

Clear Channel Outdoor Holdings, Inc.

Form 10-Q

May 09, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

Commission file number 1-32663

**CLEAR CHANNEL OUTDOOR HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

**86-0812139**  
(I.R.S. Employer Identification No.)

**200 East Basse Road**

**San Antonio, Texas 78209**

**(210) 832-3700**

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 7, 2008
Class A Common Stock, \$.01 par value	40,627,608
Class B Common Stock, \$.01 par value	315,000,000

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**CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**

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**Table of Contents****PART I****Item 1. UNAUDITED FINANCIAL STATEMENTS  
CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****ASSETS****(In thousands)**

	<b>March 31, 2008 (Unaudited)</b>	<b>December 31, 2007 (Audited)</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 108,602	\$ 134,897
Accounts receivable, less allowance of \$32,765 at March 31, 2008 and \$29,741 at December 31, 2007	1,011,018	927,694
Due from Clear Channel Communications	151,928	265,448
Prepaid expenses	90,896	85,519
Other current assets	212,340	193,549
<b>Total Current Assets</b>	<b>1,574,784</b>	<b>1,607,107</b>
<b>Property, Plant and Equipment</b>		
Land, buildings and improvements	380,348	368,321
Structures	3,947,728	3,901,940
Furniture and other equipment	260,209	258,536
Construction in progress	73,199	74,553
	4,661,484	4,603,350
Less accumulated depreciation	2,377,799	2,359,242
	2,283,685	2,244,108
<b>Intangible Assets</b>		
Definite-lived intangibles, net	265,287	254,487
Indefinite-lived intangibles - permits	251,683	251,095
Goodwill	1,220,705	1,162,589
<b>Other Assets</b>		
Notes receivable	3,289	3,426
Investments in, and advances to, nonconsolidated affiliates	55,793	108,007
Deferred tax asset	168,188	186,167
Other assets	151,312	118,618
Other investments	128,537	
<b>Total Assets</b>	<b>\$ 6,103,263</b>	<b>\$ 5,935,604</b>

See Notes to Consolidated Financial Statements

**Table of Contents****CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****LIABILITIES AND SHAREHOLDERS EQUITY**

(In thousands)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
<b>Current Liabilities</b>		
Accounts payable	\$ 114,247	\$ 138,290
Accrued expenses	561,245	536,022
Accrued interest	1,202	1,074
Accrued income taxes		33,154
Deferred income	185,430	121,558
Current portion of long-term debt	97,446	87,099
Deferred tax liabilities	3,503	4,095
<b>Total Current Liabilities</b>	<b>963,073</b>	<b>921,292</b>
Long-term debt	16,974	94,922
Debt with Clear Channel Communications	2,500,000	2,500,000
Other long-term liabilities	237,904	220,796
Minority interest	226,521	215,864
Commitments and contingent liabilities (Note 4)		
<b>Shareholders Equity</b>		
Class A common stock	406	405
Class B common stock	3,150	3,150
Additional paid-in capital	1,308,020	1,304,359
Retained earnings	516,297	427,391
Accumulated other comprehensive income	330,971	247,478
Cost of shares held in treasury	(53)	(53)
<b>Total Shareholders Equity</b>	<b>2,158,791</b>	<b>1,982,730</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 6,103,263</b>	<b>\$ 5,935,604</b>

See Notes to Consolidated Financial Statements

**Table of Contents****CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)****(In thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenue	\$ 775,579	\$ 690,856
Operating expenses:		
Direct operating expenses (includes share-based payments of \$1,420 and \$986 in 2008 and 2007, respectively, and excludes depreciation and amortization)	470,834	394,205
Selling, general and administrative expenses (includes share-based payments of \$510 and \$381 in 2008 and 2007, respectively, and excludes depreciation and amortization)	144,610	127,533
Depreciation and amortization	105,090	95,670
Corporate expenses (includes share-based payments of \$178 and \$73 in 2008 and 2007, respectively, and excludes depreciation and amortization)	16,234	15,343
Gain on disposition of assets net	2,372	7,092
Operating income	41,183	65,197
Interest expense on debt with Clear Channel Communications	36,003	38,289
Interest expense	2,095	2,286
Interest income on Due from Clear Channel Communications	1,474	506
Equity in earnings of nonconsolidated affiliates	78,043	125
Other income (expense) net	12,547	(44)
Income before income taxes and minority interest	95,149	25,209
Income tax (expense) benefit:		
Current	4,901	(6,877)
Deferred	(12,801)	(3,764)
Income tax (expense) benefit	(7,900)	(10,641)
Minority interest income, net of tax	1,657	1,516
Net income	88,906	16,084
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	80,912	9,039
Foreign currency reclassification adjustment for sale of foreign subsidiary	2,588	
Unrealized loss on marketable securities	(7)	
Comprehensive income	\$ 172,399	\$ 25,123
Net income per common share:		
Basic	\$ .25	\$ .05
Weighted average common shares outstanding Basic	355,079	354,603
Diluted	\$ .25	\$ .05
Weighted average common shares outstanding Diluted	355,794	355,505

See Notes to Consolidated Financial Statements



**Table of Contents****CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows provided by (used in) operating activities:</b>		
Net income	\$ 88,906	\$ 16,084
<b>Reconciling items:</b>		
Depreciation and amortization	105,090	95,670
Deferred taxes	12,801	3,764
Provision for doubtful accounts	2,928	2,708
Gain on sale of operating and fixed assets	(2,372)	(7,092)
Equity in earnings of nonconsolidated affiliates	(78,043)	(125)
Other reconciling items, net	264	(237)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions	(74,381)	(24,323)
Net cash provided by operating activities	55,193	86,449
<b>Cash flows provided by (used in) investing activities:</b>		
Decrease (increase) in notes receivable, net	137	15
Decrease (increase) in investments in, and advances to nonconsolidated affiliates net	10,621	416
Purchases of property, plant and equipment	(73,301)	(47,253)
Proceeds from disposal of assets	10,941	9,862
Acquisition of operating assets, net of cash acquired	(68,566)	(12,189)
Decrease (increase) in other net	(6,712)	(292)
Net cash used in investing activities	(126,880)	(49,441)
<b>Cash flows provided by (used in) financing activities:</b>		
Draws on credit facilities	79,624	15,881
Payments on credit facilities	(147,723)	(36,582)
Proceeds from long-term debt	1,232	
Payments on long-term debt	(4,247)	(10,349)
Net transfers (to) from Clear Channel Communications	113,520	(7,834)
Proceeds from exercise of stock options	1,673	5,316
Net cash provided by (used) in financing activities	44,079	(33,568)
Effect of exchange rate changes on cash	1,313	(295)
Net (decrease) increase in cash and cash equivalents	(26,295)	3,145
Cash and cash equivalents at beginning of period	134,897	105,395
Cash and cash equivalents at end of period	\$ 108,602	\$ 108,540

See Notes to Consolidated Financial Statements



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**CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 1: BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS**

**Preparation of Interim Financial Statements**

The consolidated financial statements were prepared by Clear Channel Outdoor Holdings, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal recurring accruals and adjustments necessary for adoption of new accounting standards) necessary to present fairly the results of the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Due to seasonality and other factors, the results for the interim periods are not necessarily indicative of results for the full year. The financial statements contained herein should be read in conjunction with the consolidated and combined financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company and its subsidiaries and give effect to allocations of expenses from Clear Channel Communications. These allocations were made on a specifically identifiable basis or using relative percentages of headcount or other methods management considered to be a reasonable reflection of the utilization of services provided. Significant intercompany transactions have been eliminated in consolidation. Investments in nonconsolidated affiliates are accounted for using the equity method of accounting.

**New Accounting Standards**

The Company adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (Statement 157) on January 1, 2008, and began to apply its recognition and disclosure provisions to its financial assets and financial liabilities that are remeasured at fair value at least annually. Statement 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company holds available-for-sale marketable equity securities classified in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (Statement 115). These equity securities are measured at fair value on each reporting date using quoted prices in active markets. Due to the fact that the inputs used to measure the equity securities at fair value are observable, the Company has categorized the securities as Level 1. The fair value of these securities at March 31, 2008 was \$128.5 million.

The Company adopted Financial Accounting Standards Board Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159), which permits entities to measure many financial instruments and certain other items at fair value at specified election dates that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected should be reported in earnings at each subsequent reporting date. The provisions of Statement 159 were effective as of January 1, 2008. The Company did not elect the fair value option under this standard upon adoption.

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## Note 2: INTANGIBLE ASSETS AND GOODWILL

Definite-lived Intangibles

The Company has definite-lived intangible assets which consist primarily of transit and street furniture contracts and other contractual rights. Definite-lived intangible assets are amortized over the shorter of either the respective lives of the agreements or over the period of time the assets are expected to contribute to the Company's future cash flows. The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at March 31, 2008 and December 31, 2007:

<i>(In thousands)</i>	March 31, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture, and other contractual rights	\$ 918,456	\$ 654,343	\$ 867,283	\$ 613,897
Other	10,639	9,465	10,719	9,618
<b>Total</b>	<b>\$ 929,095</b>	<b>\$ 663,808</b>	<b>\$ 878,002</b>	<b>\$ 623,515</b>

Total amortization expense from definite-lived intangible assets for the three months ended March 31, 2008 and for the year ended December 31, 2007 was \$13.0 million and \$53.2 million, respectively. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangible assets:

<i>(In thousands)</i>	
2009	\$ 48,538
2010	37,278
2011	26,721
2012	