CLEAR CHANNEL COMMUNICATIONS INC
Form 10-Q
May 10, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 2006**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________**

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**
(Address of principal executive offices)	(Zip Code)

(210) 822-2828
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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 May 5, 2006
Common Stock, $.10 par value	503,262,128

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Statement Re: Computation of Per Share Earnings
Statement Re: Computation of Ratios
Certification of CEO Pursuant to Section 302
Certification of CFO Pursuant to Section 302
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PART I

Item 1. UNAUDITED FINANCIAL STATEMENTS

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

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 89,636	$ 82,786
Accounts receivable, net of allowance of $48,509 in 2006 and $47,061 in 2005	1,393,787	1,505,650
Prepaid expenses	127,436	114,452
Other current assets	294,899	278,294
Income taxes receivable	302,001	417,112
Total Current Assets	2,207,759	2,398,294
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings and improvements	883,987	863,133
Structures	3,361,488	3,327,326
Towers, transmitters and studio equipment	865,084	881,070
Furniture and other equipment	549,165	599,296
Construction in progress	86,947	91,789
	5,746,671	5,762,614
Less accumulated depreciation	2,524,583	2,506,965
	3,222,088	3,255,649
INTANGIBLE ASSETS		
Definite-lived intangibles, net	454,801	480,790
Indefinite-lived intangibles licenses	4,309,190	4,312,570
Indefinite-lived intangibles permits	270,899	207,921
Goodwill	7,161,374	7,111,948
OTHER ASSETS		
Notes receivable	6,825	8,745
Investments in, and advances to, nonconsolidated affiliates	300,754	300,223
Other assets	276,187	302,655
Other investments	292,242	324,581
Total Assets	$ 18,502,119	$ 18,703,376

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)

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
CURRENT LIABILITIES		
Accounts payable	$ 147,823	$ 250,563
Accrued expenses	767,959	731,105
Accrued interest	106,074	97,515
Current portion of long-term debt	1,135,261	891,185
Deferred income	154,004	116,670
Other current liabilities	18,249	20,275
Total Current Liabilities	2,329,370	2,107,313
Long-term debt	6,520,373	6,155,363
Other long-term obligations	95,026	119,655
Deferred income taxes	585,776	528,259
Other long-term liabilities	695,901	675,962
Minority interest	290,046	290,362
Commitment and contingent liabilities (Note 7)		
SHAREHOLDERS EQUITY		
Common Stock	50,927	53,829
Additional paid-in capital	27,095,759	27,945,725
Retained deficit	(19,370,065)	(19,371,411)
Accumulated other comprehensive income	212,523	201,928
Cost of shares held in treasury	(3,517)	(3,609)
Total Shareholders Equity	7,985,627	8,826,462
Total Liabilities and Shareholders Equity	$ 18,502,119	$ 18,703,376

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)

	Three Months Ended March 31, 2006	2005
Revenue	$ 1,504,382	$ 1,447,810
Operating expenses:		
Direct operating expenses (includes share based payments of $4,316 and $212 in 2006 and 2005, respectively, and excludes depreciation and amortization)	612,786	588,082
Selling, general and administrative expenses (includes share based payments of $4,450 and $0 in 2006 and 2005, respectively, and excludes depreciation and amortization)	473,148	456,754
Depreciation and amortization	151,290	155,395
Corporate expenses (includes share based payments of $3,403 and $1,289 in 2006 and 2005, respectively, and excludes depreciation and amortization)	41,524	35,967
Gain on disposition of assets net	47,510	925
Operating income	273,144	212,537
Interest expense	114,376	106,649
Gain (loss) on marketable securities	(2,324)	(1,073)
Equity in earnings of nonconsolidated affiliates	6,909	5,633
Other income (expense) net	(583)	1,440
Income before income taxes, minority interest, and discontinued operations	162,770	111,888
Income tax benefit (expense):		
Current	(3,273)	(10,030)
Deferred	(63,463)	(34,166)
Income tax benefit (expense)	(66,736)	(44,196)
Minority interest income (expense), net of tax	780	(574)
Income before discontinued operations	96,814	67,118
Loss from discontinued operations, net		(19,236)
Net income	$ 96,814	$ 47,882
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	9,089	(53,229)
Unrealized gain (loss) on securities and derivatives:		
Unrealized holding gain (loss) on marketable securities	(24,058)	(31,031)
Unrealized holding gain (loss) on cash flow derivatives	25,564	29,748
Adjustment for (gain) loss included in net income (loss)		
Comprehensive income (loss)	$ 107,409	$ (6,630)

Net income per common share:				
Income before discontinued operations Basic	$	.19	$	.12
Discontinued operations Basic				(.03)
Net income Basic	$	.19	$	.09
Income before discontinued operations Diluted	$	.19	$	.12
Discontinued operations Diluted				(.03)
Net income Diluted	$	.19	$	.09
Dividends declared per share	$	.1875	$	.125

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2006	2005
Cash Flows from operating activities:		
Net income	$ 96,814	$ 47,882
Add: Loss from discontinued operations, net		19,236
	96,814	67,118
Reconciling Items:		
Depreciation and amortization	151,290	155,395
Deferred taxes	63,463	34,166
(Gain) loss on disposal of assets	(47,510)	(925)
(Gain) loss forward exchange contract	8,798	731
(Gain) loss on trading securities	(6,474)	342
Increase (decrease) other net	3,004	(3,129)
Changes in operating assets and liabilities:		
Decrease in accrued income taxes receivable	118,120	
Decrease in accrued income taxes payable		(10,136)
Changes in other operating assets and liabilities, net of effects of acquisitions	57,207	70,110
Net cash provided by operating activities	444,712	313,672
Cash flows from investing activities:		
Decrease (increase) in notes receivable net	1,920	54
Decrease (increase) in investments in and advances to nonconsolidated affiliates net	2,710	3,039
Purchases of investments		(125)
Proceeds from sale of investments		370
Purchases of property, plant and equipment	(64,125)	(58,936)
Proceeds from disposal of assets	44,217	4,274
Acquisition of operating assets, net of cash acquired	(61,452)	(16,257)
Decrease (increase) in other-net	(20,558)	25,687
Net cash used in investing activities	(97,288)	(41,894)
Cash flows from financing activities:		
Draws on credit facilities	1,054,007	469,165
Payments on credit facilities	(926,772)	(72,650)
Proceeds from long-term debt	508,849	
Payments on long-term debt	(9,189)	
Payments for purchase of common shares	(876,316)	(593,856)
Proceeds from exercise of stock options, stock purchase plan, common stock warrants, and other	9,756	15,471

Dividends paid		(100,909)		(70,934)
Net cash used in financing activities		(340,574)		(252,804)
Cash flows from discontinued operations:				
Net cash provided by operating activities				22,862
Net cash used in investing activities				(23,606)
Net cash provided by (used in) financing activities				
Net cash used in discontinued operations				(744)
Net increase in cash and cash equivalents		6,850		18,230
Cash and cash equivalents at beginning of period		82,786		31,339
Cash and cash equivalents at end of period	$	89,636	$	49,569

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 2005 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company and its subsidiaries. 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

The Company has reclassified prior year operating gains and losses to be included as a component of operating income, reclassified non-cash compensation to be included in the same operating expense line items as cash compensation, reclassified minority interest expense below its provision for income taxes and reclassified certain other assets to current assets to conform to current year presentation. The Company completed the spin-off of Live Nation on December 21, 2005. The historical results of Live Nation have been reflected as discontinued operations in the underlying financial statements and related disclosures for all periods presented. As a result, the historical footnote disclosures have been revised to exclude amounts related to Live Nation. Revenue of $440.8 million and a net loss of $31.8 million before income tax benefit of $12.6 million is included in discontinued operations for Live Nation during the three months ended March 31, 2005.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (Statement 155). Statement 155 is an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133) and FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (Statement 140) and allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. Statement 155 also requires companies to identify interest in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to Statement 133, and amends Statement 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. Statement 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company will adopt Statement 155 on January 1, 2007 and anticipates that adoption will not materially impact its financial position or results of operations.

Note 2: SHARE BASED PAYMENTS

The Company has granted options to purchase its common stock to employees and directors 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. These options are granted for a term not exceeding ten years and are forfeited, except in certain circumstances, in the event the employee or director terminates his or her employment or relationship with the Company or one of its affiliates. These options generally vest over three to five years. All option plans contain anti-dilutive provisions that permit an adjustment of the number of shares of the Company s common stock represented by each option for any change in capitalization.

The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (Statement 123(R)), on January 1, 2006, using the modified-prospective-transition method. The fair value of the options is estimated using a Black-Scholes option-pricing model and amortized straight-line to expense over five years. Prior to adoption of

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Statement 123(R), the Company accounted for share based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations, as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123). The Company did not recognize employee compensation cost related to its stock option grants in its Consolidated Statement of Operations prior to adoption of Statement 123(R), as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The amounts recorded as share based payments prior to adopting Statement 123(R) primarily related to the expense associated with restricted stock awards. Under the modified-prospective-transition method, compensation cost recognized beginning in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R), the Company s income before income taxes, minority interest and discontinued operations and net income for the three months ended March 31, 2006, was $8.5 million and $5.0 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been $0.20 and $0.20, respectively, if the Company had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of $0.19 and $0.19, respectively.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The excess tax benefit of $0.9 million classified as a financing cash inflow would have been classified as an operating cash flow if the Company had not adopted Statement 123(R).

The following table illustrates the effect on net income and earnings per share for the three months ended March 31, 2005 as if the company had applied the fair value recognition provisions of Statement 123 to options granted under the company s stock option plans in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options   vesting periods.

(In thousands, except per share data)	March 31, 2005
Income before discontinued operations:	
Reported	$ 67,118
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	908
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	8,564
Pro Forma	$ 59,462
Income (loss) from discontinued operations, net:	
Reported	$ (19,236)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	159
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,493

Pro Forma	$	(20,570)

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(In thousands, except per share data)		March 31, 2005
Income before discontinued operations per common share:		
Basic:		
Reported	$	.12
Pro Forma	$	.11
Diluted:		
Reported	$	.12
Pro Forma	$	.11
Discontinued operations, net per common share:		
Basic:		
Reported	$	(.03)
Pro Forma	$	(.04)
Diluted:		
Reported	$	(.03)
Pro Forma	$	(.04)

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on the Company s stock, historical volatility on the Company s stock, and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. Prior to the adoption of Statement 123(R), the Company recognized forfeitures as they occurred in its Statement 123 pro forma disclosures. Beginning January 1, 2006, the Company includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of awards. The expected life is based on historical data of options granted and represents the period of time that options granted are expected to be outstanding. The risk free rate for periods within the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used to calculate the fair value of the Company s options on the date of grant during the three months ended March 31, 2006 and 2005:

	2006	2005
Risk-free interest rate	4.61% - 4.68%	3.76% - 4.09%
Dividend yield	2.61%	1.46% - 1.59%
Volatility factors	25%	25%
Expected life in years	5.0 7.5	5.0 - 7.5

The following table presents a summary of the Company s stock options outstanding at and stock option activity during the three months ended March 31, 2006 (Price reflects the weighted average exercise price per share):

(In thousands, except per share data)	Options	Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	42,696	$ 41.34		
Granted	15	28.70		
Exercised (1)	(598)	17.61		
Forfeited	(438)	36.13		

Expired	(1,306)	46.04		
Outstanding, March 31	40,369	41.49	3.8	$ 32,675
Exercisable, March 31	29,717	43.90	2.9	$ 32,379
Weighted average fair value per option granted	$ 7.17			

(1) Cash received from option exercises for the three months ended March 31, 2006 and 2005 was $10.5 million and $13.5 million, respectively. The Company received an income tax benefit of $1.8 million and $0.04 million relating to the options exercised during the three months ended March 31, 2006 and 2005, respectively.

The weighted average grant date fair value of options granted during the three months ended March 31, 2006 and 2005 was $7.17 and $8.53, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $7.0 million and $5.9 million, respectively.

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A summary of the Company s nonvested options at December 31, 2005, and changes during the three months ended March 31, 2006, is presented below:

(In thousands, except per share data)	Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	13,086	$ 15.03
Granted	15	7.17
Vested	(2,011)	25.95
Forfeited	(438)	13.84
Nonvested, March 31	10,652	13.04

There were 34.5 million shares available for future grants under the various option plans at March 31, 2006. Vesting dates range from February 1996 to December 2010, and expiration dates range from April 2006 to December 2015 at exercise prices and average contractual lives as follows:

(In thousands of shares) Range of Exercise Prices		Outstanding as of 3/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of 3/31/06	Weighted Average Exercise Price
$ .01	$10.00	690	3.4	$ 5.90	690	$ 5.90
10.01	20.00	401	.8	15.66	401	15.66
20.01	30.00	3,373	2.2	25.75	3,233	25.70
30.01	40.00	10,734	6.3	32.55	2,381	33.12
40.01	50.00	18,834	3.0	44.94	16,736	45.04
50.01	60.00	3,755	3.7	55.35	3,694	55.38
60.01	70.00	2,002	1.9			