

Edgar Filing: Clear Channel Outdoor Holdings, Inc. - Form 10-Q

Clear Channel Outdoor Holdings, Inc.
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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 32663

CLEAR CHANNEL OUTDOOR HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware 86-0812139
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

200 East Basse Road, Suite 100 78209
San Antonio, Texas
(Address of principal executive offices) (Zip Code)

(210) 832-3700
(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 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 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 Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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.

Class	Outstanding at July 31, 2017
-----	-----
Class A Common Stock, \$.01 par value	47,531,474
Class B Common Stock, \$.01 par value	315,000,000

CLEAR CHANNEL OUTDOOR HOLDINGS, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

(In thousands, except share data)	June 30, 2017 (Unaudited)	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 163,066	\$ 541,995
Accounts receivable, net of allowance of \$24,411 in 2017 and \$22,398 in 2016	633,683	593,070
Prepaid expenses	127,987	111,569
Assets held for sale	—	55,602
Other current assets	39,486	39,199
Total Current Assets	964,222	1,341,435
PROPERTY, PLANT AND EQUIPMENT		
Structures, net	1,177,816	1,196,676
Other property, plant and equipment, net	232,471	216,157
INTANGIBLE ASSETS AND GOODWILL		
Indefinite-lived intangibles	986,273	960,966
Other intangibles, net	292,063	299,617
Goodwill	710,614	696,263
OTHER ASSETS		
Due from iHeartCommunications	928,809	885,701
Other assets	124,334	122,013
Total Assets	\$ 5,416,602	\$ 5,718,828
CURRENT LIABILITIES		
Accounts payable	\$ 74,172	\$ 86,870
Accrued expenses	450,757	480,872
Deferred income	101,904	67,005
Current portion of long-term debt	9,468	6,971
Total Current Liabilities	636,301	641,718
Long-term debt	5,109,653	5,110,020
Deferred tax liability	610,238	638,705
Other long-term liabilities	276,911	259,311
Commitments and Contingent liabilities (Note 4)		
STOCKHOLDERS' DEFICIT		
Noncontrolling interest	151,318	149,886
Preferred stock, \$.01 par value, 150,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, par value \$.01 per share, authorized 750,000,000 shares, issued 48,379,541 and 47,947,123 shares in 2017 and 2016, respectively	484	479
Class B common stock, \$.01 par value, 600,000,000 shares authorized, 315,000,000 shares issued and outstanding	3,150	3,150
Additional paid-in capital	3,153,966	3,432,121
Accumulated deficit	(4,159,576)	(4,125,798)
Accumulated other comprehensive loss	(360,532)	(386,658)

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Cost of shares (851,030 in 2017 and 633,851 in 2016) held in treasury	(5,311)	(4,106)
Total Stockholders' Deficit	(1,216,501)	(930,926)
Total Liabilities and Stockholders' Deficit	\$5,416,602	\$ 5,718,828

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
 (UNAUDITED)

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Revenue	\$672,319	\$708,086	\$1,217,045	\$1,297,100
Operating expenses:				
Direct operating expenses (excludes depreciation and amortization)	350,173	362,001	678,104	703,988
Selling, general and administrative expenses (excludes depreciation and amortization)	125,898	135,567	241,672	262,368
Corporate expenses (excludes depreciation and amortization)	35,340	29,673	69,880	57,897
Depreciation and amortization	78,290	86,974	155,784	172,369
Other operating income (expense), net	7,829	(59,384)	40,440	225,390
Operating income	90,447	34,487	112,045	325,868
Interest expense	94,630	94,650	187,263	188,523
Interest income on Due from iHeartCommunications	15,383	11,291	30,190	24,004
Equity in earnings (loss) of nonconsolidated affiliates	271	(232)	(201)	(647)
Other income (expense), net	8,773	(33,871)	12,640	(39,674)
Income (loss) before income taxes	20,244	(82,975)	(32,589)	121,028
Income tax benefit (expense)	(18,390)	21,719	3,447	(41,198)
Consolidated net income (loss)	1,854	(61,256)	(29,142)	79,830
Less amount attributable to noncontrolling interest	6,631	7,857	4,636	8,833
Net income (loss) attributable to the Company	\$(4,777)	\$(69,113)	\$(33,778)	\$70,997
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	21,344	9,106	30,997	36,370
Unrealized holding gain (loss) on marketable securities	159	(309)	102	(345)
Reclassification adjustments	—	32,824	(1,644)	32,824
Other adjustments to comprehensive income (loss)	—	(3,745)	—	(3,745)
Other comprehensive income	21,503	37,876	29,455	65,104
Comprehensive income (loss)	16,726	(31,237)	(4,323)	136,101
Less amount attributable to noncontrolling interest	5,852	(3,978)	3,329	(1,559)
Comprehensive income (loss) attributable to the Company	\$10,874	\$(27,259)	\$(7,652)	\$137,660
Net income (loss) attributable to the Company per common share:				
Basic	\$(0.01)	\$(0.19)	\$(0.09)	\$0.20
Weighted average common shares outstanding – Basic	361,131	360,233	360,944	360,074
Diluted	\$(0.01)	\$(0.19)	\$(0.09)	\$0.20
Weighted average common shares outstanding – Diluted	361,131	360,233	360,944	361,154
Dividends declared per share	\$—	\$—	\$0.78	\$1.49

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
(UNAUDITED)

(In thousands)	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Consolidated net income (loss)	\$(29,142)	\$79,830
Reconciling items:		
Depreciation and amortization	155,784	172,369
Deferred taxes	(23,354)	42,454
Provision for doubtful accounts	4,072	6,662
Amortization of deferred financing charges and note discounts, net	5,368	5,257
Share-based compensation	4,259	5,449
Gain on disposal of operating and other assets	(41,597)	(226,895)
Equity in loss of nonconsolidated affiliates	201	647
Other reconciling items, net	(16,077)	39,000
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
(Increase) decrease in accounts receivable	(22,118)	32,137
Increase in prepaid expenses and other current assets	(15,422)	(28,998)
Decrease in accrued expenses	(58,153)	(71,651)
Decrease in accounts payable	(16,141)	(13,807)
Increase (decrease) in accrued interest	(61)	2,908
Increase in deferred income	30,563	36,058
Changes in other operating assets and liabilities	1,580	7,345
Net cash provided by (used for) operating activities	\$(20,238)	\$88,765
Cash flows from investing activities:		
Purchases of property, plant and equipment	(103,079)	(97,055)
Proceeds from disposal of assets	59,735	583,652
Purchases of other operating assets	(1,711)	(1,670)
Change in other, net	4,096	(30,247)
Net cash provided by (used for) investing activities	\$(40,959)	\$454,680
Cash flows from financing activities:		
Draws on credit facilities	3,125	—
Payments on credit facilities	(761)	(1,157)
Payments on long-term debt	(348)	(1,116)
Net transfers from (to) iHeartCommunications	(43,109)	241,169
Dividends and other payments from (to) noncontrolling interests	182	(1,247)
Dividends paid	(282,055)	(754,235)
Change in other, net	(1,012)	(287)
Net cash used for financing activities	\$(323,978)	\$(516,873)
Effect of exchange rate changes on cash	6,246	212
Net increase (decrease) in cash and cash equivalents	(378,929)	26,784
Cash and cash equivalents at beginning of period	541,995	412,743
Cash and cash equivalents at end of period	\$163,066	\$439,527
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	183,415	179,020
Cash paid for income taxes	23,681	24,198

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

Preparation of Interim Financial Statements

All references in this Quarterly Report on Form 10-Q to the “Company,” “we,” “us” and “our” refer to Clear Channel Outdoor Holdings, Inc. and its consolidated subsidiaries. Our reportable segments are Americas outdoor advertising (“Americas”) and International outdoor advertising (“International”). The accompanying consolidated financial statements were prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“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 2016 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 the Company’s indirect parent entity, iHeartCommunications, Inc. (“iHeartCommunications”). 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. 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 2017 presentation.

New Accounting Pronouncements

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 two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company expects to utilize the full retrospective method. The Company has substantially completed its evaluation of the potential changes from adopting the new standard on its future financial reporting and disclosures, which included reviews of contractual terms for all of the Company’s significant revenue streams and the development of an implementation plan. The Company continues to execute on its implementation plan, including detailed policy drafting and training of segment personnel. Based on its evaluation, the Company does not expect material changes to its 2016 or 2017 consolidated revenues, operating income or balance sheets as a result of the implementation of this standard.

During the first quarter of 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new leasing standard presents significant changes to the balance sheets of lessees. Lessor accounting is updated to align with certain changes in the lessee model and the new revenue recognition standard which was issued in the third quarter of 2015.

The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2018. The Company is currently evaluating the impact of the provisions of this new standard on its consolidated financial statements.

During the first quarter of 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This update eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard is effective for annual and any interim impairment tests performed for periods beginning after December 15, 2019. The Company is currently evaluating the impact of the provisions of this new standard on its consolidated financial statements.

During the second quarter of 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718). This update mandates that entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. Entities will have to make all of the disclosures about modifications that are required today, in addition to disclosing that compensation expense hasn't changed. Additionally, the new guidance also clarifies that a modification to an award could be

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

significant and therefore require disclosure, even if the modification accounting is not required. The guidance will be applied prospectively to awards modified on or after the adoption date and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company is currently evaluating the impact of the provisions of this new standard on its consolidated financial statements.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

Dispositions

In January 2017, Americas sold its Indianapolis, Indiana market to Fairway Media Group, LLC in exchange for certain assets in Atlanta, Georgia with a fair value of \$39.4 million, plus \$43.1 million in cash, net of closing costs. The assets acquired as part of the transaction consisted of \$9.9 million in fixed assets and \$29.5 million in intangible assets (including \$2.3 million in goodwill). The Company recognized a net gain of \$28.9 million related to the sale, which is included within Other operating income, net.

Property, Plant and Equipment

The Company's property, plant and equipment consisted of the following classes of assets as of June 30, 2017 and December 31, 2016, respectively:

(In thousands)	June 30, 2017	December 31, 2016
Land, buildings and improvements	\$ 144,380	\$ 152,775
Structures	2,777,063	2,684,673
Furniture and other equipment	166,038	148,516
Construction in progress	76,568	58,585
	3,164,049	3,044,549
Less: accumulated depreciation	1,753,762	1,631,716
Property, plant and equipment, net	\$ 1,410,287	\$ 1,412,833

Indefinite-lived Intangible Assets

The Company's indefinite-lived intangible assets consist primarily of billboard permits in its Americas segment. Due to significant differences in both business practices and regulations, billboards in the International segment 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 segment.

Other Intangible Assets

Other intangible assets include definite-lived intangible assets and permanent easements. The Company's definite-lived intangible assets primarily include transit and street furniture contracts, site-leases and other contractual rights, all of which 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 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.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table presents the gross carrying amount and accumulated amortization for each major class of other intangible assets as of June 30, 2017 and December 31, 2016, respectively:

(In thousands)	June 30, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture and other outdoor contractual rights	\$583,567	\$(456,984)	\$563,863	\$(426,752)
Permanent easements	162,937	—	159,782	—
Other	4,631	(2,088)	4,536	(1,812)
Total	\$751,135	\$(459,072)	\$728,181	\$(428,564)

Total amortization expense related to definite-lived intangible assets for the three months ended June 30, 2017 and 2016 was \$7.1 million and \$10.1 million, respectively. Total amortization expense related to definite-lived intangible assets for the six months ended June 30, 2017 and 2016 was \$14.1 million and \$19.9 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)	
2018	\$19,638
2019	\$15,597
2020	\$13,302
2021	\$12,963
2022	\$11,486

Goodwill

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

(In thousands)	Americas	International	Consolidated
Balance as of December 31, 2015	\$534,683	\$223,892	\$758,575
Impairment	—	(7,274)	(7,274)
Dispositions	(6,934)	(30,718)	(37,652)
Foreign currency	(1,998)	(5,051)	(7,049)
Assets held for sale	(10,337)	—	(10,337)
Balance as of December 31, 2016	\$515,414	\$180,849	\$696,263
Acquisitions	2,252	—	2,252
Dispositions	—	(1,817)	(1,817)
Foreign currency	709	13,118	13,827
Assets held for sale	89	—	89
Balance as of June 30, 2017	\$518,464	\$192,150	\$710,614

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3 – LONG-TERM DEBT

Long-term debt outstanding as of June 30, 2017 and December 31, 2016 consisted of the following:

(In thousands)	June 30, 2017	December 31, 2016
Clear Channel Worldwide Holdings Senior Notes:		
6.5% Series A Senior Notes Due 2022	\$735,750	\$735,750
6.5% Series B Senior Notes Due 2022	1,989,250	1,989,250
Clear Channel Worldwide Holdings Senior Subordinated Notes:		
7.625% Series A Senior Subordinated Notes Due 2020	275,000	275,000
7.625% Series B Senior Subordinated Notes Due 2020	1,925,000	1,925,000
Senior Revolving Credit Facility Due 2018 ⁽¹⁾	—	—
Clear Channel International B.V. Senior Notes Due 2020	225,000	225,000
Other debt	11,560	14,798
Original issue discount	(6,193)	(6,738)
Long-term debt fees	(36,246)	(41,069)
Total debt	\$5,119,121	\$5,116,991
Less: current portion	9,468	6,971
Total long-term debt	\$5,109,653	\$5,110,020

The Senior revolving credit facility provides for borrowings up to \$75.0 million (the revolving credit (1) commitment). As of June 30, 2017, we had \$70.0 million of letters of credit outstanding, and \$5.0 million of availability, under the senior revolving credit facility.

The aggregate market value of the Company's debt based on market prices for which quotes were available was approximately \$5.2 billion at June 30, 2017 and December 31, 2016. Under the fair value hierarchy established by ASC 820-10-35, the market value of the Company's debt is classified as Level 1.

Surety Bonds, Letters of Credit and Guarantees

As of June 30, 2017, the Company had \$71.3 million and \$33.1 million in letters of credit and bank guarantees outstanding, respectively. Bank guarantees of \$15.9 million were backed by cash collateral. Additionally, as of June 30, 2017, iHeartCommunications had outstanding commercial standby letters of credit and surety bonds of \$1.8 million and \$53.1 million, respectively, held on behalf of the Company. These surety bonds, letters of credit and bank guarantees relate to various operational matters, including insurance, bid 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 its 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; misappropriation of likeness and right of publicity claims; employment and benefits related claims; governmental fines; intellectual property claims; and tax disputes.

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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.

Stockholder Litigation

On May 9, 2016, a stockholder of the Company filed a derivative lawsuit in the Court of Chancery of the State of Delaware, captioned GAMCO Asset Management Inc. v. iHeartMedia Inc. et al., C.A. No. 12312-VCS. The complaint names as defendants iHeartCommunications, Inc. (“iHeartCommunications”), the Company’s indirect parent company, iHeartMedia, Inc. (“iHeartMedia”), the parent company of iHeartCommunications, Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. (together, the “Sponsor Defendants”), iHeartMedia’s private equity sponsors and majority owners, and the members of the Company’s board of directors. The Company also is named as a nominal defendant. The complaint alleges that the Company has been harmed by the intercompany agreements with iHeartCommunications, the Company’s lack of autonomy over its own cash and the actions of the defendants in serving the interests of iHeartMedia, iHeartCommunications and the Sponsor Defendants to the detriment of the Company and its minority stockholders. Specifically, the complaint alleges that the defendants have breached their fiduciary duties by causing the Company to: (i) continue to loan cash to iHeartCommunications under the intercompany note at below-market rates; (ii) abandon its growth and acquisition strategies in favor of transactions that would provide cash to iHeartMedia and iHeartCommunications; (iii) issue new debt in the CCIBV note offering (the “CCIBV Note Offering”) to provide cash to iHeartMedia and iHeartCommunications through a dividend; and (iv) effect the sales of certain outdoor markets in the U.S. (the “Outdoor Asset Sales”) allegedly to provide cash to iHeartMedia and iHeartCommunications through a dividend. The complaint also alleges that iHeartMedia, iHeartCommunications and the Sponsor Defendants aided and abetted the directors’ breaches of their fiduciary duties. The complaint further alleges that iHeartMedia, iHeartCommunications and the Sponsor Defendants were unjustly enriched as a result of these transactions and that these transactions constituted a waste of corporate assets for which the defendants are liable to the Company. The plaintiff is seeking, among other things, a ruling that the defendants breached their fiduciary duties to the Company and that iHeartMedia, iHeartCommunications and the Sponsor Defendants aided and abetted the board of directors’ breaches of fiduciary duty, rescission of payments to iHeartCommunications and its affiliates pursuant to dividends declared in connection with the CCIBV Note Offering and Outdoor Asset Sales, and an order requiring iHeartMedia, iHeartCommunications and the Sponsor Defendants to disgorge all profits they have received as a result of the alleged fiduciary misconduct.

On July 20, 2016, the defendants filed a motion to dismiss plaintiff’s verified stockholder derivative complaint for failure to state a claim upon which relief can be granted. On November 23, 2016, the Court granted defendants’ motion to dismiss all claims brought by the plaintiff. On December 19, 2016, the plaintiff filed a notice of appeal of the ruling. This appeal is pending before the Court.

NOTE 5 — RELATED PARTY TRANSACTIONS

The Company records net amounts due from iHeartCommunications as “Due from iHeartCommunications” on the consolidated balance sheets. The accounts represent the revolving promissory note issued by the Company to iHeartCommunications and the revolving promissory note issued by iHeartCommunications to the Company in the face amount of \$1.0 billion, or if more or less than such amount, the aggregate unpaid principal amount of all advances. The accounts accrue interest pursuant to the terms of the promissory notes and are generally payable on demand or when they mature on December 15, 2017.

Included in the accounts are the net activities resulting from day-to-day cash management services provided by iHeartCommunications. As a part of these services, the Company maintains collection bank accounts swept daily into accounts of iHeartCommunications (after satisfying the funding requirements of the Trustee Accounts under the CCWH Senior Notes and the CCWH Subordinated Notes). In return, iHeartCommunications funds the Company's controlled disbursement accounts as checks or electronic payments are presented for payment. The Company's claim in relation to cash transferred from its concentration account is on an unsecured basis and is limited to the balance of the "Due from iHeartCommunications" account.

As of June 30, 2017 and December 31, 2016, the asset recorded in "Due from iHeartCommunications" on the consolidated balance sheet was \$928.8 million and \$885.7 million, respectively. As of June 30, 2017, the fixed interest rate on the "Due from iHeartCommunications" account was 6.5%, which is equal to the fixed interest rate on the CCWH Senior Notes. The net interest

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income for the three months ended June 30, 2017 and 2016 was \$15.4 million and \$11.3 million, respectively, and \$30.2 million and \$24.0 million for the six months ended June 30, 2017 and 2016, respectively.

In its Quarterly Report on Form 10-Q filed with the SEC on August 3, 2017, iHeartCommunications stated that its forecast of future cash flows indicates that such cash flows would not be sufficient for it to meet its obligations, as they become due in the ordinary course of business for a period of 12 months following August 3, 2017, including interest payments on its outstanding debt and payment of the outstanding receivables based credit facility balance at maturity on December 24, 2017, payment of the 10% Senior Notes due January 15, 2018 and the payment of the \$175.0 million 6.875% Senior Notes due June 15, 2018. iHeartCommunications further stated that management has determined that there is substantial doubt as to iHeartCommunications' ability to continue as a going concern for a period of 12 months following August 3, 2017.

If iHeartCommunications were to become insolvent or file for bankruptcy, the Company would be an unsecured creditor of iHeartCommunications. In such event, the Company would be treated the same as other unsecured creditors of iHeartCommunications and, if the Company were not entitled to amounts outstanding under the receivable from iHeartCommunications, or could not obtain such cash on a timely basis or return cash previously received from iHeartCommunications, the Company could experience a liquidity shortfall.

The Company provides advertising space on its billboards for iHeartMedia, Inc. and for radio stations owned by iHeartMedia, Inc. For the three months ended June 30, 2017 and 2016, the Company recorded \$1.9 million and \$0.6 million, respectively, and \$3.8 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively, in revenue for these advertisements.

Under the Corporate Services Agreement between iHeartCommunications and the Company, iHeartCommunications provides management services to the Company, which include, among other things: (i) treasury, payroll and other financial related services; (ii) certain executive officer services; (iii) human resources and employee benefits services; (iv) legal and related services; (v) information systems, network and related services; (vi) investment services; (vii) procurement and sourcing support services; and (viii) other general corporate services. These services are charged to the Company based on actual direct costs incurred or allocated by iHeartCommunications based on headcount, revenue or other factors on a pro rata basis. For the three months ended June 30, 2017 and 2016, the Company recorded \$17.4 million and \$9.2 million, respectively, and \$33.6 million and \$18.5 million for the six months ended June 30, 2017 and 2016, respectively, as a component of corporate expenses for these services. In February 2017, the Company and its indirect parent company, iHeartMedia, Inc., entered into an agreement related to the potential purchase of the Clear Channel registered trademarks and domain names. The agreements provide that CCOH will pay a license fee to iHeartMedia, Inc. in 2017 based on revenues of entities using the Clear Channel name, pursuant to the Amended and Restated License Agreement, dated November 10, 2005, by and between iHM Identity, Inc. and Outdoor Management Services, Inc. Included within the management services expense recognized in the three and six months ended June 30, 2017 is an additional expense related to this license of \$9.4 million and \$17.2 million, respectively. Financial distress at iHeartCommunications could impact its ability to provide these services to us, and if iHeartCommunications was to become insolvent or file a bankruptcy petition, such event could cause significant uncertainties and disrupt our operations and/or adversely affect our rights under the Corporate Services Agreement and the other intercompany agreements.

Pursuant to the Tax Matters Agreement between iHeartCommunications and the Company, the operations of the Company are included in a consolidated federal income tax return filed by iHeartCommunications. The Company's provision for income taxes has been computed on the basis that the Company files separate consolidated federal income tax returns with its subsidiaries. Tax payments are made to iHeartCommunications on the basis of the Company's separate taxable income. Tax benefits recognized on the Company's employee stock option exercises are

retained by the Company.

The Company computes its deferred income tax provision using the liability method in accordance with the provisions of ASC 740-10, as if the Company was a separate taxpayer. Deferred tax assets and liabilities are determined based on differences between the financial reporting basis and tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. Deferred tax assets are reduced by valuation allowances if the Company believes it is more likely than not some portion or all of the asset will not be realized.

Pursuant to the Employee Matters Agreement, the Company's employees participate in iHeartCommunications' employee benefit plans, including employee medical insurance and a 401(k) retirement benefit plan. For the three months ended June 30, 2017 and 2016, the Company recorded \$2.4 million and \$2.4 million, respectively, and \$4.8 million and \$4.7 million for the six months ended June 30, 2017 and 2016, respectively, as a component of selling, general and administrative expenses for these services.

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NOTE 6 – INCOME TAXES

Income Tax Benefit (Expense)

The Company's income tax benefit (expense) for the three and six months ended June 30, 2017 and 2016, respectively, consisted of the following components:

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Current tax benefit (expense)	\$(26,165)	\$11,519		