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

Table of Contents

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

INDEX

Page No.

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

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.

Table of Contents

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 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:

	Nine Months Ended	Year Ended
(In thousands)		

	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.

Table of Contents

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.