

Clear Channel Outdoor Holdings, Inc.
Form 10-Q
April 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2014

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

1 32663

CLEAR CHANNEL OUTDOOR HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	86-0812139 (I.R.S. Employer Identification No.)
200 East Basse Road San Antonio, Texas	78209

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(Address of principal executive offices)

(Zip Code)

(210) 832-3700

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Class	Outstanding at April 16, 2014
Class A Common Stock, \$.01 par value	44,323,893
Class B Common Stock, \$.01 par value	315,000,000

CLEAR CHANNEL OUTDOOR HOLDINGS, INC.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

<i>(In thousands, except share data)</i>		March 31,		December 31,	
		2014		2013	
		(Unaudited)			
CURRENT ASSETS					
Cash and cash equivalents		\$	270,227	\$	314,545
Accounts receivable, net of allowance of \$32,831 in 2014 and \$33,127 in 2013			660,723		712,135
Prepaid expenses			157,120		143,415
Other current assets			75,212		68,333
	Total Current Assets		1,163,282		1,238,428
PROPERTY, PLANT AND EQUIPMENT					
Structures, net			1,729,815		1,765,510
Other property, plant and equipment, net			306,879		315,588
INTANGIBLE ASSETS AND GOODWILL					
Indefinite-lived intangibles			1,067,318		1,067,783
Other intangibles, net			471,300		487,926
Goodwill			852,480		850,134
OTHER ASSETS					
Due from Clear Channel Communications			907,853		879,108
Other assets			154,079		154,915
	Total Assets	\$	6,653,006	\$	6,759,392
CURRENT LIABILITIES					
Accounts payable		\$	101,146	\$	85,882
Accrued expenses			531,980		563,766
Deferred income			151,932		107,943
Current portion of long-term debt			15,551		15,999
	Total Current Liabilities		800,609		773,590
Long-term debt			4,919,505		4,919,377
Deferred tax liability			633,906		656,150
Other long-term liabilities			240,232		250,167
Commitments and contingent liabilities (Note 5)					
SHAREHOLDERS' EQUITY					
Noncontrolling interest			195,696		202,046
Preferred stock, \$.01 par value, 150,000,000 shares authorized, no shares issued and outstanding					
Class A common stock, \$.01 par value, 750,000,000 shares authorized, 44,438,845 and 44,117,843 shares issued in 2014 and 2013, respectively			444		441
Class B common stock, \$.01 par value, 600,000,000 shares authorized, 315,000,000 shares issued and outstanding			3,150		3,150

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Additional paid-in capital		4,334,464		4,332,045
Accumulated deficit		(4,259,845)		(4,162,975)
Accumulated other comprehensive loss		(214,128)		(213,572)
Cost of shares (116,264 in 2014 and 2013) held in treasury		(1,027)		(1,027)
	Total Shareholders' Equity	58,754		160,108
	Total Liabilities and Shareholders' Equity	\$ 6,653,006		\$ 6,759,392

See Notes to Consolidated Financial Statements

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

<i>(In thousands, except per share data)</i>				Three Months Ended March 31,			
				2014		2013	
Revenue		\$	635,251	\$	650,210		
Operating expenses:							
Direct operating expenses (excludes depreciation and amortization)			381,513		386,191		
Selling, general and administrative expenses (excludes depreciation and amortization)			132,949		139,561		
Corporate expenses (excludes depreciation and amortization)			30,697		27,824		
Depreciation and amortization			98,742		100,327		
Other operating income, net			2,654		2,103		
Operating loss			(5,996)		(1,590)		
Interest expense			89,262		88,093		
Interest income on Due from Clear Channel Communications			14,673		11,920		
Equity in loss of nonconsolidated affiliates			(736)		(485)		
Other income (expense), net			1,898		(907)		
Loss before income taxes			(79,423)		(79,155)		
Income tax benefit (expense)			(16,946)		5,006		
Consolidated net loss			(96,369)		(74,149)		
Less amount attributable to noncontrolling interest			501		129		
Net loss attributable to the Company		\$	(96,870)	\$	(74,278)		
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments			(4,537)		(24,025)		
Unrealized gain (loss) on marketable securities			1,084		(25)		
Other adjustments to comprehensive loss			-		(998)		
Other comprehensive loss			(3,453)		(25,048)		
Comprehensive loss			(100,323)		(99,326)		
Less amount attributable to noncontrolling interest			(2,897)		(93)		
Comprehensive loss attributable to the Company		\$	(97,426)	\$	(99,233)		
Net loss attributable to the Company per common share:							
Basic		\$	(0.27)	\$	(0.22)		
Weighted average common shares outstanding – Basic			358,397		357,352		
Diluted		\$	(0.27)	\$	(0.22)		
Weighted average common shares outstanding – Diluted			358,397		357,352		

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Dividends declared per share				\$	-	\$	-	

See Notes to Consolidated Financial Statements

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<i>(In thousands)</i>		Three Months Ended March 31,			
		2014		2013	
Cash flows from operating activities:					
Consolidated net loss		\$	(96,369)	\$	(74,149)
Reconciling items:					
	Depreciation and amortization		98,742		100,327
	Deferred taxes		(22,465)		(23,035)
	Provision for doubtful accounts		1,521		1,712
	Share-based compensation		2,010		1,661
	Gain on sale of operating assets		(2,654)		(2,103)
	Amortization of deferred financing charges and note discounts, net		2,162		2,131
	Other reconciling items, net		(1,495)		1,159
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:					
	Decrease in accounts receivable		50,647		63,516
	Increase in deferred income		43,288		16,036
	Decrease in accrued expenses		(31,557)		(36,001)
	Increase (decrease) in accounts payable		12,911		(15,968)
	Changes in other operating assets and liabilities		(28,696)		(2,012)
Net cash provided by operating activities			28,045		33,274
Cash flows from investing activities:					
	Purchases of property, plant and equipment		(38,628)		(39,441)
	Purchases of other operating assets		(272)		(3)
	Proceeds from disposal of assets		2,422		3,300
	Change in other, net		(1,315)		(665)
Net cash used for investing activities			(37,793)		(36,809)
Cash flows from financing activities:					
	Draws on credit facilities		820		637
	Payments on credit facilities		(675)		-
	Payments on long-term debt		(11)		(4,437)
			(28,744)		1,507

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	Net transfers (to) from Clear Channel Communications				
	Deferred financing charges		(4)		152
	Dividends and other payments to noncontrolling interests		(3,955)		(4,353)
	Change in other, net		413		548
	Net cash used for financing activities		(32,156)		(5,946)
	Effect of exchange rate changes on cash		(2,414)		(5,238)
	Net decrease in cash and cash equivalents		(44,318)		(14,719)
	Cash and cash equivalents at beginning of period		314,545		561,979
	Cash and cash equivalents at end of period	\$	270,227	\$	547,260

See Notes to Consolidated Financial Statements

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

Preparation of Interim Financial Statements

The accompanying 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 normal and recurring adjustments necessary to present fairly the results of the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Due to seasonality and other factors, the results for the interim periods 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 2013 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company and its subsidiaries and give effect to allocations of expenses from the Company’s indirect parent entity, Clear Channel Communications, Inc. (“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. Also included in the consolidated financial statements are entities for which the Company has a controlling financial interest or is the primary beneficiary. Investments in companies in which the Company owns 20 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 prior-period amounts have been reclassified to conform to the 2014 presentation.

Adoption of New Accounting Standards

During the first quarter of 2014, the Company adopted the Financial Accounting Standards Board's (“FASB”) ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. This update provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. The amendments are effective for fiscal years (and interim periods within) beginning after December 15, 2013 and are to be applied retrospectively to all prior periods presented for such obligations that exist at the beginning of an entity’s fiscal year of adoption. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

During the first quarter of 2014, the Company adopted the FASB's ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity of an Investment in a Foreign Entity*. The amendments are effective prospectively for the fiscal years (and interim periods within) beginning after December 15, 2013 and provide clarification guidance for the release of the cumulative translation adjustment under current GAAP. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

During the first quarter of 2014, the Company adopted the FASB's ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This update requires unrecognized tax benefits to be offset against a deferred tax asset for a net operating loss carryforward, similar tax loss or tax credit carryforward in certain situations. The amendments are effective prospectively for the fiscal years (and interim periods within) beginning after December 15, 2013. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****NOTE 2 – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL****Property, Plant and Equipment**

The Company's property, plant and equipment consisted of the following classes of assets at March 31, 2014 and December 31, 2013, respectively:

<i>(In thousands)</i>	March 31, 2014		December 31, 2013	
Structures		3,028,086		3,021,152
Less: accumulated depreciation		1,298,271		1,255,642
Structures, net	\$	1,729,815	\$	1,765,510
Land, buildings and improvements	\$	215,421	\$	213,670
Furniture and other equipment		154,236		147,768
Construction in progress		75,146		83,891
		444,803		445,329
Less: accumulated depreciation		137,924		129,741
Other property, plant and equipment, net	\$	306,879	\$	315,588

Indefinite-lived Intangible Assets

The Company's indefinite-lived intangible assets consist primarily of billboard permits in its Americas segment. Due to significant differences in both business practices and regulations, billboards in the International segment are subject to long-term, finite contracts unlike the Company's permits in the United States and Canada. Accordingly, there are no indefinite-lived intangible assets in the International segment.

Other Intangible Assets

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

The following table presents the gross carrying amount and accumulated amortization for each major class of other intangible assets at March 31, 2014 and December 31, 2013, respectively:

<i>(In thousands)</i>	March 31, 2014				December 31, 2013			
	Gross Carrying Amount		Accumulated Amortization		Gross Carrying Amount		Accumulated Amortization	
Transit, street furniture and other contractual rights	\$	778,815	\$	(482,518)	\$	777,521	\$	(464,548)
Permanent easements		173,882		-		173,753		-
Other		2,836		(1,715)		2,832		(1,632)
Total	\$	955,533	\$	(484,233)	\$	954,106	\$	(466,180)

Total amortization expense related to definite-lived intangible assets for the three months ended March 31, 2014 and 2013 was \$17.1 million and \$18.6 million, respectively.

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

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>		
2015	\$	53,118
2016		44,948
2017		35,477
2018		26,938
2019		18,345

Goodwill

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

<i>(In thousands)</i>	Americas	International	Total
Balance as of December 31, 2012	\$ 571,932	\$ 290,316	\$ 862,248
Impairment	-	(10,684)	(10,684)
Foreign currency	-	(974)	(974)
Dispositions	-	(456)	(456)
Balance as of December 31, 2013	\$ 571,932	\$ 278,202	\$ 850,134
Foreign currency	-	2,346	2,346
Balance as of March 31, 2014	\$ 571,932	\$ 280,548	\$ 852,480

NOTE 3 – LONG-TERM DEBT

Long-term debt at March 31, 2014 and December 31, 2013, respectively, consisted of the following:

<i>(In thousands)</i>	March 31, 2014	December 31, 2013
Clear Channel Worldwide Holdings Senior Notes:		
6.5% Series A Senior Notes Due 2022	\$ 735,750	\$ 735,750
6.5% Series B Senior Notes Due 2022	1,989,250	1,989,250

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Clear Channel Worldwide Holdings Senior Subordinated Notes:				
	7.625% Series A Senior Subordinated Notes Due 2020		275,000	275,000
	7.625% Series B Senior Subordinated Notes Due 2020		1,925,000	1,925,000
Senior revolving credit facility due 2018			-	-
Other debt			16,672	17,133
Original issue discount			(6,616)	(6,757)
Total debt			4,935,056	4,935,376
Less: current portion			15,551	15,999
Total long-term debt		\$	4,919,505	\$ 4,919,377

The aggregate market value of the Company's debt based on market prices for which quotes were available was approximately \$5.3 billion and \$5.1 billion at March 31, 2014 and December 31, 2013, respectively. Under the fair value hierarchy established by ASC 820-10-35, the market value of the Company's debt is classified as Level 1.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****NOTE 4 – SUPPLEMENTAL DISCLOSURES****Income Tax Benefit (Expense)**

The Company's income tax benefit (expenses) for the three months ended March 31, 2014 and 2013, respectively, consisted of the following components:

<i>(In thousands)</i>					Three Months Ended March 31,			
					2014		2013	
Current tax expense					\$	(39,411)	\$	(18,029)
Deferred tax benefit						22,465		23,035
Income tax benefit (expense)					\$	(16,946)	\$	5,006

The effective tax rate for the three months ended March 31, 2014 was (21.3)%. The 2014 effective rate was primarily impacted by the Company's inability to record tax benefits on tax losses in certain foreign jurisdictions due to the uncertainty of the ability to utilize those losses in future years.

The effective tax rate for the three months ended March 31, 2013 was 6.3%. The effective rate for the three months ended March 31, 2013 was primarily impacted by the Company's inability to record tax benefits on tax losses in certain foreign jurisdictions due to the uncertainty of the ability to utilize those losses in future years.

Supplemental Cash Flow Information

During the three months ended March 31, 2014 and 2013, cash paid for interest and income taxes, net of income tax refunds of \$3.0 million and \$0.4 million, respectively, was as follows:

<i>(In thousands)</i>					Three Months Ended March 31,			
					2014		2013	
Interest					\$	89,409	\$	88,237
Income taxes						11,446		12,590

NOTE 5 – COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

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

Los Angeles Litigation

In 2008, Summit Media, LLC, one of the Company's competitors, sued the City of Los Angeles (the "City"), Clear Channel Outdoor, Inc. and CBS Outdoor in Los Angeles Superior Court (Case No. BS116611) challenging the validity of a settlement agreement that had been entered into in November 2006 among the parties. Pursuant to the settlement agreement, Clear Channel Outdoor, Inc. had taken down existing billboards and converted 83 existing signs from static displays to digital displays pursuant to modernization permits issued through an administrative process of the City. The Los Angeles Superior Court ruled in January 2010 that the settlement agreement constituted an ultra vires act of the City and nullified its existence, but did not invalidate the modernization permits issued to Clear Channel Outdoor, Inc. and CBS. All parties appealed the ruling by the Los Angeles Superior Court to the Court of Appeal for the State of California, Second Appellate District, Division 8. On December 10, 2012, the Court of Appeal issued

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

an order upholding the Superior Court's finding that the settlement agreement was ultra vires and remanding the case to the Superior Court for the purpose of invalidating the modernization permits issued to Clear Channel Outdoor, Inc. and CBS for the digital displays that were the subject of the settlement agreement. On January 22, 2013, Clear Channel Outdoor, Inc. filed a petition with the California Supreme Court requesting its review of the matter, and the Supreme Court denied that petition on February 27, 2013. On April 12, 2013, the Los Angeles Superior Court invalidated 82 digital modernization permits issued to Clear Channel Outdoor, Inc. (77 of which displays were operating at the time of the ruling) and 13 issued to CBS and ordered that the companies turn off the electrical power to affected digital displays by the close of business on April 15, 2013. Clear Channel Outdoor, Inc. has complied with the order. On April 16, 2013, the Court conducted further proceedings during which it held that it was not invalidating two additional digital modernization permits that Clear Channel Outdoor, Inc. had secured through a special zoning plan and confirmed that its April 12 order invalidated only digital modernization permits – no other types of permits the companies may have secured for the signs at issue. Summit Media, LLC filed a further motion requesting that the Court order the demolition of the 82 sign structures on which the now-invalidated digital signs operated, as well as the invalidation of several other permits for traditional signs allegedly issued under the settlement agreement. At a hearing held on November 22, 2013, the Court denied Summit Media, LLC's demolition motion by allowing the 82 sign structures and their LED faces to remain intact, thus allowing Clear Channel Outdoor, Inc. to seek permits under the existing City sign code to either wrap the LED faces with vinyl or convert the LED faces to traditional static signs. The Court further confirmed the invalidation of all permits issued under the settlement agreement. In anticipation of this order, Clear Channel Outdoor, Inc. had removed six static billboard facings solely permitted under the settlement agreement. At a hearing held on January 21, 2014, the Court denied Summit Media, LLC's motion for attorney's fees on the basis that Summit Media, LLC had a substantial financial interest in the outcome of the litigation and, therefore, was not entitled to fees under California's private attorney general statute. On March 12, 2014, Summit Media, LLC filed Notices of Appeal of the orders denying Summit Media, LLC's fee petition and denying in part Summit Media, LLC's demolition motion.

Guarantees

As of March 31, 2014, the Company had \$65.1 million in letters of credit outstanding, of which \$0.4 million of letters of credit were cash secured. Additionally, as of March 31, 2014, Clear Channel Communications had outstanding commercial standby letters of credit and surety bonds of \$1.5 million and \$42.1 million, respectively, held on behalf of the Company. These letters of credit and surety bonds relate to various operational matters, including insurance, bid and performance bonds, as well as other items. Letters of credit in the amount of \$2.0 million are collateral in support of surety bonds and these amounts would only be drawn under the letter of credit in the event the associated surety bonds were funded and the Company did not honor its reimbursement obligation to the issuers.

In addition, as of March 31, 2014, the Company had outstanding bank guarantees of \$58.7 million related to international subsidiaries, of which \$13.2 million were backed by cash collateral.

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 accounts represent the revolving promissory note issued by the Company to Clear Channel Communications and the Due from Clear Channel Communications Note, in the face amount of \$1.0 billion, or if more or less than such amount, the aggregate unpaid principal amount of all advances. The accounts accrue interest pursuant to the terms of the promissory notes and are generally payable on demand or when they mature on December 15, 2017.

Included in the accounts are the net activities resulting from day-to-day cash management services provided by Clear Channel Communications. As a part of these services, the Company maintains collection bank accounts swept daily into accounts of Clear Channel Communications (after satisfying the funding requirements of the Trustee Accounts under the Clear Channel Worldwide Holdings, Inc. (“CCWH”) senior notes and the CCWH subordinated notes). 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 March 31, 2014 and December 31, 2013, the asset recorded in “Due from Clear Channel Communications” on the consolidated balance sheets was \$907.9 million and \$879.1 million, respectively.

The net interest income for the three months ended March 31, 2014 and 2013 was \$14.7 million and \$11.9 million, respectively. At March 31, 2014 and December 31, 2013, the fixed interest rate on the “Due from Clear Channel Communications” account was 6.5%, which is equal to the fixed interest rate on the CCWH senior notes.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

The Company provides advertising space on its billboards for radio stations owned by Clear Channel Communications. For the three months ended March 31, 2014 and 2013, the Company recorded \$1.0 million and \$0.1 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) certain executive officer services; (iii) human resources and employee benefits services; (iv) legal and related services; (v) information systems, network and related services; (vi) investment services; (vii) procurement and sourcing support services; and (viii) other general corporate services. These services are charged to the Company based on actual direct costs incurred or allocated by Clear Channel Communications based on headcount, revenue or other factors on a pro rata basis. For the three months ended March 31, 2014 and 2013, the Company recorded \$9.1 million and \$9.4 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 option exercises are retained by the Company.

The Company computes its deferred income tax provision using the liability method in accordance with the provisions of ASC 740-10, as if the Company was a separate taxpayer. Deferred tax assets and liabilities are determined based on differences between 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 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 \$2.7 million and \$2.7 million for the three months ended March 31, 2014 and 2013, respectively.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****NOTE 7 – SHARHOLDERS’ EQUITY AND COMPREHENSIVE LOSS**

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

<i>(In thousands)</i>	The Company		Noncontrolling		Consolidated	
	\$		\$		\$	
Balances at January 1, 2014	\$	(41,938)	\$	202,046	\$	160,108
Net income (loss)		(96,870)		501		(96,369)
Dividends and other payments to noncontrolling interests		-		(3,954)		(3,954)
Foreign currency translation adjustments		(1,640)		(2,897)		(4,537)
Unrealized holding gain on marketable securities		1,084		-		1,084
Other, net		2,422		-		2,422
Balances at March 31, 2014	\$	(136,942)	\$	195,696	\$	58,754
Balances at January 1, 2013	\$	198,155	\$	247,934	\$	446,089
Net income (loss)		(74,278)		129		(74,149)
Dividends and other payments to noncontrolling interests		-		(4,353)		(4,353)
Foreign currency translation adjustments		(23,932)		(93)		(24,025)
Unrealized holding loss on marketable securities		(25)		-		(25)
Other adjustments to comprehensive loss		(998)		-		(998)
Other, net		(357)		614		257
Balances at March 31, 2013	\$	98,565	\$	244,231	\$	342,796

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****NOTE 8 – SEGMENT DATA**

The Company has two reportable segments, which it believes best reflect how the Company is currently managed – Americas and International. The Americas segment consists of operations primarily in the United States and Canada, and the International segment primarily includes operations in Europe, Asia, Australia and Latin America. The Americas and International display inventory consists primarily of billboards, street furniture displays and transit displays. Corporate includes infrastructure and support including information technology, human resources, legal, finance and administrative functions of each of the Company's reportable segments, as well as overall executive, administrative and support functions. Share-based payments are recorded in corporate expenses.

The following table presents the Company's reportable segment results for the three months ended March 31, 2014 and 2013:

<i>(In thousands)</i>						Corporate and other			
	Americas		International		reconciling items		Consolidated		
Three months ended March 31, 2014									
Revenue	\$	268,756	\$	366,495	\$	-	\$	635,251	
Direct operating expenses		133,288		248,225		-		381,513	
Selling, general and administrative expenses		51,111		81,838		-		132,949	
Depreciation and amortization		47,599		50,444		699		98,742	
Corporate expenses		-		-		30,697		30,697	
Other operating income, net		-		-		2,654		2,654	
Operating income (loss)	\$	36,758	\$	(14,012)	\$	(28,742)	\$	(5,996)	
Capital expenditures	\$	12,220	\$	25,086	\$	1,322	\$	38,628	
Share-based compensation expense	\$	-	\$	-	\$	2,010	\$	2,010	
Three months ended March 31, 2013									
Revenue	\$	286,461	\$	363,749	\$	-	\$	650,210	
Direct operating expenses		136,891		249,300		-		386,191	

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Selling, general and administrative expenses		54,372			85,189			-			139,561
Depreciation and amortization		48,685			50,993			649			100,327
Corporate expenses		-			-			27,824			27,824
Other operating income, net		-			-			2,103			2,103
Operating income	\$	46,513			\$ (21,733)			\$ (26,370)			\$ (1,590)
Capital expenditures	\$	12,895			\$ 25,908			\$ 638			\$ 39,441
Share-based compensation expense	\$	-			\$ -			\$ 1,661			\$ 1,661

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****NOTE 9 – GUARANTOR SUBSIDIARIES**

The Company and certain of the Company’s direct and indirect wholly-owned domestic subsidiaries (the “Guarantor Subsidiaries”) fully and unconditionally guarantee on a joint and several basis certain of the outstanding indebtedness of CCWH (the “Subsidiary Issuer”). The following consolidating schedules present financial information on a combined basis in conformity with the SEC’s Regulation S-X Rule 3-10(d):

<i>(In thousands)</i>	As of March 31, 2014						
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Cash and cash equivalents	\$ 59,880	\$ -	\$ 2,712	\$ 207,635	\$ -	\$ 270,227	
Accounts receivable, net of allowance	-	-	195,469	465,254	-	660,723	
Intercompany receivables	-	191,533	1,595,349	-	(1,786,882)	-	
Prepaid expenses	2,933	-	71,285	82,902	-	157,120	
Other current assets	1,593	6,850	21,836	44,933	-	75,212	
Total Current Assets	64,406	198,383	1,886,651	800,724	(1,786,882)	1,163,282	
Structures, net	-	-	1,125,222	604,593	-	1,729,815	
Other property, plant and equipment, net	-	-	165,983	140,896	-	306,879	
Indefinite-lived intangibles	-	-	1,055,729	11,589	-	1,067,318	
Other intangibles, net	-	-	339,568	131,732	-	471,300	
Goodwill	-	-	571,932	280,548	-	852,480	
Due from Clear Channel Communications	907,853	-	-	-	-	907,853	
Intercompany notes receivable	182,026	4,995,940	-	-	(5,177,966)	-	
Other assets	310,374	840,930	1,342,901	63,119	(2,403,245)	154,079	
Total Assets	\$ 1,464,659	\$ 6,035,253	\$ 6,487,986	\$ 2,033,201	\$ (9,368,093)	\$ 6,653,006	

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Accounts payable	\$ -	\$ -	\$ 8,349	\$ 92,797	\$ -	\$ 101,146
Intercompany payable	1,592,800	-	191,533	2,549	(1,786,882)	-
Accrued expenses	163	(298)	122,837	409,278	-	531,980
Deferred income	-	-	57,397	94,535	-	151,932
Current portion of long-term debt	-	-	50	15,501	-	15,551
Total Current Liabilities	1,592,963	(298)	380,166	614,660	(1,786,882)	800,609
Long-term debt	-	4,918,384	1,121	-	-	4,919,505
Intercompany notes payable	-	-	5,034,577	143,389	(5,177,966)	-
Deferred tax liability	175	85	617,365	16,281	-	633,906
Other long-term liabilities	-	-	144,321	95,911	-	240,232
Total shareholders' equity	(128,479)	1,117,082	310,436	1,162,960	(2,403,245)	58,754
Total Liabilities and Shareholders' Equity	\$ 1,464,659	\$ 6,035,253	\$ 6,487,986	\$ 2,033,201	\$ (9,368,093)	\$ 6,653,006

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(In thousands)		As of December 31, 2013						
		Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Cash and cash equivalents	\$	83,185	\$ -	\$ 5,885	\$ 225,475	\$ -	\$ 314,545	
Accounts receivable, net of allowance		-	-	208,029	504,106	-	712,135	
Intercompany receivables		-	186,659	1,592,228	-	(1,778,887)	-	
Prepaid expenses		1,390	-	71,730	70,295	-	143,415	
Other current assets		3	6,850	20,333	41,147	-	68,333	
Total Current Assets		84,578	193,509	1,898,205	841,023	(1,778,887)	1,238,428	
Structures, net		-	-	1,142,094	623,416	-	1,765,510	
Other property, plant and equipment, net		-	-	178,149	137,439	-	315,588	
Indefinite-lived intangibles		-	-	1,055,728	12,055	-	1,067,783	
Other intangibles, net		-	-	344,178	143,748	-	487,926	
Goodwill		-	-	571,932	278,202	-	850,134	
Due from Clear Channel Communications		879,108	-	-	-	-	879,108	
Intercompany notes receivable		182,026	5,002,517	-	-	(5,184,543)	-	
Other assets		408,083	871,363	1,373,504	61,626	(2,559,661)	154,915	
Total Assets	\$	1,553,795	\$ 6,067,389	\$ 6,563,790	\$ 2,097,509	\$ (9,523,091)	\$ 6,759,392	
Accounts payable	\$	-	\$ -	\$ 11,742	\$ 74,140	\$ -	\$ 85,882	
Intercompany payable		1,586,370	-	186,659	5,858	(1,778,887)	-	
Accrued expenses		725	1,342	105,909	455,790	-	563,766	
Deferred income		-	-	42,591	65,352	-	107,943	
		-	-	47	15,952	-	15,999	

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Current portion of long-term debt									
Total Current Liabilities	1,587,095	1,342	346,948	617,092	(1,778,887)	773,590			
Long-term debt	-	4,918,243	1,134	-	-	4,919,377			
Intercompany notes payable	-	-	5,025,497	159,046	(5,184,543)	-			
Deferred tax liability	175	85	638,141	17,749	-	656,150			
Other long-term liabilities	-	-	143,925	106,242	-	250,167			
Total shareholders' equity	(33,475)	1,147,719	408,145	1,197,380	(2,559,661)	160,108			
Total Liabilities and Shareholders' Equity	\$ 1,553,795	\$ 6,067,389	\$ 6,563,790	\$ 2,097,509	\$ (9,523,091)	\$ 6,759,392			

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2014						
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Revenue	\$ -	\$ -	\$ 248,497	\$ 386,754	\$ -	\$ 635,251	
Operating expenses:							
Direct operating expenses	-	-	119,760	261,753	-	381,513	
Selling, general and administrative expenses	-	-	47,637	85,312	-	132,949	
Corporate expenses	3,285	-	16,713	10,699	-	30,697	
Depreciation and amortization	-	-	47,078	51,664	-	98,742	
Other operating income (expense), net	(128)	-	2,489	293	-	2,654	
Operating income (loss)	(3,413)	-	19,798	(22,381)	-	(5,996)	
Interest (income) expense, net	(5)	88,061	527	679	-	89,262	
Interest income on Due from Clear Channel Communications	14,673	-	-	-	-	14,673	
Intercompany interest income	3,860	85,215	14,900	-	(103,975)	-	
Intercompany interest expense	14,673	-	89,075	227	(103,975)	-	
Equity in loss of nonconsolidated affiliates	(97,153)	(27,729)	(27,980)	(1,259)	153,385	(736)	
Other income (expense), net	-	-	4,181	(2,283)	-	1,898	
Loss before income taxes	(96,701)	(30,575)	(78,703)	(26,829)	153,385	(79,423)	

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Income tax benefit (expense)	(169)	908	(18,450)	765	-	(16,946)
Consolidated net loss	(96,870)	(29,667)	(97,153)	(26,064)	153,385	(96,369)
Less amount attributable to noncontrolling interest	-	-	-	501	-	501
Net loss attributable to the Company	\$ (96,870)	\$ (29,667)	\$ (97,153)	\$ (26,565)	\$ 153,385	\$ (96,870)
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	-	21	928	(5,486)	-	(4,537)
Unrealized gain on marketable securities	-	-	-	1,084	-	1,084
Equity in subsidiary comprehensive loss	(556)	(991)	(1,484)	-	3,031	-
Other comprehensive loss	(556)	(970)	(556)	(4,402)	3,031	(3,453)
Comprehensive loss	(97,426)	(30,637)	(97,709)	(30,967)	156,416	(100,323)
Less amount attributable to noncontrolling interest	-	-	-	(2,897)	-	(2,897)
Comprehensive loss attributable to the Company	\$ (97,426)	\$ (30,637)	\$ (97,709)	\$ (28,070)	\$ 156,416	\$ (97,426)

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2013						
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Revenue	\$ -	\$ -	\$ 265,162	\$ 385,048	\$ -	\$ 650,210	
Operating expenses:							
Direct operating expenses	-	-	122,496	263,695	-	386,191	
Selling, general and administrative expenses	-	-	50,621	88,940	-	139,561	
Corporate expenses	3,224	3	15,595	9,002	-	27,824	
Depreciation and amortization	-	-	48,240	52,087	-	100,327	
Other operating income (expense), net	(120)	-	2,246	(23)	-	2,103	
Operating income (loss)	(3,344)	(3)	30,456	(28,699)	-	(1,590)	
Interest (income) expense, net	(64)	88,042	268	(153)	-	88,093	
Interest income on Due from Clear Channel Communications	11,920	-	-	-	-	11,920	
Intercompany interest income	3,674	85,175	11,920	38	(100,807)	-	
Intercompany interest expense	12,041	-	88,701	65	(100,807)	-	
Equity in loss of nonconsolidated affiliates	(74,451)	(30,920)	(30,876)	(985)	136,747	(485)	
Other income (expense), net	-	-	(3,061)	2,154	-	(907)	
Income (loss) before income taxes	(74,178)	(33,790)	(80,530)	(27,404)	136,747	(79,155)	

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Income tax benefit (expense)		(100)		1,077		6,079		(2,050)		-		5,006
Consolidated net loss		(74,278)		(32,713)		(74,451)		(29,454)		136,747		(74,149)
Less amount attributable to noncontrolling interest		-		-		-		129		-		129
Net loss attributable to the Company	\$	(74,278)	\$	(32,713)	\$	(74,451)	\$	(29,583)	\$	136,747	\$	(74,278)
Other comprehensive income, net of tax:												
Foreign currency translation adjustments		(314)		(11)		1,938		(25,638)		-		(24,025)
Unrealized loss on marketable securities		-		-		-		(25)		-		(25)
Other adjustments to comprehensive income (loss)		-		-		-		(998)		-		(998)
Equity in subsidiary comprehensive loss		(24,641)		(25,991)		(26,434)		-		77,066		-
Other comprehensive income (loss)		(24,955)		(26,002)		(24,496)		(26,661)		77,066		(25,048)
Comprehensive loss		(99,233)		(58,715)		(98,947)		(56,244)		213,813		(99,326)
Less amount attributable to noncontrolling interest		-		-		145		(238)		-		(93)
Comprehensive loss attributable to the Company	\$	(99,233)	\$	(58,715)	\$	(99,092)	\$	(56,006)	\$	213,813	\$	(99,233)

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2014						
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Cash flows from operating activities:							
Consolidated net loss	\$ (96,870)	\$ (29,667)	\$ (97,153)	\$ (26,064)	\$ 153,385	\$ (96,369)	
Reconciling items:							
Depreciation and amortization	-	-	47,078	51,664	-	98,742	
Deferred taxes	-	-	(20,806)	(1,659)	-	(22,465)	
Provision for doubtful accounts	-	-	722	799	-	1,521	
Share-based compensation	-	-	2,010	-	-	2,010	
(Gain) loss on sale of operating assets	128	-	(2,489)	(293)	-	(2,654)	
Amortization of deferred financing charges and note discounts, net	-	1,854	308	-	-	2,162	
Other reconciling items, net	97,153	27,729	27,973	(965)	(153,385)	(1,495)	
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:							
Decrease in accounts receivable	-	-	11,839	38,808	-	50,647	
Increase in deferred income	-	-	14,806	28,482	-	43,288	
Increase (decrease) in accrued expenses	(561)	(1,640)	16,926	(46,282)	-	(31,557)	

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Increase (decrease) in accounts payable	-	21	(3,412)	16,302	-	12,911
Changes in other operating assets and liabilities	(3,263)	-	667	(26,100)	-	(28,696)
Net cash provided by (used for) operating activities	(3,413)	(1,703)	(1,531)	34,692	-	28,045
Cash flows from investing activities:						
Purchases of property, plant and equipment	-	-	(12,891)	(25,737)	-	(38,628)
Purchases of other operating assets	-	-	(137)	(135)	-	(272)
Proceeds from disposal of assets	-	-	2,136	286	-	2,422
Decrease in Intercompany notes receivable, net	-	15,841	-	-	(15,841)	-
Change in other, net	-	-	-	(1,315)	-	(1,315)
Net cash provided by (used for) investing activities	-	15,841	(10,892)	(26,901)		