

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

Clear Channel Outdoor Holdings, Inc.

Form 10-Q

August 09, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2007**

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)

**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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 class of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 6, 2007
Class A Common Stock, \$.01 par value	40,410,319
Class B Common Stock, \$.01 par value	315,000,000

---

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

	Page No.
<u>Part I Financial Information</u>	
<u>Item 1. Unaudited Financial Statements</u>	
<u>Consolidated Balance Sheets at June 30, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Operations for the six and three months ended June 30, 2007 and 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	23
<u>Item 1A. Risk Factors</u>	23
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	24
<u>Item 6. Exhibits</u>	24
<u>Signatures</u>	25
<u>Index to Exhibits</u>	26
<u>Statement re: Computation of Per Share Earnings</u>	
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

---

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

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 94,660	\$ 105,395
Accounts receivable, less allowance of \$24,972 at June 30, 2007 and \$24,827 at December 31, 2006	833,421	798,980
Due from Clear Channel Communications	74,462	
Prepaid expenses	102,225	91,256
Other current assets	188,629	194,284
<b>Total Current Assets</b>	<b>1,293,397</b>	<b>1,189,915</b>
<b>Property, Plant and Equipment</b>		
Land, buildings and improvements	350,330	343,690
Structures	3,707,008	3,601,653
Furniture and other equipment	245,550	238,340
Construction in progress	69,654	60,332
	4,372,542	4,244,015
Less accumulated depreciation	2,197,529	2,052,176
	2,175,013	2,191,839
<b>Intangible Assets</b>		
Definite-lived intangibles, net	272,717	292,426
Indefinite-lived intangibles permits	244,700	260,949
Goodwill	1,125,071	1,092,927
<b>Other Assets</b>		
Notes receivable	3,461	3,192
Investments in, and advances to, nonconsolidated affiliates	98,770	97,352
Deferred tax asset	213,961	199,918
Other assets	110,660	93,373
<b>Total Assets</b>	<b>\$ 5,537,750</b>	<b>\$ 5,421,891</b>

See Notes to Consolidated Financial Statements

-3-

**Table of Contents**

**CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS EQUITY**  
(In thousands)

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
<b>Current Liabilities</b>		
Accounts payable	\$ 93,526	\$ 121,578
Accrued expenses	473,926	494,744
Due to Clear Channel Communications		4,190
Accrued interest	4,408	3,621
Accrued income taxes	5,676	31,259
Deferred income	137,430	96,421
Current portion of long-term debt	63,435	86,293
Deferred tax liabilities	4,010	3,403
<b>Total Current Liabilities</b>	<b>782,411</b>	<b>841,509</b>
Long-term debt	93,717	97,883
Debt with Clear Channel Communications	2,500,000	2,500,000
Other long-term liabilities	233,633	214,220
Minority interest	188,069	181,901
Commitments and contingent liabilities (Note 5)		
<b>Shareholders Equity</b>		
Class A common stock	418	396
Class B common stock	3,150	3,150
Additional paid-in capital	1,296,962	1,279,079
Retained earnings	266,082	173,277
Accumulated other comprehensive income	173,391	130,476
Cost of shares held in treasury	(83)	
<b>Total Shareholders Equity</b>	<b>1,739,920</b>	<b>1,586,378</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 5,537,750</b>	<b>\$ 5,421,891</b>

See Notes to Consolidated Financial Statements

-4-

**Table of Contents**

**CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

**(In thousands, except per share data)**

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 1,527,569	\$ 1,346,772	\$ 836,713	\$ 748,403
Operating expenses:				
Direct operating expenses (includes share-based payments of \$3,147, \$2,198, \$2,161 and \$1,132 for the six and three months ended June 30, 2007 and 2006, respectively, and excludes depreciation and amortization)	823,348	718,555	429,143	374,159
Selling, general and administrative expenses (includes share-based payments of \$1,215, \$855, \$834 and \$441 for the six and three months ended June 30, 2007 and 2006, respectively, and excludes depreciation and amortization)	262,090	234,634	134,557	119,599
Depreciation and amortization	193,823	197,147	98,153	100,827
Corporate expenses (includes share-based payments of \$241, \$45, \$168 and \$23 for the six and three months ended June 30, 2007 and 2006, respectively, and excludes depreciation and amortization)	28,614	28,705	13,271	14,120
Gain (loss) on disposition of assets net	8,296	22,441	1,204	(315)
Operating income	227,990	190,172	162,793	139,383
Interest expense on debt with Clear Channel Communications	76,201	74,563	38,418	37,766
Interest expense	3,807	7,183	1,521	3,926
Equity in earnings of nonconsolidated affiliates	2,945	3,799	2,820	2,421
Other income net	996	1,200	1,040	1,634
Income before income taxes and minority interest	151,923	113,425	126,714	101,746
Income tax expense:				
Current	50,946	14,202	44,069	32,677
Deferred	10,594	35,705	6,830	12,091
Income tax expense	61,540	49,907	50,899	44,768
Minority interest expense, net of tax	5,702	7,338	7,218	8,931
Net income	84,681	56,180	68,597	48,047
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	44,127	61,608	35,088	38,122

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

Comprehensive income	\$ 128,808	\$ 117,788	\$ 103,685	\$ 86,169
Net income per common share:				
Basic	\$ .24	\$ .16	\$ .19	\$ .14
Weighted average common shares outstanding				
Basic	354,740	350,001	354,876	350,002
Diluted	\$ .24	\$ .16	\$ .19	\$ .14
Weighted average common shares outstanding				
Diluted	355,729	350,002	355,951	350,003

See Notes to Consolidated Financial Statements

-5-

---

**Table of Contents**

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

	Six Months Ended June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 84,681	\$ 56,180
<b>Reconciling items:</b>		
Depreciation and amortization	193,823	197,147
Deferred taxes	10,594	35,705
Provision for doubtful accounts	3,853	3,533
Gain on sale of operating and fixed assets	(8,296)	(22,441)
Other reconciling items, net	6,958	9,970
Changes in operating assets and liabilities, net of effects of acquisitions	(46,719)	(50,071)
Net cash provided by operating activities	244,894	230,023
<b>Cash flows from investing activities:</b>		
Decrease (increase) in notes receivable, net	(269)	(3,079)
Decrease (increase) in investments in, and advances to nonconsolidated affiliates net	462	619
Purchases of property, plant and equipment	(112,118)	(105,344)
Proceeds from disposal of assets	11,631	10,215
Acquisition of operating assets, net of cash acquired	(32,732)	(97,478)
Decrease (increase) in restricted cash		(81,333)
Decrease (increase) in other net	(16,592)	(41,640)
Net cash used in investing activities	(149,618)	(318,040)
<b>Cash flows from financing activities:</b>		
Draws on credit facilities	26,772	71,726
Payments on credit facilities	(60,502)	(414)
Proceeds from long-term debt	12,481	6,889
Payments on long-term debt	(11,867)	(48,752)
Net transfers (to) from Clear Channel Communications	(78,777)	53,848
Proceeds from exercise of stock options, stock purchase plan, common stock warrants, and other	8,618	
Other, net	(84)	(684)
Net cash (used in) provided by financing activities	(103,359)	82,613
Effect of exchange rate changes on cash	(2,652)	4,763
Net (decrease) increase in cash and cash equivalents	(10,735)	(641)



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

Cash and cash equivalents at beginning of period	105,395	108,644
Cash and cash equivalents at end of period	\$ 94,660	\$ 108,003

See Notes to Consolidated Financial Statements

-6-

---

**Table of Contents**

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 2006 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 are eliminated in the consolidation process. Investments in nonconsolidated affiliates are accounted for using the equity method of accounting.

**Certain Reclassifications**

The Company has reclassified certain selling, general and administrative expenses to direct operating expenses in 2006 to conform to current year presentation.

**Recent Accounting Pronouncements**

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 (Statement 159), was issued in February 2007. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Statement 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company expects to adopt Statement 159 on January 1, 2008, and does not anticipate adoption to materially impact its financial position or results of operations.

**New Accounting Standard**

The Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. FIN 48 prescribes a recognition threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. The adoption of FIN 48 resulted in an increase of \$8.1 million to the January 1, 2007 balance of retained earnings, a decrease of \$6.0 million in liabilities for unrecognized tax benefits and an increase of \$27.2 million in Deferred tax assets. The total amount of unrecognized tax benefits at January 1, 2007 was \$31.7 million, inclusive of \$6.5 million for interest. Of this total, \$15.3 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

The Company continues to record interest and penalties related to unrecognized tax benefits in current income tax expense. The total amount of interest accrued during the six and three months ended June 30, 2007, was \$1.4 million

and \$0.7 million, respectively. The total amount of unrecognized tax benefits at June 30, 2007 was \$33.1 million. Pursuant to the Tax Matters Agreement between Clear Channel Communications and the Company, the operations of the Company are included in a consolidated federal income tax return filed by Clear Channel Communications. In addition, the Company and its

**Table of Contents**

subsidiaries file income tax returns in various state and foreign jurisdictions. The Company and Clear Channel Communications are in the process of settling most federal issues for the tax years 2000, 2001 and 2002 with the Internal Revenue Service ( IRS ). The IRS is near completion of its field examination of the Company s tax returns through 2004. The Company expects to resolve several of its federal issues with the IRS within the next 12 months without any material adverse impact on the Company s financial statements. Substantially all material state, local and foreign income tax matters have been concluded for years through 1999.

**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 acquired in business combinations, 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 to the Company s future cash flows. Other definite-lived intangible assets are amortized over the period of time the assets are expected to contribute directly or indirectly 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 June 30, 2007 and December 31, 2006:

	June 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(In thousands)</i>				
Transit, street furniture, and other contractual rights	\$ 837,445	\$ 565,791	\$ 821,364	\$ 530,063
Other	40,845	39,782	41,544	40,419
Total	\$ 878,290	\$ 605,573	\$ 862,908	\$ 570,482

Total amortization expense from definite-lived intangible assets for the six and three months ended June 30, 2007 and for the year ended December 31, 2006 was \$25.9 million, \$13.7 million and \$85.5 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>	
2008	\$48,534
2009	40,537
2010	26,824
2011	19,786
2012	19,521

As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, amortization expense may vary.

**Indefinite-lived Intangibles**

The Company s indefinite-lived intangible assets consist of billboard permits acquired primarily in business combinations. The Company s billboard permits are issued in perpetuity by state and local governments and are transferable or renewable at little or no cost. Permits typically include the location for which the permit allows the Company the right to operate an advertising structure. The Company s permits are located on either owned or leased land. In cases where the Company s permits are located on leased land, the leases are typically from 10 to 20 years and renew indefinitely, with rental payments generally escalating at an inflation based index. If the Company loses its lease, the Company will typically obtain permission to relocate the permit or bank it with the municipality for future use.

The Company does not amortize its billboard permits. The Company tests these indefinite-lived intangible assets for impairment at least annually using the direct method. Under the direct method, it is assumed that rather than acquiring indefinite-lived intangible assets as a part of a going concern business, the buyer hypothetically obtains 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 flows model which results in value that is directly attributable to the indefinite-lived intangible assets.

Under the direct method, the Company continues to aggregate its indefinite-lived intangible assets at the market level for purposes of impairment testing. The Company's key assumptions using the direct 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 rate and terminal values. This data is populated using industry normalized market information.

**Table of Contents**

The carrying amount for billboard permits at June 30, 2007 and December 31, 2006 was \$244.7 million and \$260.9 million, respectively.

**Goodwill**

The Company tests goodwill for impairment using 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. 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. The following table presents the changes in the carrying amount of goodwill in each of the Company's reportable segments for the six-month period ended June 30, 2007:

<i>(In thousands)</i>	Americas	International	Total
Balance as of December 31, 2006	\$ 667,297	\$ 425,630	\$ 1,092,927
Acquisitions	9,817	7,601	17,418
Foreign currency	6,398	7,873	14,271
Adjustments	455		455
Balance as of June 30, 2007	\$ 683,967	\$ 441,104	\$ 1,125,071

**Note 3: RECENT DEVELOPMENTS****Acquisitions**

During the six months ended June 30, 2007, the Company's Americas segment acquired display faces for \$14.9 million in cash. In addition, the Company's International segment paid \$17.8 million primarily related to the acquisition of an outdoor advertising business in Romania, an additional equity interest in an outdoor company and the acquisition of advertising structures.

**Disposition of Assets**

The Company received proceeds of \$11.6 million primarily related to the sale of International street furniture assets during the first six months of 2007 and recorded a gain of \$5.5 million in Gain (loss) on the disposition of assets net on the consolidated income statement.

**Recent Legal Proceedings**

The Company is the defendant in a lawsuit filed October 20, 1998 by Jorge Luis Cabrera, Sr., and Martha Serrano, as personal representatives of the Estate of Jorge Luis Cabrera, Jr., in the 11th Judicial Circuit in and for Miami-Dade County, Florida. The plaintiff alleged the Company negligently constructed, installed or maintained the electrical system in a bus shelter, which resulted in the death of Jorge Luis Cabrera, Jr. Martha Serrano settled her claims with the Company. On June 24, 2005, the jury rendered a verdict in favor of the plaintiff, and awarded the plaintiff \$4.1 million in actual damages and \$61.0 million in punitive damages. The Company filed a motion to have the punitive damages award reduced. The trial judge granted the Company's motion. A final judgment in the amount of \$4.1 million in compensatory damages and \$12.3 million in punitive damages was signed on January 23, 2006. The Company has appealed the underlying judgment and the Plaintiff filed a cross-appeal. The Plaintiff seeks to reinstate the original award of punitive damages. The Company has insurance coverage for up to approximately \$50.0 million in damages for this matter.

The Company is currently involved in certain other legal proceedings and, as required, has accrued its estimate of the probable costs for the resolution of these claims, inclusive of those discussed above. 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.

**Note 4: RESTRUCTURING**

In the third quarter of 2005, the Company restructured its operations in France. As a result, the Company recorded \$26.6 million in restructuring costs as a component of selling, general and administrative expenses; \$22.5 million was

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

related to severance costs and \$4.1 million was related to other costs. During the six months ended June 30, 2007, \$7.8 million was paid and charged to the restructuring reserve. As of June 30, 2007, the balance was \$3.3 million. The remaining restructuring accrual is comprised primarily of severance, which is expected to be paid over the next three years.

-9-

---

**Table of Contents**

**Note 5: COMMITMENTS AND CONTINGENCIES**

Certain agreements relating to acquisitions provide for purchase price adjustments and other future contingent payments based on the financial performance of the acquired companies. The Company will continue to accrue additional amounts related to such contingent payments if and when it is determinable that the applicable financial performance targets will be met. The aggregate of these contingent payments, if performance targets are met, would not significantly impact the financial position or results of operations of the Company.

As discussed in Note 3, there are various lawsuits and claims pending against the Company. Based on current assumptions, the Company has accrued its estimate of the probable costs for the resolution of these claims. 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.

**Note 6: RELATED PARTY TRANSACTIONS**

The Company records net amounts due to or from Clear Channel Communications as "Due from/to Clear Channel Communications" on the consolidated balance sheets. The account represents the Company's revolving promissory note with Clear Channel Communications, up to a maximum of \$1.0 billion. The account accrues interest pursuant to the Master Agreement and is generally payable on demand. Included in the account is the net activity resulting from day-to-day cash management services provided by Clear Channel Communications. As a part of these services, the Company maintains collection bank accounts swept daily by Clear Channel Communications. In return, Clear Channel Communications 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 Clear Channel Communications account. At June 30, 2007, the balance of \$74.5 million was an asset recorded in "Due from Clear Channel Communications" on the consolidated balance sheet. At December 31, 2006, the balance of \$4.2 million was a liability recorded in "Due to Clear Channel Communications" on the consolidated balance sheet. The net interest income for the six months ended June 30, 2007 and 2006 was \$1.0 million and \$1.2 million, respectively. The net interest income for the three months ended June 30, 2007 and 2006 was \$0.5 million and \$0.9 million, respectively.

The Company has a note in the original principal amount of \$2.5 billion to Clear Channel Communications which matures on August 2, 2010, and may be prepaid in whole at any time, or in part from time to time. This note accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. This note is mandatorily payable upon a change of control of the Company and, subject to certain exceptions, all proceeds from debt or equity raised by the Company must be used to prepay such note. At June 30, 2007, the interest rate on the \$2.5 billion note was 6.2%.

Clear Channel Communications has a five-year, multi-currency revolving credit facility in the amount of \$1.75 billion. Certain of the Company's International subsidiaries may borrow under a \$150.0 million sub-limit within this credit facility to the extent Clear Channel Communications has not already borrowed against this capacity. This sub-limit allows for borrowings in various foreign currencies, which are used to hedge net assets in those currencies and provide funds to the Company's International operations for certain working capital needs. The Company's International subsidiary borrowings under this sub-limit are guaranteed by Clear Channel Communications. The interest rate is based upon LIBOR or, for Euro denominated borrowings, EURIBOR, plus a margin. At June 30, 2007, the interest rate on borrowings under this bank credit facility, all of which were denominated in Euros, was 6.5%. At June 30, 2007, the outstanding balance on the sub-limit was \$16.1 million, and \$133.9 million was available for future borrowings, with the entire balance to be paid on July 12, 2009.

The Company provides advertising space on its billboards for radio stations owned by Clear Channel Communications. For the six months ended June 30, 2007 and 2006, the Company recorded \$6.8 million and \$5.0 million, respectively, in revenue for these advertisements. For the three months ended June 30, 2007 and 2006, the Company recorded \$4.9 million and \$3.2 million, respectively, in revenue for these advertisements.

Under the Corporate Services Agreement between Clear Channel Communications and the Company, Clear Channel Communications provides management services to the Company, which include, among other things: (i) treasury, payroll and other financial related services; (ii) 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 Clear Channel Communications based on headcount, revenue or other factors on a pro rata basis. For the six months ended June 30, 2007 and 2006, the Company recorded \$11.4 million and \$10.6 million, respectively, as a component of corporate expenses for

-10-

---

**Table of Contents**

these services. For the three months ended June 30, 2007 and 2006, the Company recorded \$5.5 million and \$4.9 million, respectively, as a component of corporate expenses for these services.

Pursuant to the Tax Matters Agreement between Clear Channel Communications and the Company, the operations of the Company are included in a consolidated federal income tax return filed by Clear Channel Communications. 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 Clear Channel Communications on the basis of the Company's separate taxable income. Tax benefits recognized on the Company's employee stock options exercises are retained by the Company.

The Company computes its deferred income tax provision using the liability method in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, as if the Company was a separate taxpayer. Deferred tax assets and liabilities are determined based on differences between financial reporting bases and tax bases 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 that some portion or all of the asset will not be realized.

Pursuant to the Employee Matters Agreement, the Company's employees participate in Clear Channel Communications' employee benefit plans, including employee medical insurance and a 401(k) retirement benefit plan. These costs are recorded as a component of selling, general and administrative expenses and were approximately \$5.1 million and \$4.6 million for the six months ended June 30, 2007 and 2006, respectively. For the three months ended June 30, 2007 and 2006, the Company recorded approximately \$2.6 million and \$2.3 million, respectively, as a component of selling, general and administrative expenses for these services.

**Note 7: SEGMENT DATA**

The Company has two reportable segments—Americas and International. The Americas segment primarily includes operations in the United States, Canada and Latin America, and the International segment includes operations in Europe, Asia, Africa and Australia. Share-based payments are recorded by each segment in direct operating and selling, general and administrative expenses.

<i>(In thousands)</i>	Americas	International	Corporate expenses and Gain (loss) on disposition of assets net	Consolidated
<b><u>Six months ended June 30, 2007</u></b>				
Revenue	\$ 693,866	\$ 833,703	\$	\$ 1,527,569
Direct operating expenses	279,799	543,549		823,348
Selling, general and administrative expenses	110,368	151,722		262,090
Depreciation and amortization	93,193	100,630		193,823
Corporate expenses			28,614	28,614
Gain (loss) on disposition of assets net			8,296	8,296
Operating income (loss)	\$ 210,506	\$ 37,802	\$ (20,318)	\$ 227,990
Identifiable assets	\$ 2,798,497	\$ 2,451,724	\$ 287,529	\$ 5,537,750
Capital expenditures	\$ 50,464	\$ 61,654	\$	\$ 112,118
Share-based payments	\$ 3,592	\$ 770	\$ 241	\$ 4,603

**Three months ended June 30, 2007**

Revenue	\$ 376,843	\$ 459,870	\$	\$ 836,713
Direct operating expenses	144,885	284,258		429,143
Selling, general and administrative expenses	56,125	78,432		134,557
Depreciation and amortization	46,632	51,521		98,153
Corporate expenses			13,271	13,271
Gain (loss) on disposition of assets net			1,204	1,204
Operating income (loss)	\$ 129,201	\$ 45,659	\$ (12,067)	\$ 162,793
Share-based payments	\$ 2,466	\$ 529	\$ 168	\$ 3,163
	-11-			

---

**Table of Contents**

<i>(In thousands)</i>	Americas	International	Corporate expenses and Gain (loss) on disposition of assets net	Consolidated
<b><u>Six months ended June 30, 2006</u></b>				
Revenue	\$ 609,349	\$ 737,423	\$	\$ 1,346,772
Direct operating expenses	248,933	469,622		718,555
Selling, general and administrative expenses	98,817	135,817		234,634
Depreciation and amortization	83,485	113,662		197,147
Corporate expenses			28,705	28,705
Gain (loss) on disposition of assets net			22,441	22,441
 Operating income (loss)	 \$ 178,114	 \$ 18,322	 \$ (6,264)	 \$ 190,172
 Identifiable assets	 \$ 2,629,819	 \$ 2,337,087	 \$ 209,131	 \$ 5,176,037
Capital expenditures	\$ 31,536	\$ 73,808	\$	\$ 105,344
Share-based payments	\$ 2,387	\$ 666	\$ 45	\$ 3,098
<b><u>Three months ended June 30, 2006</u></b>				
Revenue	\$ 335,247	\$ 413,156	\$	\$ 748,403
Direct operating expenses	128,922	245,237		374,159
Selling, general and administrative expenses	50,623	68,976		119,599
Depreciation and amortization	41,253	59,574		100,827
Corporate expenses			14,120	14,120
Gain (loss) on disposition of assets net			(315)	(315)
 Operating income (loss)	 \$ 114,449	 \$ 39,369	 \$ (14,435)	 \$ 139,383
 Share-based payments	 \$ 1,230	 \$ 343	 \$ 23	 \$ 1,596

Revenue of \$877.0 million and \$777.2 million and identifiable assets of \$2.7 billion and \$2.6 billion derived from the Company's foreign operations are included in the data above for the six months ended June 30, 2007 and 2006, respectively. Revenue of \$483.7 million and \$435.2 million derived from the Company's foreign operations are included in the data above for the three months ended June 30, 2007 and 2006, respectively.

**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**INTRODUCTION**

Management's discussion and analysis, or MD&A, of our financial condition and results of operations is provided as a supplement to the unaudited interim financial statements and accompanying notes thereto to help provide an understanding of our financial condition, changes in our financial condition and results of our operations. The information included in MD&A should be read in conjunction with the quarterly and annual financial statements.

**Description of Business**

Our revenues are derived from selling advertising space on displays owned or operated, consisting primarily of billboards, street furniture and transit displays. We own the majority of our advertising displays, which typically are located on sites that we either lease or own or for which we have acquired permanent easements. Our advertising contracts with clients typically outline the number of displays reserved, the duration of the advertising campaign and the unit price per display.

Our advertising rates are generally based on the gross rating points, or total number of impressions delivered by a display or group of displays, expressed as a percentage of a market population. The number of impressions delivered by a display is measured by the number of people passing the site during a defined period of time and, in some International markets, is weighted to account for such factors as illumination, proximity to other displays and the speed and viewing angle of approaching traffic. Management typically monitors our business by reviewing the average rates, average revenues per display, or yield, occupancy and inventory levels of each of our display types by market. In addition, because a significant portion of our advertising operations are conducted in foreign markets, principally France and the United Kingdom, management reviews the operating results from our foreign operations on a constant dollar basis. A constant dollar basis allows for comparison of operations independent of foreign exchange movements. Because revenue-sharing and minimum guaranteed payment arrangements are more prevalent in our International operations, the margins in our International operations are typically less than the margins in our Americas operations.

The significant expenses associated with our operations include (i) direct production, maintenance and installation expenses, (ii) site lease expenses for land under our displays and (iii) revenue-sharing or minimum guaranteed amounts payable under our billboard, street furniture and transit display contracts. Our direct production, maintenance and installation expenses include costs for printing, transporting and changing the advertising copy on our displays, the related labor costs, the vinyl and paper costs and the costs for cleaning and maintaining our displays. Vinyl and paper costs vary according to the complexity of the advertising copy and the quantity of displays. Our site lease expenses include lease payments for use of the land under our displays, as well as any revenue-sharing arrangements or minimum guaranteed amounts payable that we may have with the landlords. The terms of our site leases and revenue-sharing or minimum guaranteed contracts generally range from 1 to 20 years.

Our street furniture and transit display contracts, the terms of which range from 3 to 20 years, generally require us to make upfront investments in property, plant and equipment. These contracts may also include upfront lease payments or minimum annual guaranteed lease payments. We can give no assurance that our cash flows from operations over the terms of these contracts will exceed the upfront and minimum required payments.

The results in the 2007 period reflect our acquisition of Interspace Airport Advertising, or Interspace, which we acquired in July 2006.

**Relationship with Clear Channel Communications**

On May 17, 2007, Clear Channel Communications entered into a second amendment to their previously announced Merger Agreement with a group of equity funds sponsored by Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. The closing of the transaction is subject to Clear Channel Communications' shareholder approval, antitrust clearances and other customary closing conditions.

Clear Channel Communications has advised us its current intent is to continue to hold all of our Class B common stock and thereby retain its controlling interest in us. However, Clear Channel Communications is not subject to any contractual obligation that would prohibit it from selling, spinning off, splitting off or otherwise disposing of any shares of our common stock.

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

Under the Corporate Services Agreement, Clear Channel Communications allocates to us our share of costs for services provided on our behalf based on actual direct costs incurred by Clear Channel Communications or an estimate of Clear Channel Communications expenses incurred on our behalf. For the three months ended June 30, 2007 and 2006, we recorded approximately \$5.5 million and \$4.9 million, respectively, as a component of corporate expenses for these services. For the six months ended June

-13-

---

**Table of Contents**

30, 2007 and 2006, we recorded approximately \$11.4 million and \$10.6 million, respectively, as a component of corporate expenses for these services.

**Share-Based Payments**

As of June 30, 2007, there was \$25.3 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of approximately three years. The following table details compensation costs related to share-based payments for the three and six months ended June 30, 2007 and 2006:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Direct operating expenses	\$ 2,161	\$ 1,132	\$ 3,147	\$ 2,198
Selling, general and administrative expenses	834	441	1,215	855
Corporate expenses	168	23	241	45
Total share-based payments	\$ 3,163	\$ 1,596	\$ 4,603	\$ 3,098

**RESULTS OF OPERATIONS****Consolidated Results of Operations**

The comparison of the Three and Six Months Ended June 30, 2007 to the Three and Six Months Ended June 30, 2006 is as follows:

<i>(In thousands)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Revenue	\$ 836,713	\$ 748,403	12%	\$ 1,527,569	\$ 1,346,772	13%
Operating expenses:						
Direct operating expenses	429,143	374,159	15%	823,348	718,555	15%
Selling, general and administrative expenses	134,557	119,599	13%	262,090	234,634	12%
Depreciation and amortization	98,153	100,827	(3%)	193,823	197,147	(2%)
Corporate expenses	13,271	14,120	(6%)	28,614	28,705	0%
Gain (loss) on disposition of assets net	1,204	(315)		8,296	22,441	
Operating income	162,793	139,383	17%	227,990	190,172	20%
Interest expense (including interest on debt with Clear Channel Communications)	39,939	41,692		80,008	81,746	
Equity in earnings of nonconsolidated affiliates	2,820	2,421		2,945	3,799	
Other income net	1,040	1,634		996	1,200	
Income before income taxes and minority interest	126,714	101,746		151,923	113,425	
Income tax expense:						
Current	44,069	32,677		50,946	14,202	
Deferred	6,830	12,091		10,594	35,705	
Income tax expense	50,899	44,768		61,540	49,907	
Minority interest expense, net of tax	7,218	8,931		5,702	7,338	

Net income	\$ 68,597	\$ 48,047	\$ 84,681	\$ 56,180
------------	-----------	-----------	-----------	-----------

**Revenue**

*Three Months*

Our revenue increased \$88.3 million, or 12%, during the second quarter of 2007 as compared to 2006. International revenue increased \$46.7 million, including approximately \$28.1 million related to movements in foreign exchange. In addition to foreign exchange, International revenue growth was led by street furniture revenues. The increase in street furniture revenues was primarily

-14-

---



**Table of Contents**

attributable to increased yield. Americas revenue increased \$41.6 million. Interspace, which we acquired in July 2006, contributed approximately \$15.1 million to the increase. In addition, we experienced rate increases across our inventory. The growth was led by increased bulletin revenues due to the increased rates while occupancy was essentially flat in 2007 compared to 2006.

*Six Months*

Our revenue increased \$180.8 million, or 13%, during the first six months of 2007 as compared to 2006. International revenue increased \$96.3 million, including approximately \$59.3 million related to movements in foreign exchange. In addition to foreign exchange, International revenue growth was led by street furniture revenues. Americas revenue increased \$84.5 million with Interspace contributing approximately \$30.4 million to the increase. In addition to Interspace, our Americas revenue growth occurred across our inventory, led by approximately \$32.1 million from increased bulletin revenues.

***Direct Operating Expenses***

*Three Months*

Our direct operating expenses increased \$55.0 million, or 15%, during the second quarter of 2007 as compared to 2006. International direct operating expenses increased \$39.0 million primarily from \$18.5 million related to movements in foreign exchange. During the second quarter of 2007, we experienced higher expenses due to a certain contract to post political displays during the French Presidential elections and the renewal of several street furniture contracts. The remaining increase was primarily attributable to an increase in site lease expense primarily associated with the increase in revenue and new contracts. Americas direct operating expenses increased \$16.0 million with Interspace contributing approximately \$7.0 million. The remainder of the increase was primarily attributable to site-lease expenses associated with the increase in revenue.

*Six Months*

Our direct operating expenses increased \$104.8 million, or 15%, during the first six months of 2007 as compared to 2006. International direct operating expenses increased \$73.9 million primarily from \$41.0 million related to movements in foreign exchange and an increase in site lease expense primarily associated with the increase in revenue and new contracts. Americas direct operating expenses increased \$30.9 million with Interspace contributing approximately \$13.6 million to the increase. The remainder of the increase was primarily attributable to site-lease expenses associated with the increase in revenue.

***Selling, General and Administrative Expenses (SG&A)***

*Three Months*

Our SG&A increased \$15.0 million, or 13%, during the second quarter of 2007 as compared to 2006. International SG&A expenses increased \$9.5 million primarily related to movements in foreign exchange. Americas SG&A expenses increased \$5.5 million attributable to \$3.6 million from Interspace and the remainder of the increase was primarily attributable to sales expenses associated with the increase in revenue.

*Six Months*

Our SG&A increased \$27.5 million, or 12%, during the first six months of 2007 as compared to 2006. International SG&A expenses increased \$15.9 million primarily related to movements in foreign exchange. Americas SG&A expenses increased \$11.6 million attributable to \$6.6 million from Interspace and sales expenses associated with the increase in revenue.

***Depreciation and Amortization***

Depreciation and amortization decreased \$2.7 million and \$3.3 million during the three and six months ended June 30, 2007 as compared to the same periods of 2006. The decrease was due to contracts which were fully amortized at December 31, 2006, partially offset by an increase from Interspace.

***Gain (Loss) on Disposition of Assets Net***

The gain (loss) on disposition of assets net for the six months ended June 30, 2007 decreased \$14.1 million from \$22.4 million in 2006 to \$8.3 million in 2007. During the first quarter of 2006, the Company recorded a \$15.1 million gain in our Americas segment from the exchange of assets in one of our markets for the assets of a third party located in a different market.

***Income Taxes***

Our operations are included in a consolidated income tax return filed by Clear Channel Communications. However, for our financial statements, our provision for income taxes was computed on the basis that we file separate consolidated income tax returns with our subsidiaries.

**Table of Contents***Three Months*

Current tax expense for the three months ended June 30, 2007 increased \$11.4 million compared to 2006 primarily due to the increase in Income before income taxes and minority interest of \$25.0 million. The effective tax rate for the three months ended June 30, 2007 decreased to 40.2% as compared to 44.0% for the three months ended June 30, 2006, primarily due to increased tax expense recorded during 2006 as a result of the uncertainty of our ability to utilize certain tax losses in the future for certain international operations. Deferred tax expense for the three months ended June 30, 2007 decreased \$5.3 million compared to 2006 primarily due to additional deferred tax expense that was recorded in 2006 related to the uncertainty of our ability to utilize certain tax losses in the future for certain international operations.

*Six Months*

Current tax expense for the six months ended June 30, 2007 increased \$36.7 million compared to 2006 primarily due to the increase in Income before income taxes and minority interest of \$38.5 million. In addition, the Company recorded approximately \$22.8 million in current tax benefit during the first half of 2006 related to tax losses in excess of the amount reported for financial reporting purposes from the disposition of certain operating assets. The effective tax rate for the six months ended June 30, 2007 decreased to 40.5% as compared to 44.0% for the six months ended June 30, 2006, primarily due to increased tax expense recorded during 2006 as a result of the uncertainty of our ability to utilize certain tax losses in the future for certain international operations. Deferred tax expense for the six months ended June 30, 2007 decreased \$25.1 million compared to 2006 primarily due to deferred tax expense of \$22.8 million being recorded during the six months ended June 30, 2006 related to the disposition of certain operating assets mentioned above.

**Americas Results of Operations**

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	June 30, 2007	2006	% Change	June 30, 2007	2006	% Change
Revenue	\$ 376,843	\$ 335,247	12%	\$ 693,866	\$ 609,349	14%
Direct operating expenses	144,885	128,922	12%	279,799	248,933	12%
Selling, general and administrative expenses	56,125	50,623	11%	110,368	98,817	12%
Depreciation and amortization	46,632	41,253	13%	93,193	83,485	12%
Operating income	\$ 129,201	\$ 114,449		\$ 210,506	\$ 178,114	

*Three Months*

Our Americas revenue increased \$41.6 million, or 12%, during the second quarter of 2007 as compared to 2006. Interspace contributed approximately \$15.1 million to the increase. We experienced rate increases across our inventory. The growth was led by increased bulletin revenues due to the increased rates while occupancy was essentially flat in 2007 compared to 2006. Revenue growth occurred across many of our markets, including Boston, Washington, Philadelphia and Seattle. Advertising categories that contributed to the strong growth were automotive, telecommunications and retail.

Direct operating expenses increased \$16.0 million in the second quarter of 2007 as compared to 2006 with Interspace contributing approximately \$7.0 million to the increase. The remainder of the increase was primarily attributable to site lease expenses associated with the increase in revenue. SG&A expenses increased \$5.5 million with Interspace contributing \$3.6 million to the increase. The remainder of the increase was primarily attributable to sales expenses associated with the increase in revenue.

Depreciation and amortization increased \$5.4 million primarily associated with \$3.3 million from Interspace.

*Six Months*

Our Americas revenue increased \$84.5 million, or 14%, during the first half of 2007 as compared to 2006. Interspace contributed approximately \$30.4 million to the increase. In addition to Interspace, our Americas revenue growth occurred across our inventory led by approximately \$32.1 million from increased bulletin revenues.

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

Direct operating expenses increased \$30.9 million in the first half of 2007 as compared to 2006 with Interspace contributing approximately \$13.6 million to the increase. The remainder of the increase was primarily attributable to site-lease expenses associated with the increase in revenue. SG&A expenses increased \$11.6 million attributable to \$6.6 million from Interspace. The remainder of the increase was primarily attributable to bonus and commission expense.

Depreciation and amortization increased \$9.7 million primarily associated with \$6.3 million from Interspace.

-16-

---

**Table of Contents****International Results of Operations**

	Three Months Ended			Six Months Ended		
	June 30,		%	June 30,		%
<i>(In thousands)</i>	2007	2006	Change	2007	2006	Change
Revenue	\$ 459,870	\$ 413,156	11%	\$ 833,703	\$ 737,423	13%
Direct operating expenses	284,258	245,237	16%	543,549	469,622	16%
Selling, general and administrative expenses	78,432	68,976	14%	151,722	135,817	12%
Depreciation and amortization	51,521	59,574	(14%)	100,630	113,662	(11%)
Operating income	\$ 45,659	\$ 39,369		\$ 37,802	\$ 18,322	

**Three Months**

Our International revenue increased \$46.7 million, or 11%, in the second quarter of 2007 as compared to 2006. Included in the increase was approximately \$28.1 million related to movements in foreign exchange. Growth was led by street furniture revenues. The increase in street furniture revenues was primarily attributable to increased yield. On a constant dollar basis, revenue from our operations in France decreased in the second quarter of 2007 over 2006 primarily from a decline in national advertising during the French Presidential elections and due to some retailers shifting to television advertising from outdoor. Revenue was essentially unchanged in the United Kingdom. Markets contributing to the revenue growth were Italy, Spain and Ireland.

Direct operating expenses increased \$39.0 million, or 16%, during the second quarter of 2007 as compared to 2006. Included in the increase was approximately \$18.5 million related to movements in foreign exchange. During the second quarter of 2007, we experienced higher expenses due to a certain contract to post political displays during the French Presidential elections and the renewal of several street furniture contracts. The remaining increase was primarily attributable to an increase in site lease expense primarily associated with the increase in revenue. SG&A expenses increased \$9.5 million, or 14%, during the second quarter of 2007 as compared to 2006 primarily related to movements in foreign exchange.

Depreciation and amortization declined \$8.0 million primarily from contracts which were fully amortized at December 31, 2006.

**Six Months**

Our International revenue increased \$96.3 million, or 13%, in the first half of 2007 as compared to 2006. Included in the increase was approximately \$59.3 million related to movements in foreign exchange. Also contributing to the increase was growth in street furniture revenues primarily as a result of increased yield during the six months ended June 30, 2007 compared to the same period of 2006.

Direct operating expenses increased \$73.9 million during the first half of 2007 as compared to 2006 primarily from approximately \$41.0 million related to movements in foreign exchange and an increase in site lease expenses associated with the increase in revenue and new contracts. SG&A expenses increased \$15.9 million primarily related to movements in foreign exchange.

Depreciation and amortization declined \$13.0 million primarily from contracts which were fully amortized at December 31, 2006.

**Reconciliation of Segment Operating Income (Loss)**

	Three Months Ended June		Six Months Ended June	
	30,		30,	
<i>(In thousands)</i>	2007	2006	2007	2006
Americas	\$ 129,201	\$ 114,449	\$ 210,506	\$ 178,114
International	45,659	39,369	37,802	18,322
Corporate expenses	(13,271)	(14,120)	(28,614)	(28,705)
Gain (loss) on disposition of assets net	1,204	(315)	8,296	22,441

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

Consolidated operating income	\$ 162,793	\$ 139,383	\$ 227,990	\$ 190,172
-------------------------------	------------	------------	------------	------------

-17-

---

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES****Cash Flows****Operating Activities:**

Net cash provided by operating activities of \$244.9 million for the six months ended June 30, 2007 principally reflected net income of \$84.7 million, depreciation and amortization of \$193.8 million, and deferred income tax expense of \$10.6 million. Net cash provided by operating activities was partially offset by a negative change in working capital of approximately \$46.7 million. Net cash provided by operating activities of \$230.0 million for the six months ended June 30, 2006 principally reflected net income of \$56.2 million, depreciation and amortization of \$197.1 million, and deferred income tax expense of \$35.7 million. Net cash provided by operating activities was partially offset by a negative change in working capital of approximately \$50.1 million.

**Investing Activities:**

Net cash used in investing activities of \$149.6 million for the six months ended June 30, 2007 principally reflected capital expenditures of \$112.1 million related to purchases of property, plant and equipment and \$32.7 million related to acquisitions of operating assets. Net cash used in investing activities of \$318.0 million for the six months ended June 30, 2006 principally reflected capital expenditures of \$105.3 million related to purchases of property, plant and equipment. Net cash used in investing activities also included an increase in restricted cash of \$81.3 million, which was placed in escrow, related to our acquisition of Interspace Airport Advertising. Cash used for the acquisition of operating assets of \$97.5 million primarily related to the acquisition of an outdoor advertising business in the United Kingdom.

**Financing Activities:**

Net cash used in financing activities of \$103.4 million for the six months ended June 30, 2007 reflected a net decrease in debt and credit facilities of \$33.1 million and a net transfer of cash to Clear Channel Communications of \$78.8 million. Net cash provided by financing activities of \$82.6 million for the six months ended June 30, 2006 principally related to a net transfer of cash from Clear Channel Communications of \$53.9 million and a net increase in debt and credit facilities of \$29.4 million. The net transfer of cash from Clear Channel Communications increased in the six months ended June 30, 2006 primarily related to Clear Channel Communications funding a portion of our debt payments, certain acquisitions and the escrow account for the acquisition of Interspace Airport Advertising.

**SOURCES OF CAPITAL**

As of June 30, 2007 and December 31, 2006, we had the following debt outstanding:

<i>(In millions)</i>	June 30, 2007	December 31, 2006
Bank credit facility	\$ 16.1	\$ 23.5
Debt with Clear Channel Communications	2,500.0	2,500.0
Other borrowings	141.1	160.7
Due to Clear Channel Communications		4.2
<b>Total debt</b>	<b>2,657.2</b>	<b>2,688.4</b>
Less: Cash and cash equivalents	94.7	105.4
Less: Due from Clear Channel Communications	74.5	
	<b>\$ 2,488.0</b>	<b>\$ 2,583.0</b>

**Credit Facility**

In addition to cash flows from operations, another source of liquidity is through borrowings under a \$150.0 million sub-limit included in Clear Channel Communications five-year, multicurrency \$1.75 billion revolving credit facility. Certain of our International subsidiaries may borrow under the sub-limit to the extent Clear Channel

Communications has not already borrowed against this capacity and is in compliance with its covenants under the credit facility. The interest rate on outstanding balances under the credit facility is based upon LIBOR or, for Euro denominated borrowings, EURIBOR, plus, in each case, a margin. At June 30, 2007, the outstanding balance on the sub-limit was approximately \$16.1 million, and approximately \$133.9 million was available for future borrowings, with the entire balance to be paid on July 12, 2009. At June 30, 2007, the interest rate on borrowings under this credit facility, all of which were denominated in Euros, was 6.5%. As of August 7, 2007, the outstanding balance on the sub-limit was \$16.2 million and \$133.8 million was available for future borrowings.

-18-

---



**Table of Contents****Debt With Clear Channel Communications**

As part of the day-to-day cash management services provided by Clear Channel Communications, we maintain an account that represents net amounts due to or from Clear Channel Communications, which is recorded as Due from/to Clear Channel Communications on the consolidated balance sheets. The account represents our revolving promissory note with Clear Channel Communications, up to a maximum of \$1.0 billion. The account accrues interest pursuant to the Master Agreement and is generally payable on demand. Included in the account is the net activity resulting from day-to-day cash management services provided by Clear Channel Communications. As a part of these services, we maintain collection bank accounts swept daily by Clear Channel Communications. In return, Clear Channel Communications funds our controlled disbursement accounts as checks or electronic payments are presented for payment. Our claim in relation to cash transferred from our concentration account is on an unsecured basis and is limited to the balance of the Due from Clear Channel Communications account. At June 30, 2007, the balance of \$74.5 million was an asset recorded in Due from Clear Channel Communications on the consolidated balance sheet. At December 31, 2006, the balance of \$4.2 million was a liability recorded in Due to Clear Channel Communications on the consolidated balance sheet. The net interest income for the three months ended June 30, 2007 and 2006 was \$0.5 million and \$0.9 million, respectively. The net interest income for the six months ended June 30, 2007 and 2006 was \$1.0 million and \$1.2 million, respectively.

We have a note in the original principal amount of \$2.5 billion to Clear Channel Communications which matures on August 2, 2010, and may be prepaid in whole at any time, or in part from time to time. The note accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. This note is mandatorily payable upon a change of control of us and, subject to certain exceptions, all proceeds from debt or equity raised by us must be used to prepay such note. At June 30, 2007, the interest rate on the \$2.5 billion note was 6.2%.

**Debt Covenants**

The \$2.5 billion note requires us to comply with various negative covenants, including restrictions on the following activities: incurring consolidated funded indebtedness (as defined in the note), excluding intercompany indebtedness, in a principal amount in excess of \$400.0 million at any one time outstanding; creating liens; making investments; entering into sale and leaseback transactions (as defined in the note), which when aggregated with consolidated funded indebtedness secured by liens, will not exceed an amount equal to 10% of our total consolidated shareholders' equity (as defined in the note) as shown on our most recently reported annual audited consolidated financial statements; disposing of all or substantially all of our assets; entering into mergers and consolidations; declaring or making dividends or other distributions; repurchasing our equity; and entering into transactions with our affiliates.

In addition, the note requires us to prepay it in full upon a change of control. The note defines a change of control to occur when Clear Channel Communications ceases to control (i) directly or indirectly, more than 50% of the aggregate voting equity interests of us, our operating subsidiary or our respective successors or assigns, or (ii) the ability to elect a majority of the Board of Directors of us, our operating subsidiary or our respective successors or assigns. Upon our issuances of equity and incurrences of debt, subject to certain exceptions, we are also required to prepay the note in the amount of the net proceeds received by us from such events.

The significant covenants contained in the Clear Channel Communications \$1.75 billion revolving credit facility relate to leverage and interest coverage (as defined in the credit facility). The leverage ratio covenant requires Clear Channel Communications to maintain a ratio of consolidated funded indebtedness to operating cash flow (as defined by the credit facility) of less than 5.25x. The interest coverage covenant requires Clear Channel Communications to maintain a minimum ratio of operating cash flow to interest expense (as defined by the credit facility) of 2.50x. At June 30, 2007, Clear Channel Communications' leverage and interest coverage ratios were 3.2x and 4.8x, respectively.

There are no significant covenants or events of default contained in the cash management note issued by Clear Channel Communications to us or the cash management note issued by us to Clear Channel Communications.

At June 30, 2007, we and Clear Channel Communications were in compliance with all debt covenants.

**USES OF CAPITAL**

**Acquisitions**

During the six months ended June 30, 2007, our Americas segment acquired display faces for \$14.9 million in cash. In addition, our International segment paid \$17.8 million primarily related to the acquisition of an outdoor advertising business in Romania, an additional equity interest in an outdoor company and the acquisition of advertising structures.

-19-

---

**Table of Contents****Capital Expenditures**

Capital expenditures were \$112.1 million and \$105.3 million in the six months ended June 30, 2007 and 2006, respectively.

<i>(In millions)</i>	Six Months Ended June	
	2007	2006
Non-revenue producing	\$ 36.8	\$ 37.6
Revenue producing	75.3	67.7
Total capital expenditures	\$ 112.1	\$ 105.3

**Commitments, Contingencies and Guarantees**

From time to time, we are involved in legal proceedings arising in the ordinary course of business. Under our agreements with Clear Channel Communications, we have assumed and will indemnify Clear Channel Communications for liabilities related to our business. Other than as described in our Annual Report on Form 10-K for the year ended December 31, 2006 and Note 3 of the Notes to the Consolidated Financial Statements, we do not believe there is any litigation pending that would have, individually or in the aggregate, a material adverse effect on our financial position, results of operations or cash flow.

Certain agreements relating to acquisitions provide for purchase price adjustments and other future contingent payments based on the financial performance of the acquired companies generally over a one to five year period. We will continue to accrue additional amounts related to such contingent payments if and when it is determinable that the applicable financial performance targets will be met. The aggregate of these contingent payments, if performance targets are met, would not significantly impact our financial position or results of operations.

**MARKET RISK****Interest Rate Risk**

We had approximately \$2.7 billion total debt outstanding as of June 30, 2007, \$2.5 billion of which is debt with Clear Channel Communications, \$129.3 million is variable based on market interest rates and the remainder is fixed rate debt. The debt with Clear Channel Communications accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. At June 30, 2007, 27% of Clear Channel Communications debt was variable based on market interest rates. Each 50 basis point increase or decrease in interest rates would increase or decrease our interest expense and cash outlay for the six months ended June 30, 2007 by approximately \$1.9 million. This potential increase or decrease is based on the simplified assumption that the level of floating-rate debt remains constant with an immediate across-the-board increase or decrease as of June 30, 2007 with no subsequent change in rates for the remainder of the period.

**Foreign Currency**

We have operations in countries throughout the world. The financial results of our foreign operations are measured in their local currencies, except in the hyperinflationary countries in which we operate. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we operate. We believe we mitigate a small portion of our exposure to foreign currency fluctuations with a natural hedge through borrowings in currencies other than the U.S. dollar. Our foreign operations reported net income of approximately \$18.9 million for the six months ended June 30, 2007. We estimate a 10% change in the value of the U.S. dollar relative to foreign currencies would have changed our net income for the six months ended June 30, 2007 by approximately \$1.9 million.

This analysis does not consider the implication such currency fluctuations could have on the overall economic activity that could exist in such an environment in the United States or the foreign countries or on the results of operations of these foreign entities.

**Recent Accounting Pronouncements**

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 ( Statement 159 ), was issued in February 2007. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Statement 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value

-20-

---

**Table of Contents**

measurements included in Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We expect to adopt Statement 159 on January 1, 2008, and do not anticipate adoption to materially impact our financial position or results of operations.

**Risks Regarding Forward Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Except for the historical information, this report contains various forward-looking statements which represent our expectations or beliefs concerning future events, including the future levels of cash flow from operations. Management believes all statements expressing expectations and projections with respect to future matters, including our ability to negotiate contracts having more favorable terms and the availability of capital resources, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. We caution that these forward-looking statements involve a number of risks and uncertainties and are subject to many variables which could impact our financial performance. These statements are made on the basis of management's views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management's expectations will necessarily come to pass. The Company does not intend to update any forward-looking statements.

A wide range of factors could materially affect future developments and performance, including: the consummation of the merger between Clear Channel Communications and private equity funds sponsored by Bain Capital LLC and Thomas H. Lee Partners L.P., or any deterioration in the financial condition of Clear Channel Communications, could adversely affect our access to the credit markets and increase our borrowing costs;

the impact of general economic and political conditions in the United States and in other countries in which we currently do business, including those resulting from recessions, political events and acts or threats of terrorism or military conflicts;

the impact of the geopolitical environment;

our ability to integrate the operations of recently acquired companies;

shifts in population and other demographics;

industry conditions, including competition;

fluctuations in operating costs;

technological changes and innovations;

changes in labor conditions;

fluctuations in exchange rates and currency values;

capital expenditure requirements;

the outcome of pending and future litigation settlements;

legislative or regulatory requirements;

interest rates;

the effect of leverage on our financial position and earnings;

taxes;

access to capital markets; and

certain other factors set forth in our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2006.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Required information is within Item 2 of this Part I.

**Item 4. CONTROLS AND PROCEDURES**

Our principal executive and financial officers have concluded, based on their evaluation as of the end of the period covered by this Form 10-Q, that our disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities

**Table of Contents**

Exchange Act of 1934, as amended (the Exchange Act ), are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the most recent three months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

-22-

---

**Table of Contents****Part II OTHER INFORMATION****Item 1. Legal Proceedings**

We are currently involved in certain legal proceedings and, as required, have accrued an estimate of the probable costs for the resolution of these claims. 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 our assumptions or the effectiveness of our strategies related to these proceedings.

**Item 1A. Risk Factors**

For information regarding our risk factors, please refer to Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. There have not been any material changes in the risk factors disclosed in this Annual Report on Form 10-K.

Additional information relating to risk factors is described in Management's Discussion and Analysis of Financial Condition and Results of Operations under Risks Regarding Forward-Looking Statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****(a) Recent Sales of Unregistered Securities**

On March 31, 2007, we issued 191,287 shares of Class A common stock to the selling shareholders of Interspace Airport Advertising as additional purchase consideration based on Interspace's financial performance. The shares were valued at \$5.1 million based upon a per share value of \$26.59, which represents the average closing price of the Company's Class A common stock for the 15 trading days ending March 31, 2007. The issuance of these shares was exempt as a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended.

**(c) Purchases of Equity Securities by the Issuer and Affiliated Purchases**

During the three months ended June 30, 2007, we accepted shares in payment of income taxes due upon the vesting of restricted stock awards as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs
April 1 through April 30				
May 1 through May 31	1,716	\$ 29.00		
June 1 through June 30	141	\$ 27.96		
Total	1,857			



**Table of Contents**

**Item 4. Submission of Matters to a Vote of Security Holders**

Our annual meeting of shareholders was held on April 25, 2007. L. Lowry Mays and James M. Raines were elected as directors, each will serve a three year term or until his or her successor has been elected and qualified, subject to earlier resignation and removal. The shareholders also approved the adoption of the Clear Channel Outdoor Holdings, Inc. 2006 Annual Incentive Plan and the adoption of the Clear Channel Outdoor Holdings, Inc. 2005 Stock Incentive Plan, as amended and restated.

The results of voting at the annual meeting of the shareholders were as follows:

Proposal No. 1  
(Election of Directors)

Nominee	For	Withheld
L. Lowry		
Mays	330,290,942	14,819,201
James M.		
Raines	340,845,636	4,264,507

Proposal No. 2

(Approve the Adoption of the Clear Channel Outdoor Holdings, Inc. 2006 Annual Incentive Plan)

For	Against	Abstain
344,565,652	540,132	4,359

Proposal No. 3

(Approve the Adoption of the Clear Channel Outdoor Holdings, Inc. 2005 Stock Incentive Plan, as Amended and Restated)

For	Against	Abstain
331,426,878	13,678,107	5,158

**Item 6. Exhibits**

See the Index to Exhibits, which is incorporated into and made a part of this Quarterly Report on Form 10-Q.

**Table of Contents**

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEAR CHANNEL OUTDOOR  
HOLDINGS, INC.

August 8, 2007

/s/ Randall T. Mays  
Randall T. Mays  
Chief Financial Officer

August 8, 2007

/s/ Herbert W. Hill, Jr.  
Herbert W. Hill, Jr.  
Senior Vice President and Chief  
Accounting Officer  
-25-

---

**Table of Contents**

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 31, 2006).
3.2	Amended and Restated Bylaws of the Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K filed March 31, 2006).
4.1	Form of Specimen Class A Common Stock certificate of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (File No. 333-127375 (the Registration Statement))).
4.2	Form of Specimen Class B Common Stock certificate of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to Exhibit 4.2 to the Registration Statement).
10.1	Clear Channel Outdoor Holdings, Inc. 2006 Annual Incentive Plan (incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K dated April 30, 2007).
10.2	Clear Channel Outdoor Holdings, Inc. 2005 Stock Incentive Plan, as amended and restated (incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K dated April 30, 2007).
11*	Statement re: Computation of Per Share Earnings.
31.1*	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith