CLEAR CHANNEL COMMUNICATIONS INC
Form 10-Q
August 09, 2005

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2005 **Commission file number 1-9645**

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

Texas	**74-1787539**
(State of Incorporation)	(I.R.S. Employer Identification No.)

200 East Basse Road
San Antonio, Texas 78209
(210) 822-2828
(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 þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

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 5, 2005
Common Stock, $.10 par value	542,642,603

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PART I

Item 1. UNAUDITED FINANCIAL STATEMENTS

CLEAR CHANNEL COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS
(In thousands)

	June 30, 2005 (Unaudited)	December 31, 2004 (Audited)
Current Assets		
Cash and cash equivalents	$ 321,304	$ 210,476
Accounts receivable, less allowance of $58,162 at June 30, 2005 and $57,574 December 31, 2004	1,727,884	1,658,650
Prepaid expenses	392,570	213,387
Other current assets	258,831	187,409
Total Current Assets	2,700,589	2,269,922
Property, Plant and Equipment		
Land, buildings and improvements	1,726,602	1,740,990
Structures	3,036,170	3,110,233
Towers, transmitter and studio equipment	868,419	845,295
Furniture and other equipment	752,540	779,632
Construction in progress	143,763	95,305
	6,527,494	6,571,455
Less accumulated depreciation	2,565,886	2,447,181
	3,961,608	4,124,274
Intangible Assets		
Definite-lived intangibles, net	559,199	629,663
Indefinite-lived intangibles licenses	4,311,783	4,323,297
Indefinite-lived intangibles permits	212,485	211,690
Goodwill	7,205,944	7,220,444
Other Assets		
Notes receivable	14,811	16,801
Investments in, and advances to, nonconsolidated affiliates	400,716	395,371
Other assets	363,945	348,898
Other investments	359,662	387,589
Total Assets	$20,090,742	$19,927,949

See Notes to Consolidated Financial Statements

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

	June 30, 2005 (Unaudited)	December 31, 2004 (Audited)
Current Liabilities		
Accounts payable and accrued expenses	$ 1,347,862	$ 1,295,106
Accrued interest	112,592	95,525
Accrued income taxes	109,669	34,683
Current portion of long-term debt	370,406	417,275
Deferred income	663,338	317,682
Other current liabilities	14,202	24,281
Total Current Liabilities	2,618,069	2,184,552
Long-term debt	7,526,322	6,962,560
Other long-term obligations	188,426	283,937
Deferred income taxes	336,194	237,827
Other long-term liabilities	695,103	703,766
Minority interest	64,562	67,229
Shareholders Equity		
Common stock	54,198	56,757
Additional paid-in capital	28,348,014	29,183,595
Accumulated deficit	(19,835,732)	(19,933,777)
Accumulated other comprehensive income	103,205	194,590
Other		(213)
Cost of shares held in treasury	(7,619)	(12,874)
Total shareholders equity	8,662,066	9,488,078
Total Liabilities and Shareholders Equity	$ 20,090,742	$ 19,927,949

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Revenue	$4,343,691	$4,454,600	$2,458,751	$2,485,034
Operating expenses:				
Divisional operating expenses (excludes non-cash compensation expenses of $212, $493, $-0- and $232 for the six and three months ended June 30, 2005 and 2004, respectively)	3,270,234	3,260,031	1,790,492	1,760,313
Non-cash compensation expense	3,439	1,833	1,675	915
Depreciation and amortization	341,383	340,912	167,991	167,754
Corporate expenses (excludes non-cash compensation expenses of $3,227, $1,340, $1,675 and $683 for the six and three months ended June 30, 2005 and 2004, respectively)	99,573	95,945	48,156	46,581
Operating income	629,062	755,879	450,437	509,471
Interest expense	212,270	175,208	105,487	85,403
Gain (loss) on marketable securities	537	44,220	1,610	(5,503)
Equity in earnings of nonconsolidated affiliates	15,977	17,310	9,834	10,635
Other income (expense) net	10,684	(19,964)	8,453	(2,694)
Income before income taxes	443,990	622,237	364,847	426,506
Income tax (expense) benefit:				
Current	(109,390)	(252,873)	(108,051)	(106,888)
Deferred	(65,986)	866	(36,064)	(65,848)
Net income	268,614	370,230	220,732	253,770
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(94,569)	(27,001)	(51,026)	(29,915)
Unrealized gain (loss) on securities:				
Unrealized holding gain (loss) on marketable securities	(18,973)	(7,353)	12,058	(1,176)
Unrealized holding gain (loss) on cash flow derivatives	22,157	(16,514)	(7,591)	51
Reclassification adjustment for (gains) losses included in net income		(32,513)		(938)

Comprehensive income	$	177,229	$	286,849	$	174,173	$	221,792
Net income per common share:								
Basic	$	.49	$	.60	$	.41	$	.42
Diluted	$	.49	$	.60	$	.40	$	.41
Dividends declared per share	$	.3125	$	.20	$	.1875	$	.10

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended June 30, 2005	2004
Cash Flows from operating activities:		
Net income	$ 268,614	$ 370,230
Reconciling Items:		
Depreciation and amortization	341,383	340,912
Deferred taxes	65,986	(866)
(Gain) loss on disposal of assets	(5,476)	(11,698)
(Gain) loss on sale of other investments		(48,429)
(Gain) loss on forward exchange contract	4,731	(8,806)
(Gain) loss on trading securities	(5,268)	13,015
Increase (decrease) accrued income and other taxes	75,419	79,809
Increase (decrease) other, net	(15,525)	19,764
Changes in other operating assets and liabilities, net of effects of acquisitions	44,215	149,883
Net cash provided by (used in) operating activities	774,079	903,814
Cash flows from investing activities:		
(Investment) in liquidation of restricted cash		(4,002)
Decrease (increase) in notes receivable net	1,990	1,448
Decrease (increase) in investments in and advances to nonconsolidated affiliates net	4,859	(3,216)
Purchases of investments	(207)	(1,023)
Proceeds from sale of investments	370	607,186
Purchases of property, plant and equipment	(183,168)	(156,645)
Proceeds from disposal of assets	13,783	9,013
Proceeds from divestitures placed in restricted cash		44,038
Acquisition of operating assets	(90,157)	(130,161)
Acquisition of operating assets with restricted cash		(39,857)
Decrease (increase) in other net	16,261	(6,516)
Net cash (used in) provided by investing activities	(236,269)	320,265
Cash flows from financing activities:		
Draws on credit facilities	993,188	2,146,207
Payments on credit facilities	(436,946)	(1,918,342)
Payments on long-term debt	(2,910)	(609,443)
Proceeds from exercise of stock options and stock purchase plan	18,586	16,261
Dividends paid	(139,760)	(123,329)
Payments for purchase of common shares	(859,140)	(626,008)
Net cash used in financing activities	(426,982)	(1,114,654)

Net increase in cash and cash equivalents	110,828	109,425
Cash and cash equivalents at beginning of period	210,476	123,334
Cash and cash equivalents at end of period	$ 321,304	$ 232,759

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL COMMUNICATIONS, 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 have been prepared by Clear Channel Communications, 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 financial statements and notes thereto included in the Company s 2004 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company and its subsidiaries, the majority of which are wholly-owned. Investments in companies in which the Company owns 20 percent to 50 percent 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 reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

Stock-Based Compensation

The Company accounts for its stock-based award plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, under which compensation expense is recorded to the extent that the market price on the grant date of the underlying stock exceeds the exercise price. The required pro forma net income and pro forma earnings per share as if the stock-based awards had been accounted for using the provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, are as follows:

(In thousands, except per share data)	The six months ended June 30,		The three months ended June 30,	
	2005	2004	2005	2004
Net income				
Reported	$268,614	$370,230	$220,732	$253,770
Pro forma stock compensation expense, net of tax	(15,976)	(37,584)	(6,794)	(21,799)
Pro Forma	$252,638	$332,646	$213,938	$231,971
Net income				
Basic:				
Reported	$ .49	$ .60	$ .41	$ .42
Pro Forma	$ .46	$ .54	$ .39	$ .38
Net income				
Diluted:				
Reported	$ .49	$ .60	$ .40	$ .41
Pro Forma	$ .46	$ .54	$ .39	$ .38

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions for 2005 and 2004:

	2005		2004	
Risk-free interest rate	3.76%	4.15%	2.21%	4.30%
Dividend yield	1.46%	2.30%	.9%	.93%
Volatility factors	25%		42%	50%
Expected life in years	5.0	7.5	3.0	7.5

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Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 is an interpretation of FASB Statement 143, *Asset Retirement Obligations,* which was issued in June 2001. According to FIN 47, uncertainty about the timing and (or) method of settlement because they are conditional on a future event that may or may not be within the control of the entity should be factored into the measurement of the asset retirement obligation when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application of interim financial information is permitted, but is not required. The Company adopted FIN 47 on January 1, 2005, which did not materially impact the Company s financial position or results of operations.

In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 *Share-Based Payment* (SAB 107). SAB 107 expresses the SEC staff s views regarding the interaction between Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment* (Statement 123(R)) and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first time adoption of Statement 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123(R) and the modification of employee share options prior to adoption of Statement 123(R). The Company is unable to quantify the impact of adopting SAB 107 and Statement 123(R) at this time because it will depend on levels of share-based payments granted in the future. Additionally, the Company is still evaluating the assumptions it will use upon adoption.

In April 2005, the SEC issued a press release announcing that it would provide for phased-in implementation guidance for Statement 123(R). The SEC would require that registrants that are not small business issuers adopt Statement 123(R) s fair value method of accounting for share-based payments to employees no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company intends to adopt Statement 123(R) on January 1, 2006.

In June 2005, the Emerging Issues Task Force (EITF) issued EITF 05-6, *Determining the Amortization Period of Leasehold Improvements* (EITF 05-6). EITF 05-6 requires that assets recognized under capital leases generally be amortized in a manner consistent with the lessee s normal depreciation policy except that the amortization period is limited to the lease term (which includes renewal periods that are reasonably assured). EITF 05-6 also addresses the determination of the amortization period for leasehold improvements that are purchased subsequent to the inception of the lease. Leasehold improvements acquired in a business combination or purchased subsequent to the inception of the lease should be amortized over the lesser of the useful life of the asset or the lease term that includes reasonably assured lease renewals as determined on the date of the acquisition of the leasehold improvement. The Company will adopt EITF 05-6 on July 1, 2005 and does not expect adoption to materially impact its financial position or results of operations.

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 in the outdoor segment, talent and program right contracts in the radio segment, and contracts for non-affiliated radio and television stations in the Company s media representation operations, all of which are amortized over the respective lives of the agreements. 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, 2005 and December 31, 2004:

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(In thousands)	June 30, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture, and other outdoor contractual rights	$ 644,122	$378,678	$ 688,373	$364,939
Talent contracts	202,161	166,082	202,161	155,647
Representation contracts	290,375	113,715	268,283	94,078
Other	196,489	115,473	197,462	111,952
Total	$1,333,147	$773,948	$1,356,279	$726,616

Total amortization expense from definite-lived intangible assets for the three and six months ended June 30, 2005 and for the year ended December 31, 2004 was $37.4 million, $78.2 million and $136.6 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:

(In thousands)	
2006	$127,306
2007	77,823
2008	43,691
2009	36,301
2010	28,910

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 FCC broadcast licenses and billboard permits. FCC broadcast licenses are granted to both radio and television stations for up to eight years under the Telecommunications Act of 1996. The Act requires the FCC to renew a broadcast license if: it finds that the station has served the public interest, convenience and necessity; there have been no serious violations of either the Communications Act of 1934 or the FCC s rules and regulations by the licensee; and there have been no other serious violations which taken together constitute a pattern of abuse. The licenses may be renewed indefinitely at little or no cost. The Company does not believe that the technology of wireless broadcasting will be replaced in the foreseeable future. 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 30 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 FCC broadcast licenses or 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 information representing an average station within a market.

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, 2005:

(In thousands)	Radio	Outdoor	Entertainment	Other	Total
Balance as of December 31, 2004	$6,369,182	$787,694	$34,429	$29,139	$7,220,444
Acquisitions	11,391	1,941	7,536	8,918	29,786
Foreign currency		(40,028)	(3,594)		(43,622)
Adjustments	(468)	(221)	27	(2)	(664)
Balance as of June 30, 2005	$6,380,105	$749,386	$38,398	$38,055	$7,205,944

Note 3: DERIVATIVE INSTRUMENTS

The Company holds a net purchased option (the collar) under a secured forward exchange contract that limits its exposure to and benefit from price fluctuations in XM Satellite Radio Holding, Inc. (XMSR) over the term of the contract. The collar is accounted for as a hedge of the forecasted sale of the underlying shares. At June 30, 2005 and December 31, 2004, the fair value of the collar was a liability recorded in Other long-term obligations of $172.4 million and $208.1 million, respectively, and the amount recorded in other comprehensive income (loss), net of tax, related to the change in fair value of the collar for the six months ended June 30, 2005 and the year ended December 31, 2004 was $22.2 million, and $(65.8) million, respectively.

The Company also holds options under two secured forward exchange contracts that limit its exposure to and benefit from price fluctuations in American Tower Corporation (AMT) over the terms of the contracts. These options are not designated as hedges of the underlying shares of AMT. The AMT contracts had a value of $25.1 million and $29.9 million at June 30, 2005 and December 31, 2004, respectively. For the six months ended June 30, 2005 and year ended December 31, 2004, the Company recognized losses of $4.8 million and $17.4 million, respectively, in Gain (loss) on marketable securities related to the change in fair value of the options. To offset the change in the fair value of these contracts, the Company has recorded AMT shares as trading securities. During the six months ended June 30, 2005 and year ended December 31, 2004, the Company recognized gains of $5.3 million and $15.2 million, respectively, in Gain (loss) on marketable securities related to the change in the fair value of the shares.

As a result of the Company s foreign operations, the Company is exposed to foreign currency exchange risks related to its investment in net assets in foreign countries. To manage this risk, on February 25, 2004, the Company entered into a United States dollar Euro cross currency swap with a Euro notional amount of 497.0 million and a corresponding U.S. dollar notional amount of $629.0 million. This cross currency swap had a value of $16.0 million and $75.8 million at June 30, 2005 and December 31, 2004, respectively, which was recorded in Other long-term obligations . The cross currency swap requires the Company to make fixed cash payments on the Euro notional amount while it receives fixed cash payments on the equivalent U.S. dollar notional amount, all on a semiannual basis. The Company has designated the cross currency swap as a hedge of its net investment in Euro denominated assets. The Company selected the forward method under the guidance of the Derivatives Implementation Group Statement 133 Implementation Issue H8, *Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge*. The forward method requires all changes in the fair value of the cross currency swap and the semiannual cash payments to be reported as a cumulative translation adjustment in other comprehensive income (loss) in the same manner as the underlying hedged net assets. As of the six months ended June 30, 2005 and year ended December 31, 2004, a loss, net of tax o