term indebtedness and the recapitalization of our equity with our existing lenders and Gores (see Note 1 Basis of Presentation) and entered into a Securities Purchase Agreement with: (1) holders of our Old Notes, (the two series of which were issued under the Note Purchase Agreement, dated as of December 3, 2002) and (2) certain participating lenders under the Old Credit Agreement, dated as of March 3, 2004. Gores purchased at a discount approximately $22,600 in principal amount of our then existing debt held by debt holders who did not wish to participate in the New Senior Notes which upon completion of the Refinancing was exchanged for $10,757 of the New Secured Notes. Gores currently holds $11,027

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

(including PIK interest) of the New Senior Notes shown in the line item Due to Gores on our balance sheet. Pursuant to the Securities Purchase Agreement, in consideration for releasing all of their respective claims under the Senior Notes and the Old Credit Agreement, the debt holders collectively received in exchange for their then outstanding debt: (1) $117,500 of New Senior Notes; (2) 34,962 shares of Series B Preferred Stock and (3) a one-time cash payment of $25,000. We also entered into a senior credit facility pursuant to which we have a $15,000 revolving line of credit (which includes a $1,500 letter of credit sub-facility that was increased to $2,000 as described below) on a senior unsecured basis and a $20,000 unsecured non-amortizing term loan (collectively, the Senior Credit Facility), the obligations in respect of which are subordinated to obligations in respect of the New Senior Notes. As of September 30, 2009, we had borrowed the entire amount under the term loan but had not borrowed under the revolving line of credit.

Our present financial condition has caused us to obtain waivers to the agreements governing our indebtedness and to institute certain cost saving measures. If our financial condition does not improve, we may need to take additional actions designed to respond to or improve our financial condition and we cannot assure you that any such actions would be successful in improving our financial position. As a result of our current financial position we have taken certain actions designed to respond to and improve our current financial position. On October 14, 2009, we entered into separate agreements with the holders of our Senior Notes and Wells Fargo Foothill to amend the terms of our Securities Purchase Agreement (governing the Senior Notes) and Senior Credit Facility, respectively, to waive compliance with our debt leverage covenants which were to be measured on December 31, 2009 on a trailing four-quarter basis. In addition, we have implemented and continue to implement cost saving measures which include compensation reduction and furlough actions (aggregating 10 days of pay per each participating full-time employee) that we announced on September 29, 2009.

As of December 31, 2008, prior to the Refinancing our debt consisted of an unsecured, five-year $120,000 term loan and a five-year $75,000 revolving credit facility (collectively, the Old Facility). Interest on the facility was variable and payable at a maximum of the prime rate plus an applicable margin of up to 0.75% or LIBOR plus an applicable margin of up to 1.75%, at our option. The Old Facility contained covenants relating to dividends, liens, indebtedness, capital expenditures and restricted payments, as defined, interest coverage and leverage ratios. As a result of an amendment to our Old Facility in the first quarter of 2008, we provided security to our lenders (including holders of our Old Notes) on substantially all of our assets and amended our allowable total debt covenant to 4.0 times Annualized Consolidated Operating Cash Flow through the remaining term of the Old Facility.

Prior to April 23, 2009, we also had $200,000 in Old Notes which we issued on December 3, 2002, which consisted of: 5.26% Senior Notes due November 30, 2012 (in an aggregate principal amount of $150,000) and 4.64% Senior Notes due November 30, 2009 (in an aggregate principal amount of $50,000). Interest on the Old Notes was payable semi-annually in May and November. The Old Notes contained covenants relating to leverage and interest coverage ratios that were identical to those contained in our Old Facility.

At December 31, 2008, we had approximately $9,000 outstanding under our revolving credit facility and $32,000 outstanding under the term loan. In the fourth quarter of 2008, we did not make a semi-annual interest payment on our Old Notes and the amount of the unpaid interest is included in the debt balance at December 31, 2008.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

The following table summarizes our debt:

	Successor Company September 30, 2009	Predecessor Company December 31, 2008
Revolving Credit Facility/Term Loan	$ 20,000(1)	$ 41,000
4.64% Senior Notes due on November 30, 2009		51,475
15.0% Senior Secured Notes due on July 15, 2012 (2)	109,395	
5.26% Senior Notes due on November 30, 2012		154,503
Due to Gores (2)	11,027	
Deferred Derivative Gain		2,075
	$ 140,422	$ 249,053

(1) Interest rate of 7.0% on Term Loan.

(2) Includes 5.0% PIK interest which accrues on a quarterly basis

Our Senior Credit Facility and New Senior Notes require us to comply with certain financial and operational covenants. These covenants include, without limitation: restrictions on our ability to incur debt, incur liens, make investments, make capital expenditures, consummate acquisitions, pay dividends, sell assets and enter into mergers and similar transactions, and a maximum senior leverage ratio expressed as the principal amount of the New Senior Notes divided by our consolidated Adjusted EBITDA (defined as operating income (loss) from our Statement of Operations adjusted to exclude depreciation and amortization, stock-based stock compensation, special charges and goodwill impairment and certain other income and expense amounts). This financial covenant, prior to its being waived in October 2009 as described below, was to be measured every quarter beginning on December 31, 2009 on a trailing, four-quarter basis. The covenant is 6.25 to 1.0 on December 31, 2009 and declines on a quarterly basis thereafter, including to a 4.5 to 1.0 ratio on December 31, 2010 and a 3.5 to 1.0 ratio on December 31, 2011. Failure to comply with these covenants would result in a default under our Senior Credit Facility and New Senior Notes.

On October 14, 2009, we entered into separate agreements with the holders of our New Senior Notes and Wells Fargo Foothill to amend the terms of our Securities Purchase Agreement (governing the New Senior Notes) and Senior Credit Facility, respectively, to waive compliance with our debt leverage covenants which were to be measured on December 31, 2009 on a trailing four-quarter basis. As part of the Securities Purchase Agreement amendment, we have agreed to pay down our New Senior Notes by using the gross proceeds of the anticipated equity offering and additional cash on hand, if necessary by: (i) $15,000 if the gross proceeds of an anticipated equity offering are less than $40,000 and (ii) $20,000 (or more at our sole discretion) if the gross proceeds of the offering are equal to or greater than $40,000. If neither an offering of capital stock nor the proposed sale-leaseback of our Culver City properties occurs on or prior to March 31, 2010, we have agreed to pay down $3,500 of our New Senior Notes. Any such prepayments would be deemed optional prepayments under the Securities Purchase Agreement and made within 5 business days of the date the offering is consummated or April 7, 2010 in the event no offering or sale-leaseback was consummated. The amendments also included consents by holders of the New Senior Notes and Wells Fargo Foothill regarding the potential Culver City sale-leaseback and in the case of the amendment to the Senior Credit Facility, an increase in the letters of credit sublimit from $1,500 to $2,000.

Gores, our ultimate parent company as a result of the Refinancing, currently holds $11,027 (including PIK interest) of our New Senior Notes because it purchased debt from certain of our former debt holders who did not wish to participate in the issuance of the New Senior Notes in connection with our Refinancing. The debt is classified as Due to Gores on our balance sheet.

23

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

We determined that in the 23-day period ended April 23, 2009, we incorrectly recorded a credit to interest expense, which should have been recorded in the first quarter, for the settlement of an amount owed to a former employee. We determined that this error was not significant to any prior period results and accordingly reduced the 23-day period s interest expense by $754. We do not believe this adjustment is material to our Consolidated Financial Statements for the 23-day period ended April 23, 2009 or to any prior period s Consolidated Financial Statements. As a result, we have not restated any prior period amounts.

Our weighted average interest rate is as follows:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Weighted Average Interest Rate	11.0%	13.0%	5.4%	6.6%	5.1%

NOTE 9 Fair Value Measurements:

Fair Value of Financial Instruments

Our financial instruments include cash, cash equivalents, receivables, accounts payable, borrowings and interest rate contracts. At September 30, 2009 and December 31, 2008, the fair values of cash and cash equivalents, receivables and accounts payable approximated carrying values because of the short-term nature of these instruments. At September 30, 2009 the estimated fair value of the borrowings was based on estimated rates for long-term debt with similar debt ratings held by comparable companies. In 2008, the estimated fair values of the borrowings were valued based on the then current agreement in principle related to the Refinancing:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Borrowings (Short and Long Term)	140,422	135,500	249,053	158,100
Series A Preferred Stock			75,000	50,000

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standard Codification (ASC 820) establishes a common definition of fair value to be applied to U.S. generally accepted accounting principles (GAAP) which requires the use of fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. ASC 820 was effective for fiscal years beginning after November 15, 2007.

There was no change recorded in our opening balance of Retained Earnings as of January 1, 2009 as we did not have any financial instruments requiring retroactive application per the provisions of ASC 820.

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

Fair Value Hierarchy

ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect our own assumptions of market participant valuation (unobservable inputs). In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

Items Measured at Fair Value on a Recurring Basis

The following table sets forth our financial assets and liabilities that were accounted for, at fair value on a recurring basis as of September 30, 2009:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:			
Investments	726		
Total	$ 726	$	$

In addition to assets and liabilities recorded at fair value on a recurring basis, we are also required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. Assets measured at fair value on a nonrecurring basis are as follows:

Items Measured at Fair Value on a Non-Recurring Basis

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Other Long-term Assets:			
Trademarks			20,800
Goodwill			35,752
Total	$	$	$ 56,552

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

We recorded a $100 charge for the write-down of our trademark in the Metro Traffic segment based on an appraisal performed at September 30, 2009 (see Note 6 Intangibles). The charge is included in Goodwill and Intangible Impairment in our consolidated statements of operations for the periods ended September 30, 2009. In addition, during the periods ended September 30, 2009, we recorded a goodwill impairment charge of $50,401 (see Note 5 Goodwill).

NOTE 10 Shareholders Equity and Preferred Stock:

On each of March 3, 2008 and March 24, 2008, respectively, we closed the sale and issuance of 7,143 shares (14,286 shares in the aggregate) of our common stock to Gores at a price of $1.75 per share for an aggregate purchase amount of $25,000 less issuance costs of $2,250.

On June 19, 2008, we completed a $75,000 private placement to Gores of our Series A Preferred Stock with an initial conversion price of $3.00 per share and four-year warrants to purchase an aggregate of 10,000 shares of our common stock in three, approximately equal tranches with exercise prices of $5.00, $6.00 and $7.00 per share.

On April 23, 2009, we entered into a Purchase Agreement with Gores pursuant to which Gores purchased 25,000 shares of Series B Preferred Stock for an aggregate purchase price of $25,000. In exchange for the then outstanding shares of Series A Preferred Stock held by Gores, we issued 75,000 shares of Series A-1 Preferred Stock. On April 23, 2009, we also closed the refinancing of our outstanding debt whereby participating debt holders exchanged their outstanding debt for: (1) $117,500 of New Senior Notes, (2) 34,962 shares of Series B Preferred Stock and (3) a one-time cash payment of $25,000.

On July 9, 2009, Gores converted 3.5 shares of Series A-1 Preferred Stock into 103,513 shares of common stock (without taking into account the reverse stock split). Also on July 9, 2009, pursuant to the terms of our Certificate of Incorporation, the 292 outstanding shares of our Class B stock were automatically converted into 292 shares of common stock (without taking into account the reverse stock split) because as a result of such conversion by Gores, the voting power of the Class B stock, as a group, fell below ten percent of the aggregate voting power of issued and outstanding shares of common stock and Class B stock.

On August 3, 2009 at a special meeting of stockholders, certain amendments to our Charter were approved by our stockholders. Such amendments consist of an increase in the number of authorized shares of our common stock from 300,000 to 5,000,000 and a two hundred to one (200:1) reverse stock split which was approved and effective on August 3, 2009. Accordingly, the reverse stock split is reflected retrospectively in EPS for all periods presented herein. As contemplated by the terms of our Refinancing, the 71.5 outstanding shares of Series A-1 Preferred Stock and the 60.0 outstanding shares of Series B Preferred Stock converted into 3,856,184 shares of our common stock, in the aggregate, pursuant to the terms of the Certifications of Designation for the Series A-1 Preferred Stock and Series B Preferred Stock.

In accordance with Distinguishing Liabilities from Equity of the FASB Accounting Standards Codification (ASC 480), the Series A Preferred Stock is required to be classified as mezzanine equity because a change on control of the Company could occur without our approval. Accordingly, the redemption of the Series A Preferred Stock is not solely under our control. When the Series A Preferred Stock was outstanding, we determined that such redemption was probable and, accordingly, accreted up to the redemption value of the Series A Preferred Stock.

In accordance with ASC 480, the Series A-1 Preferred Stock and Series B Preferred Stock is also required to be classified as mezzanine equity because the redemption of these instruments is outside our control.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

We have recorded the Preferred Stock at fair value as of the date of issuance and have subsequently accreted changes in the redemption value from the date of issuance to the earliest redemption date using the interest method.

In connection with the Refinancing and the issuance of the preferred shares, we had determined that the preferred shares contained a beneficial conversion feature (BCF), that was partially contingent. The BCF is measured as the spread between the effective conversion price and the market price of common stock on the commitment date and then multiplying this spread by the number of conversion shares, as adjusted for the contingent shares. A portion of the BCF had been recognized at issuance and was being amortized using the effective yield method over the period until conversion. The total BCF, which was limited to the carrying value of the preferred stock, was $76,455 prior to conversion and upon conversion resulted in, among other effects, a deemed dividend that is included in the earnings per share calculation.

On March 16, 2009, we were delisted from the NYSE and since that date have traded over-the-counter on the OTC Bulletin Board. On August 5, 2009, our ticker symbol changed to WWOZ.OB in connection with our reverse stock split. In October 2009 we applied to list our common stock on the NASDAQ Global Market under the symbol WWON .

NOTE 11 Equity-Based Compensation:

Equity Compensation Activity

We awarded three hundred and seventy five shares of common stock to certain employees in the period from January 1, 2009 to April 23, 2009. The awards have restriction periods tied solely to employment and vest over three years. The cost of common stock awards, which is determined to be the fair market value of the shares on the date of grant, net of estimated forfeitures, is expensed ratably over the related vesting period.

Our common stock activity is as follows:

		Shares	Weighted Average Price
Predecessor Company			
Unvested	December 31, 2008	35.1	$ 1,516.40
Granted	January 1, 2009 to April 23, 2009	0.4	12.00
Forfeited	January 1, 2009 to April 23, 2009	(3.3)	1,859.84
Unvested	April 23, 2009	32.2	$ 1,463.18
Successor Company			
Unvested	April 23, 2009	32.1	$ 1,463.18
Granted	April 24, 2009 to June 30, 2009		
Forfeited	April 24, 2009 to June 30, 2009	(1.2)	678.66
Unvested	June 30, 2009	30.9	1,494.00
Granted	July 1, 2009 to September 30, 2009		
Forfeited	July 1, 2009 to September 30, 2009	(2.4)	2,949.48

Unvested	September 30, 2009	28.5	$ 1,369.65

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

Stock based compensation expense is recorded as follows:

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to Ápril 23, 2009	Nine Months Ended September 30, 2008
Operating Costs	$ 995	$ 1,727	$ 1,245	$ 1,136	$ 3,616
General and Administrative Expense	537	657	540	974	624
Total Stock Compensation Expense	$ 1,532	$ 2,384	$ 1,785	$ 2,110	$ 4,240

Common equivalent shares outstanding are as follows:

	Successor Company	Predecessor Company
	September 30, 2009	December 31, 2008
Options	29.0	35.0
Restricted Stock	1.0	2.0
Restricted Stock Units		6.0
Warrants		50.0
	30.0	93.0

The per share exercise price of the options outstanding were $10.00 $7,668 at September 30, 2009 and December 31, 2008, respectively.

On April 23, 2009, pursuant to a board of directors resolution, equity compensation awarded to directors who resigned in connection with the terms of the Refinancing accelerated and vested in full. In connection with this acceleration, we recorded stock-based compensation expense of $514.

On June 19, 2008, warrants to purchase up to 50 shares were issued to Gores. The per share prices of the Gores warrants were $1,000 $1,400. Effective August 3, 2009, when the Charter Amendments were approved, these warrants were cancelled.

NOTE 12 Other Expense/(Income):

Successor Company		Predecessor Company		
Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
$ 70	$ 66	$ (12,453)	$ (359)	$ (12,538)

Other Expense
(Income)

For the three and nine months ended September 30, 2008, we recorded a $12,420 gain for the sale of a marketable investment.

WESTWOOD ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share amounts)

(unaudited)

NOTE 13 Comprehensive Income (Loss):

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

	Successor Company		Predecessor Company		
	Three Months Ended September 30, 2009	For the Period April 24, 2009 to September 30, 2009	Three Months Ended September 30, 2008	For the Period January 1, 2009 to April 23, 2009	Nine Months Ended September 30, 2008
Net (loss) Income	$ (53,549)	$ (59,735)	$ (10)	$ (18,961)	$ (205,091)
Unrealized gain (loss) on marketable securities, net of income taxes	57	(38)	(524)	219	2,071
Adjustment for gains included in net income, net of income taxes			(7,557)		(7,557)
Comprehensive (loss) Income	$ (53,492)				