iHeartCommunications, Inc.
Form 10-Q
November 05, 2015

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, 2015

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO __________

Commission File Number

001-09645

iHeartCommunications, Inc.

(Exact name of registrant as specified in its charter)

Texas	**74-1787539**

Texas 74-17875

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

200 East Basse Road, Suite 100

San Antonio, Texas 78209

(Address of principal executive offices) (Zip Code)

(210) 822-2828

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] 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]

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

Texas 74-17875

Class	Outstanding at November 3, 2015
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Common Stock, $.001 par value	500,000,000

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form in a reduced disclosure format permitted by General Instruction H(2).

Texas 74-17875

IHEARTCOMMUNICATIONS, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

iHeartCommunications, Inc. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2015 (Unaudited)	December 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	$ 382,846	$ 457,024
Accounts receivable, net of allowance of $34,208 in 2015 and $32,396 in 2014	1,433,353	1,395,248
Prepaid expenses	217,310	191,572
Other current assets	132,094	136,299
Total Current Assets	2,165,603	2,180,143
PROPERTY, PLANT AND EQUIPMENT		
Structures, net	1,491,781	1,614,199
Other property, plant and equipment, net	850,305	1,084,865
INTANGIBLE ASSETS AND GOODWILL		
Indefinite-lived intangibles - licenses	2,413,483	2,411,071
Indefinite-lived intangibles - permits	1,043,727	1,066,748
Other intangibles, net	1,026,368	1,206,727
Goodwill	4,171,354	4,187,424
OTHER ASSETS		
Other assets	296,608	289,065
Total Assets	$ 13,459,229	$ 14,040,242
CURRENT LIABILITIES		
Accounts payable	$ 117,020	$ 132,258
Accrued expenses	738,278	799,475
Accrued interest	157,338	252,900
Deferred income	204,177	176,048
Current portion of long-term debt	2,464	3,604
Total Current Liabilities	1,219,277	1,364,285
Long-term debt	20,585,954	20,322,414
Deferred income taxes	1,558,923	1,563,888
Other long-term liabilities	569,111	454,863
Commitments and contingent liabilities (Note 4)		
SHAREHOLDER'S DEFICIT		
Noncontrolling interest	199,643	224,140
Common stock, par value $.001 per share, authorized and issued 500,000,000 shares in 2015 and 2014, respectively	500	500
Additional paid-in capital	2,065,983	2,101,132
Accumulated deficit	(12,343,739)	(11,682,390)
Accumulated other comprehensive loss	(396,423)	(308,590)
Total Shareholder's Deficit	(10,474,036)	(9,665,208)
Total Liabilities and Shareholder's Deficit	$ 13,459,229	$ 14,040,242

See Notes to Consolidated Financial Statements

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iHeartCommunications, Inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

(In thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue	$ 1,579,514	$ 1,630,034	$ 4,523,937	$ 4,602,736
Operating expenses:				
Direct operating expenses (excludes depreciation and amortization)	627,842	648,409	1,821,626	1,890,967
Selling, general and administrative expenses (excludes depreciation and amortization)	428,967	427,259	1,269,318	1,260,823
Corporate expenses (excludes depreciation and amortization)	74,542	78,202	232,422	233,104
Depreciation and amortization	166,320	175,865	505,167	524,798
Impairment charges	21,631	35	21,631	4,937
Other operating income, net	6,914	47,172	98,694	45,709
Operating income	267,126	347,436	772,467	733,816
Interest expense	453,921	432,616	1,348,649	1,304,335
Loss on investments, net	(5,000)	-	(4,421)	-
Equity in earnings (loss) of nonconsolidated affiliates	(857)	3,955	(1,216)	(9,388)
Loss on extinguishment of debt	-	(4,840)	(2,201)	(56,259)
Other income (expense), net	(17,976)	2,617	18,126	16,315
Loss before income taxes	(210,628)	(83,448)	(565,894)	(619,851)
Income tax expense	(2,841)	(24,376)	(81,523)	(92,142)
Consolidated net loss	(213,469)	(107,824)	(647,417)	(711,993)
Less amount attributable to noncontrolling interest	8,448	7,028	13,932	13,679
Net loss attributable to the Company	$ (221,917)	$ (114,852)	$ (661,349)	$ (725,672)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(22,102)	(63,063)	(101,983)	(77,512)
Unrealized holding gain (loss) on marketable securities	(149)	(74)	540	605
Other adjustments to comprehensive loss	-	-	(1,154)	-
Reclassification adjustment for realized gains on securities included in net loss	-	-	-	3,309
Other comprehensive loss	(22,251)	(63,137)	(102,597)	(73,598)
Comprehensive loss	(244,168)	(177,989)	(763,946)	(799,270)

Less amount attributable to noncontrolling interest		(8,540)		(9,744)		(19,180)		(14,686)
Comprehensive loss attributable to the Company	$	(235,628)	$	(168,245)	$	(744,766)	$	(784,584)

See Notes to Consolidated Financial Statements

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iHeartCommunications, Inc. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Consolidated net loss	$ (647,417)	$ (711,993)
Reconciling items:		
Impairment charges	21,631	4,937
Depreciation and amortization	505,167	524,798
Deferred taxes	15,685	44,866
Provision for doubtful accounts	20,721	12,149
Amortization of deferred financing charges and note discounts, net	47,401	74,106
Share-based compensation	7,918	8,064
Gain on disposal of operating and fixed assets	(108,090)	(45,709)
Loss on investments, net	4,421	-
Equity in loss of nonconsolidated affiliates	1,216	9,388
Loss on extinguishment of debt	2,201	56,259
Other reconciling items, net	(18,716)	(16,291)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
(Increase) decrease in accounts receivable	(93,312)	1,511
Increase in prepaid expenses and other current assets	(51,685)	(24,849)
Increase (decrease) in accrued expenses	(43,652)	10,120
Increase (decrease) in accounts payable	(10,955)	1,419
Decrease in accrued interest	(62,149)	(7,890)
Increase in deferred income	36,579	41,247
Changes in other operating assets and liabilities	9,887	(10,592)
Net cash used in operating activities	(363,149)	(28,460)
Cash flows from investing activities:		
Proceeds from sale of other investments	579	236,644
Purchases of businesses	(2,887)	841
Purchases of property, plant and equipment	(192,492)	(195,008)
Proceeds from disposal of assets	405,284	10,367
Purchases of other operating assets	(6,358)	(3,279)
Purchases of other investments	(27,756)	(8,520)
Change in other, net	(2,419)	(4,444)
Net cash provided by investing activities	173,951	36,601
Cash flows from financing activities:		
Draws on credit facilities	310,000	65,820
Payments on credit facilities	(123,304)	(315,032)
Proceeds from long-term debt	950,000	2,062,475
Payments on long-term debt	(931,372)	(1,944,564)
Payments to purchase noncontrolling interests	(42,798)	-
Dividends and other payments to noncontrolling interests	(28,088)	(32,581)
Deferred financing charges	(10,028)	(25,933)
Change in other, net	2,294	455
Net cash provided by (used for) financing activities	126,704	(189,360)
Effect of exchange rate changes on cash	(11,684)	(4,576)
Net decrease in cash and cash equivalents	(74,178)	(185,795)
Cash and cash equivalents at beginning of period	457,024	708,151
Cash and cash equivalents at end of period	$ 382,846	$ 522,356

SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 1,364,055	$ 1,214,129
Cash paid for taxes	37,299	30,384

See Notes to Consolidated Financial Statements

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iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

Preparation of Interim Financial Statements

All references in this Quarterly Report on Form 10-Q to the "Company," "we," "us" and "our" refer to iHeartCommunications, Inc. and its consolidated subsidiaries. The Company's reportable segments are iHeartMedia ("iHM"), Americas outdoor advertising ("Americas outdoor" or "Americas outdoor advertising") and International outdoor advertising ("International outdoor" or "International outdoor advertising").

The accompanying consolidated financial statements were prepared by the Company pursuant to the rules and regulations of the SEC and, in the opinion of management, include all normal and recurring adjustments 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 U.S. generally accepted accounting principles ("GAAP") 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 may not be indicative of results for the full year. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2014 Annual Report on Form 10-K.

We are a holding company and have no significant assets other than the ownership interests in our subsidiaries. All of our operations and all of our operating assets are held by our subsidiaries. Certain of our outstanding indebtedness is fully and unconditionally guaranteed on a joint and several basis by our parent, iHeartMedia Capital I, LLC ("Capital I"), and certain of our direct and indirect wholly-owned domestic subsidiaries. Not all of our subsidiaries guarantee our obligations under such outstanding indebtedness. For a presentation of the allocation of assets, liabilities, equity, revenues and expenses attributable to the guarantors of our indebtedness in conformity with the SEC's Regulation S-X Rule 3-10(d), please refer to Note 10 to the consolidated financial statements of Capital I as of and for the period ending September 30, 2015.

The consolidated financial statements include the accounts of the Company and its subsidiaries. Also included in the consolidated financial statements are entities for which the Company has a controlling financial interest or is the primary beneficiary. Investments in companies in which the Company owns 20% to 50% of the voting common stock or otherwise exercises significant influence over operating and financial policies of the company are accounted for under the equity method. All significant intercompany transactions are eliminated in the consolidation process. Certain prior-period amounts have been reclassified to conform to the 2015 presentation.

During the first quarter of 2015, in connection with the appointment of the new chief executive officer for Clear Channel Outdoor Holdings, Inc. ("CCOH"), an indirect non-wholly owned subsidiary of the Company, and a new chief executive officer for the Americas outdoor business, the Company reevaluated its segment reporting and determined that its Latin American operations should be managed by its Americas outdoor leadership team. As a result, the operations of Latin America are no longer reflected within the Company's International outdoor segment and are included in the results of its Americas outdoor segment. In addition, the Company reorganized a portion of its national representation business such that the cost of sales personnel for iHM radio stations are now included in the iHM segment and its national representation business no longer charges iHM for intercompany cost allocations. Accordingly, the Company has recast the corresponding segment disclosures for prior periods to include Latin America within the Americas outdoor segment and has also recast the corresponding segment disclosures to reflect internal representation services as direct expenses of iHM.

The Company is a Texas corporation with all of its common stock being held by Capital I. All of Capital I's interests are held by iHeartMedia Capital II, LLC, a direct, wholly-owned subsidiary of iHeartMedia, Inc. ("Parent"). Parent was formed in May 2007 by private equity funds sponsored by Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. (together, the "Sponsors") for the purpose of acquiring the business of the Company.

Omission of Per Share Information

Net loss per share information is not presented as Capital I owns 100% of the Company's common stock. The Company does not have any publicly traded common stock.

New Accounting Pronouncements

During the first quarter of 2015, the Company adopted the Financial Accounting Standards Board's ("FASB") ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued*

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Operations and Disclosures of Disposals of Components of an Entity. This update provides guidance for the recognition, measurement and disclosure of discontinued operations. The update is effective for annual periods beginning on or after 15 December 2014 and interim periods within those years. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

During the first quarter of 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis*. This new standard eliminates the deferral of FAS 167, which has allowed entities with interest in certain investment funds to follow the previous consolidation guidance in FIN 46(R) and makes other changes to both the variable interest model and the voting model. The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

During the second quarter of 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This update requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that direct debt liability. The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

During the third quarter of 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. This update provides a one-year deferral of the effective date for ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

During the third quarter of 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. This update eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

NOTE 2 – Property, plant and equipment, INTANGIBLE ASSETS AND GOODWILL

Dispositions

During the first quarter of 2015, the Company sold two office buildings located in San Antonio, Texas for $34.3 million. Concurrently with the sale of these properties, the Company entered into lease agreements for the continued use of the buildings, pursuant to which the Company will have annual lease payments of $2.6 million. The Company recognized a gain of $8.1 million on the sale of one of the buildings, which is being recognized over the term of the lease.

On December 11, 2014, Parent announced that its subsidiary had entered into an agreement with Vertical Bridge Holdings, LLC ("Vertical Bridge") for the sale of up to 411 of our broadcast communications tower sites. On April 3, 2015, an affiliate of Parent and certain of the Company's subsidiaries completed the first closing for the sale of 367 of the Company's broadcast communications tower sites and related assets for $369.2 million. Simultaneous with the sale, the Company entered into lease agreements for the continued use of 360 of the towers sold. Upon completion of the transaction, the Company realized a net gain of $207.2 million, of which $108.1 million will be deferred and recognized over the lease term. On July 16, 2015, Parent and certain of the Company's subsidiaries completed the second closing for the sale of an additional nine of the Company's broadcast communication tower sites and related assets for approximately $5.9 million. Simultaneous with the sale, the Company entered into lease agreements for the continued use of seven of the towers sold. Upon completion of the second closing, the Company realized a net gain of $4.4 million, of which $1.7 million will be deferred and recognized over the lease term. The Company incurred $5.2 million and $10.2 million in operating lease expense in relation to these agreements in the three and nine months ended September 30, 2015, respectively. The leases entered into as a part of these transactions are for a term of fifteen years and include three optional five-year renewal periods.

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Property, Plant and Equipment
The Company's property, plant and equipment consisted of the following classes of assets as of September 30, 2015 and December 31, 2014, respectively:

(In thousands)	September 30, 2015	December 31, 2014
Land, buildings and improvements	$ 623,946	$ 731,925
Structures	2,974,643	2,999,582
Towers, transmitters and studio equipment	345,002	453,044
Furniture and other equipment	579,147	536,255
Construction in progress	71,330	95,671
	4,594,068	4,816,477
Less: accumulated depreciation	2,251,982	2,117,413
Other property, plant and equipment, net	$ 2,342,086	$ 2,699,064

Indefinite-lived Intangible Assets

The Company's indefinite-lived intangible assets consist of Federal Communications Commission ("FCC") broadcast licenses in its iHM segment and billboard permits in its Americas outdoor advertising segment. Due to significant differences in both business practices and regulations, billboards in the International outdoor advertising segment and in Latin America are subject to long-term, finite contracts, unlike the Company's permits in the United States and Canada. Accordingly, there are no indefinite-lived intangible assets in the International outdoor advertising segment.

Annual Impairment Test to FCC Licenses and Billboard Permits

Historically, the Company performed its annual impairment test on indefinite-lived intangible assets as of October 1 of each year. Beginning in the third quarter of 2015, the Company began performing its annual impairment test on July 1 of each year.

The impairment tests for indefinite-lived intangible assets consist of a comparison between the fair value of the indefinite-lived intangible asset at the market level with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the indefinite-lived asset is its new accounting basis. The fair value of the indefinite-lived asset is determined using the direct valuation method as prescribed in ASC 805-20-S99. Under the direct valuation method, the fair value of the indefinite-lived assets is calculated at the market level as prescribed by ASC 350-30-35. The Company engaged Corporate Valuation Consulting LLC (formerly a Mesirow Financial Consulting Practice), a third-party valuation firm, to assist it in the development of the assumptions and the Company's determination of the fair value of its indefinite-lived intangible assets.

The application of the direct valuation method attempts to isolate the income that is properly attributable to the indefinite-lived intangible asset alone (that is, apart from tangible and identified intangible assets and goodwill). It is based upon modeling a hypothetical “greenfield” build-up to a “normalized” enterprise that, by design, lacks inherent goodwill and whose only other assets have essentially been paid for (or added) as part of the build-up process. The Company forecasts revenue, expenses, and cash flows over a ten-year period for each of its markets in its application of the direct valuation method. The Company also calculates a “normalized” residual year which represents the perpetual cash flows of each market. The residual year cash flow was capitalized to arrive at the terminal value of the licenses in each market.

Under the direct valuation method, it is assumed that rather than acquiring indefinite-lived intangible assets as part of a going concern business, the buyer hypothetically develops indefinite-lived intangible assets and builds a new operation with similar attributes from scratch. Thus, the buyer incurs start-up costs during the build-up phase which are normally associated with going concern value. Initial capital costs are deducted from the discounted cash flow model which results in value that is directly attributable to the indefinite-lived intangible assets.

The key assumptions using the direct valuation method are market revenue growth rates, market share, profit margin, duration and profile of the build-up period, estimated start-up capital costs and losses incurred during the build-up period, the risk-adjusted discount

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

rate and terminal values. This data is populated using industry normalized information representing an average FCC license or billboard permit within a market.

The Company recognized an impairment charge related to its indefinite-lived intangible assets of $21.6 million during the three and nine months ended September 30, 2015.

Other Intangible Assets

Other intangible assets include definite-lived intangible assets and permanent easements. The Company's definite-lived intangible assets include primarily transit and street furniture contracts, talent and representation contracts, customer and advertiser relationships, and site-leases, all of which are amortized over the respective lives of the agreements or over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. Permanent easements are indefinite-lived intangible assets which include certain rights to use real property not owned by the Company. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived intangible assets. These assets are recorded at cost.

The following table presents the gross carrying amount and accumulated amortization for each major class of other intangible assets as of September 30, 2015 and December 31, 2014, respectively:

(In thousands)	September 30, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture and other outdoor contractual rights	$ 663,303	$ (465,834)	$ 716,723	$ (476,523)
Customer / advertiser relationships	1,222,519	(861,346)	1,222,518	(765,596)
Talent contracts	319,384	(245,378)	319,384	(223,936)
Representation contracts	242,413	(218,940)	238,313	(206,338)
Permanent easements	171,825	-	171,271	-
Other	388,542	(190,120)	388,160	(177,249)
Total	$ 3,007,986	$ (1,981,618)	$ 3,056,369	$ (1,849,642)

Total amortization expense related to definite-lived intangible assets for the three months ended September 30, 2015 and 2014 was $57.3 million and $65.7 million, respectively. Total amortization expense related to definite-lived intangible assets for the nine months ended September 30, 2015 and 2014 was $180.9 million and $198.9 million, respectively.

As acquisitions and dispositions occur in the future, amortization expense may vary. The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangible assets:

(In thousands)		
2016	$	221,016
2017		197,193
2018		131,081
2019		43,455
2020		36,317

Annual Impairment Test to Goodwill

Historically, the Company performed its annual impairment test on goodwill as of October 1 of each year. Beginning in the third quarter of 2015, the Company began performing its annual impairment test on July 1 of each year.

Each of the Company's U.S. radio markets and outdoor advertising markets are components. The U.S. radio markets are aggregated into a single reporting unit and the U.S. outdoor advertising markets are aggregated into a single reporting unit for purposes of the goodwill impairment test using the guidance in ASC 350-20-55. The Company also determined that each country within its Americas outdoor segment and International outdoor segment constitutes a separate reporting unit.

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The goodwill impairment test is a two-step process. The first step, used to screen for potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If applicable, the second step, used to measure the amount of the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill.

Each of the Company’s reporting units is valued using a discounted cash flow model which requires estimating future cash flows expected to be generated from the reporting unit and discounting such cash flows to their present value using a risk-adjusted discount rate. Terminal values were also estimated and discounted to their present value. Assessing the recoverability of goodwill requires the Company to make estimates and assumptions about sales, operating margins, growth rates and discount rates based on its budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management’s judgment in applying these factors.

The Company concluded no goodwill impairment charge was required for the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014.

The following table presents the changes in the carrying amount of goodwill in each of the Company’s reportable segments:

(In thousands)	iHM	Americas Outdoor Advertising	International Outdoor Advertising	Other	Consolidated
Balance as of December 31, 2013	$ 3,270,521	$ 585,227	$ 264,907	$ 81,532	$ 4,202,187
Acquisitions	17,900	-	-	299	18,199
Foreign currency	-	(653)	(32,369)	-	(33,022)
Other	60	-	-	-	60
Balance as of December 31, 2014	$ 3,288,481	$ 584,574	$ 232,538	$ 81,831	$ 4,187,424
Acquisitions	-	-	-	-	-
Foreign currency	-	(636)	(15,434)	-	(16,070)
Other	-	-	-	-	-
Balance as of September 30, 2015	$ 3,288,481	$ 583,938	$ 217,104	$ 81,831	$ 4,171,354

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iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 3 – LONG-TERM DEBT

Long-term debt outstanding as of September 30, 2015 and December 31, 2014 consisted of the following:

(In thousands)	September 30, 2015	December 31, 2014
Senior Secured Credit Facilities[(1)]	$6,300,000	$7,231,222
Receivables Based Credit Facility Due 2017[(2)]	190,000	-
9.0% Priority Guarantee Notes Due 2019	1,999,815	1,999,815
9.0% Priority Guarantee Notes Due 2021	1,750,000	1,750,000
11.25% Priority Guarantee Notes Due 2021	575,000	575,000
9.0% Priority Guarantee Notes Due 2022	1,000,000	1,000,000
10.625% Priority Guarantee Notes Due 2023	950,000	-
Subsidiary Revolving Credit Facility Due 2018[(3)]	-	-
Other Secured Subsidiary Debt[(4)]	16,377	19,257
Total Consolidated Secured Debt	12,781,192	12,575,294
14.0% Senior Notes Due 2021[(5)]	1,695,097	1,661,697
The Company's Legacy Notes[(6)]	667,900	667,900
10.0% Senior Notes Due 2018	730,000	730,000
Subsidiary Senior Notes due 2022	2,725,000	2,725,000
Subsidiary Senior Subordinated Notes due 2020	2,200,000	2,200,000
Other Subsidiary Debt	178	1,024
Purchase accounting adjustments and original issue discount	(210,949)	(234,897)
Total debt	20,588,418	20,326,018
Less: current portion	2,464	3,604
Total long-term debt	$ 20,585,954	$ 20,322,414

(1) Term Loan D and Term Loan E mature in 2019.

(2) The Receivables Based Credit Facility provides for borrowings up to the lesser of $535.0 million (the revolving credit commitment) or the borrowing base, subject to certain limitations contained in the Company’s material financing agreements.

(3) The Subsidiary Revolving Credit Facility provides for borrowings up to $75.0 million (the revolving credit commitment).

(4) Other secured subsidiary debt matures at various dates from 2015 through 2045.

(5) The 14.0% Senior Notes due 2021 are subject to required payments at various dates from 2018 through 2021.

(6) The Company’s Legacy Notes, all of which were issued prior to the acquisition of the Company by Parent in 2008, consist of Senior Notes maturing at various dates in 2016, 2018 and 2027.

The Company’s weighted average interest rates as of September 30, 2015 and December 31, 2014 were 8.4% and 8.1%, respectively. The aggregate market value of the Company’s debt based on market prices for which quotes were available was approximately $17.2 billion and $19.7 billion as of September 30, 2015 and December 31, 2014, respectively. Under the fair value hierarchy established by ASC 820-10-35, the market value of the Company's debt is classified as either Level 1 or Level 2.

Debt Issuance

During the third quarter of 2015, the Company borrowed $190.0 million aggregate principal amount under its receivables based credit facility due 2017 and used the borrowings for general corporate purposes.

On February 26, 2015, the Company issued at par $950.0 million aggregate principal amount of 10.625% Priority Guarantee Notes due 2023. The notes mature on March 15, 2023 and bear interest at a rate of 10.625% per annum, payable semi-annually in arrears on

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March 15 and September 15 of each year, beginning on September 15, 2015. The Company used the net proceeds from the offering primarily to prepay its term loan facilities due 2016.

Debt Repayments, Maturities and Other

On February 26, 2015, the Company prepaid at par $916.1 million of loans outstanding under its Term Loan B facility and $15.2 million of loans outstanding under its Term Loan C asset sale facility, using the net proceeds of the Priority Guarantee Notes due 2023 issued on such date.

Surety Bonds, Letters of Credit and Guarantees

As of September 30, 2015, the Company had outstanding surety bonds, commercial standby letters of credit and bank guarantees of $63.4 million, $106.1 million and $58.7 million, respectively. Bank guarantees of $12.4 million were cash secured. These surety bonds, letters of credit and bank guarantees relate to various operational matters including insurance, bid, concession and performance bonds as well as other items.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are involved in certain legal proceedings arising in the ordinary course of business and, as required, have accrued an estimate of the probable costs for the resolution of those claims for which the occurrence of loss is probable and the amount can be reasonably estimated. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company's assumptions or the effectiveness of the Company's strategies related to these proceedings. Additionally, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's financial condition or results of operations.

Although the Company is involved in a variety of legal proceedings in the ordinary course of business, a large portion of the Company's litigation arises in the following contexts: commercial disputes; defamation matters; employment and benefits related claims; governmental fines; intellectual property claims; and tax disputes.

Los Angeles Litigation

In 2008, Summit Media, LLC, one of the Company's competitors, sued the City of Los Angeles (the "City"), Clear Channel Outdoor, Inc. ("CCOI") and OUTFRONT Media Inc. (formerly CBS Outdoor Americas Inc.) in Los Angeles Superior Court (Case No. BS116611) challenging the validity of a settlement agreement that had been entered into in November 2006 among the parties and pursuant to which CCOI had taken down existing billboards and converted 83 existing signs from static displays to digital displays. In 2009, the Los Angeles Superior Court ruled that the settlement agreement constituted an ultra vires act of the City, and nullified its existence. After further proceedings, on April 12, 2013, the Los Angeles Superior Court invalidated 82 digital modernization permits issued to CCOI (77 of which displays were operating at the time of the ruling) and CCOI was required to turn off the electrical power to all affected digital displays on April 15, 2013. The digital display structures remain intact but digital displays are currently prohibited in the City. CCOI is seeking permits under the existing City sign code to either wrap the LED faces with vinyl or convert the LED faces to traditional static signs and has obtained a number of such permits. CCOI is also pursuing a new ordinance to permit digital signage in the City.

International Outdoor Investigation

On April 21, 2015, inspections were conducted at the premises of Clear Channel in Denmark and Sweden as part of an investigation by Danish competition authorities. Additionally, on the same day, Clear Channel UK received a communication from the UK competition authorities, also in connection with the investigation by Danish competition authorities. Clear Channel and its affiliates are cooperating with the national competition authorities.

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NOTE 5 – INCOME TAXES

Income Tax Expense

The Company's income tax expense for the three and nine months ended September 30, 2015 and 2014, respectively, consisted of the following components:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Current tax expense	$ (2,144)	$ (11,689)	$ (65,838)	$ (47,276)
Deferred tax expense	(697)	(12,687)	(15,685)	(44,866)
Income tax expense	$ (2,841)	$ (24,376)	$ (81,523)	$ (92,142)

The effective tax rates for the three and nine months ended September 30, 2015 were (1.3)% and (14.4)%, respectively. The effective tax rates for the three and nine months ended September 30, 2014 were (29.2)% and (14.9)%, respectively. The effective tax rates for the three and nine months ended September 30, 2015 and 2014 were primarily impacted by the valuation allowance recorded against deferred tax assets resulting from applicable period net operating losses in U.S. federal, state and certain foreign jurisdictions due to the uncertainty of the ability to utilize those assets in future periods.

NOTE 6 – SHAREHOLDER'S DEFICIT

The Company reports its noncontrolling interests in consolidated subsidiaries as a component of equity separate from the Company's equity. The following table shows the changes in shareholder's deficit attributable to the Company and the noncontrolling interests of subsidiaries in which the Company has a majority, but not total, ownership interest:

(In thousands)	The Company	Noncontrolling Interests	Consolidated
Balances as of January 1, 2015	$ (9,889,348)	$ 224,140	$ (9,665,208)
Net income (loss)	(661,349)	13,932	(647,417)
Dividends and other payments to noncontrolling interests	-	(28,088)	(28,088)
Purchase of additional noncontrolling interests	(40,820)	(1,978)	(42,798)
Share-based compensation	1,873	6,045	7,918
Foreign currency translation adjustments	(82,865)	(19,118)	(101,983)
Unrealized holding gain on marketable securities	484	56	540
Other adjustments to comprehensive loss	(1,036)	(118)	(1,154)

Other, net	(618)	4,772	4,154
Balances as of September 30, 2015	$ (10,673,679)	$ 199,643	$ (10,474,036)

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(In thousands)	The Company	Noncontrolling Interests	Consolidated
Balances as of January 1, 2014	$ (8,942,166)	$ 245,531	$ (8,696,635)
Net income (loss)	(725,672)	13,679	(711,993)
Dividends and other payments to noncontrolling interests	-	(32,581)	(32,581)
Share-based compensation	2,352	5,712	8,064
Foreign currency translation adjustments	(62,754)	(14,758)	(77,512)
Unrealized holding gain on marketable securities	533	72	605
Reclassifications	3,309	-	3,309
Other, net	(864)	1,396	532
Balances as of September 30, 2014	$ (9,725,262)	$ 219,051	$ (9,506,211)

The Company does not have any compensation plans under which it grants awards to employees. Parent and CCOH have granted restricted stock, restricted stock units and options to purchase shares of their Class A common stock to certain key individuals.

NOTE 7 — OTHER INFORMATION

Other Comprehensive Income (Loss)

There was no change in deferred income tax liabilities related to components of other comprehensive income (loss) for the quarters ended September 30, 2015 and 2014. The total (decrease) increase in deferred income tax liabilities related to components of other comprehensive income (loss) for the nine months ended September 30, 2015 and 2014 were $(0.6) million and $8.2 million, respectively.

Barter and Trade

Barter and trade revenues and expenses from continuing operations are included in consolidated revenue and selling, general and administrative expenses, respectively. Barter and trade revenues were $31.0 million and $19.9 million for the three months ended September 30, 2015 and 2014, respectively, and $87.6 million and $54.2 million for the nine months ended September 30, 2015 and 2014, respectively. Barter and trade expenses were $31.0 million and $22.7 million for the three months ended September 30, 2015 and 2014, respectively, and $84.1 million and $55.1 million for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 8 – SEGMENT DATA

The Company's reportable segments, which it believes best reflect how the Company is currently managed, are iHM, Americas outdoor advertising and International outdoor advertising. Revenue and expenses earned and charged between segments are recorded at estimated fair value and eliminated in consolidation. The iHM segment provides media and entertainment services via broadcast and digital delivery and also includes the Company's events and national syndication businesses. The Americas outdoor advertising segment consists of operations primarily in the United States, Canada and Latin America. The International outdoor advertising segment primarily includes operations in Europe, Asia and Australia. The Other category includes the Company's media representation business as well as other general support services and initiatives that are ancillary to the Company's other businesses. Corporate includes infrastructure and support, including information technology, human resources, legal, finance and administrative functions for each of the Company's reportable segments, as well as overall executive, administrative and support functions. Share-based payments are recorded in corporate expense.

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During the first quarter of 2015, the Company revised its segment reporting, as discussed in Note 1. The following table presents the Company's reportable segment results for the three and nine months ended September 30, 2015 and 2014:

(In thousands)	iHM	Americas Outdoor Advertising	International Outdoor Advertising	Other	Corporate and other reconciling items	Eliminations	Consolidated
Three Months Ended September 30, 2015							
Revenue	$ 846,865	$ 347,336	$ 348,941	$ 39,358	$ -	$ (2,986)	$ 1,579,514
Direct operating expenses	253,848	149,072	223,644	3,174	-	(1,896)	627,842
Selling, general and administrative expenses	272,349	59,539	73,020	25,149	-	(1,090)	428,967
Depreciation and amortization	59,408	50,121	41,564	5,896	9,331	-	166,320
Impairment charges	-	-	-	-	21,631	-	21,631
Corporate expenses	-	-	-	-	74,542	-	74,542
Other operating income, net	-	-	-	-	6,914	-	6,914
Operating income (loss)	$ 261,260	$ 88,604	$ 10,713	$ 5,139	$ (98,590)	$ -	$ 267,126
Intersegment revenues							