Clear Channel Outdoor Holdings, Inc.
Form 10-Q
May 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2013

[ ] 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
86-0812139

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

200 East Basse Road 78209

San Antonio, Texas (Zip Code)

(Address of principal executive offices)

(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 [X] 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 [X] 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 [X] 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.

Delaware 86-0812139

Class	Outstanding at April 25, 2013
Class A Common Stock, $.01 par value	42,812,389
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

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	March 31, 2013 (Unaudited)	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	$ 547,260	$ 561,979
Accounts receivable, net	666,498	743,112
Prepaid expenses	159,738	151,597
Other current assets	60,740	52,658
Total Current Assets	1,434,236	1,509,346
PROPERTY, PLANT AND EQUIPMENT		
Structures, net	1,850,884	1,890,693
Other property, plant and equipment, net	294,969	317,051
INTANGIBLE ASSETS AND GOODWILL		
Indefinite-lived intangibles	1,070,333	1,070,720
Other intangibles, net	534,332	557,478
Goodwill	855,763	862,248
OTHER ASSETS		
Due from Clear Channel Communications	727,646	729,157
Other assets	163,862	169,089
Total Assets	$ 6,932,025	$ 7,105,782
CURRENT LIABILITIES		
Accounts payable	$ 77,285	$ 95,515
Accrued expenses	491,945	538,499
Deferred income	121,272	107,034
Other current liabilities	61,143	60,950
Current portion of long-term debt	6,399	9,407
Total Current Liabilities	758,044	811,405
Long-term debt	4,934,177	4,935,388
Deferred tax liability	650,903	673,068
Other long-term liabilities	246,105	239,832
Commitments and contingent liabilities (Note 6)		
SHAREHOLDERS’ EQUITY		
Noncontrolling interest	244,231	247,934
Class A common stock	425	424
Class B common stock	3,150	3,150
Additional paid-in capital	4,522,310	4,522,668
Retained deficit	(4,188,793)	(4,114,515)

Accumulated other comprehensive loss	(237,554)	(212,599)
Cost of shares held in treasury	(973)	(973)
Total Shareholders' Equity	342,796	446,089
Total Liabilities and Shareholders' Equity	$ 6,932,025	$ 7,105,782

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2013	2012
Revenue	$ 650,210	$ 651,283
Operating expenses:		
Direct operating expenses (excludes depreciation and amortization)	387,389	394,053
Selling, general and admin expenses (excludes depreciation and amortization)	139,992	153,149
Corporate expenses (excludes depreciation and amortization)	26,195	24,310
Depreciation and amortization	100,327	92,337
Other operating income, net	2,103	4,003
Operating loss	(1,590)	(8,563)
Interest expense	88,093	67,831
Interest income on Due from Clear Channel Communications	11,920	15,980
Equity in earnings (loss) of nonconsolidated affiliates	(485)	421
Other expense, net	(907)	(494)
Loss before income taxes	(79,155)	(60,487)
Income tax benefit	5,006	15,294
Consolidated net loss	(74,149)	(45,193)
Less amount attributable to noncontrolling interest	129	(1,323)
Net loss attributable to the Company	$ (74,278)	$ (43,870)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(24,025)	33,511
Unrealized (loss) gain on marketable securities	(25)	289
Other adjustments to comprehensive income	(998)	63
Other comprehensive income (loss)	(25,048)	33,863
Comprehensive loss	(99,326)	(10,007)
Less amount attributable to noncontrolling interest	(93)	(189)
Comprehensive loss attributable to the Company	$ (99,233)	$ (9,818)
Net loss attributable to the Company per common share:		
Basic	$ (0.22)	$ (0.14)
Weighted average common shares outstanding – Basic	357,352	356,363
Diluted	$ (0.22)	$ (0.14)
Weighted average common shares outstanding – Diluted	357,352	356,363
Dividends declared per share	$ -	$ 6.08

See Notes to Consolidated Financial Statements

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Consolidated net loss	$ (74,149)	$ (45,193)
Reconciling items:		
Depreciation and amortization	100,327	92,337
Deferred taxes	(23,035)	(15,481)
Provision for doubtful accounts	1,712	1,820
Share-based compensation	1,661	3,202
Gain on sale of operating assets	(2,103)	(4,003)
Amortization of deferred financing charges and note discounts, net	2,131	2,121
Other reconciling items, net	1,159	(388)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease in accounts receivable	63,516	59,336
Increase in deferred income	16,036	50,808
Decrease in accrued expenses	(36,001)	(30,351)
Decrease in accounts payable	(15,968)	(8,501)
Changes in other operating assets and liabilities	(2,012)	(10,329)
Net cash provided by operating activities	33,274	95,378
Cash flows from investing activities:		
Purchases of property, plant and equipment	(39,441)	(55,990)
Purchases of other operating assets	(3)	(1,367)
Proceeds from disposal of assets	3,300	6,094
Change in other, net	(665)	(1,257)
Net cash used for investing activities	(36,809)	(52,520)
Cash flows from financing activities:		
Draws on credit facilities	637	992
Proceeds from long-term debt	-	2,200,000
Payments on long-term debt	(4,437)	(2,890)
Net transfers to Clear Channel Communications	1,507	(46,791)
Deferred financing charges	152	(39,927)
Dividends paid	-	(2,170,396)
Change in other, net	(3,805)	4,896
Net cash used for financing activities	(5,946)	(54,116)
Effect of exchange rate changes on cash	(5,238)	3,357
Net decrease in cash and cash equivalents	(14,719)	(7,901)
Cash and cash equivalents at beginning of period	561,979	542,655
Cash and cash equivalents at end of period	$ 547,260	$ 534,754

See Notes to Consolidated Financial Statements

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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 2012 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 2013 presentation.

Adoption of New Accounting Standards

During the first quarter of 2013, the Company adopted the Financial Accounting Standards Board's ("FASB") ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments are effective for fiscal years (and interim periods within) beginning after December 15, 2012 and sets requirements for presenting information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income. Substantially all of the information required to be disclosed under this amendment are required to be disclosed elsewhere in the financial statements under 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 2013, the FASB issued 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. Early adoption is permitted however the Company plans to adopt the standard on a retrospective basis for the first quarter of 2014 for any existing obligations within the scope of this update. The Company is currently evaluating the guidance to determine the potential impact, if any, the adoption may have on its financial results and disclosures.

During the first quarter of 2013, the FASB issued 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 the current U.S. GAAP. Early adoption is permitted however the Company plans to adopt the standard for the first quarter of 2014. The Company is currently evaluating the guidance to determine the potential impact, if any, the adoption may have on its financial results and disclosures.

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, 2013 and December 31, 2012, respectively:

(In thousands)	March 31, 2013	December 31, 2012
Land, buildings and improvements	$ 208,392	$ 210,382
Structures	2,958,467	2,949,458
Furniture and other equipment	136,528	134,389
Construction in progress	59,576	76,299
	3,362,963	3,370,528
Less: accumulated depreciation	1,217,110	1,162,784
Property, plant and equipment, net	$ 2,145,853	$ 2,207,744

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, 2013 and December 31, 2012, respectively:

(In thousands)	March 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture and other contractual rights	$ 771,321	$ (411,850)	$ 785,303	$ (403,955)
Permanent easements	173,383	-	173,374	-
Other	3,273	(1,795)	4,283	(1,527)
Total	$ 947,977	$ (413,645)	$ 962,960	$ (405,482)

Total amortization expense related to definite-lived intangible assets for the three months ended March 31, 2013 and 2012 was $18.6 million and $17.3 million, respectively.

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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.

(In thousands)		
2014	$	65,357
2015		55,011
2016		42,560
2017		30,904
2018		22,186

Goodwill

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

(In thousands)	Americas	International	Total
Balance as of December 31, 2011	$ 571,932	$ 285,261	$ 857,193
Foreign currency	-	7,784	7,784
Dispositions	-	(2,729)	(2,729)
Balance as of December 31, 2012	571,932	290,316	862,248
Foreign currency	-	(6,485)	(6,485)
Dispositions	-	-	-
Balance as of March 31, 2013	$ 571,932	$ 283,831	$ 855,763

NOTE 3 – LONG-TERM DEBT

Long-term debt at March 31, 2013 and December 31, 2012, respectively, consisted of the following:

(In thousands)	March 31, 2013	December 31, 2012
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

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
Other debt	22,742	27,093
Original issue discount	(7,166)	(7,298)
Total debt	4,940,576	4,944,795
Less: current portion	6,399	9,407
Total long-term debt	$ 4,934,177	$ 4,935,388

The aggregate market value of the Company's debt based on market prices for which quotes were available was approximately $5.1 billion at each of March 31, 2013 and December 31, 2012. Under the fair value hierarchy established by ASC 820-10-35, the market value of the Company's debt is classified as Level 2.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

NOTE 4 – SUPPLEMENTAL DISCLOSURES

Income Tax Benefit

The Company’s income tax benefit for the three months ended March 31, 2013 and 2012, respectively, consisted of the following components:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Current tax expense	$ (18,029)	$ (187)
Deferred tax benefit	23,035	15,481
Income tax benefit	$ 5,006	$ 15,294

The effective tax rate is the provision for income taxes as a percent of income before income taxes. The effective tax rates for the three months ended March 31, 2013 was 6.3%. The effective rate was primarily impacted by the Company’s inability to record tax benefits on tax losses in certain 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, 2012 was 25.3%. The 2012 effective tax rate was primarily impacted by the Company’s ability to benefit from certain foreign tax loss carryforwards in 2011 due to taxable income in certain foreign jurisdictions where the loss carryforwards previously did not provide a benefit.

Supplemental Cash Flow Information

During the three months ended March 31, 2013 and 2012, cash paid for interest and income taxes, net of income tax refunds of $0.4 million and $0.3 million, respectively, was as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Interest	$ 88,237	$ 64,944
Income taxes	12,590	17,603

NOTE 5 – FAIR VALUE MEASUREMENTS

The Company holds marketable equity securities classified in accordance with the provisions of ASC 320-10. These marketable equity securities are measured at fair value on each reporting date using quoted prices in active markets. Due to the fact that the inputs used to measure the marketable equity securities at fair value are observable, the Company has categorized the fair value measurements of the securities as Level 1 in accordance with ASC 820-10-35. The Company records its investments in these marketable equity securities on the balance sheet as “Other Assets.”

The cost, unrealized holding gains or losses, and fair value of the Company’s investments at March 31, 2013 and December 31, 2012 are as follows:

(In thousands)	March 31, 2013	December 31, 2012
Cost	$ 609	$ 609
Gross unrealized losses	(25)	-
Gross unrealized gains	79	81
Fair value	$ 663	$ 690

NOTE 6 – COMMITMENTS AND CONTINGENCIES

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

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

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.

Stockholder Litigation

Two derivative lawsuits were filed in March 2012 in Delaware Chancery Court by stockholders of the Company. The consolidated lawsuits are captioned *In re Clear Channel Outdoor Holdings, Inc. Derivative Litigation*, Consolidated Case No. 7315-CS. The complaints name as defendants certain of Clear Channel Communications' and the Company's current and former directors and Clear Channel Communications, as well as Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. The Company also is named as a nominal defendant. The complaints allege, among other things, that in December 2009 Clear Channel Communications breached fiduciary duties to the Company and its stockholders by allegedly requiring the Company to agree to amend the terms of a revolving promissory note payable by Clear Channel Communications to the Company to extend the maturity date of the note and to amend the interest rate payable on the note. According to the complaints, the terms of the amended promissory note were unfair to the Company because, among other things, the interest rate was below market. The complaints further allege that Clear Channel Communications was unjustly enriched as a result of that transaction. The complaints also allege that the director defendants breached fiduciary duties to the Company in connection with that transaction and that the transaction constituted corporate waste. On April 4, 2012, the board of directors of the Company formed a special litigation committee consisting of certain independent directors (the "SLC") to review and investigate plaintiffs' claims and determine the course of action that serves the Company's best interests and the best interests of the Company's stockholders. On June 20, 2012, the SLC filed a motion to stay the lawsuits for six months while it completes its review and investigation. In response, on June 27, 2012, plaintiffs filed a motion for an expedited trial, asking the Court to schedule a trial on the merits in October 2012. On July 23, 2012, the Court issued an order granting the motion to stay and denying the motion for an expedited trial. On January 23, 2013, the SLC filed a motion to extend the stay for thirty days, and on January 24, 2013, the Court granted that motion, extending the stay for thirty days from the date of the order. On March 28, 2013, to avoid the costs, disruption and distraction of further litigation, and without admitting the validity of any allegations made in the complaint, legal counsel for the defendants entered into a binding memorandum of understanding (the "MOU") with legal counsel for the SLC and the plaintiffs to settle the litigation. The MOU obligates the parties to use their best efforts to prepare a Stipulation of Settlement reflecting the terms of the MOU and present such Stipulation of Settlement to the Delaware Chancery Court for approval. The MOU includes the following terms, among others:

- The Company agrees, not later than 30 calendar days following the approval of the settlement by the Delaware Court of Chancery, to (i) demand payment of $200 million outstanding under the note payable by Clear Channel Communications to the Company and (ii) declare a dividend of $200 million that shall be paid simultaneously on the date the payment from the demand is to be made (approximately 11% of the proceeds from such dividend would be distributed to the Company's public stockholders, and Clear Channel Communications, our indirect parent, would be entitled to approximately 89% of the proceeds from such dividend through its wholly-owned subsidiaries).

- Clear Channel Communications and the Company agree to amend the interest rate applicable on the note payable by Clear Channel Communications to the Company Note such that, in the event that (x) the outstanding balance of the note exceeds $1.0 billion, the per annum rate of interest applicable to such excess balance will be an amount equal to the average yield-to-maturity for the series of CCU Legacy Notes (as defined below) that has the nearest future maturity date or (y) the Clear Channel Liquidity Ratio (as defined in the MOU) is less than 2.0x, the per annum rate of interest applicable to the entire outstanding balance of the note will be an amount equal to the average yield-to-maturity for the series of CCU Legacy Notes that has the nearest future maturity date; provided, however, that, the interest rate will in no event be less than 6.5% nor greater than 20%. CCU Legacy Notes is defined as Clear Channel Communications' 5.5% Senior Notes Due 2014, 4.9% Senior Notes Due 2015, 5.5% Senior Notes Due 2016 and 6.875% Senior Debentures Due 2018, excluding any series of notes that has a maturity date less than 90 calendar days from the date of measurement.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

- The Company agrees to establish a committee of the Board (the "Committee"), composed of all of the then-serving independent and disinterested directors, for the specific purpose of monitoring the note payable by Clear Channel Communications to the Company. The Committee will be provided reports on a monthly basis, have access to independent legal and financial advisors, and will have the non-exclusive authority pursuant to a committee charter, if the Committee so desires and believes it to be in the best interests of the Company's stockholders, to demand payments under the note under certain specified circumstances tied to Clear Channel Communications' liquidity or the balance of the note (i.e., the Committee shall not be required to demand payment, but rather shall have the optional authority to do so under certain circumstances); provided that (a) the Committee provides no fewer than twenty (20) and no more than thirty (30) calendar days' notice that it is exercising its power and authority to make a demand for payment; (b) the Company has the right and ability to declare a dividend equal to the amount so demanded; and (c) the Committee simultaneously declares a dividend equal to the amount so demanded, to be paid simultaneously with the amount paid pursuant to the demand.

The Stipulation of Settlement has not yet been finalized and is subject to approval by the Delaware Court of Chancery. Accordingly, unless and until the Company receives such approval, no assurance can be provided that the Company will be able to resolve the outstanding litigation as contemplated by the MOU. The Company filed the MOU with the SEC as an exhibit to its Current Report on Form 8-K filed on April 3, 2013. The financial statements do not reflect any impacts that may result upon the final Stipulation of Settlement being approved.

Los Angeles Litigation

In 2008, Summit Media, LLC, one of the Company's competitors, sued the City of Los Angeles, 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 Court of Appeal for the State of California, Second Appellate District, Division 8. On December 10, 2012, the Court of Appeal issued 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. 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 – not other types of permits the companies may have secured for the signs at issue.

Guarantees

As of March 31, 2013, the Company had $58.7 million in letters of credit outstanding, of which $56.3 million of letters of credit were cash secured. Additionally, as of March 31, 2013, Clear Channel Communications had outstanding commercial standby letters of credit and surety bonds of $18.0 million and $46.6 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 $5.0 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, 2013, the Company had outstanding bank guarantees of $47.0 million related to international subsidiaries, of which $4.5 million were backed by cash collateral.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company records net amounts due to or from Clear Channel Communications as "Due from/to Clear Channel Communications" on the condensed consolidated balance sheets. The accounts represent the revolving promissory note issued by the Company to Clear Channel Communications and the revolving promissory note issued by Clear Channel Communications to the Company, 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, 2013 and December 31, 2012, the asset recorded in "Due from Clear Channel Communications" on the condensed consolidated balance sheets was $727.6 million and $729.2 million, respectively.

The net interest income for the three months ended March 31, 2013 and 2012 was $11.9 million and $16.0 million, respectively. At March 31, 2013 and December 31, 2012, 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.

The Company provides advertising space on its billboards for radio stations owned by Clear Channel Communications. For the three months ended March 31, 2013 and 2012, the Company recorded $0.1 million and $0.8 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, 2013 and 2012, the Company recorded $9.4 million and $6.6 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 $2.9 million for the three months ended March 31, 2013 and 2012, respectively.

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

NOTE 8 – EQUITY AND COMPREHENSIVE INCOME

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 equity attributable to the Company and the noncontrolling interests of subsidiaries in which the Company has a majority, but not total ownership interest:

(In thousands)	The Company	Noncontrolling Interests	Consolidated
Balances at January 1, 2013	$ 198,155	$ 247,934	$ 446,089
Net income (loss)	(74,278)	129	(74,149)
Foreign currency translation adjustments	(23,932)	(93)	(24,025)
Unrealized holding loss on marketable securities	(25)	-	(25)
Other adjustments to comprehensive income	(998)	-	(998)
Other, net	(357)	(3,739)	(4,096)
Balances at March 31, 2013	$ 98,565	$ 244,231	$ 342,796
Balances at January 1, 2012	$ 2,508,697	$ 231,530	2,740,227
Net loss	(43,870)	(1,323)	(45,193)
Dividend	(2,170,396)	-	(2,170,396)
Foreign currency translation adjustments	33,700	(189)	33,511
Unrealized holding loss on marketable securities	289	-	289
Other adjustments to comprehensive income	63	-	63
Other, net	1,292	(531)	761
Balances at March 31, 2012	$ 329,775	$ 229,487	$ 559,262

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

NOTE 9 – 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 by each segment in direct operating and selling, general and administrative expenses.

The following table presents the Company's reportable segment results for the three months ended March 31, 2013 and 2012:

(In thousands)	Americas	International	Corporate and other reconciling items	Consolidated
Three Months Ended March 31, 2013				
Revenue	$ 286,461	$ 363,749	$ -	$ 650,210
Direct operating expenses	137,547	249,842	-	387,389
Selling, general and administrative expenses	54,610	85,382	-	139,992
Depreciation and amortization	48,685	50,993	649	100,327
Corporate expenses	-	-	26,195	26,195
Other operating income, net	-	-	2,103	2,103
Operating income (loss)	$ 45,619	$ (22,468)	$ (24,741)	$ (1,590)
Capital expenditures	$ 12,895	$ 25,908	$ 638	$ 39,441
Share-based compensation expense	$ 894	$ 735	$ 32	$ 1,661
Three Months Ended March 31, 2012				
Revenue	$ 280,151	$ 371,132	$ -	$ 651,283

Direct operating expenses		144,410		249,643		-		394,053
Selling, general and administrative expenses		52,579		100,570		-		153,149
Depreciation and amortization		42,958		49,035		344		92,337
Corporate expenses		-		-		24,310		24,310
Other operating income, net		-		-		4,003		4,003
Operating income (loss)	$	40,204	$	(28,116)	$	(20,651)	$	(8,563)
Capital expenditures	$	25,336	$	27,662	$	2,992	$	55,990
Share-based compensation expense	$	1,932	$	1,209	$	61	$	3,202

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

NOTE 10 – 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):

(In thousands)	As of March 31, 2013					
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 205,302	$ 31	$ 6,535	$ 335,392	$ -	$ 547,260
Accounts receivable, net of allowance	-	-	209,764	456,734	-	666,498
Intercompany receivables	-	56,149	1,387,473	-	(1,443,622)	-
Prepaid expenses	3,287	-	74,338	82,113	-	159,738
Other current assets	6	6,850	10,735	43,149	-	60,740
Total Current Assets	208,595	63,030	1,688,845	917,388	(1,443,622)	1,434,236
Structures, net	-	-	1,206,999	643,885	-	1,850,884
Other property, plant and equipment, net	-	-	162,133	132,836	-	294,969
Indefinite-lived intangibles	-	-	1,055,168	15,165	-	1,070,333
Other intangibles, net	-	-	353,475	180,857	-	534,332
Goodwill	-	-	571,932	283,831	-	855,763
Due from Clear Channel Communications	727,646	-	-	-	-	727,646
Intercompany notes receivable	182,026	5,129,823	-	-	(5,311,849)	-
Other assets	358,780	822,705	1,327,061	60,078	(2,404,762)	163,862
Total Assets	$ 1,477,047	$ 6,015,558	$ 6,365,613	$ 2,234,040	$ (9,160,233)	$ 6,932,025
Accounts payable	$ -	$ -	$ 3,602	$ 73,683	$ -	$ 77,285
Intercompany payable	1,371,921	-	56,149	15,552	(1,443,622)	-

Accrued expenses	102	(1,897)	97,173	396,567	-	491,945
Deferred income	-	-	40,598	80,674	-	121,272
Other current liabilities	-	-	-	61,143	-	61,143
Current portion of long-term debt	-	-	42	6,357	-	6,399
Total Current Liabilities	1,372,023	(1,897)	197,564	633,976	(1,443,622)	758,044
Long-term debt	-	4,917,834	1,171	15,172	-	4,934,177
Intercompany notes payable	6,298	-	5,036,353	269,198	(5,311,849)	-
Deferred tax liability	223	85	626,748	23,847	-	650,903
Other long-term liabilities	-	-	144,935	101,170	-	246,105
Total shareholders' equity	98,503	1,099,536	358,842	1,190,677	(2,404,762)	342,796
Total Liabilities and Shareholders' Equity	$ 1,477,047	$ 6,015,558	$ 6,365,613	$ 2,234,040	$ (9,160,233)	$ 6,932,025

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(In thousands)	As of December 31, 2012					
	Parent Company	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 207,411	$ -	$ -	$ 359,361	$ (4,793)	$ 561,979
Accounts receivable, net of allowance	-	-	258,727	484,385	-	743,112
Intercompany receivables	-	-	1,407,392	-	(1,407,392)	-
Prepaid expenses	2,109	-	70,822	78,666	-	151,597
Other current assets	9	6,850	4,231	41,568	-	52,658
Total Current Assets	209,529	6,850	1,741,172	963,980	(1,412,185)	1,509,346
Structures, net	-	-	1,231,465	659,228	-	1,890,693