Clear Channel Outdoor Holdings, Inc.
Form 10-Q
May 10, 2007

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

or

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

Commission file number 1-32663

CLEAR CHANNEL OUTDOOR HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0812139**
(State of Incorporation)	(I.R.S. Employer Identification No.)

200 East Basse Road
San Antonio, Texas 78209
(210) 832-3700
(Address and telephone number
of principal executive offices)

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.

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 8, 2007
Class A Common Stock, $.01 par value	40,077,154
Class B Common Stock, $.01 par value	315,000,000

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
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PART I

Item 1. UNAUDITED FINANCIAL STATEMENTS

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

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
Current Assets		
Cash and cash equivalents	$ 108,540	$ 105,395
Accounts receivable, less allowance of $25,836 at March 31, 2007 and $24,827 at December 31, 2006	767,625	798,980
Due from Clear Channel Communications	3,319	
Prepaid expenses	97,845	91,256
Income taxes receivable	26,190	
Other current assets	197,522	194,284
Total Current Assets	1,201,041	1,189,915
Property, Plant and Equipment		
Land, buildings and improvements	347,638	343,690
Structures	3,618,317	3,601,653
Furniture and other equipment	238,896	238,340
Construction in progress	62,674	60,332
	4,267,525	4,244,015
Less accumulated depreciation	2,102,464	2,052,176
	2,165,061	2,191,839
Intangible Assets		
Definite-lived intangibles, net	279,663	292,426
Indefinite-lived intangibles permits	241,450	260,949
Goodwill	1,103,026	1,092,927
Other Assets		
Notes receivable	3,177	3,192
Investments in, and advances to, nonconsolidated affiliates	96,075	97,352
Deferred tax asset	219,564	199,918
Other assets	94,885	93,373
Total Assets	$ 5,403,942	$ 5,421,891

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS EQUITY
(In thousands)

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
Current Liabilities		
Accounts payable	$ 116,736	$ 121,578
Accrued expenses	444,392	494,744
Due to Clear Channel Communications		4,190
Accrued interest	4,018	3,621
Accrued income taxes		31,259
Deferred income	136,340	96,421
Current portion of long-term debt	61,967	86,293
Deferred tax liabilities	2,924	3,403
Total Current Liabilities	766,377	841,509
Long-term debt	92,351	97,883
Debt with Clear Channel Communications	2,500,000	2,500,000
Other long-term liabilities	233,799	214,220
Minority interest	181,890	181,901
Commitment and contingent liabilities (Note 5)		
Shareholders Equity		
Class A common stock	414	396
Class B common stock	3,150	3,150
Additional paid-in capital	1,290,742	1,279,079
Retained earnings	195,704	173,277
Accumulated other comprehensive income	139,515	130,476
Total Shareholders Equity	1,629,525	1,586,378
Total Liabilities and Shareholders Equity	$ 5,403,942	$ 5,421,891

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenue	$ 690,856	$ 598,369
Operating expenses:		
Direct operating expenses (includes share-based payments of $986 and $1,066 in 2007 and 2006, respectively, and excludes depreciation and amortization)	394,205	344,396
Selling, general and administrative expenses (includes share-based payments of $381 and $414 in 2007 and 2006, respectively, and excludes depreciation and amortization)	127,533	115,035
Depreciation and amortization	95,670	96,320
Corporate expenses (includes share-based payments of $73 and $22 in 2007 and 2006, respectively, and excludes depreciation and amortization)	15,343	14,585
Gain on the disposition of assets net	7,092	22,756
Operating income	65,197	50,789
Interest expense on debt with Clear Channel Communications	37,783	36,797
Interest expense	2,286	3,257
Equity in earnings of nonconsolidated affiliates	125	1,378
Other income (expense) net	(44)	(434)
Income before income taxes and minority interest	25,209	11,679
Income tax (expense) benefit:		
Current	(6,877)	18,475
Deferred	(3,764)	(23,614)
Income tax (expense) benefit:	(10,641)	(5,139)
Minority interest income, net of tax	1,516	1,593
Net income	16,084	8,133
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	9,039	23,486
Comprehensive income	$ 25,123	$ 31,619
Net income per common share:		
Basic	$ .05	$ .02
Weighted average common shares outstanding Basic	354,603	350,001
Diluted	$ .05	$ .02
Weighted average common shares outstanding Diluted	355,505	350,001

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 16,084	$ 8,133
Reconciling items:		
Depreciation and amortization	95,670	96,320
Deferred taxes	3,764	23,614
Gain on sale of operating and fixed assets	(7,092)	(22,756)
Other reconciling items, net	2,346	188
Changes in operating assets and liabilities, net of effects of acquisitions	(24,323)	(25,355)
Net cash provided by operating activities	86,449	80,144
Cash flows from investing activities:		
Decrease (increase) in notes receivable, net	15	(4)
Decrease (increase) in investments in, and advances to nonconsolidated affiliates net	416	613
Purchases of property, plant and equipment	(47,253)	(43,718)
Proceeds from disposal of assets	9,862	8,085
Acquisition of operating assets, net of cash acquired	(12,189)	(9,114)
Decrease (increase) in other net	(292)	(21,093)
Net cash used in investing activities	(49,441)	(65,231)
Cash flows from financing activities:		
Draws on credit facilities	15,881	707
Payments on credit facilities	(36,582)	(97)
Proceeds from long-term debt		9,579
Payments on long-term debt	(10,349)	(8,956)
Net transfers (to) from Clear Channel Communications	(7,834)	(35,552)
Other, net	5,316	(750)
Net cash used in financing activities	(33,568)	(35,069)
Effect of exchange rate changes on cash	(295)	(1,237)
Net (decrease) increase in cash and cash equivalents	3,145	(21,393)
Cash and cash equivalents at beginning of period	105,395	108,644

Cash and cash equivalents at end of period	$ 108,540	$ 87,251

See Notes to Consolidated Statements

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CLEAR CHANNEL OUTDOOR HOLDINGS, 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 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 adjustments (consisting of normal recurring accruals and adjustments necessary for adoption of new accounting standards) necessary to present fairly the results of the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Due to seasonality and other factors, the results for the interim periods are not necessarily indicative of results for the full year. The financial statements contained herein should be read in conjunction with the consolidated and combined financial statements and notes thereto included in the Company s 2006 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 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. Significant intercompany transactions are eliminated in the consolidation process. Investments in nonconsolidated affiliates are accounted for using the equity method of accounting.

Certain Reclassifications

The Company has reclassified certain selling, general and administrative expenses to direct operating expenses in 2006 to conform to current year presentation.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (Statement 159), was issued in February 2007. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. Statement 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. Statement 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company expects to adopt Statement 159 on January 1, 2008, and does not anticipate adoption to materially impact its financial position or results of operations.

New Accounting Standard

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. FIN 48 prescribes a recognition threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. The adoption of FIN 48 resulted in an increase of $6.3 million to the January 1, 2007 balance of retained earnings and a decrease of $6.0 million in liabilities for unrecognized tax benefits and an increase of $25.4 million in Deferred tax assets. The total amount of unrecognized tax benefits at January 1, 2007 was $31.7 million, inclusive of $6.5 million for interest. Of this total, $15.3 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

The Company continues to record interest and penalties related to unrecognized tax benefits in current income tax expense. The total amount of interest accrued during the quarter ended March 31, 2007, was $0.7 million. The total amount of unrecognized tax benefits at March 31, 2007 was $32.4 million.

Pursuant to the Tax Matters Agreement entered into between Clear Channel Communications and the Company at the IPO, the operations of the Company are included in a consolidated federal income tax return filed by Clear Channel Communications. In addition, the Company and its subsidiaries file income tax returns in various state and foreign jurisdictions. The Company and Clear Channel Communications are in the process of settling most federal issues for the tax years 2000, 2001 and 2002 with the Internal Revenue Service (IRS). The IRS is near completion of its field examination of the Company s tax returns through 2004. The Company expects to resolve several of its federal issues with the IRS within the next 12 months without any material adverse impact on the Company s financial statements. Substantially all material state and local and foreign income tax matters have been concluded for years through 1999.

Note 2: INTANGIBLE ASSETS AND GOODWILL

Definite-lived Intangibles

The Company has definite-lived intangible assets which consist primarily of transit and street furniture contracts and other contractual rights acquired in business combinations, 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 to the Company s future cash flows. Other definite-lived intangible assets are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company s future cash flows. The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at March 31, 2007 and December 31, 2006:

	March 31, 2007		December 31, 2006	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture, and other contractual rights	$ 822,827	$ 544,239	$ 821,364	$ 530,063
Other	41,640	40,565	41,544	40,419
Total	$ 864,467	$ 584,804	$ 862,908	$ 570,482

Total amortization expense from definite-lived intangible assets for the three months ended March 31, 2007 and for the year ended December 31, 2006 was $12.2 million and $85.5 million, 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:

(In thousands)	
2008	$ 46,274
2009	38,608
2010	26,439
2011	20,059
2012	18,837

As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, amortization expense may vary.

Indefinite-lived Intangibles

The Company s indefinite-lived intangible assets consist of billboard permits acquired primarily in business combinations. The Company s billboard permits are issued in perpetuity by state and local governments and are transferable or renewable at little or no cost. Permits typically include the location for which the permit allows the Company the right to operate an advertising structure. The Company s permits are located on either owned or leased land. In cases where the Company s permits are located on leased land, the leases are typically from 10 to 20 years and renew indefinitely, with rental payments generally escalating at an inflation based index. If the Company loses its lease, the Company will typically obtain permission to relocate the permit or bank it with the municipality for future use.

The Company does not amortize its billboard permits. The Company tests these indefinite-lived intangible assets for impairment at least annually using the direct method. Under the direct method, it is assumed that rather than acquiring indefinite-lived intangible assets as a part of a going concern business, the buyer hypothetically obtains indefinite-lived intangible assets and builds a new operation with similar attributes from scratch. Thus, the buyer incurs start-up costs during the build-up phase which are normally associated with going concern value. Initial capital costs are deducted from the discounted cash flows model which results in value that is directly attributable to the indefinite-lived intangible assets.

Under the direct method, the Company continues to aggregate its indefinite-lived intangible assets at the market level for purposes of impairment testing. The Company s key assumptions using the direct method are market revenue growth rates, market share, profit margin, duration and profile of the build-up period, estimated start-up capital costs and losses incurred during the build-up period, the risk-adjusted discount rate and terminal values. This data is populated using industry normalized market information.

The carrying amount for billboard permits at March 31, 2007 and December 31, 2006 was $241.5 million and $260.9 million, respectively.

Goodwill

The Company tests goodwill for impairment using a two-step process. The first step, used to screen for potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. The second step, used to measure the amount of the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The following table presents the changes in the carrying amount of goodwill in each of the Company s reportable segments for the three-month period ended March 31, 2007:

(In thousands)	Americas	International	Total
Balance as of December 31, 2006	$ 667,297	$ 425,630	$ 1,092,927
Acquisitions	5,610	1,420	7,030
Foreign currency	1,937	1,308	3,245
Adjustments	(176)		(176)
Balance as of March 31, 2007	$ 674,668	$ 428,358	$ 1,103,026

Note 3: RECENT DEVELOPMENTS

Acquisitions

During the three months ended March 31, 2007, the Company s Americas segment acquired display faces for $7.3 million in cash. In addition, the Company s International segment acquired an additional equity interest in an outdoor company for $4.9 million.

Disposition of Assets

The Company received proceeds of $9.9 million primarily related to the sale of International street furniture assets in Sweden during the first quarter of 2007.

Recent Legal Proceedings

The Company is the defendant in a lawsuit filed October 20, 1998 by Jorge Luis Cabrera, Sr., and Martha Serrano, as personal representatives of the Estate of Jorge Luis Cabrera, Jr., in the 11th Judicial Circuit in and for Miami-Dade County, Florida. The plaintiff alleged the Company negligently constructed, installed or maintained the electrical system in a bus shelter, which resulted in the death of Jorge Luis Cabrera, Jr. Martha Serrano settled her claims with the Company. On June 24, 2005, the jury rendered a verdict in favor of the plaintiff, and awarded the plaintiff $4.1 million in actual damages and $61.0 million in punitive damages. The Company filed a motion to have the punitive damages award reduced. The trial judge granted the Company s motion. A final judgment in the amount of $4.1 million in compensatory damages and $12.3 million in punitive damages was signed on January 23, 2006. The Company has appealed the underlying judgment and the Plaintiff filed a cross-appeal. The Plaintiff seeks to reinstate the original award of punitive damages. The Company has insurance coverage for up to approximately $50.0 million in damages for this matter.

The Company is currently involved in certain other legal proceedings and, as required, has accrued its estimate of the probable costs for the resolution of these claims, inclusive of those discussed above. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company s assumptions or the effectiveness of its strategies related to these proceedings.

Note 4: RESTRUCTURING

In the third quarter of 2005, the Company restructured its operations in France. As a result, the Company recorded $26.6 million in restructuring costs as a component of selling, general and administrative expenses; $22.5 million was related to severance costs and $4.1 million was related to other costs. During the three months ended March 31, 2007, $5.0 million was paid and charged to the restructuring reserve. As of March 31, 2007, the balance was $6.1 million. The remaining restructuring accrual is comprised primarily of severance, which is expected to be paid over the next three years.

In addition to the France restructuring, the Company has a restructuring liability related to Clear Channel Communications merger with Ackerley in June 2002. At March 31, 2007, the balance for this restructuring was $1.5 million.

Note 5: COMMITMENTS AND CONTINGENCIES

Certain agreements relating to acquisitions provide for purchase price adjustments and other future contingent payments based on the financial performance of the acquired companies. The Company will continue to accrue additional amounts related to such contingent payments if and when it is determinable that the applicable financial performance targets will be met. The aggregate of these contingent payments, if performance targets are met, would not significantly impact the financial position or results of operations of the Company.

As discussed in Note 3, there are various lawsuits and claims pending against the Company. Based on current assumptions, the Company has accrued its estimate of the probable costs for the resolution of these claims. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company s assumptions or the effectiveness of its strategies related to these proceedings.

Note 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 account represents the Company s revolving promissory note with Clear Channel Communications, up to a maximum of $1.0 billion. The account accrues interest pursuant to the Master Agreement and is generally payable on demand. Included in the account is the net activity 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 by Clear Channel Communications. In return, Clear Channel Communications funds the Company s controlled disbursement accounts as checks or electronic payments are presented for payment. At March 31, 2007, the balance of $3.3 million was an asset recorded in Due from Clear Channel Communications on the consolidated balance sheet. At December 31, 2006, the balance of $4.2 million was a liability recorded in Due to Clear Channel Communications on the consolidated balance sheet. The net interest income for the three months ended March 31, 2007 and 2006 was $0.5 million and $0.3 million, respectively.

The Company has a note in the original principal amount of $2.5 billion to Clear Channel Communications which matures on August 2, 2010, and may be prepaid in whole at any time, or in part from time to time. This note accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. This note is mandatorily payable upon a change of control of us and, subject to certain exceptions, all proceeds from debt or equity raised by us must be used to prepay such note. At March 31, 2007, the interest rate on the $2.5 billion intercompany note was 6.1%.

Clear Channel Communications has a five-year, multi-currency revolving credit facility in the amount of $1.75 billion. Certain of the Company s International subsidiaries may borrow under a $150.0 million sub-limit within this credit facility to the extent Clear Channel Communications has not already borrowed against this capacity. This sub-limit allows for borrowings in various foreign currencies, which are used to hedge net assets in those currencies and provide funds to the Company s International operations for certain working capital needs. The Company s International subsidiary borrowings under this sub-limit are guaranteed by Clear Channel Communications. The interest rate is based upon LIBOR or, for Euro denominated borrowings, EURIBOR, plus a margin. At March 31, 2007, the interest rate on this bank credit facility was 5.9%. At March 31, 2007, the outstanding balance on the sub-limit was $17.7 million, and $132.3 million was available for future borrowings, with the entire balance to be paid on July 12, 2009.

The Company provides advertising space on its billboards for radio stations owned by Clear Channel Communications. For the three months ended March 31, 2007 and 2006, the Company recorded $1.9 million and $1.8 million, respectively, in revenue for these advertisements.

Under the Corporate Services Agreement entered into between Clear Channel Communications and the Company at the IPO, Clear Channel Communications provides management services to the Company, which include, among other things: (i) treasury, payroll and other financial related services; (ii) 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

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three months ended March 31, 2007 and 2006, the Company recorded $5.9 million and $5.7 million, respectively, as a component of corporate expenses for these services.

Pursuant to the Tax Matters Agreement entered into between Clear Channel Communications and the Company at the IPO, 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 options exercises are retained by the Company.

The Company computes its deferred income tax provision using the liability method in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, 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 that 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 $2.5 million and $2.3 million for the three months ended March 31, 2007 and 2006, respectively.

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Note 7: SEGMENT DATA

The Company has two reportable segments Americas and International. The Americas segment primarily includes operations in the United States, Canada and Latin America, and the International segment includes operations in Europe, Asia, Africa and Australia. Share-based payments are recorded by each segment in direct operating and selling, general and administrative expenses.

(In thousands)	Americas	International	Corporate expenses and gain on disposition of assets - net	Consolidated
Three months ended March 31, 2007				
Revenue	$ 317,023	$ 373,833	$ ¾	$ 690,856
Direct operating expenses	134,914	259,291	¾	394,205
Selling, general and administrative expenses	54,243	73,290	¾	127,533
Depreciation and amortization	46,561	49,109	¾	95,670
Corporate expenses			15,343	15,343
Gain on disposition of assets net			7,092	7,092
Operating income (loss)	$ 81,305	$ (7,857)	$ (8,251)	$ 65,197
Identifiable assets	$ 2,764,927	$ 2,391,523	$ 247,492	$ 5,403,942
Capital expenditures	$ 22,582	$ 24,671	$ ¾	$ 47,253
Share-based payments	$ 1,126	$ 241	$ 73	$ 1,440
Three months ended March 31, 2006				
Revenue	$ 274,102	$ 324,267	$ ¾	$ 598,369
Direct operating expenses	120,011	224,385	¾	344,396
Selling, general and administrative expenses	48,194	66,841	¾	115,035
Depreciation and amortization	42,232	54,088	¾	96,320
Corporate expenses			14,585	14,585
Gain on disposition of assets net			22,756	22,756
Operating income (loss)	$ 63,665	$ (21,047)	$ 8,171	$ 50,789
Identifiable assets	$ 2,517,865	$ 2,132,607	$ 274,759	$ 4,925,231
Capital expenditures	$ 14,220	$ 29,498	$ ¾	$ 43,718
Share-based payments	$ 1,157	$ 323	$ 22	$ 1,502

Revenue of $393.3 million and $342.0 million and identifiable assets of $2.7 billion and $2.3 billion derived from the Company s foreign operations are included in the data above for the three months ended March 31, 2007 and 2006, respectively.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Management s discussion and analysis, or MD&A, of our financial condition and results of operations is provided as a supplement to the unaudited interim financial statements and accompanying notes thereto to help provide an understanding of our financial condition, changes in our financial condition and results of our operations. The information included in MD&A should be read in conjunction with the annual financial statements.

Description of Business

Our revenues are derived from selling advertising space on displays owned or operated, consisting primarily of billboards, street furniture and transit displays. We own the majority of our advertising displays, which typically are located on sites that we either lease or own or for which we have acquired permanent easements. Our advertising contracts with clients typically outline the number of displays reserved, the duration of the advertising campaign and the unit price per display.

Our advertising rates are generally based on the gross rating points, or total number of impressions delivered by a display or group of displays, expressed as a percentage of a market population. The number of impressions delivered by a display is measured by the number of people passing the site during a defined period of time and, in some International markets, is weighted to account for such factors as illumination, proximity to other displays and the speed and viewing angle of approaching traffic. Management typically monitors our business by reviewing the average rates, average revenues per display, occupancy and inventory levels of each of our display types by market. In addition, because a significant portion of our advertising operations are conducted in foreign markets, principally France and the United Kingdom, management reviews the operating results from our foreign operations on a constant dollar basis. A constant dollar basis allows for comparison of operations independent of foreign exchange movements. Because revenue-sharing and minimum guaranteed payment arrangements are more prevalent in our International operations, the margins in our International operations are typically less than the margins in our Americas operations.

The significant expenses associated with our operations include (i) direct production, maintenance and installation expenses, (ii) site lease expenses for land under our displays and (iii) revenue-sharing or