

iHeartCommunications, Inc.
Form 10-Q
October 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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

001-09645

IHEARTCOMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Texas

74-1787539

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(State or other jurisdiction of
Identification No.)
incorporation or organization)

(I.R.S. Employer

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)

CLEAR CHANNEL COMMUNICATIONS, INC.

(former name, former address and former fiscal year, if changed since last report)

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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

2014	Class	Outstanding at October 16,
	~~~~~	~~~~~
	Common Stock, \$.001 par value	500,000,000

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form in a reduced disclosure format permitted by General Instruction H(2).

**IHEARTCOMMUNICATIONS, INC.**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

# **IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES**

# **CONSOLIDATED BALANCE SHEETS**

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(In thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 522,356	\$ 708,151
Accounts receivable, net of allowance of \$38,813 in 2014 and \$48,401 in 2013	1,401,451	1,440,501
Prepaid expenses	205,906	203,485
Other current assets	169,806	161,157
<b>Total Current Assets</b>	<b>2,299,519</b>	<b>2,513,294</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Structures, net	1,643,527	1,765,510
Other property, plant and equipment, net	1,085,214	1,132,120
<b>INTANGIBLE ASSETS AND GOODWILL</b>		
Indefinite-lived intangibles - licenses	2,426,179	2,416,406
Indefinite-lived intangibles - permits	1,067,341	1,067,783
Other intangibles, net	1,267,087	1,466,546
Goodwill	4,212,612	4,202,187
<b>OTHER ASSETS</b>		
Other assets	304,556	533,456
<b>Total Assets</b>	<b>\$ 14,306,035</b>	<b>\$ 15,097,302</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 130,303	\$ 131,370
Accrued expenses	795,106	807,210
Accrued interest	156,451	194,844
Deferred income	211,268	176,460
Current portion of long-term debt	3,232	453,734
<b>Total Current Liabilities</b>	<b>1,296,360</b>	<b>1,763,618</b>
Long-term debt	20,481,547	20,030,479
Deferred income taxes	1,582,117	1,537,820
Other long-term liabilities	452,222	462,020
Commitments and contingent liabilities (Note 5)		
<b>SHAREHOLDER'S DEFICIT</b>		
Noncontrolling interest	219,051	245,531
Common Stock, par value \$.001 per share, authorized and issued 500,000,000 shares in 2014 and 2013, respectively	500	500
Additional paid-in-capital	2,143,524	2,142,036
Accumulated deficit	(11,614,301)	(10,888,629)
Accumulated other comprehensive loss	(254,985)	(196,073)
<b>Total Shareholder's Deficit</b>	<b>(9,506,211)</b>	<b>(8,696,635)</b>
<b>Total Liabilities and Shareholder's Deficit</b>	<b>\$ 14,306,035</b>	<b>\$ 15,097,302</b>



# **See Notes to Consolidated Financial Statements**





**IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(UNAUDITED)**

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 1,630,034	\$ 1,587,522	\$ 4,602,736	\$ 4,548,677
Operating expenses:				
Direct operating expenses (excludes depreciation and amortization)	645,981	648,743	1,885,698	1,879,109
Selling, general and administrative expenses (excludes depreciation and amortization)	429,687	411,354	1,266,092	1,226,058
Corporate expenses (excludes depreciation and amortization)	78,202	89,574	233,104	245,702
Depreciation and amortization	175,865	177,330	524,798	539,246
Impairment charges	35	-	4,937	-
Other operating income, net	47,172	6,186	45,709	9,694
Operating income	347,436	266,707	733,816	668,256
Interest expense	432,616	438,404	1,304,335	1,231,437
Gain on marketable securities	-	31	-	130,929
Equity in earnings (loss) of nonconsolidated affiliates	3,955	3,983	(9,388)	13,595
Loss on extinguishment of debt	(4,840)	-	(56,259)	(3,888)
Other income (expense), net	2,617	1,709	16,315	(17,389)
Loss before income taxes	(83,448)	(165,974)	(619,851)	(439,934)
Income tax benefit (expense)	(24,376)	73,802	(92,142)	158,650
Consolidated net loss	(107,824)	(92,172)	(711,993)	(281,284)
Less amount attributable to noncontrolling interest	7,028	9,683	13,679	16,372
Net loss attributable to the Company	\$ (114,852)	\$ (101,855)	\$ (725,672)	\$ (297,656)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(63,063)	40,502	(77,512)	(28,526)
Unrealized gain on securities and derivatives:				
Unrealized holding gain (loss) on marketable securities	(74)	13	605	15,619
Unrealized holding gain on cash flow derivatives	-	17,114	-	48,180
Other adjustments to comprehensive loss	-	-	-	(998)
Reclassification adjustment for realized gains on securities included in net loss	-	(1,433)	3,309	(83,753)
Other comprehensive income (loss)	(63,137)	56,196	(73,598)	(49,478)
Comprehensive loss	(177,989)	(45,659)	(799,270)	(347,134)
Less amount attributable to noncontrolling interest	(9,744)	9,169	(14,686)	(2,408)
Comprehensive loss attributable to the Company	\$ (168,245)	\$ (54,828)	\$ (784,584)	\$ (344,726)



## **See Notes to Consolidated Financial Statements**







**IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)***(In thousands)*

	Nine Months Ended September 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Consolidated net loss	\$ (711,993)	\$ (281,284)
<b>Reconciling items:</b>		
Depreciation and amortization	524,798	539,246
Impairment charges	4,937	-
Deferred taxes	44,866	(195,356)
Provision for doubtful accounts	12,149	13,710
Amortization of deferred financing charges and note discounts, net	74,106	93,258
Share-based compensation	8,064	14,093
Gain on disposal of operating and fixed assets	(45,709)	(9,694)
Gain on marketable securities	-	(130,929)
Equity in (earnings) loss of nonconsolidated affiliates	9,388	(13,595)
Loss on extinguishment of debt	56,259	3,888
Other reconciling items, net	(16,291)	18,591
Changes in operating assets and liabilities, net of effects of		
acquisitions and dispositions:		
Decrease in accounts receivable	1,511	3,705
Increase in deferred income	41,247	28,176
Increase (decrease) in accrued expenses	10,120	(15,314)
Increase (decrease) in accounts payable	1,419	(12,128)
Decrease in accrued interest	(7,890)	(46,716)
Changes in other operating assets and liabilities	(35,441)	(10,808)
Net cash used for operating activities	(28,460)	(1,157)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(195,008)	(197,260)
Purchases of other operating assets	(3,279)	(2,587)
Purchases of investment assets	(8,520)	-
Proceeds from sale of investment securities	236,644	135,571
Proceeds from disposal of assets	10,367	39,797
Change in other, net	(3,603)	(3,507)
Net cash provided by (used for) investing activities	36,601	(27,986)
<b>Cash flows from financing activities:</b>		
Draws on credit facilities	65,820	272,252
Payments on credit facilities	(315,032)	(23,844)
Proceeds from long-term debt	2,062,475	575,051
Payments on long-term debt	(1,944,564)	(1,223,336)
Payments to repurchase noncontrolling interests	-	(61,143)
Dividends and other payments to noncontrolling interests	(32,581)	(13,862)

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Deferred financing charges	(25,933)	(10,222)
Change in other, net	455	2,003
Net cash used for financing activities	(189,360)	(483,101)
Effect of exchange rate changes on cash	(4,576)	(1,714)
Net decrease in cash and cash equivalents	(185,795)	(513,958)
Cash and cash equivalents at beginning of period	708,151	1,225,010
Cash and cash equivalents at end of period	\$ 522,356	\$ 711,052

## **See Notes to Consolidated Financial Statements**



**IHEARTCOMMUNICATIONS, 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 iHeartCommunications, 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. 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.

**Information Regarding the Company**

On September 16, 2014, CC Media Holdings, Inc., parent company of iHeartCommunications, Inc. (formerly known as Clear Channel Communications, Inc.), issued a press release that announced a change of its name to “iHeartMedia, Inc.” and changed the names of certain of its affiliates, including as follows:

**Old Name:**

**New Name:**

Clear Channel Capital I, LLC

iHeartMedia Capital I, LLC

Clear Channel Capital II, LLC

iHeartMedia Capital II, LLC

Clear Channel Communications, Inc.

iHeartCommunications, Inc.

Clear Channel Management Services, Inc.

iHeartMedia Management Services, Inc.

Clear Channel Broadcasting, Inc.	iHeartMedia + Entertainment, Inc.
Clear Channel Identity, Inc.	iHM Identity, Inc.
Clear Channel Satellite Services Inc.	iHeartMedia Satellite Services, Inc.

Clear Channel Outdoor Holdings, Inc. (“CCOH”), an indirect subsidiary of the Company retained its existing name.

The Company is a Texas corporation with all of its common stock being held by iHeartMedia Capital I, LLC (the “Parent Company”). All of the Parent Company’s interests are held by iHeartMedia Capital II, LLC, a direct, wholly-owned subsidiary of iHeartMedia, Inc. (“Parent”). Parent was formed in May 2007 by private equity funds sponsored by Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. (together, the “Sponsors”) for the purpose of acquiring the business of the Company.

#### **Omission of Per Share Information**

Net loss per share information is not presented as the Parent Company owns 100% of the Company’s common stock. The Company does not have any publicly traded common stock or potential common stock.

#### **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.

**IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

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 U.S. 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.

During the second quarter of 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new standard provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

During the third quarter of 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This new standard clarifies that a performance target in a share-based compensation award that could be achieved after an employee completes the requisite service period should be treated as a performance condition that affects the vesting of the award. The standard is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

**IHEARTCOMMUNICATIONS, 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 September 30, 2014 and December 31, 2013, respectively.

<i>(In thousands)</i>	September 30, 2014	December 31, 2013
Structures	\$ 3,023,714	\$ 3,021,152
Less: accumulated depreciation	1,380,187	1,255,642
Structures, net	\$ 1,643,527	\$ 1,765,510
Land, buildings and improvements	\$ 739,845	\$ 723,268
Towers, transmitters and studio equipment	451,651	440,612
Furniture and other equipment	525,245	473,995
Construction in progress	89,881	123,814
	1,806,622	1,761,689
Less: accumulated depreciation	721,408	629,569
Other property, plant and equipment, net	\$ 1,085,214	\$ 1,132,120

**Indefinite-lived Intangible Assets**

The Company's indefinite-lived intangible assets consist of Federal Communications Commission ("FCC") broadcast licenses in its iHeartMedia ("iHM") segment and billboard permits in its Americas outdoor advertising segment. Due to significant differences in both business practices and regulations, billboards in the International outdoor advertising 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 outdoor advertising segment.

**Other Intangible Assets**

Other intangible assets include definite-lived intangible assets and permanent easements. The Company's definite-lived intangible assets include primarily transit and street furniture contracts, talent and representation contracts, customer and advertiser relationships, and site-leases, all of which are amortized over 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.





**IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)**

The following table presents the gross carrying amount and accumulated amortization for each major class of other intangible assets at September 30, 2014 and December 31, 2013, respectively:

<i>(In thousands)</i>	September 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture and other outdoor				
contractual rights	\$ 749,372	\$ (490,255)	\$ 777,521	\$ (464,548)
Customer / advertiser relationships	1,212,349	(735,526)	1,212,745	(645,988)
Talent contracts	319,384	(216,788)	319,617	(195,403)
Representation contracts	238,107	(201,215)	252,961	(200,058)
Permanent easements	174,628	-	173,753	-
Other	387,847	(170,816)	387,405	(151,459)
Total	\$ 3,081,687	\$ (1,814,600)	\$ 3,124,002	\$ (1,657,456)

Total amortization expense related to definite-lived intangible assets was \$65.7 million and \$70.2 million for the three months ended September 30, 2014 and 2013, respectively, and \$198.9 million and \$213.2 million for the nine months ended September 30, 2014 and 2013, respectively.

The following table presents the Company's estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangible assets:

<i>(In thousands)</i>	
2015	\$ 240,713
2016	222,207
2017	195,977
2018	126,664
2019	42,545

**IHEARTCOMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****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 Outdoor Advertising	International Outdoor Advertising	Other	Consolidated
	iHM				
Balance as of December 31, 2012	\$ 3,236,688	\$ 571,932	\$ 290,316	\$ 117,149	\$ 4,216,085
Impairment	-	-	(10,684)		