Live Nation, Inc.
Form 10-Q
May 10, 2006

Table of Contents

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2006,**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ____________________ to ____________________.**

Commission File Number
001-32601
LIVE NATION, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-3247759
(State of Incorporation)	(I.R.S. Employer Identification No.)

9348 Civic Center Drive
Beverly Hills, CA 90210
(Address of principal executive offices, including zip code)
(310) 867-7000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. o Large accelerated filer o Accelerated filer þ Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No
On May 5, 2006, there were 63,798,312 outstanding shares of the registrant s common stock, $.01 par value per share, excluding 3,376,600 shares held in treasury.

LIVE NATION, INC.
INDEX TO FORM 10-Q

		Page
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements (unaudited)	3
	Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005	3
	Consolidated and Combined Statements of Operations for the three months ended March 31, 2006 and 2005	4
	Consolidated and Combined Statements of Cash Flows for the three months ended March 31, 2006 and 2005	5
	Notes to Consolidated and Combined Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
PART II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Submission of Matters to a Vote of Security Holders	35
Item 5.	Other Information	35
Item 6.	Exhibits	36

Certification of CEO
Certification of CFO
Certification of CEO Pursuant to Section 1350
Certification of CFO Pursuant to Section 1350

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CONSOLIDATED BALANCE SHEETS

	March 31, 2006 (unaudited)	December 31, 2005 (audited)
	(in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 408,829	$ 403,716
Accounts receivable, less allowance of $9,184 as of March 31, 2006 and $9,518 as of December 31, 2005	196,229	190,207
Prepaid expenses	212,369	115,055
Other current assets	37,345	46,714
Total Current Assets	854,772	755,692
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings and improvements	919,220	910,926
Furniture and other equipment	169,534	166,004
Construction in progress	46,939	39,856
	1,135,693	1,116,786
Less accumulated depreciation	322,231	307,867
	813,462	808,919
INTANGIBLE ASSETS		
Definite-lived intangibles net	12,172	12,351
Goodwill	140,655	137,110
OTHER ASSETS		
Notes receivable, less allowance of $745 as of March 31, 2006 and December 31, 2005	4,028	4,720
Investments in, and advances to, nonconsolidated affiliates	36,903	30,660
Other assets	30,310	27,132
Total Assets	$ 1,892,302	$ 1,776,584
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 40,563	$ 37,654
Deferred income	386,150	232,754
Accrued expenses	375,071	405,507
Current portion of long-term debt	25,939	25,705
Total Current Liabilities	827,723	701,620
Long-term debt	340,363	341,136
Other long-term liabilities	40,540	30,766

Minority interest liability	25,618	26,362
Series A and Series B redeemable preferred stock	40,000	40,000
Commitments and contingent liabilities (Note 6)		
SHAREHOLDERS EQUITY		
Common stock	672	672
Additional paid-in capital	748,798	748,011
Retained deficit	(86,446)	(87,563)
Cost of shares held in treasury	(42,719)	(18,003)
Accumulated other comprehensive loss	(2,247)	(6,417)
Total Shareholders Equity	618,058	636,700
Total Liabilities and Shareholders Equity	$ 1,892,302	$ 1,776,584

See Notes to Consolidated and Combined Financial Statements

3

Table of Contents

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended March 31,	
	2006	2005
	(in thousands except share and per share data)	
Revenue	$ 516,567	$ 444,483
Operating expenses:		
Direct operating expenses	377,832	314,634
Selling, general and administrative expenses	116,016	123,031
Depreciation and amortization	15,005	15,477
Gain on sale of operating assets	(7,728)	(357)
Corporate expenses	7,379	19,224
Operating income (loss)	8,063	(27,526)
Interest expense	7,813	619
Interest expense with Clear Channel Communications		11,188
Equity in earnings of nonconsolidated affiliates	1,824	510
Other income (expense) net	(239)	944
Income (loss) before income taxes	1,835	(37,879)
Income tax benefit (expense):		
Current	(167)	12,151
Deferred	(551)	3,001
Net income (loss)	1,117	(22,727)
Other comprehensive income, net of tax:		
Unrealized holding gain on cash flow derivatives	492	
Foreign currency translation adjustments	3,678	9,583
Comprehensive income (loss)	$ 5,287	$ (13,144)
Net income per common share:		
Basic	$ .02	
Diluted	$ .02	
Weighted average common shares outstanding:		
Basic	63,971,508	
Diluted	64,480,376	

See Notes to Consolidated and Combined Financial Statements

Table of Contents

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended March 31,	
	2006	2005
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,117	$ (22,727)
Reconciling items:		
Depreciation	14,748	14,780
Amortization of intangibles	257	697
Deferred income tax expense (benefit)	551	(3,001)
Amortization of debt issuance costs	105	
Current tax benefit dividends to owner		(14,182)
Non-cash compensation expense	861	343
Gain on sale of operating assets	(7,728)	(357)
Loss on sale of other investments	2,257	
Equity in earnings of nonconsolidated affiliates	(1,824)	(510)
Minority interest expense (income)	(835)	173
Decrease in other net		(17)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Increase in accounts receivable	(13,067)	(10,777)
Increase in prepaid expenses	(96,978)	(141,555)
Decrease (increase) in other assets	7,204	(14,758)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(20,061)	7,436
Increase in deferred income	152,744	209,003
Decrease in minority interest liability	(194)	(1,090)
Net cash provided by operating activities	39,157	23,458
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in notes receivable net	(4,719)	865
Decrease (increase) in investments in, and advances to, nonconsolidated affiliates net	(4,248)	346
Proceeds from disposal of other investments	1,743	
Purchases of property, plant and equipment	(17,158)	(22,607)
Proceeds from disposal of operating assets	12,136	133
Acquisition of operating assets	(2,177)	656
Decrease in other net	98	12
Net cash used in investing activities	(14,325)	(20,595)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt with Clear Channel Communications		37,337
Payments on long-term debt	(779)	(287)
Payments for purchase of common stock	(24,717)	
Net cash provided by (used in) financing activities	(25,496)	37,050

Effect of exchange rate changes on cash	5,777	2,675
Net increase in cash and cash equivalents	5,113	42,588
Cash and cash equivalents at beginning of period	403,716	179,137
Cash and cash equivalents at end of period	$ 408,829	$ 221,725

See Notes to Consolidated and Combined Financial Statements

Table of Contents

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Live Nation, Inc. (the Company) was incorporated in Delaware on August 2, 2005 in preparation for the contribution and transfer by Clear Channel Communications, Inc. (Clear Channel) of substantially all of its entertainment assets and liabilities to the Company (the Separation). The Company completed the Separation on December 21, 2005 and became a publicly traded company on the New York Stock Exchange trading under the symbol LYV .

Prior to the Separation, Live Nation was a wholly owned subsidiary of Clear Channel. As part of the Separation, holders of Clear Channel s common stock of record on December 14, 2005 received one share of Live Nation common stock for every eight shares of Clear Channel common stock.

Following the Separation, the Company reorganized its business units and the way in which these businesses are assessed and therefore changed its reportable segments, starting in 2006, to Events, Venues and Sponsorship, and Digital Distribution. The Events segment principally involves the promotion or production of live music shows, theatrical performances and specialized motor sports events. The Venues and Sponsorship segment principally involves the operation of venues and the sale of premium seats, national and local sponsorships and placement of advertising, including signage and promotional programs, and naming of subscription series and venues. The Digital Distribution segment principally involves the management of the Company s on-line and wireless distribution activities, including the development of the Company s website and managing the Company s in-house ticketing operations and third-party ticketing relationships. In addition, the Company has operations in the sports representation and other businesses.

Preparation of Interim Financial Statements

The consolidated and combined financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all 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 2005 Annual Report on Form 10-K.

Prior to the Separation, the combined financial statements include amounts that are comprised of businesses included in the consolidated financial statements and accounting records of Clear Channel, using the historical basis of assets and liabilities of the entertainment business. Management believes the assumptions underlying the combined financial statements are reasonable. However, the combined financial statements included herein may not reflect what the Company s results of operations, financial position and cash flows would have been had it operated as a separate, stand-alone entity during the periods presented. Subsequent to the Separation, the consolidated financial statements include all accounts of the Company and its majority owned subsidiaries.

Significant intercompany accounts among the consolidated and combined businesses have been eliminated in consolidation. Minority interest expense is recorded for consolidated affiliates in which the Company owns more than 50%, but not all, of the voting common stock and is included in other income (expense) net. Investments in nonconsolidated affiliates in which the Company owns 20% to 50% of the voting common stock or otherwise exercises significant influence over operating and financial policies of the nonconsolidated affiliate are accounted for using the equity method of accounting. Investments in nonconsolidated affiliates in which the Company owns less than 20% of the voting common stock are accounted for using the cost method of accounting. Certain reclassifications have been made to the 2005 consolidated and combined financial statements to conform to the 2006 presentation.

Table of Contents

New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-4, *Contingent Cash Settlement* (FSP FAS 123(R)-4). FSP FAS 123(R)-4 requires companies to classify employee stock options and similar instruments with contingent cash settlement features as equity awards under FASB Statement of Financial Accounting Standards No. 123, (revised 2004), *Share-Based Payment* (Statement 123(R)), provided that (i) the contingent event that permits or requires cash settlement is not considered probable of occurring and is not within the control of the employee and (ii) the award includes no other features that would require liability classification. The Company considered FSP FAS 123(R)-4 with its implementation of Statement 123(R), and determined it had no impact on the Company s financial position or results of operations.

In April 2006, the FASB issued FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Considered When Applying FASB Interpretation No. 46(R)* (FSP FIN 46(R)-6). FSP FIN 46(R)-6 addresses the approach to determine the variability to consider when applying FASB Interpretation No. 46, (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46(R)). The variability that is considered in applying FIN 46(R) may affect (i) the determination as to whether the entity is a variable interest entity, (ii) the determination of which interests are variable interests in the entity, (iii) if necessary, the calculation of expected losses and residual returns of the entity, and (iv) the determination of which party is the primary beneficiary of the variable interest entity. The Company will adopt FSP FIN 46(R)-6 on July 1, 2006 and does not anticipate adoption to materially impact its financial position or results of operations.

NOTE 2 LONG-LIVED ASSETS

Definite-lived Intangibles

The Company has definite-lived intangible assets which consist primarily of non-compete agreements and building or naming rights, all of which are amortized over the shorter of either the respective lives of the agreements or the period of time the assets are expected to contribute to the Company s future cash flows. These definite-lived intangibles had a gross carrying amount and accumulated amortization of $18.8 million and $6.6 million, respectively, as of March 31, 2006, and $18.7 million and $6.3 million, respectively, as of December 31, 2005.

Total amortization expense from definite-lived intangible assets for the three months ended March 31, 2006 and 2005 was $0.3 million and $0.7 million, respectively.

Goodwill

The Company tests goodwill for impairment at least annually 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 any potential impairment, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. As the Company has realigned its segments in accordance with the change in the management of the business units, goodwill has been reallocated to the new reporting business units that make up these segments. The following table presents the changes in the carrying amount of goodwill in each of the Company s business segments for the three-month period ended March 31, 2006:

	Events	Venues and Sponsorship	Digital Distribution	Total
		(in thousands)		
Balance as of December 31, 2005	$ 79,307	$ 50,040	$ 7,763	$ 137,110
Acquisitions		2,126		2,126
Foreign currency	336	789	294	1,419
Balance as of March 31, 2006	$ 79,643	$ 52,955	$ 8,057	$ 140,655

Table of Contents

NOTE 3 INVESTMENTS

The Company has investments in various nonconsolidated affiliates. These investments are not consolidated, but are accounted for under the equity method of accounting whereby the Company records its investments in these entities in the balance sheet as investments in, and advances to, nonconsolidated affiliates. The Company s interests in their operations are recorded in the statement of operations as equity in earnings of nonconsolidated affiliates. For the three months ended March 31, 2006, two of these investments are considered significant: Broadway in Chicago and Marek Lieberberg Konzertagentur (MLK). The Company owns a 50.0% interest in Broadway in Chicago, a United States theatrical company involved in promotion, presentation and venue operations for live entertainment events. The Company owns a 20.0% interest in MLK, a German music company involved in promotion of, and venue operations for, live entertainment events. Summarized unaudited income statement information for Broadway in Chicago and MLK is as follows:

	Three months ended March 31,	
	2006	2005
	(in thousands)	
Revenue	$ 38,634	$ 22,208
Operating income	$ 6,767	$ 2,299
Net income	$ 5,263	$ 2,356

NOTE 4 RESTRUCTURING

The Company has recorded liabilities related to acquisitions and restructurings. In July 2005, the Company acquired a controlling majority interest of 50.1% in Mean Fiddler Group, PLC (Mean Fiddler) in the United Kingdom. Mean Fiddler is a consolidated subsidiary involved in the promotion and production of live music events, including festivals, and venue operations. As part of the acquisition, the Company recorded $4.7 million in restructuring costs in its Venues and Sponsorship segment primarily related to lease terminations, which it expects to pay over the next several years. As of March 31, 2006, the accrual balance for the Mean Fiddler restructuring was $4.3 million. This restructuring has resulted in the termination of 33 employees. In addition, the Company has a remaining restructuring accrual of $1.7 million as of March 31, 2006, related to its merger with Clear Channel in August 2000.

The Company has recorded a liability in purchase accounting primarily related to severance for terminated employees and lease terminations as follows:

	Three months ended March 31,	
	2006	2005
	(in thousands)	
Severance and lease termination costs:		
Accrual at January 1	$ 6,223	$ 2,579
Payments charged against restructuring accrual	(248)	(192)
Remaining accrual at March 31	$ 5,975	$ 2,387

The remaining severance and lease accrual is comprised of $0.8 million of severance and $5.2 million of lease termination. The severance accrual includes amounts that will be paid over the next several years related to deferred payments to former employees, as well as other compensation. The lease termination accrual will be paid over the next 23 years. During the three months ended March 31, 2006, there were no payments charged to the restructuring reserve related to severance. The Company is continuing to evaluate its purchase accounting liabilities related to several leases in the Mean Fiddler acquisition which may result in additional restructuring accruals.

During the fourth quarter of 2005, the Company recorded accruals, consisting of severance and lease termination costs, related to the realignment of its business operations. The total expense related to this restructuring was recorded

in direct operating expenses in 2005 as a

component of Events, Venues and Sponsorship, Digital Distribution and other operations in amounts of $6.0 million, $1.6 million, $0.8 million and $1.6 million, respectively. In addition, $4.7 million of restructuring expense was recorded in corporate expenses in 2005. As of March 31, 2006, the remaining accrual related to this 2005 restructuring was $1.0 million.

NOTE 5 DERIVATIVE INSTRUMENTS

FASB Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133), requires the Company to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting. The Company accounts for its derivative instruments that are not designated as hedges at fair value with changes in fair value recorded in earnings. The Company does not enter into derivative instruments for speculation or trading purposes.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (for example, in interest expense when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income (expense)-net in current earnings during the period of change.

On March 16, 2006, the Company entered into two interest rate swap agreements, designated as cash flow hedges, which are combinations of purchased interest rate caps on a notional amount of a total of $162.5 million and sold floors over the same period on a total of $121.9 million of the notional amount to effectively convert a portion of its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company s variable rate debt as required by the Company s senior secured credit facility, thus reducing the impact of interest-rate changes on future interest expense. Approximately 50% of the Company s outstanding long-term debt had its interest payments designated as the hedged forecasted transactions against the interest rate swap agreements at March 31, 2006. As of March 31, 2006, the interest rate for these hedges was fixed at 5.11% on a variable rate of 4.98% based on a 3-month LIBOR; this variable rate is subject to quarterly adjustments. For the three months ended March 31, 2006, these hedges were determined to be highly effective and the Company recorded an unrealized gain of $0.5 million as a component of other comprehensive income. Based on the current interest rate expectations, the Company estimates that approximately $0.2 million of this gain in other comprehensive income will be reclassified into earnings in the next 12 months.

The Company has recorded a gain related to these derivative instruments during the period as follows:

	Three months ended March 31,	
	2006	**2005**
	(in thousands)	
Balance at January 1	$	$
Unrealized holding gain on cash flow derivatives	492	

Balance at March 31	$	492	$

NOTE 6 COMMITMENTS AND CONTINGENT LIABILITIES

The Company has leases that contain contingent payment requirements for which payments vary depending on revenues, tickets sold or other variables.

As of March 31, 2006 and December 31, 2005, the Company guaranteed the debt of third parties of approximately $1.0 million and $1.9 million, respectively, primarily related to maximum credit limits on employee and tour related credit cards.

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.

The Company has various investments in nonconsolidated affiliates that are subject to agreements that contain provisions that may result in future additional investments to be made by the Company. These values are typically contingent upon the investee meeting certain financial performance targets, as defined in the agreements. The contingent payment amounts are generally calculated based on predetermined multiples of the achieved financial performance not to exceed a predetermined maximum amount.

At the United States House Judiciary Committee hearing on July 24, 2003, an Assistant United States Attorney General announced that the Department of Justice, or DOJ, was pursuing an antitrust inquiry concerning whether Clear Channel, and its subsidiaries, which included the Company, had tied radio airplay or the use of certain concert venues to the use of its concert promotion services, in violation of antitrust laws. No adverse action has been taken against Clear Channel, its subsidiaries, or the Company pursuant to this inquiry, and on February 10, 2006, the Company was informed by the DOJ that this investigation had been closed.

The Company initiated a lawsuit in July 2003 in the State Court of Santa Clara County, California against the City of Mountain View and Shoreline Regional Park Community, seeking declaratory judgment, specific performance and injunctive relief and remedies for breach of contract, inverse condemnation and indemnification as a result of the defendants failure to provide parking lots and calculate rent payments in accordance with its lease agreement with the defendants. The defendants in that suit have counterclaimed against the Company seeking accounting and declaratory judgment and alleging theft, conversion, false claims, breach of contract, and racketeering relating to the Company s payments under the lease agreement. An accounting firm engaged by the city issued a report dated August 30, 2005, in which the firm asserted that the Company owes the defendants $3.6 million, excluding interest, for rent payments for the period 1999-2004. On September 2, 2005, the defendants issued a Notice of Default and Demand for Cure to the Company, demanding the payment of these amounts and certain other non-monetary demands. The defendants agreed to accept a bond in lieu of cash for satisfaction of its demand, which the Company filed with the court on October 11, 2005 as a cure under protest, pending the outcome of the litigation. On December 27, 2005, the court issued its order on the parties respective motions for summary judgment, in which the Company s claims for breach of contract and indemnification were dismissed, and the defendants counterclaim against the Company for conversion was also dismissed, with all remaining claims of the parties to be further adjudicated. The accounting firm engaged by the city issued a report dated March 16, 2006, amending and superseding its report dated August 30, 2005. In its March 16, 2006, report, the accounting firm asserted that the Company owes the defendants an additional $12 million, for a new total of $15.6 million, excluding interest, for rent for the period 1999-2004, and for other amounts allegedly due under the lease. On March 30, 2006, the defendants issued Notices of Default and Demand for Cure to the Company. Effective May 10, 2006, the parties entered into a settlement agreement, which does not constitute an admission of wrongdoing or liability by the Company. This settlement of the litigation was fully accrued in the Company s results of operations during 2005 and the first quarter of 2006 and will not have any impact on future operations. In addition, the parties entered into an amended lease agreement related to this amphitheater. The new lease includes fixed annual rent payments and the Company also paid an upfront rent payment which will be amortized on a straight-line basis over the life of the new lease.

The Company was a defendant in a lawsuit filed by Melinda Heerwagen on June 13, 2002, in the United States District Court for the Southern District of New York. The plaintiff, on behalf of a putative class consisting of certain concert ticket purchasers, alleged that anti-competitive practices for concert promotion services by the Company nationwide caused artificially high ticket prices. On August 11, 2003, the Court ruled in the Company s favor, denying the plaintiff s class certification motion. The plaintiff appealed this decision to the United States Court of Appeals for

the Second Circuit, and oral argument was held on November 3, 2004. On January 10, 2006, the United States Court of Appeals for the Second Circuit affirmed the ruling in the Company s favor by the District Court. On January 17, 2006, the plaintiff filed a Notice of Voluntary Dismissal of her action in the Southern District of New York.

The Company is a defendant in putative class actions filed by different named plaintiffs in the United States District Courts in Philadelphia, Miami, Los Angeles, Chicago, and New Jersey, respectively styled: *Cooperberg v. Clear Channel Communications, Inc., et al.,* Civ. No. 2:05-

10

cv-04492 (E.D. Pa.); *Diaz v. Clear Channel Communications, Inc., et al.,* Civ. No. 05-cv-22413 (S.D. Fla.), *Thompson v. Clear Channel Communications, Inc.,* Civ. No. 2:05-cv-6704 (C.D. Cal.); *Bhatia v. Clear Channel Communications, Inc., et al.,* Civ. No. 1:05-cv-05612 (N.D. Ill.); and *Young v. Clear Channel Communications, et al.*, Civ. Action No. 06-277-WHW (D.N.J.). The claims made in these actions are substantially similar to the claims made in the *Heerwagen* action, except that the geographic markets alleged are statewide or more local in nature, and the members of the putative classes are limited to individuals who purchased tickets to concerts in the relevant geographic markets alleged. The Company has filed its answers in all actions, and has denied liability. On December 5, 2005, the Company filed a motion before the Judicial Panel on Multidistrict Litigation to transfer the above-listed actions and any similar ones commenced in the future to a single federal district court for coordinated pre-trial proceedings. The Company intends to vigorously defend all claims in all of the actions.

The Company is also currently involved in certain other legal proceedings and, as required, has accrued its best estimate of the probable settlement or other losses 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 the Company s assumptions or the effectiveness of its strategies related to these proceedings.

NOTE 7 RELATED-PARTY TRANSACTIONS

Relationship and Transactions With Clear Channel

During the fourth quarter of 2005, the Company completed the Separation. As a result, the Company recognized the par value and additional paid-in capital in connection with the issuance of our common stock in exchange for the net assets contributed by Clear Channel. Prior to the Separation, Clear Channel provided funding for certain of the Company s acquisitions. These amounts funded by Clear Channel for these acquisitions were recorded as a component of shareholders equity. Also, certain tax related receivables and payables, which were considered non-cash capital contributions or dividends, were recorded in shareholders equity.

The Company has three directors on its Board of Directors that are also directors and executive officers of Clear Channel. These three directors receive directors fees, stock options and restricted stock awards as do other non-management members of the Company s Board of Directors.

From time to time, the Company purchases advertising from Clear Channel and its subsidiaries in the ordinary course of business. For the three months ended March 31, 2006 and 2005, the Company recorded $2.6 million and $3.2 million, respectively, as a component of direct operating expenses, for these advertisements.

Pursuant to a transition services agreement, subsequent to the Separation, Clear Channel provides to the Company certain administrative and support services such as treasury, payroll and other financial related services; human resources and employee benefits services; legal and related services; information systems, network and related services; investment services; and corporate services. The charges for these transition services are intended to allow Clear Channel to fully recover the allocated direct costs of providing the services, plus all out-of-pocket expenses. The allocation of costs is based on various measures depending on the service provided, including relative revenue, employee headcount or number of users of a service. For the three months ended March 31, 2006, the Company recorded an aggregate of $1.3 million for these services as components of selling, general and administrative expenses and corporate expenses.

Prior to the Separation, Clear Channel provided management services to the Company, which included services similar to the transition services, along with executive oversight. These services were allocated to the Company based on actual direct costs incurred or on the Company s share of Clear Channel s estimate of expenses relative to a seasonally adjusted headcount. Management believes this allocation method to be reasonable and the expenses allocated to be materially the same as the amount that would have been incurred on a stand-alone basis. For the three months ended March 31, 2005, the Company recorded $2.1 million as a component of corporate expenses for these services.

Clear Channel owns the trademark and trade names used by the Company prior to the Separation. Clear Channel charged the Company a royalty fee based upon a percentage of annual revenue. Clear Channel used a third-party valuation firm to assist in the determination of the royalty fee. For the three months ended March 31, 2005, the

Company recorded $0.5 million of royalty fees in corporate expenses.

Prior to the Separation, the operations of the Company were included in a consolidated federal income tax return filed by Clear Channel. The Company s provision for income taxes has been computed on the basis that the Company files separate consolidated income tax returns with its subsidiaries. Tax payments were made to Clear Channel on the basis of the Company s separate taxable income. Tax benefits recognized on employee stock option exercises prior to the Separation were retained by Clear Channel.

The Company s domestic employees participated in Clear Channel s employee benefit plans prior to the Separation, including employee medical insurance, an employee stock purchase plan and a 401(k) retirement benefit plan. These costs were recorded primarily as a component of direct operating expenses and were approximately $2.3 million for the three months ended March 31, 2005. Subsequent to the Separation, the Company provides its own employee benefit plans.

In connection with the Separation, the Company entered into various lease and licensing agreements with Clear Channel primarily for office space occupied by the Company s employees. For the three months ended March 31, 2006, the Company recorded $0.2 million of expense as a component of direct operating expenses related to these agreements.

As of March 31, 2006, the Company has recorded a liability in accrued expenses to Clear Channel of $2.0 million for the transition services described above and certain other costs paid for by Clear Channel on the Company s behalf.

Other Related Parties

The Company conducts certain transactions in the ordinary course of business with companies that are owned, in part or in total, by various members of management of the Company s subsidiaries. These transactions primarily relate to venue rentals, equipment rental, ticketing and other services and reimbursement of certain costs. Expenses of $1.2 million and $1.0 million were incurred for the three months ended March 31, 2006 and 2005, respectively, and revenues of $0.1 million and $0.1 million were earned for the three months ended March 31, 2006 and 2005, respectively, from these companies for services rendered or provided in relation to these business ventures. None of these transactions were with directors or executive officers of the Company.

NOTE 8 STOCK BASED COMPENSATION

In December 2005, the Company adopted its 2005 Stock Incentive Plan. The plan authorizes the Company to grant stock option awards, director shares, stock appreciation rights, restricted stock and deferred stock awards, other equity-based awards and performance awards. In connection with the Separation, options to purchase approximately 2.1 million shares of the Company s common stock and approximately 0.3 million shares of restricted stock were granted to employees and directors. The options granted to date all have an exercise price of $10.60 per share.

The Company has granted options to purchase its common stock to employees and directors of the Company and its affiliates under the stock incentive plan at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding ten years and the nonvested options are forfeited in the event the employee or director terminates his or her employment or relationship with the Company or one of its affiliates. Any options that have vested at the time of termination are forfeited to the extent they are not exercised within the applicable post-employment exercise period provided in their option agreements. These options generally vest over three to five years. The stock incentive plan contains anti-dilutive provisions that require the adjustment of the number of shares of the Company s common stock represented by, and the exercise price of, each option for any stock splits or stock dividends.

Prior to the Separation, Clear Channel granted options to purchase Clear Channel s common stock to employees of the Company and its affiliates under various stock option plans at no less than the fair market value of the underlying stock on the date of grant. Compensation expense relating to Clear Channel stock options and restricted stock awards held by the Company s employees was allocated by Clear Channel to the Company on a specific employee basis. At the Separation, all nonvested options outstanding under Clear Channel s stock-based compensation plans that were held by the Company s employees were forfeited and any outstanding vested options will be forfeited to the extent they are not exercised within the applicable post-employment exercise period provided in their option agreements. All Clear Channel restricted stock awards held by the Company s employees at the date of Separation were forfeited due to the termination of their employment with the Clear Channel group of companies.

Stock Options

Effective January 1, 2006, the Company has adopted the fair value recognition provisions of Statement 123(R), which is a revision of FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123). Statement 123(R) supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.*

12

The Company chose the modified-prospective transition application of Statement 123(R). The fair value of the options is amortized to expense on a straight-line basis over the options vesting period.

Prior to January 1, 2006, the Company accounted for its stock-based award plans using the provisions of Statement 123. As permitted under this standard, compensation expense was recognized using the intrinsic value method described in APB 25 under which compensation expense is recorded to the extent that the current market price of the underlying stock exceeds the exercise price. Prior periods were not restated to reflect the impact of adoption of the new standard.

As a result of the adoption of Statement 123(R), stock based compensation expense recognized during the three months ended March 31, 2006 includes compensation expense for all share-based payments granted on or prior to, but not yet vested at the end of the period based on the grant date fair value estimated in accordance with the provisions of Statement 123(R). No stock options have been granted since adoption.

Due to the adoption of Statement 123(R), the impact to the Company s operating income and income before income taxes was $0.5 million and the impact to net income was $0.3 million for the three months ended March 31, 2006. Prior to the adoption of Statement 123(R) and for the three months ended March 31, 2006, no tax benefits from the exercise of stock options have been recognized as no options granted by the Company subsequent to the Separation have vested or have been exercised. Any future excess tax benefits derived from the exercise of stock options will be recorded prospectively and reported as cash flows from financing activities in accordance with Statement 123(R).

The following table illustrates the effect on operating results and per share information had the Company accounted for share-based compensation in accordance with Statement 123(R) for the periods indicated. Due to the Separation, the Company s pro forma disclosures for 2005 include stock compensation expense for options granted by Clear Channel prior to the Separation, and options granted by the Company after the Separation, when applicable. As the Company had no shares outstanding at March 31, 2005, there is no pro forma loss per common share to disclose. The required pro forma disclosures are as follows:

	Three months ended March 31,	
	2006	**2005**
	(in thousands, except per share data)	
Net income (loss):		
Reported		$ (22,727)
Pro forma stock compensation expense, net of tax:		
Live Nation options		
Clear Channel options		1,334
Net income (loss) including non-cash compensation expense		