CLEAR CHANNEL COMMUNICATIONS INC
Form 10-Q
November 09, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2004 Commission file number 1-9645

CLEAR CHANNEL COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Texas	**74-1787539**
(State of Incorporation)	(I.R.S. Employer Identification No.)

200 East Basse Road
San Antonio, Texas 78209
(210) 822-2828

(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 [x] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [x] No [ ]

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 November 4, 2004
Common Stock, $.10 par value	573,539,220

CLEAR CHANNEL COMMUNICATIONS, INC. AND SUBSIDIARIES

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PART I

Item 1. UNAUDITED FINANCIAL STATEMENTS

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

	September 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Current Assets		
Cash and cash equivalents	$ 230,624	$ 123,334
Restricted cash	7,809	
Accounts receivable, less allowance of $57,703 at September 30, 2004 and $56,586 December 31, 2003	1,713,336	1,703,393
Prepaid expenses	235,801	196,494
Other current assets	154,104	162,461
Total Current Assets	2,341,674	2,185,682
Property, Plant and Equipment		
Land, buildings and improvements	1,704,433	1,635,611
Structures	2,924,068	2,888,834
Towers, transmitter and studio equipment	846,182	829,488
Furniture and other equipment	743,674	694,163
Construction in progress	108,365	161,973
	6,326,722	6,210,069
Less accumulated depreciation	2,276,963	1,949,154
	4,049,759	4,260,915
Intangible Assets		
Definite-lived intangibles, net	623,514	717,181
Indefinite-lived intangibles licenses	11,875,959	11,797,742
Indefinite-lived intangibles permits	460,849	424,640
Goodwill	7,305,767	7,306,338
Other Assets		
Notes receivable	16,751	19,389
Investments in, and advances to, nonconsolidated affiliates	370,185	353,132
Other assets	409,575	361,306

Other investments	322,693	926,368
Total Assets	$ 27,776,726	$ 28,352,693

See Notes to Consolidated Financial Statements

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

	September 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Current Liabilities		
Accounts payable	$ 294,436	$ 368,434
Accrued interest	90,130	93,848
Accrued expenses	1,048,168	941,263
Accrued income taxes	112,377	1,079
Current portion of long-term debt	396,500	143,664
Deferred income	357,803	318,759
Other current liabilities	25,887	25,672
Total Current Liabilities	2,325,301	1,892,719
Long-term debt	6,851,022	6,921,348
Other long-term obligations	158,672	153,311
Deferred income taxes	3,125,699	3,049,337
Other long-term liabilities	684,086	723,676
Minority interest	62,463	58,363
Shareholders Equity		
Common stock	61,873	61,632
Additional paid-in capital	31,013,259	30,950,820
Accumulated deficit	(15,193,210)	(15,630,387)
Accumulated other comprehensive income	130,708	194,406
Other	(438)	(1,293)
Cost of shares held in treasury	(1,442,709)	(21,239)
Total shareholders equity	14,569,483	15,553,939
Total Liabilities and Shareholders Equity	$ 27,776,726	$ 28,352,693

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Revenue	$ 7,103,473	$ 6,640,838	$ 2,648,873	$ 2,544,146
Operating expenses:				
Divisional operating expenses (excludes non-cash compensation expense of $714, $1,326, $221 and $310 for the nine months ended and three months ended September 30, 2004 and 2003, respectively)	5,197,225	4,845,309	1,937,194	1,842,329
Non-cash compensation expense	2,619	3,458	786	880
Depreciation and amortization	511,062	487,324	170,150	165,882
Corporate expenses (excludes non-cash compensation expense of $1,905, $2,132, $565 and $570 for the nine months ended and three months ended September 30, 2004 and 2003, respectively)	142,590	129,288	46,645	44,050
Operating income	1,249,977	1,175,459	494,098	491,005
Interest expense	266,815	294,455	91,607	98,192
Gain (loss) on marketable securities	47,705	680,400	3,485	675,027
Equity in earnings of nonconsolidated affiliates	20,504	12,005	3,194	2,957
Other income (expense) net	(20,586)	37,304	(622)	(1,840)
Income before income taxes	1,030,785	1,610,713	408,548	1,068,957
Income tax (expense) benefit:				
Current	(296,945)	(199,377)	(44,072)	(159,051)
Deferred	(102,376)	(452,961)	(103,242)	(273,877)
Net income	631,464	958,375	261,234	636,029
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(10,168)	48,658	16,833	14,677
Unrealized gain (loss) on securities:				
Unrealized holding gain (loss) on marketable securities	11,995	53,151	19,348	(12,198)

Unrealized holding gain (loss) on cash flow derivatives	(33,012)		(16,498)	
Reclassification adjustment for (gains) losses included in net income (loss)	(32,513)	(19,408)		(17,539)
Comprehensive income	$ 567,766	$ 1,040,776	$ 280,917	$ 620,969
Net income per common share:				
Basic	$ 1.04	$ 1.56	$ .45	$ 1.03
Diluted	$ 1.04	$ 1.55	$ .44	$ 1.03
Dividends declared per share	$ .325	$ .10	$ .125	$ .10

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2004	**2003**
Cash Flows from operating activities:		
Net income	$ 631,464	$ 958,375
Reconciling Items:		
Depreciation and amortization	511,062	487,324
Deferred taxes	102,376	452,961
(Gain) loss on disposal of assets	(10,773)	(5,208)
(Gain) loss on available-for-sale securities	(48,429)	(32,128)
(Gain) loss on sale of other investments		(650,315)
(Gain) loss forward exchange contract	9,832	14,528
(Gain) loss on trading securities	(9,108)	(12,485)
Increase (decrease) accrued income and other taxes	116,306	195,436
Increase (decrease) other net	4,452	(45,742)
Changes in other operating assets and liabilities, net of effects of acquisitions	(8,245)	(24,010)
Net cash provided by operating activities	1,298,937	1,338,736
Cash flows from investing activities:		
(Investment in) liquidation of restricted cash, net	(7,809)	
Decrease (increase) in notes receivable net	2,088	2,356
Decrease (increase) in investments in and advances to nonconsolidated affiliates net	2,015	11,654
Purchases of investments	(1,287)	(5,205)
Proceeds from sale of investments	627,505	344,206
Purchases of property, plant and equipment	(242,659)	(231,169)
Proceeds from disposal of assets	25,968	12,869
Proceeds from divestitures placed in restricted cash	47,838	
Acquisition of operating assets	(137,919)	(55,355)
Acquisition of operating assets with restricted cash	(39,857)	
Decrease (increase) in other net	(25,192)	(20,083)
Net cash provided by investing activities	250,691	59,273
Cash flows from financing activities:		
Draws on credit facilities	3,691,149	2,201,847
Payments on credit facilities	(3,681,265)	(3,632,060)
Proceeds from long-term debt	753,545	1,997,817

Payments on long-term debt	(617,101)	(2,049,737)
Payments for purchase of treasury shares	(1,428,103)	
Proceeds from forward exchange contract		83,519
Proceeds from exercise of stock options, stock purchase plan and common stock warrants	22,889	41,953
Dividends paid	(183,452)	
Net cash used in financing activities	(1,442,338)	(1,356,661)
Net increase in cash and cash equivalents	107,290	41,348
Cash and cash equivalents at beginning of period	123,334	170,086
Cash and cash equivalents at end of period	$ 230,624	$ 211,434

See Notes to Consolidated Financial Statements

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CLEAR CHANNEL COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Preparation of Interim Financial Statements

The consolidated financial statements have been prepared by Clear Channel Communications, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and generally accepted accounting principles in the United States for interim financial information 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 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 2003 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company and its subsidiaries, the majority of which are wholly-owned. Investments in companies in which the Company owns 20 percent to 50 percent of the voting common stock or otherwise exercises significant influence over operating and financial policies of the company are accounted for under the equity method. All significant intercompany transactions are eliminated in the consolidation process. Certain reclassifications have been made to the 2003 consolidated financial statements to conform to the 2004 presentation.

Stock-Based Compensation

The Company accounts for its stock-based award plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, under which compensation expense is recorded to the extent that the market price on the grant date of the underlying stock exceeds the exercise price. The required pro forma net income and pro forma earnings per share as if the stock-based awards had been accounted for using the provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, are as follows:

	Nine Months Ended September 30,		**Three Months Ended September 30,**	
(In thousands, except per share data)	**2004**	**2003**	**2004**	**2003**
Net income				
Reported	$ 631,464	$ 958,375	$ 261,234	$ 636,029
Pro forma stock compensation expense, net of tax	(58,213)	(34,264)	(20,628)	(10,299)
Pro Forma	$ 573,251	$ 924,111	$ 240,606	$ 625,730

Net income per common share								
Basic:								
Reported	$	1.04	$	1.56	$	.45	$	1.03
Pro Forma	$	.95	$	1.50	$	.41	$	1.02
Diluted:								
Reported	$	1.04	$	1.55	$	.44	$	1.03
Pro Forma	$	.94	$	1.49	$	.41	$	1.01

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions for 2004 and 2003:

	2004	**2003**
Risk-free interest rate	2.21% - 4.30%	2.91% - 3.81%
Dividend yield	.90% - 1.46%	0% - 1.01%
Volatility factors	42% - 50%	43% - 47%
Expected life in years	3.0 - 7.5	5.0 - 7.5

Recent Accounting Pronouncements

On January 1, 2004, the Company adopted Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). The Interpretation addresses consolidation of business enterprises of variable interest. The adoption of FIN 46 did not have a material impact on the Company s financial position or results of operations.

Note 2: INTANGIBLE ASSETS AND GOODWILL

Definite-lived Intangibles

The Company has definite-lived intangible assets recorded that are amortized in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (Statement 142). These assets consist primarily of transit and street furniture contracts and other contractual rights in the outdoor segment, talent and program rights contracts in the radio segment, and, in the Company s other segment, representation contracts for non-affiliated television and radio stations, all of which are amortized over the respective lives of the agreements. 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 September 30, 2004 and December 31, 2003:

	September 30, 2004		**December 31, 2003**	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Transit, street furniture, and other outdoor contractual rights	$ 649,797	$328,792	$ 655,775	$289,821
Talent contracts	202,161	149,948	202,161	132,421
Representation contracts	246,996	86,046	238,951	62,678
Other	213,458	124,112	213,506	108,292
Total	$1,312,412	$688,898	$1,310,393	$593,212

Total amortization expense from definite-lived intangible assets for the three and nine months ended September 30, 2004 and for the year ended December 31, 2003 was $33.6 million, $101.3 million and $138.2 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)	
2005	$116,775
2006	95,373
2007	65,738

2008	52,815
2009	45,488

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 FCC broadcast licenses and billboard permits. FCC broadcast licenses are granted to both radio and television stations for up to eight years under the Telecommunications Act of 1996. The Act requires the FCC to renew a broadcast license if: it finds that the station has served the public interest, convenience and necessity; there have been no serious violations of either the Communications Act of 1934 or the FCC s rules and regulations by the licensee; and there have been no other serious violations which taken together constitute a pattern of abuse. The licenses may be renewed indefinitely at little or no cost. The Company does not believe that the technology of wireless broadcasting will be replaced in the foreseeable future. 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 30 years and typically have been renewed indefinitely, with rental payments generally escalating at an inflation based index. Should the Company lose its lease, the Company will typically obtain permission to relocate the permit or bank it with the municipality for future use.

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In accordance with Statement 142, the Company does not amortize its FCC broadcast licenses or billboard permits. The Company tests these indefinite-lived intangible assets for impairment at least annually. The Company generally uses an income approach to value FCC licenses and billboard permits, which involves estimating future cash flows expected to be generated from the licenses or billboard permits, discounted to their present value using a risk-adjusted discount rate. Terminal values are also estimated and discounted to their present value. The Company performed impairment tests at October 1, 2003 and 2002, which resulted in no impairment charge.

Goodwill

Statement 142 requires the Company to test 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 Company completed the two-step impairment test at October 1, 2003 and 2002, which resulted in no impairment charge. Consistent with the Company s approach to fair valuing FCC licenses and billboard permits, an income approach was used to determine the fair value of each of the Company s reporting units. The following table presents the changes in the carrying amount of goodwill in each of the Company s reportable segments for the nine-month period ended September 30, 2004:

(In thousands)	**Radio Broadcasting**	**Outdoor Advertising**	**Live Entertainment**	**Other**	**Total**
Balance as of December 31, 2003	$6,419,191	$710,815	$147,590	$28,742	$7,306,338
Acquisitions	8,162	24,095	11,014	327	43,598
Foreign currency		(3,194)	(2,730)		(5,924)
Adjustments	(32,585)	1,711	(7,310)	(61)	(38,245)
Balance as of September 30, 2004	$6,394,768	$733,427	$148,564	$29,008	$7,305,767

Note 3: DERIVATIVE INSTRUMENTS

The Company holds a net purchased option (the collar) under a secured forward exchange contract that limits its exposure to and benefit from price fluctuations in XM Satellite Radio Holding, Inc. (XMSR) over the term of the contract. The collar is accounted for as a hedge of the forecasted sale of the underlying shares. At September 30, 2004 and December 31, 2003, the fair value of the collar was a liability of $155.2 million and $101.7 million, respectively. The amount recorded in other comprehensive income, net of tax, related to the collar was $96.5 million and $63.5 million as of September 30, 2004 and December 31, 2003, respectively.

The Company also holds options under two secured forward exchange contracts that limit its exposure to and benefit from price fluctuations in American Tower Corporation (AMT) over the terms of the contracts. These options are not designated as hedges of the underlying shares of AMT. The AMT contracts had a value of $37.4 million and $47.3 million at September 30, 2004 and December 31, 2003, respectively. For the nine months ended September 30, 2004 and the year ended December 31, 2003, the Company recognized losses of $9.8 million and $17.1 million, respectively, in Gain (loss) on marketable securities related to the change in fair value of the options.

On February 25, 2004, the Company entered into a United States dollar Euro cross currency swap with a Euro notional amount of 497.0 million and a corresponding U.S. dollar notional amount of $629.0 million. The swap requires the Company to make fixed cash payments on the Euro notional amount while it receives fixed cash

payments on the equivalent U.S. dollar notional amount, all on a semiannual basis. The Company has designated the swap as a hedge of its net investment in Euro denominated assets. The Company selected the forward method under the guidance of the Derivatives Implementation Group Statement 133 Implementation Issue H8, *Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge*. The forward method requires all changes in the fair value of the cross currency swap and the semiannual cash payments to be reported as a cumulative translation adjustment in other comprehensive income in the same manner as the underlying hedged net assets. As of September 30, 2004, a $2.9 million loss was recorded as a cumulative translation adjustment to other comprehensive income related to the cross currency swap.

Note 4: RECENT DEVELOPMENTS

Share Repurchase Programs

On March 30, 2004, and then again on July 21, 2004, the Company s Board of Directors authorized share repurchase programs each up to $1.0 billion effective immediately. The March 30, 2004 program was completed at August 2, 2004 upon the repurchase of $1.0 billion of the Company s shares. The share repurchase program approved on July 21, 2004 will expire one year from the date of

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authorization, although prior to such time the program may be discontinued or suspended at any time. As of September 30, 2004, 38.8 million shares have been repurchased for an aggregate cost of $1.4 billion, including commissions and fees. As of September 30, 2004, $571.9 million remains available under the second authorized share repurchase program.

Recent Legal Proceedings

At the Senate Judiciary Committee hearing on July 24, 2003, an Assistant United States Attorney General announced that the Department of Justice (the DOJ), is pursuing two separate antitrust inquiries concerning the Company. One inquiry is whether the Company has violated antitrust laws in one of its radio markets. The other is whether the Company has limited airplay of artists who do not use its concert services in violation of antitrust laws. The Company is cooperating fully with all DOJ requests.

On September 9, 2003, the Assistant United States Attorney for the Eastern District of Missouri caused a Subpoena to Testify before Grand Jury to be issued to the Company. The Subpoena requires the Company to produce certain information regarding commercial advertising run by it on behalf of offshore and/or online (Internet) gambling businesses, including sports bookmaking and casino-style gambling. The Company is cooperating with such requirements.

The Company was among the defendants in a lawsuit filed on June 12, 2002 in the United States District Court for the Southern District of Florida by Spanish Broadcasting System. The plaintiffs alleged that the Company was in violation of Section One and Section Two of the Sherman Antitrust Act as well as various other claims, such as unfair trade practices and defamation, among other counts. This case was dismissed with prejudice on January 31, 2003. The plaintiffs filed an appeal with the 11th Circuit Court of Appeals. On June 30, 2004, the 11th Circuit Court of Appeals upheld the dismissal. SBS had the opportunity to seek review by the Supreme Court of the United States on or before September 28, 2004. The Company has received no notice of an appeal filed by SBS to the Supreme Court.

The Company is currently involved in certain legal proceedings and, as required, has accrued its estimate of the probable costs for the resolution of these claims. 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 5: RESTRUCTURING

As a result of the Company s merger with The Ackerley Group, Inc. (Ackerley) in June 2002, the Company recorded a $40.0 million accrual related to the restructuring of Ackerley s operations. Of the $40.0 million, $19.0 million is related to severance and $21.0 million is related to lease terminations. The Ackerley corporate office closed in July 2002. At September 30, 2004, the accrual balance for the Ackerley restructuring was $22.5 million. Also, in connection with the Company s mergers in 2000 with SFX Entertainment, Inc. (SFX) and AMFM Inc. (AMFM), the Company restructured the SFX and AMFM operations. As of September 30, 2004, the accrual balance for the AMFM and SFX restructuring was $32.6 million. All restructuring has resulted in the actual termination of approximately 800 employees. The Company has recorded a liability in purchase accounting for Ackerley, SFX and AMFM, primarily related to severance for terminated employees and lease terminations as follows:

(In thousands)	**Nine Months Ended**	**Year Ended**

	September 30, 2004	December 31, 2003
Severance and lease termination costs:		
Accrual at January 1	$ 57,140	$ 73,573
Adjustments to restructuring accrual		
Payments charged against restructuring accrual	(1,963)	(16,433)
Ending balance of severance and lease termination accrual	$ 55,177	$ 57,140

The remaining severance and lease accrual is comprised of $38.7 million of severance and $16.5 million of lease termination. The severance accrual includes amounts that will be paid over the next several years related to deferred payments to former employees as well as other compensation. The lease termination accrual will be paid over the next five years. During the first nine months of 2004, $.5 million was paid and charged to the restructuring reserve related to severance. The Company made adjustments to finalize the purchase price allocation for both the AMFM and SFX mergers during 2001 and the purchase price allocation related to the Ackerley merger was finalized in 2003. All adjustments have been made, and any future potential excess reserves will be recorded as an adjustment to the purchase price.

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In addition to the restructuring described above, the Company restructured its outdoor advertising operations in France during the second quarter of 2003. As a result, the Company has recorded a $13.8 million accrual in divisional operating expenses. Of the $13.8 million, $12.5 million was related to severance and $1.3 million was related to lease terminations and consulting costs. As of September 30, 2004, this accrual balance was $1.1 million. It is expected that this accrual will be paid over the next year. This restructuring resulted in the termination of 134 employees.

Note 6: 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.

In addition to the legal proceedings discussed in Note 4, 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. Future results of operations could be materially affected by changes in these assumptions.

Note 7: GUARANTEES

As of September 30, 2004, the Company guaranteed third party debt of approximately $13.7 million. The guarantees arose primarily in 2000 in conjunction with the Company entering into long-term contracts with third parties. The operating assets associated with these contracts secure the debt that the Company has guaranteed. Only to the extent that the assets are either sold by the third-party for less than the guaranteed amount or the third party is unable to service the debt will the Company be required to make a cash payment under the guarantee. As of September 30, 2004, it is not probable that the Company will be required to make a payment under these guarantees. Thus, as of September 30, 2004, the guarantees associated with long-term operating contracts are not recorded on the Company s financial statements. These guarantees are included in the Company s calculation of its leverage ratio covenant under the bank credit facilities.

Within the Company s $1.75 billion credit facility, there exists a $150.0 million sub-limit available to certain of the Company s international subsidiaries. This $150.0 million sub-limit allows for borrowings in various foreign currencies, which are used to hedge net assets in those currencies and provides funds to the Company s international operations for certain working capital needs. Subsidiary borrowings under this sub-limit are guaranteed by the Company. At September 30, 2004, this portion of the $1.75 billion credit facility s outstanding balance was $42.0 million. At September 30, 2004, this outstanding balance is recorded in Long-term debt on the Company s financial statements.

AMFM Operating Inc., an indirect wholly-owned subsidiary of the Company, has guaranteed a portion of the Company s reducing revolving credit facility with an outstanding balance at September 30, 2004 of $85.0 million. At September 30, 2004, the contingent liability under this guarantee was $1.0 billion. At September 30, 2004, this outstanding balance is recorded in Long-term debt on the Company s financial statements.

Within the Company s bank credit facilities agreements is a provision that requires the Company to reimburse lenders for any increased costs that they may incur in an event of a change in law, rule or regulation resulting in their reduced returns from any change in capital requirements. In addition to not being able to estimate the potential amount of any future payment under this provision, the Company is not able to predict if such event will ever occur.

The Company currently has guarantees that provide protection to its international subsidiaries banking institutions related to overdraft lines and credit card charge-back transactions up to approximately $66.2 million. As of September 30, 2004, no amounts were outstanding under these agreements.

As of September 30, 2004, the Company has outstanding commercial standby letters of credit and surety bonds of $166.3 million and $39.3 million, respectively, that primarily expire during 2005. These letters of credit and surety bonds relate to various operational matters including insurance, bid and performance bonds as well as other items. These letters of credit are included in the Company s calculation of its leverage ratio covenant under the bank credit facilities. The surety bonds are not considered borrowings under the Company s bank credit facilities.

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Note 8: OTHER

Capital Market Transactions

On February 25, 2004, the Company redeemed 454.4 million of its 6.5% senior notes due July 7, 2005, for 477.7 million plus accrued interest. As a result of this redemption, the Company recorded a pre-tax loss of $31.6 million on the early extinguishment of debt. After this redemption, 195.6 million of the 6.5% senior notes remain outstanding.

On July 13, 2004, the Company entered into a new five-year, multi-currency revolving credit facility in the amount of $1.75 billion. The facility can be used for general working capital purposes including commercial paper support as well as to fund capital expenditures, share repurchases, acquisitions and the refinancing of public debt securities. The Company s existing $1.5 billion five-year multi-currency revolving credit facility was repaid in its entirety and terminated at the same time the new facility was entered into.

On September 15, the Company completed a debt offering of $750.0 million 5.5% notes due September 15, 2014. Interest is payable on March 15 and September 15. The aggregate net proceeds of approximately $743.1 million were used to repay borrowings outstanding under our reducing revolving credit facility and for general corporate purposes.

Marketable Security Transaction

During the first nine months of 2004, the Company received $627.5 million of proceeds primarily related to the sale of its remaining investment in Univision Communications, Inc. As a result, the Company recorded a gain of $48.4 million in Gain (loss) on marketable securities .

Sale of Operating Assets

During the first nine months of 2004, the Company recorded a gain of $20.3 million on the sale of radio assets and a loss of $11.7 million on the sale of entertainment assets.

Income Taxes

The Company s current tax expense for the three months ended September 30, 2004 includes a benefit of $18.1 million related to the reversal of an accrual associated with the resolution of a tax issue. The benefit resulted in an effective tax rate of 36.1% for the three months ended September 30, 2004. The Company s effective tax rate for the three months ended September 30, 2003 was 40.5%.

Note 9: SEGMENT DATA

The Company has three reportable segments, which it believes best reflects how the Company is currently managed radio broadcasting, outdoor advertising and live entertainment. The category other includes television broadcasting, sports representation and media representation. Revenue and expenses earned and charged between segments are recorded at fair value and eliminated in consolidation.

(In thousands)	**Radio Broadcasting**	**Outdoor Advertising**	**Live Entertainment**	**Other**	**Corporate**	**Eliminations**	**Consolidated**
Nine Months Ended September 30, 2004							

Revenue	$ 2,789,834	$ 1,761,308	$ 2,223,114	$ 429,591	$	$ (100,374)	$ 7,103,473
Divisional operating expenses	1,603,276	1,277,110	2,069,432	347,781		(100,374)	5,197,225
Non-cash compensation	714				1,905		2,619
Depreciation and amortization	113,653	288,810	45,577	47,358	15,664		511,062
Corporate expenses					142,590		142,590
Operating income (loss)	$ 1,072,191	$ 195,388	$ 108,105	$ 34,452	$ (160,159)	$	$ 1,249,977
Intersegment revenues	$ 43,221	$ 9,701	$ 497	$ 46,955	$	$	$ 100,374
Identifiable assets	$ 19,740,902	$ 4,804,175	$ 1,506,654	$ 1,425,597	$ 299,398	$	$ 27,776,726
Capital expenditures	$ 44,976	$ 116,507	$ 62,008	$ 18,393	$ 775	$	$ 242,659

(In thousands)	Radio Broadcasting	Outdoor Advertising	Live Entertainment	Other	Corporate	Eliminations	Consolidated
Three Months Ended September 30, 2004							
Revenue	$ 960,066	$ 600,166	$ 974,675	$ 147,313	$	$ (33,347)	$ 2,648,873
Divisional operating expenses	538,179	431,383	883,645	117,334		(33,347)	1,937,194
Non-cash compensation	221				565		786
Depreciation and amortization	37,887	96,254	15,134	15,774	5,101		170,150
Corporate expenses					46,645		46,645
Operating income (loss)	$ 383,779	$ 72,529	$ 75,896	$ 14,205	$ (52,311)	$	$ 494,098
Intersegment revenues	$ 14,181	$ 2,446	$ 30	$ 16,690	$	$	$ 33,347
Nine Months Ended September 30, 2003							
Revenue	$ 2,729,234	$1,559,791	$ 2,050,015	$ 403,961	$	$ (102,163)	$ 6,640,838
Divisional operating expenses	1,568,487	1,170,047	1,879,818	329,120		(102,163)	4,845,309
Non-cash compensation	1,326				2,132		3,458
Depreciation and amortization	114,525	272,306	44,659	38,470	17,364		487,324
Corporate expenses					129,288		129,288
Operating income (loss)	$ 1,044,896	$ 117,438	$ 125,538	$ 36,371	$ (148,784)	$	$ 1,175,459
Intersegment revenues	$ 41,011	$ 12,596	$ 2,732	$ 45,824	$	$	$ 102,163
Identifiable assets	$19,789,121	$4,784,424	$ 1,377,791	$1,762,611	$ 451,429	$	$28,165,376
Capital expenditures	$ 39,214	$ 127,863	$ 48,234	$ 12,997	$ 2,861	$	$ 231,169
Three Months Ended September 30, 2003							
Revenue	$ 963,635	$ 540,089	$ 936,213	$ 139,238	$	$ (35,029)	$ 2,544,146

Divisional operating expenses	536,495	391,004	839,402	110,457		(35,029)	1,842,329
Non-cash compensation	310				570		880
Depreciation and amortization	38,449	93,869	14,914	13,394	5,256		165,882
Corporate expenses					44,050		44,050
Operating income (loss)	$ 388,381	$ 55,216	$ 81,897	$ 15,387	$ (49,876)	$	$ 491,005
Intersegment revenues	$ 13,978	$ 3,019	$ 1,537	$ 16,495	$	$	$ 35,029

Net revenue of $1.6 billion and $579.2 million for the nine and three months ended September 30, 2004, respectively, and $1.3 billion and $486.7 million for the nine and three months ended September 30, 2003, respectively, and identifiable assets of $2.5 billion and $2.4 billion as of September 30, 2004 and 2003, respectively, are included in the data above and are derived from the Company s foreign operations.

Note 10: SUBSEQUENT EVENTS

On October 20, 2004, the Company s Board of Directors declared a quarterly cash dividend of $0.125 per share on the Company s Common Stock. The dividend is payable on January 15, 2005 to shareholders of record at the close of business on December 31, 2004.

From October 1, 2004 through November 4, 2004, 6.2 million shares had been repurchased for an aggregate purchase price of $191.4 million, including commission and fees. At November 4, 2004, there was $380.5 million remaining available for repurchase through the Company s repurchase program.

On November 4, 2004, the Company retired 45.0 million of its shares held in treasury, which were valued at $1.6 billion.

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

Overview

Management s discussion and analysis of our results of operations and financial condition should be read in conjunction with the consolidated financial statements and related footnotes. Our discussion is presented on both a consolidated and segment basis. Our reportable operating segments are Radio Broadcasting, which includes our national syndication business, Outdoor Advertising and Live Entertainment. Included in the other segment are television broadcasting, sports representation and our media representation business, Katz Media.

We manage our operating segments primarily on their operating income. Therefore, our discussion of the results of operations of our operating segments focuses on their operating income. Corporate expenses, Interest expense, Gain (loss) on sale of marketable securities, Equity in earnings of nonconsolidated affiliates, Other income (expense) net, and Income tax benefit (expense) are managed on a total company basis and are, therefore, reflected only in our discussion of consolidated results.

Radio Broadcasting

Our local radio markets are run predominantly by local management teams who control the formats selected for their programming. The formats are designed to reach audiences with targeted demographic characteristics that appeal to our advertisers. Our advertising rates are principally based on how many people in a targeted audience are listening to our stations, as measured by an independent ratings service. The size of the market influences rates as well, with larger markets typically receiving higher rates than smaller markets. Also, our advertising rates are influenced by the time of day the advertisement airs, with morning and evening drive-time hours typically the highest. We sell a certain number of radio advertising spots per hour to our advertisers. Radio advertising contracts are typically less than one year.

Due to the geographic diversity and autonomy of our markets, we have a multitude of market specific advertising rates and audience demographics. Therefore, our discussion of the results of operations of our radio broadcasting segment focuses on the macro level indicators that management monitors to assess our radio segment s financial condition and results of operations.

Management looks at our radio operations overall revenues as one of its main performance metrics. Management also looks at local advertising, which is sold predominately in a station s local market, and national advertising, which is sold across multiple markets. Local advertising is sold by our local radio stations sales staff while national advertising is sold, for the most part, through our national representation firm.

Local and national advertising revenues are tracked separately because these revenue streams have different sales forces, respond differently to changes in the economic environment and because local advertising is the primary driver of our radio revenues. During the third quarter of 2004, growth in our local advertising revenue outpaced the growth in our national advertising revenue.

Management also looks at radio revenue by market size, as defined by Arbitron. Typically, larger markets can reach bigger audiences with wider demographics than smaller markets. Over half of our radio revenue and divisional operating expenses comes from our 50 largest markets.

Additionally, management reviews our share of listeners in target demographics listening to the radio in an average quarter hour. This metric gauges how well our formats are doing attracting and keeping listeners.

A significant portion of our radio segment s expenses vary in connection with changes in revenue. These variable expenses primarily relate to costs in our sales department, such as salaries, commissions, and bad debt. Our programming and general and administrative departments incur most of our fixed costs, such as talent costs, rights fees, utilities and office salaries. Lastly, our highly discretionary costs are in our marketing and promotions department, which we primarily incur to maintain and/or increase our audience and market share.

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Outdoor Advertising

Our outdoor advertising revenues are generated from selling advertisements on our display faces, which include bulletins, posters and transit displays as well as street furniture panels. Our advertising rates are based on a particular display s impressions in relation to the demographics of a particular market and its location within a market. Our outdoor advertising contracts are typically based on the number of months or weeks the advertisement is displayed.

To monitor the health of our outdoor business, management reviews average rates, average occupancy and inventory levels of each of our display faces by market. In addition, because a significant portion of our outdoor advertising is conducted in foreign markets, principally Europe, management looks at revenues from our foreign operations on a constant dollar basis. A constant dollar basis allows for comparison of operations independent of foreign exchange movements. Our outdoor advertising revenue and divisional operating expenses increased in the third quarter of 2004 as compared to the third quarter of 2003 by approximately $26.1 million and $22.8 million, respectively, as a result of fluctuations in foreign currency exchange rates.

Our significant outdoor expenses include production expenses, revenue sharing or minimum guarantees on our transit and street furniture contracts and site lease expenses, primarily for land under our advertising displays. Our site lease terms vary from monthly to yearly, can be for terms of 20 years or longer and typically provide for renewal options. Our street furniture contracts are usually won in a competitive bid and generally have terms of between 10 and 20 years.

Live Entertainment

We derive live entertainment revenues primarily from promoting or producing music and theater events. Revenues from these events are mainly from ticket sales, rental income, corporate sponsorships, concessions and merchandise. We typically receive either all the ticket sales or just a fixed fee for each event we host. We also receive fees representing a percentage of total concession sales from vendors and total merchandise sales from the performer or tour producer.

We generally receive higher music profits when an event is at a venue we own rather than a venue we rent. The higher music profits are due to our ability to share in a percentage of the revenues received from concession and merchandise sales as well as the opportunity to sell sponsorships for venue naming rights and signage.

To judge the health of our music business, management monitors the number of shows, average paid attendance, talent cost as a percent of revenue, sponsorship dollars and ticket revenues. In addition, because a significant portion of our live entertainment business is conducted in foreign markets, management looks at revenues from our foreign operations on a constant dollar basis. A constant dollar basis allows for comparison of operations independent of foreign exchange movements. Our live entertainment revenue and divisional operating expenses increased in the third quarter of 2004 as compared to the third quarter of 2003 by approximately $23.8 million and $21.9 million, respectively, as a result of fluctuations in foreign currency exchange rates.

The primary expense driver for live entertainment is talent cost. Talent cost is the amount we pay to a musical artist or theatrical production to perform at an event. This is a negotiated amount primarily driven by what the artist or production requires to cover their direct costs and the value of their time. These fees are typically agreed to at a set minimum amount with the potential for additional profit sharing if the event exceeds set revenue targets.

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The comparison of Three and Nine Months Ended September 30, 2004 to Three and Nine Months Ended September 30, 2003 is as follows:

Consolidated

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	**2004**	**2003**	**% Change**	**2004**	**2003**	**% Change**
Revenue	$2,648,873	$2,544,146	4%	$7,103,473	$6,640,838	7%
Operating expenses:						
Divisional operating expenses (excludes non-cash compensation expenses of $221, $310, $714 and $1,326, for the three and nine months ended September 30, 2004 and 2003, respectively)	1,937,194	1,842,329	5%	5,197,225	4,845,309	7%
Non-cash compensation expense	786	880	(11%)	2,619	3,458	(24%)
Depreciation and amortization	170,150	165,882	3%	511,062	487,324	5%
Corporate expenses (excludes non-cash compensation expenses of $565, $570, $1,905 and $2,132 for the three and nine months ended September 30, 2004 and 2003, respectively)	46,645	44,050	6%	142,590	129,288	10%
Operating income	494,098	491,005	1%	1,249,977	1,175,459	6%
Interest expense	91,607	98,192		266,815	294,455	
Gain (loss) on marketable securities	3,485	675,027		47,705	680,400	
Equity in earnings of nonconsolidated affiliates	3,194	2,957		20,504	12,005	
Other income (expense) net	(622)	(1,840)		(20,586)	37,304	
Income before income taxes	408,548	1,068,957		1,030,785	1,610,713	
Income tax (expense) benefit:						
Current	(44,072)	(159,051)		(296,945)	(199,377)	
Deferred	(103,242)	(273,877)		(102,376)	(452,961)	
Net income	$ 261,234	$ 636,029		$ 631,464	$ 958,375	

Consolidated Revenue

Three Months

Revenue increased $104.7 million for the three months ended September 30, 2004 as compared to the same quarter of 2003. Outdoor and live entertainment s contributions to the increase were $60.1 million and $38.5 million, respectively, which was partially offset by a decrease of $3.6 million in radio. Outdoor s revenue growth was driven by improvements in bulletin and poster revenues, as well as international street furniture revenues. Live entertainment s revenue grew as a result of an increase in ticket revenues, while the decrease in radio s revenue was primarily due to a decline in national advertising, partially offset by improved local advertising. Included in the revenue increase was approximately $49.9 million resulting from fluctuations in foreign exchange rates.

Nine Months

Revenue increased $462.6 million for the nine months ended September 30, 2004 as compared to the same period of 2003. Outdoor, live entertainment and radio s contributions to the increase were $201.5 million, $173.1 million and $60.6 million, respectively. Outdoor s revenue grew due to improvements in bulletin and poster revenues, as well as international billboards and street furniture revenues and the consolidation of a joint venture in Australia during the second quarter of 2003, which had previously been accounted for under the equity method. Live entertainment s revenue growth again was driven by an increase in ticket revenues, while radio s growth was driven predominantly from local advertising, offset by a slight decrease in national advertising. Included in the revenue increase was approximately $148.7 million resulting from fluctuations in foreign exchange rates.

Consolidated Divisional Operating Expenses

Three Months

Divisional operating expenses increased $94.9 million for the three months ended September 30, 2004 as compared to the same period of 2003. Live entertainment contributed $44.2 million to the increase mainly from higher artist costs associated with guaranteed artist payments as well as higher production costs. Outdoor contributed $40.4 million to the increase from higher site lease expenses and radio contributed $1.7 million to the increase principally from increased promotional expenses. Included in the divisional operating expenses increase was approximately $44.7 million from fluctuations in foreign exchange rates.

Nine Months

Divisional operating expenses increased $351.9 million for the nine months ended September 30, 2004 as compared to the same period of 2003. Live entertainment contributed $189.6 million to the increase which, like the third quarter, was mainly from increased artist costs associated with guaranteed artist payments as well as higher production costs. Outdoor contributed $107.1 million to the increase from higher site lease expenses and the consolidation of an investment that had previously been accounted for under the equity method and radio contributed $34.8 million to the increase principally from increased programming and promotional expenses. Included in the divisional operating expenses increase was approximately $131.2 million from fluctuations in foreign exchange rates.

Depreciation and Amortization

Depreciation and amortization expense increased $4.3 million and $23.7 million for the three and nine months ended September 30, 2004, respectively, as compared to the same periods of 2003. The increases were primarily attributable to fluctuations in foreign exchange rates in our outdoor advertising segment of $3.8 million and $11.8 million for the third quarter and year to date of 2004, respectively, compared to the same periods of 2003. Additionally, we recorded impairments of approximately $3.0 million on some of our billboards as a result of the hurricanes that swept through Florida and the Gulf Coast during the third quarter of 2004.

Corporate Expenses

Corporate expenses increased $2.6 million and $13.3 million for the three and nine months ended September 30, 2004, respectively, as compared to the same periods of 2003. The increase was primarily the result of additional outside professional services.

Interest Expense

Interest expense decreased $6.6 million and $27.6 million for the three and nine months ended September 30, 2004, respectively, as compared to the same periods of 2003. The decreases were primarily attributable to lower average debt outstanding throughout the three and nine months ended September 30, 2004 as compared to the same periods of 2003. Our debt balances at each balance sheet date in 2004 as compared to 2003 were:

(In millions)	**2004**	**2003**
March 31,	6,285.1	8,634.1
June 30,	6,676.6	7,973.9
September 30,	7,247.5	7,327.9

Gain (loss) on Marketable Securities

Gain (loss) on marketable securities decreased $671.5 million for the three months ended September 30, 2004 as compared to the same period of 2003. The gain on marketable securities during the third quarter of 2003 related primarily to a $657.3 million gain recorded on the exchange of our Hispanic Broadcasting Corporation shares for Univision Communications Inc. shares as a result of the merger between Hispanic and Univision. The $3.5 million recorded in the third quarter of 2004 relates to changes in the fair value of certain investment securities that are classified as trading and a related secured forward exchange contract associated with those securities.

Gain (loss) on marketable securities decreased $632.7 million for the nine months ended September 30, 2004 compared to the same period of 2003. The decrease is primarily related to the gain recognized during 2003 on the Hispanic and Univision merger, partially offset by a $47.0 million gain recorded during the first quarter of 2004 on the sale of our remaining investment in the common stock of Univision Communications Inc.

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Equity in Earnings of Nonconsolidated Affiliates

Equity in earnings of nonconsolidated affiliates increased $.2 million for the three months ended September 30, 2004 as compared to the same period of 2003. The increase was primarily the result of an increase of $4.3 million in our international outdoor equity investments, partially offset by decreases of $4.1 million in our international radio and entertainment equity investments.

Equity in earnings of nonconsolidated affiliates increased $8.5 million for the nine months ended September 30, 2004 compared to the same period of 2003. The increase was primarily the result of an $11.0 million increase in our international outdoor equity investments, a $3.3 million increase in our Australian and New Zealand radio investments, and a $2.2 million increase in our live entertainment equity investments, all of which were partially offset by a decline of $8.0 million from our Mexican radio equity investment.

Other Income (Expense) Net

Other income (expense) net increased $1.2 million during the third quarter of 2004 as compared to the same period of 2003. The growth was principally the result of gains recognized in the third quarter of 2004 on asset divestitures.

Other income (expense) net decreased $57.9 million during the nine months ended September 30, 2004 as compared to the same period of 2003. The principal components of other income (expense) were:

	Nine Months Ended September 30,	
(In millions)	**2004**	**2003**
Gain (loss) on early extinguishment of debt	$ (31.6)	$ 41.3
Gain (loss) on sale of radio operating assets	20.3	(7.6)
Gain (loss) on sale of entertainment operating assets	(11.7)	.3
Other, net	2.4	3.3
Other income (expense) net	$ (20.6)	$ 37.3

Income Tax Benefit (Expense)

For the three months ended September 30, 2004 current tax expense decreased $115.0 million as compared to the three months ended September 30, 2003. The decrease related to a $105.6 million current tax expense recognized in the third quarter of 2003 on the sale of a portion of our Univision investment. In addition, during the three months ended September 30, 2004, current tax expense was reduced by $18.1 million related to the reversal of an accrual associated with a tax issue that was resolved. As a result, our effective tax rate for the third quarter of 2004 was 36.1% as compared to 40.5% during the third quarter of 2003. For the nine months ended September 30, 2004, current tax expense increased $97.6 million as compared to the nine months ended September 30, 2003 primarily due to the sale of our remaining investment in Univision, partially offset by a tax loss on our early extinguishment of debt, both in the first quarter of 2004. This increase was partially offset by the $18.1 million accrual reversal previously discussed. For

the nine months ended September 30, 2004, the effective tax rate was 38.7% compared to 40.5% for the same period of 2003.

Deferred tax expense for the three months ended September 30, 2004 decreased $170.6 million as compared to the same period of 2003 primarily due to $158.0 million recorded in the third quarter of 2003 related to the conversion of our Hispanic shares to Univision shares. Deferred tax expense decreased from $453.0 million for the nine months ended September 30, 2003 to a deferred tax expense of $102.4 million for the nine months ended September 30, 2004 primarily due to the sale of our remaining investment in Univision in the first quarter of 2004.

Segment Revenue and Divisional Operating Expenses

Radio Broadcasting

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	**2004**	**2003**	**% Change**	**2004**	**2003**	**% Change**
Revenue	$ 960,066	$ 963,635	(0%)	$ 2,789,834	$ 2,729,234	2%
Divisional operating expenses	538,179	536,495	0%	1,603,276	1,568,487	2%
Non-cash compensation	221	310	(29%)	714	1,326	(46%)
Depreciation and amortization	37,887	38,449	(1%)	113,653	114,525	(1%)
Operating income	$ 383,779	$ 388,381	(1%)	$ 1,072,191	$ 1,044,896	3%

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Three Months

Our radio broadcasting revenue decreased $3.6 million to $960.1 million during the three months ended September 30, 2004 as compared to the same quarter of 2003. The decrease in revenue was lead by a decline in national advertising, partially offset by increases in local advertising, as well as traffic reporting and syndicated network programming revenues. The decline in national revenue was primarily due to weakness in automotive and telecom advertising. We generated revenue growth during the quarter in our small to mid-size markets, which we define as markets outside our top 25. This growth was offset by a revenue decline in our large markets.

Divisional operating expenses increased $1.7 million to $538.2 million during the three months ended September 30, 2004 as compared to the same quarter of 2003. The primary driver of the increase was advertising and promotional expenses.

Nine Months

Our radio broadcasting revenue increased $60.6 million to $2.8 billion during the nine months ended September 30, 2004 as compared to the same period of 2003. Growth was lead by local advertising revenues, with traffic reporting and syndicated network programming revenues contributing to a lesser extent. National advertising revenue was down year to date compared to the same period of the prior year. Revenue in our small to mid-size markets, which we define as markets outside our top 25, grew at a faster rate than our large markets. We attribute this difference to the impact that national advertising has on our larger markets.

Divisional operating expenses increased $34.8 million to $1.6 billion during the nine months ended September 30, 2004 as compared to the same period of 2003. The primary drivers of the increase were an increase in compensation costs related to program talent salaries and sales commissions, an increase related to advertising and promoting our radio stations, and an increase in the cost of employee healthcare benefits.

Outdoor Advertising

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	**2004**	**2003**	**% Change**	**2004**	**2003**	**% Change**
Revenue	$ 600,166	$ 540,089	11%	$ 1,761,308	$ 1,559,791	13%
Divisional operating expenses	431,383	391,004	10%	1,277,110	1,170,047	9%
Depreciation and amortization	96,254	93,869	3%	288,810	272,306	6%
Operating income	$ 72,529	$ 55,216	31%	$ 195,388	$ 117,438	66%

Three Months

Our outdoor advertising revenue increased $60.1 million to $600.2 million during the three months ended September 30, 2004 as compared to the same quarter of 2003. Domestic revenue growth came from our bulletin and

poster inventory as well as airport advertising, while international revenue growth was paced by an increase in street furniture revenues. For the three months ended September 30, 2004, revenue included increases of approximately $26.1 million from movements in foreign exchange rates.

The increase in bulletin revenues was primarily attributable to an increase in rates, while both rates and occupancy on our poster inventory were up for the quarter. Domestically, revenue growth occurred across a wide range of markets, with San Francisco, San Antonio, Seattle, Tampa and Phoenix performing well. Strong domestic advertising categories for the third quarter included automotive, telecom, retail and consumer and business services. The increase in international street furniture revenues was driven by growth in both the number of displays and revenue per display as compared to the same quarter of the prior year. Ireland, Australia/New Zealand, Italy and Latin America all performed well during the quarter; however, their performance was tempered by decreased billboard revenues in the U.K. and France.

Divisional operating expenses increased $40.4 million to $431.4 million during the three months ended September 30, 2004 as compared to the same quarter of 2003. The increase includes approximately $22.8 million from fluctuations in foreign exchange rates. The remainder of the increase is primarily attributable to an increase in site lease expenses associated with revenue sharing lease agreements.

Depreciation and amortization increased $2.4 million during the three months ended September 30, 2004 as compared to the same quarter of 2003 primarily related to foreign exchange fluctuations and billboard impairments related to the hurricanes that swept through Florida and the Gulf Coast during the third quarter of 2004. These increases were partially offset by higher depreciation expense in the prior year related to accelerated depreciation on display takedowns.

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Nine Months

Our outdoor advertising revenue increased $201.5 million to $1.8 billion during the nine months ended September 30, 2004 as compared to the same period of 2003. The increase was lead by domestic bulletins and posters and international billboards and street furniture revenues. Also contributing to the increase was $10.4 million from the purchase and consolidation of our outdoor advertising joint venture in Australia during the second quarter of 2003, which we had previously accounted for as an equity method investment. For the nine months ended September 30, 2004, revenue included increases of approximately $92.6 million from movements in foreign exchange rates.

The growth in domestic bulletin and poster revenues was driven by increased rates, with occupancy slightly down. Growth occurred across a wide range of markets, including Portland, Seattle, Phoenix, Indianapolis, San Antonio, Tampa, and Washington/Baltimore. Strong domestic advertising categories for the nine months included automotive, telecom and retail. Growth in our international outdoor revenues was lead by increased revenue per street furniture display, with the number street furniture displays up during the nine months ended September 30, 2004 as compared to the same period of 2003.

Divisional operating expenses increased $107.1 million to $1.3 billion during the nine months ended September 30, 2004 as compared to the same period of 2003. The increase includes approximately $79.0 million from fluctuations in foreign exchange rates. Also contributing to the increase was $8.8 million from the purchase and consolidation of our outdoor advertising joint venture in Australia during the second quarter of 2003, which we had previously accounted for as an equity method investment. Additionally, we recorded a restructuring charge of approximately $11.0 million related to our operations in France in the second quarter of 2003. The remaining increase is primarily from an increase in site lease expenses.

Depreciation and amortization increased $16.5 million for nine months ended September 30, 2004 as compared to the same period of 2003. The increase was primarily attributable to $11.8 million resulting from fluctuations in foreign exchange rates and billboard impairments related to hurricane damage for the year to date 2004 compared to the same period of 2003.

Live Entertainment

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
(In thousands)	**2004**	**2003**	**% Change**	**2004**	**2003**	**% Change**
Revenue	$ 974,675	$ 936,213	4%	$ 2,223,114	$ 2,050,015	8%
Divisional operating expenses	883,645	839,402	5%	2,069,432	1,879,818	10%
Depreciation and amortization	15,134	14,914	1%	45,577	44,659	2%
Operating income	$ 75,896	$ 81,897	(7%)	$ 108,105	$ 125,538	(14%)

Three Months

Our live entertainment revenue increased $38.5 million for the three months ended September 30, 2004 as compared to the same quarter of 2003 due to increases in ticket and sponsorship revenue. The revenue growth during

the quarter was attributed to strong international promotion business and the timing of a major music festival. Also contributing to the increase was growth in sponsorship revenues. This growth was partially offset by a decline in the number of events at our amphitheaters principally from show cancellations. Revenue growth includes increases of approximately $23.8 million from movements in foreign exchange rates during the three months ended September 30, 2004.

Divisional operating expenses increased $44.2 million during the three months ended September 30, 2004 compared to the same period of 2003. Driving the increase was talent costs, primarily from higher artist guarantees and production costs in the current quarter as compared to the third quarter of 2003. The increase includes approximately $21.9 million from fluctuations in foreign exchange rates.

Nine Months

Our live entertainment revenue increased $173.1 million for the nine months ended September 30, 2004 as compared to the same period of 2003. An increase in ticket and sponsorship revenues drove the growth. We also had large music tours in the current year that helped drive revenues higher. Revenue growth includes increases of approximately $56.1 million from movements in foreign exchange rates during the nine months ended September 30, 2004.

Divisional operating expenses increased $189.6 million during the nine months ended September 30, 2004 compared to the same period of 2003. Driving the increase was talent costs, primarily from higher artist guarantees and production costs in the current nine month period compared to the prior nine month period. The increase includes approximately $52.2 million from fluctuations in foreign exchange rates.

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Reconciliation of Segment Operating Income to Consolidated Operating Income

	Three Months Ended September 30,		Nine Months Ended September 30,
(In thousands)	**2004**	**2003**	