iHeartCommunications, Inc.
Form 10-Q
May 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO __________

Commission File Number

001-09645

iHeartCommunications, Inc.

(Exact name of registrant as specified in its charter)

Texas **74-1787539**

Texas 74-17875

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

incorporation or organization)

200 East Basse Road, Suite 100

San Antonio, Texas 78209

(Address of principal executive offices) (Zip Code)

(210) 822-2828

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

(Explanatory Note: The registrant is a voluntary filer and is therefore not subject to the filing requirements of the Securities Exchange Act of 1934. However, during the preceding 12 months, and pursuant to the bond indentures of iHeartCommunications, Inc., the registrant has filed all reports that it would have been required to file by Section 13 or 15(d) of the Securities Exchange Act of 1934 if the registrant was subject to the filing requirements of the Securities Exchange Act of 1934 during such timeframe.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] Smaller reporting company [ ]

Texas 74-17875

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

Class	Outstanding at May 2, 2016
~ ~	~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~
Common Stock, $.001 par value	500,000,000

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

IHEARTCOMMUNICATIONS, INC.
INDEX

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

iHeartCommunications, Inc. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2016 (Unaudited)	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 978,536	$ 772,678
Accounts receivable, net of allowance of $39,156 in 2016 and $34,889 in 2015	1,274,294	1,442,038
Prepaid expenses	239,336	189,055
Assets held for sale	55,159	295,075
Other current assets	71,068	79,269
Total Current Assets	2,618,393	2,778,115
PROPERTY, PLANT AND EQUIPMENT		
Structures, net	1,350,399	1,391,880
Other property, plant and equipment, net	794,041	820,676
INTANGIBLE ASSETS AND GOODWILL		
Indefinite-lived intangibles - licenses	2,413,790	2,413,483
Indefinite-lived intangibles - permits	961,540	971,327
Other intangibles, net	899,118	953,660
Goodwill	4,120,240	4,128,887
OTHER ASSETS		
Other assets	225,149	215,087
Total Assets	$ 13,382,670	$ 13,673,115
CURRENT LIABILITIES		
Accounts payable	$ 117,171	$ 153,276
Accrued expenses	702,667	834,416
Accrued interest	157,777	279,100
Deferred income	246,309	210,924
Current portion of long-term debt	185,549	181,512
Total Current Liabilities	1,409,473	1,659,228
Long-term debt	20,568,863	20,539,099
Deferred income taxes	1,553,018	1,554,898
Other long-term liabilities	541,161	526,571
Commitments and contingent liabilities (Note 4)		
SHAREHOLDER'S DEFICIT		
Noncontrolling interest	160,823	177,615
Common stock, par value $.001 per share, authorized and issued 500,000,000 shares in 2016 and 2015, respectively	500	500
Additional paid-in capital	2,066,105	2,066,622
Accumulated deficit	(12,525,526)	(12,437,011)
Accumulated other comprehensive loss	(391,747)	(414,407)
Total Shareholder's Deficit	(10,689,845)	(10,606,681)
Total Liabilities and Shareholder's Deficit	$ 13,382,670	$ 13,673,115

See Notes to Consolidated Financial Statements

1

iHeartCommunications, Inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2016	2015
Revenue	$ 1,363,505	$ 1,344,564
Operating expenses:		
Direct operating expenses (excludes depreciation and amortization)	568,371	577,692
Selling, general and administrative expenses (excludes depreciation and amortization)	425,568	416,881
Corporate expenses (excludes depreciation and amortization)	77,879	77,422
Depreciation and amortization	155,456	170,453
Other operating income (expense), net	284,463	(8,974)
Operating income	420,694	93,142
Interest expense	463,950	441,771
Gain on investments, net	-	579
Equity in earnings (loss) of nonconsolidated affiliates	(433)	331
Loss on extinguishment of debt	-	(2,201)
Other income (expense), net	(5,712)	19,891
Loss before income taxes	(49,401)	(330,029)
Income tax expense	(9,493)	(56,605)
Consolidated net loss	(58,894)	(386,634)
Less amount attributable to noncontrolling interest	29,621	(1,668)
Net loss attributable to the Company	$ (88,515)	$ (384,966)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	27,577	(82,159)
Unrealized holding gain (loss) on marketable securities	(36)	822
Other adjustments to comprehensive loss	-	(1,154)
Other comprehensive income (loss)	27,541	(82,491)
Comprehensive loss	(60,974)	(467,457)
Less amount attributable to noncontrolling interest	4,881	(6,353)
Comprehensive loss attributable to the Company	$ (65,855)	$ (461,104)

See Notes to Consolidated Financial Statements

2

iHeartCommunications, Inc. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Consolidated net loss	$ (58,894)	$ (386,634)
Reconciling items:		
Depreciation and amortization	155,456	170,453
Deferred taxes	(1,256)	16,220
Provision for doubtful accounts	5,824	6,448
Amortization of deferred financing charges and note discounts, net	17,098	15,602
Share-based compensation	3,094	2,524
(Gain) loss on disposal of operating and other assets	(285,857)	552
Gain on investments, net	-	(579)
Equity in (earnings) loss of nonconsolidated affiliates	433	(331)
Loss on extinguishment of debt	-	2,201
Other reconciling items, net	(6,630)	(20,033)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease in accounts receivable	172,023	114,083
Increase in prepaid expenses and other current assets	(35,061)	(80,416)
Decrease in accrued expenses	(125,163)	(63,457)
Increase (decrease) in accounts payable	(37,933)	6,284
Decrease in accrued interest	(104,364)	(73,316)
Increase in deferred income	47,720	48,623
Changes in other operating assets and liabilities	13,018	5,564
Net cash used in operating activities	(240,492)	(236,212)
Cash flows from investing activities:		
Proceeds from sale of other investments	-	579
Purchases of businesses	(500)	-
Purchases of property, plant and equipment	(56,779)	(56,455)
Proceeds from disposal of assets	592,590	32,603
Purchases of other operating assets	(1,573)	(1,964)
Change in other, net	(16,897)	(5,331)
Net cash provided by (used for) investing activities	516,841	(30,568)
Cash flows from financing activities:		
Draws on credit facilities	-	120,000
Payments on credit facilities	(577)	(1,859)
Proceeds from long-term debt	-	950,000
Payments on long-term debt	(551)	(931,274)
Payments to purchase noncontrolling interests	-	(20,400)
Dividends and other payments to noncontrolling interests	(72,182)	(2,119)
Change in other, net	(1,080)	(9,367)
Net cash provided by (used for) financing activities	(74,390)	104,981
Effect of exchange rate changes on cash	3,899	(6,211)
Net increase (decrease) in cash and cash equivalents	205,858	(168,010)
Cash and cash equivalents at beginning of period	772,678	457,024
Cash and cash equivalents at end of period	$ 978,536	$ 289,014
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 549,437	$ 495,007
Cash paid for taxes	15,441	9,858

See Notes to Consolidated Financial Statements

3

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

Preparation of Interim Financial Statements

All references in this Quarterly Report on Form 10-Q to the "Company," "we," "us" and "our" refer to iHeartCommunications, Inc. and its consolidated subsidiaries. The Company's reportable segments are iHeartMedia ("iHM"), Americas outdoor advertising ("Americas outdoor" or "Americas outdoor advertising") and International outdoor advertising ("International outdoor" or "International outdoor advertising").

The accompanying consolidated financial statements were prepared by the Company pursuant to the rules and regulations of the SEC and, in the opinion of management, include all normal and recurring adjustments necessary to present fairly the results of the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Due to seasonality and other factors, the results for the interim periods may not be 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 2015 Annual Report on Form 10-K.

We are a holding company and have no significant assets other than the ownership interests in our subsidiaries. All of our operations and all of our operating assets are held by our subsidiaries. Certain of our outstanding indebtedness is fully and unconditionally guaranteed on a joint and several basis by our parent, iHeartMedia Capital I, LLC ("Capital I"), and certain of our direct and indirect wholly-owned domestic subsidiaries. Not all of our subsidiaries guarantee our obligations under such outstanding indebtedness. For a presentation of the allocation of assets, liabilities, equity, revenues and expenses attributable to the guarantors of our indebtedness in conformity with the SEC's Regulation S-X Rule 3-10(d), please refer to Note 10 to the consolidated financial statements of Capital I as of and for the period ending March 31, 2016.

The consolidated financial statements include the accounts of the Company and its subsidiaries. Also included in the consolidated financial statements are entities for which the Company has a controlling financial interest or is the primary beneficiary. Investments in companies in which the Company owns 20% to 50% of the voting common stock or otherwise exercises significant influence over operating and financial policies of the company are accounted for under the equity method. All significant intercompany transactions are eliminated in the consolidation process. Certain prior-period amounts have been reclassified to conform to the 2016 presentation.

During the first quarter of 2016, the Company reevaluated its segment reporting and determined that its iHeartMedia Revenue Platform (iHMRP) business, an information technology group dedicated to system development, implementation and maintenance of the Company's radio revenue platforms, should be managed by its Corporate leadership team. As a result, the operations of the iHMRP business are no longer reflected within the Other segment and are included in the results of its Corporate segment. Accordingly, the Company has recast the corresponding prior year segment disclosures to reflect the current year presentation.

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

Omission of Per Share Information

Net loss per share information is not presented as Capital I owns 100% of the Company's common stock. The Company does not have any publicly traded common stock.

New Accounting Pronouncements

During the first quarter of 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis*. This new standard eliminates the deferral of FAS 167, which has allowed entities with interest in certain investment funds to follow the previous consolidation guidance in FIN 46(R) and makes other changes to both the variable interest model and the voting model. The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

During the second quarter of 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying*

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

the Presentation of Debt Issuance Costs. This update simplifies the presentation of debt issuance costs as a deduction from the carrying value of the outstanding debt balance rather than showing the debt issuance costs as an asset. The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. The retrospective adoption of this guidance resulted in the reclassification of debt issuance costs of $140.0 million and $148.0 million as of March 31, 2016 and December 31, 2015, respectively, which are now reflected as "Long-term debt fees" in Note 3.

During the third quarter of 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. This update provides a one-year deferral of the effective date for ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

During the third quarter of 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. This update eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

During the first quarter of 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new leasing standard presents significant changes to the balance sheets of lessees. Lessor accounting is updated to align with certain changes in the lessee model and the new revenue recognition standard which was issued in the third quarter of 2015. The standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2018. The Company is currently evaluating the impact of the provisions of this new standard on its financial position and results of operations.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

Dispositions

On January 15, 2016, Parent and certain of the Company's subsidiaries completed the final closing for the sale of six of the Company's broadcast communication tower sites and related assets for approximately $5.5 million. Simultaneous with the sale, the Company entered into lease agreements for the continued use of space on all six of the towers sold. The Company realized a net gain of $2.7 million, of which $1.9 million was deferred and will be recognized over the lease term.

During the first quarter of 2016, Americas outdoor sold nine non-strategic outdoor markets including Cleveland and Columbus, Ohio, Des Moines, Iowa, Ft. Smith, Arkansas, Memphis, Tennessee, Portland, Oregon, Reno, Nevada, Seattle, Washington and Wichita, Kansas for net proceeds, which included cash and certain advertising assets in Florida, totaling $596.6 million. The Company recognized a net gain of $281.7 million related to the sale, which is included within Other operating income (expense), net.

During the first quarter of 2016, Americas outdoor also entered into an agreement to sell its Indianapolis, Indiana market in exchange for certain assets in Atlanta, Georgia, plus approximately $41.2 million in cash. The transaction is subject to regulatory approval and is expected to close in 2016. This transaction has met the criteria to be classified as held-for-sale and as such, the related assets are separately presented on the face of the Consolidated Balance Sheet.

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Property, Plant and Equipment

The Company's property, plant and equipment consisted of the following classes of assets as of March 31, 2016 and December 31, 2015, respectively:

(In thousands)	March 31, 2016	December 31, 2015
Land, buildings and improvements	$ 600,582	$ 603,234
Structures	2,799,699	2,824,794
Towers, transmitters and studio equipment	345,240	347,877
Furniture and other equipment	600,067	591,149
Construction in progress	66,110	69,042
	4,411,698	4,436,096
Less: accumulated depreciation	2,267,258	2,223,540
Property, plant and equipment, net	$ 2,144,440	$ 2,212,556

Intangible Assets

The Company's indefinite-lived intangible assets consist of Federal Communications Commission ("FCC") broadcast licenses in its iHM segment and billboard permits in its Americas outdoor advertising segment. Due to significant differences in both business practices and regulations, billboards in the International outdoor segment are subject to long-term, finite contracts unlike the Company's permits in the United States and Canada. Accordingly, there are no indefinite-lived intangible assets in the International outdoor segment.

Other intangible assets include definite-lived intangible assets and permanent easements. The Company's definite-lived intangible assets primarily include transit and street furniture contracts, talent and representation contracts, customer and advertiser relationships, and site-leases and other contractual rights, all of which are amortized over the shorter of either the respective lives of the agreements or over the period of time the assets are expected to contribute directly or indirectly to the Company's future cash flows. Permanent easements are indefinite-lived intangible assets which include certain rights to use real property not owned by the Company. The Company periodically reviews the appropriateness of the amortization periods related to its definite-lived intangible assets. These assets are recorded at cost.

The following table presents the gross carrying amount and accumulated amortization for each major class of other intangible assets as of March 31, 2016 and December 31, 2015, respectively:

(In thousands)	March 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Transit, street furniture and other outdoor contractual rights	$	631,943	$	(458,829)	$	635,772	$	(457,060)
Customer / advertiser relationships		1,222,518		(921,759)		1,222,518		(891,488)
Talent contracts		319,384		(259,674)		319,384		(252,526)
Representation contracts		239,142		(220,109)		239,142		(217,770)
Permanent easements		157,314		-		156,349		-
Other		390,379		(201,191)		394,983		(195,644)
Total	$	2,960,680	$	(2,061,562)	$	2,968,148	$	(2,014,488)

Total amortization expense related to definite-lived intangible assets for the three months ended March 31, 2016 and 2015 was $55.3 million and $62.9 million, respectively.

iHeartCommunications, Inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As acquisitions and dispositions occur in the future, amortization expense may vary. 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)		
2017	$	197,498
2018		