LUCENT TECHNOLOGIES INC
Form 10-K
December 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _________ TO _________
COMMISSION FILE NO.: 001-11639
LUCENT TECHNOLOGIES INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	22-3408857
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
600 MOUNTAIN AVENUE, MURRAY HILL, NEW JERSEY	07974
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: 908-582-8500
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
None.
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes þ No o
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 o No þ
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
At March 31, 2006, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $13,639,895,000.

At December 1, 2006, 100 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant s annual report to shareowners for the fiscal year ended September 30, 2006 (Part II).

(2) Portions of the registrant s definitive proxy statement for its 2007 annual meeting of shareowners filed with the Securities and Exchange Commission within 120 days after September 30, 2006, or an amendment to this Form 10-K filed not later than 120 days after September 30, 2006 (Parts II and III).

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This report contains trademarks, service marks and registered marks of us and our subsidiaries, and other companies, as indicated.

Explanatory note

Following completion of its merger with a wholly owned subsidiary of Alcatel, Lucent Technologies Inc. is no longer subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, but is voluntarily filing this report in order to be in compliance with the terms of the Indenture for its 2-3/4% Series A Convertible Senior Debentures due 2023 and its 2-3/4% Series B Convertible Senior Debentures due 2025.

PART I

Item 1. Business

Company Overview

Lucent Technologies Inc. (referred to in this report as the Company, we, us, our or Lucent) designs and delivers systems, software and services that drive next-generation communications networks. Supported by Bell Labs research and development, we use our strengths in mobility, optical, access, data and voice networking technologies, as well as services, to create new revenue-generating opportunities for our customers, while enabling them to quickly deploy and better manage their networks. Our customer base includes communications service providers, governments and enterprises worldwide.

Merger With Alcatel

On April 2, 2006, we entered into an Agreement and Plan of Merger with Alcatel and a wholly owned subsidiary of Alcatel (the Merger Agreement). Under the terms of the Merger Agreement, on November 30, 2006, Alcatel s subsidiary merged with and into Lucent, with Lucent surviving the merger and becoming a wholly owned subsidiary of Alcatel, now known as Alcatel-Lucent.

In connection with our merger with the wholly owned subsidiary of Alcatel (the Merger), Alcatel filed a registration statement on Form F-4 (File no. 33-133919), which included a definitive proxy statement/prospectus, dated August 4, 2006, relating to the Alcatel ordinary shares underlying the Alcatel American Depositary Shares (ADSs) issued in the Merger, and a registration statement on Form F-6 (File no. 333-138770) to register the Alcatel-Lucent ADSs issued in the Merger.

Corporate Information

We were incorporated in Delaware in November 1995. Our principal executive offices are located at 600 Mountain Avenue, Murray Hill, New Jersey 07974 (telephone number 908-582-8500). Our fiscal year begins October 1 and ends September 30. Since we are a wholly owned subsidiary of Alcatel-Lucent, we do not maintain our own Website. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports (should they be filed), as well as other documents we or Alcatel-Lucent have filed with the Securities and Exchange Commission (the SEC) are available, free of charge, through the website maintained by the SEC at www.sec.gov. Alternatively, you may read and copy any materials we or Alcatel-Lucent file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Company History

Lucent was initially the systems and technology units that had been part of AT&T Corp., including the research and development icon Bell Laboratories. Although we separated from AT&T on September 30, 1996, our history dates back to 1869 when the Western Electric Manufacturing Company was formed. By 1880, it was the largest electrical manufacturing company in the U.S. and it would become the exclusive developer and manufacturer of equipment for the Bell telephone companies that operated the U.S. telephone network. In 1907, AT&T (formerly American Bell) and Western Electric engineering departments were combined into a single organization that, in 1925, would become Bell Telephone Laboratories and generate some of the most significant scientific and technological discoveries of the 20th century.

Effective January 1, 1984, AT&T agreed to divest its local Bell telephone companies. As part of this divestiture, a new unit, AT&T Technologies, assumed Western Electric s charter. In 1989, AT&T Technologies branched into several business units, which would all later combine with Bell Labs to become the original Lucent Technologies. AT&T launched Lucent in April 1996 with an initial public offering. The spin-off was completed in September 1996 when AT&T distributed its shares of Lucent to AT&T shareholders.

On November 30, 2006, a wholly owned subsidiary of Alcatel merged with and into Lucent, with Lucent surviving the Merger and becoming a wholly owned subsidiary of Alcatel, now known as Alcatel-Lucent.

Strategy for Growth

Our goal is to create new possibilities to enhance people s lives by transforming the way the world communicates. Our mission is to be the partner of choice for the world s leading service providers, governments and enterprises by helping them create, build and maintain innovative, reliable and cost-effective communications networks and meet their customers growing needs through the rapid deployment of new communication services. Our vision for the industry is converged services creating networks that deliver communications services that are simple, secure and seamless, personal and portable, for people at work, home or anywhere in between.

Our growth strategy is based on bringing to market comprehensive next-generation network solutions that satisfy the increasing end user demand for converged services. Consequently, we seek to deliver solutions that allow service providers to fully transform their businesses at the application or service level, the network element and infrastructure level, and in the business models employed to meet end-user needs. We have been investing in key next-generation technologies, such as third-generation or 3G mobility, next-generation optical networking, broadband access and data, voice over Internet protocol (VoIP) products, services and applications, including middleware, operations support software, and end-user applications. The Internet protocol (IP) Multimedia Subsystem architecture, or IMS, is the cornerstone of our vision of next-generation networks. IMS is an open, IP-based solution for next-generation networks to deliver voice, video and data services across wireless, wireline and converged networks. This architecture is designed to allow carriers the flexibility to customize their service architectures to the specific communications needs of their customers. Additionally, we continue to offer alternative business models including hosted and managed services and a suite of professional services, with the goal of reducing service providers capital and operational expense.

We believe this industry demand for converged services will drive service providers to invest in their IMS core network. We believe that we are a leader in IMS because our solution has a common platform that cuts across both wireless and wireline, as well as voice, video and data. We have introduced over 20 new products, applications and Bell Labs technologies that support our common platform approach to IMS across our entire wireless and wireline portfolio.

In addition, we believe our vision and our IMS solutions are gaining acceptance with customers. In fiscal 2006, we announced additional contract wins for our IMS-based solutions and portfolio, including PAETEC in the U.S., KPN in Europe, and New World Telecom in Hong Kong. In addition to these publicly announced wins, as of November 10, 2006, we currently have 116 ongoing IMS element trials with 24 customers, and we are particularly encouraged by the increased number of trials and discussions under way with customers outside the U.S. We expect to continue to gradually convert IMS trials into deployments.

By assisting networks to transform and by deploying core IMS network solutions, we have achieved some critical initial steps in realizing our vision and are now focusing our efforts and resources on bringing to market the IMS adjacencies the products and services that are enabled by, and deployed on, a core IMS network. We believe we are well positioned to realize accelerated growth and profitability associated with the broader IMS opportunity by providing our customers with IMS-enabled products and services in areas such as applications, services, content delivery, VoIP solutions, mobile high-speed data, next-generation optical networking and broadband access and data, as well as integrated operating support systems and business support systems services.

We continue to deliver our next-gen optical, data networking and broadband access portfolio to customers, including launching Acuity Network Architecture, a service-aware, end-to-end architecture designed to deliver more efficiently at a lower cost high-bandwidth IP-based multimedia services to business, residential and mobile subscribers. Ethernet over SONET and over SDH continues as a trend and we look to achieve continued growth in this area. In addition, we continued to make significant progress in IPTV in fiscal 2006, and with additions by Bell Labs in content management and Quality of Service features, we unveiled MiViewTV , IPTV software now available for all customers.

Convergence and transformation involve multiple layers of applications, network infrastructures and alternative business models and approaches, not all of which we supply. Our customers success depends on the evolution of their business models and their networks both to generate new revenue streams and to manage more efficiently the costs of their networks. We believe that customers will increasingly need the depth and expertise of our services group, Lucent Worldwide Services, as they evolve their networks and determine future needs. We believe Lucent Worldwide Services has become a network integrator of choice across the entire services value chain from business case modeling to other professional services such as network planning and design, installation, integration, optimization and multi-vendor maintenance. With the creation of next-generation communications networks becoming an industry reality, Lucent Worldwide Services has a broad range of solutions to address the challenges of evolving complex networks and managing network integration. More specifically, this transformation architecture is supported by a set of solutions aimed at enabling service providers and enterprises to migrate their existing network infrastructure to next-generation architectures, such as IMS, enabling cost-effective delivery of converged voice, video and data services anytime and anywhere over a common core transport network. Network transformation, network integration and service solutions were components of over 75% of contracts in fiscal 2006.

In the government sector, we look to achieve continued growth via the pursuit of opportunities in the areas of converged services, secure solutions, disaster recovery and public safety. In the enterprise market, we are focused on bringing the benefits of convergence to the business user. We continue to focus on emerging markets, which we believe will offer opportunities as communications networks enable economic development. During fiscal 2006, 33% of our total revenue was generated from customers outside the U.S., including emerging markets, and we announced contract wins in Hong Kong, Malaysia, Korea, Japan, New Zealand, Russia, Costa Rica, the Bahamas, Brazil and Venezuela.

We continue to believe the telecom industry is in the early stages of a multiyear transformation to next-generation networks. As a result, we have been focusing on certain high-growth areas, such as IMS and IMS adjacencies, 3G mobility, next-generation optical networking, broadband access and data, VoIP solutions and multimedia converged services and applications. As this transformation progresses, our customers are increasingly focused on deploying new IP-based, revenue-generating services that will differentiate their businesses and build customer loyalty. However, the actual trialing, testing and deployment of these new technologies will take time. This is a long-term technology transition, which will create opportunities for us and our customers in these growth areas. We are working to turn these technologies and opportunities into cost-effective solutions for our customers.

Within this environment, certain service providers are currently investing to meet growing capacity demands. These demands are being driven by the coverage requirements, subscriber growth and traffic increases that place demands on networks of all kinds. In addition, many service providers have increased investments in the systems, software and technologies that enable next-generation converged services that cut across wireless and wireline, as well as voice, video and data. There is also a growing interest in content such as games, music and entertainment.

To meet these challenges, we have been adapting our product portfolio around a common IMS platform designed to give our customers the flexibility to build the types of networks and offer the types of services required to best meet the demand for converged broadband services. Effective October 1, 2005, we combined our mobility and wireline businesses into a single unit, the Network Solutions Group. This change is enabling us to improve our efficiency, market approach and cost structure. We are also focused on the following actions:

- The implementation of a services-led software strategy that combined our network operations software business with our Lucent Worldwide Services business, which is expected to bring better alignment, focus, efficiency and differentiating solutions.
- The optimization of our supply chain network, including the consolidation of our EMS (electronic manufacturing service) providers from four to two.
- The continuation of business process simplification efforts across the Company, including corporate center functions.

We believe these actions will allow us to more effectively focus our efforts and resources on pursuing high-growth areas where we have strong technology, market or customer advantages. We believe that focusing on these areas will allow us to serve our customers better and provide us with the best opportunity to grow our business profitably.

Communications Equipment and Services Market

Market Environment

Our service provider customers operate in a fast-changing environment driven by new technology, increased competition and regulatory change. End-users are demanding fast, personalized, secure, easy-to-use communications and are relying on new applications in both their professional and personal lives. These applications and services are enabled by technologies such as mobile high-speed data, next-generation optical networking, broadband access and data, VoIP and multimedia converged services and applications. Our strategy and portfolio are focused on identifying and capitalizing on these growth opportunities, and we believe that demand for these new applications and services will drive profitable growth for both the service providers and Lucent.

In many regions, regulatory changes continue to influence the telecom industry. These changes in telecommunications law were designed to liberalize closed markets, encourage competition, create new services and stimulate demand. Historically, this changing legislative landscape has created uncertainty, particularly in the U.S. Depending on the situation, these legislative changes have caused acceleration, postponement or cancellation of major network investments and upgrades by certain customers. Rulings by the Federal Communications Commission in the U.S. and other government regulatory bodies in foreign countries appear to provide a favorable environment for a new breed of high-speed access (broadband) as well as VoIP services. However, the delay of 3G license awards in China could continue to have a negative effect on future network investments in that country.

Service providers continue to focus on lowering operational costs, reducing debt, expanding new services and improving the security and reliability of their networks as they look to adapt to a changing regulatory environment. Our addressable market spans the following market segments   voice switching, data networking, optical networking, access, mobility, operating support systems software, applications and services. Key next-generation segments   IMS and IMS adjacencies, 3G mobility, next-generation optical networking, broadband access and data, VoIP solutions, multimedia converged services and applications   are expected to grow faster than the overall market through 2009. While opportunities are more limited and smaller than in the past, we believe a large market opportunity still remains for leading telecommunications equipment vendors to help customers address their business needs.

Consolidation

There has been some consolidation among service providers as they look to expand their scope and scale, while improving cost efficiencies. This industry dynamic presents both challenges and opportunities for equipment vendors. One potential challenge may come in the form of rationalized capital spending in the future. In addition, integration activities may delay new network deployments. However, we anticipate that there will also be opportunities, as carriers will require assistance integrating these large, complex networks. Also, depending on the service providers involved, some of the consolidation could enable certain vendors to extend their reach into customers that were previously focused on different technologies or areas.

Competition

The global telecommunications networking industry remains highly dynamic and competitive. Our current principal competitors include Ciena Corporation, Cisco Systems, LM Ericsson Telephone Company, Fujitsu Limited, Huawei Technologies, Motorola, NEC Corporation, Nokia Corporation, Nortel Networks Corporation, Samsung Networks, Siemens, UT Starcom, and ZTE Corporation. Some of our competitors, such as Nortel, compete across many of our product lines, while others compete in a small subset of our products.

We expect that the level of competition will continue to intensify, for several reasons. First, consolidation occurring among vendors, including portions of Nokia and Siemens as well as Ericsson and Marconi, will create a smaller but stronger set of competitors. We believe most industry participants will seek to strengthen their relationships with large service providers, as the 30 largest providers currently represent approximately 75% of global carrier spending. In addition, carrier consolidation continues, resulting in fewer customers. Competition is also accelerating around converged network technologies as carriers are shifting capital to areas that will enable network migration. Furthermore, competitors providing low-priced products and services from Asia are gaining market share worldwide. As a result, we continue to operate in an environment of increased competitive pricing.

Reportable Segments

With our first quarter 2006 results, we began reporting under a new segment structure, organized around our respective products and services. The reportable segments for fiscal 2005 had been Mobility Solutions, Integrated Network Solutions (INS) and Lucent Worldwide Services. Mobility Solutions provided software and wireless equipment to support radio access and core networks. INS provided a broad range of software and wireline equipment related to voice networking (primarily consisting of switching products, which we sometimes refer to as convergence solutions, and voice networking products), data and network management (primarily consisting of access and related data networking equipment and operating support software) and optical networking. Voice networking, data and network management and optical networking products are an integral part of our customers networks and the foundation for our IMS-based solutions. Under our new organizational structure, our mobility and wireline businesses were combined into a single unit, the Network Solutions Group (NSG). NSG consists of the following operating segments: Mobility Access and Applications Solutions; Multimedia Network Solutions; and Converged Core Solutions. The Network Operations Software reporting unit that was previously reported within the wireline business was transferred to Lucent Worldwide Services. The Lucent Worldwide Services segment represents a worldwide services organization that provides deployment, maintenance, professional and managed services in support of our product offerings as well as multi-vendor networks. Financial information about these segments and by geographic areas is set forth in Note 12 to our Consolidated Financial Statements and our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Exhibit 13 to this report.

Mobility Access and Applications Solutions revenues were approximately $4.1 billion during fiscal 2006. A significant portion of Mobility Access and Applications Solutions revenues was derived from a few large service providers in the U.S. Verizon Wireless and Sprint Nextel combined accounted for 64% and 62% of total Mobility Access and Applications Solutions revenues during fiscal 2006 and 2005, respectively. As of September 30, 2006, Mobility Access and Applications Solutions had approximately 6,800 full-time employees engaged mainly in product development, general management and marketing activities.

Multimedia Network Solutions revenues were approximately $1.7 billion during fiscal 2006 and were primarily from large, established service providers. As of September 30, 2006, Multimedia Network Solutions had approximately 2,200 employees, primarily engaged in product development, marketing and general management activities.

Converged Core Solutions revenues were approximately $600 million during fiscal 2006 and were primarily from large, established service providers. As of September 30, 2006, Converged Core Solutions had approximately 900 employees, primarily engaged in product development, marketing and general management activities.

Lucent Worldwide Services revenues were approximately $2.3 billion during fiscal 2006. As of September 30, 2006, Lucent Worldwide Services had approximately 10,600 employees dedicated to professional services, managed services, deployment services and maintenance services.

Financial information about our products is set forth in our Management s Discussion and Analysis of Financial Condition and Results of Operations starting on page F-11 of Exhibit 13 to this report.

Organization of the Business

Effective October 1, 2005, our reportable segments are Mobility Access and Applications Solutions, Multimedia Network Solutions and Converged Core Solutions, which are all within NSG; Lucent Worldwide Services, which includes our network operations software unit formerly included in INS; and Other. These segments are organized around the products and services we sell.

Mobility Access Solutions

Mobility Access Solutions is focused on providing 3G network solutions based on CDMA2000 (Code Division Multiple Access) and UMTS/HSPA (Universal Mobile Telecommunications System/High-Speed Packet Access) and spread-spectrum technologies that enable wireless service providers to offer high-quality mobile voice and high-speed data services. CDMA2000 is a globally deployed 3G wireless technology, predominantly used in North America, Asia Pacific and portions of South America. UMTS/HSPA is the 3G technology derived from the GSM standard deployed worldwide.

Our wireless customers worldwide continue to add voice subscribers and minutes of use to their networks, so voice capacity continues to be a very important driver in their network investment. At the same time, their voice revenues are under pressure from increased competition and this is driving investment in 3G network solutions that bring new mobile high-speed data capabilities to their networks. Thus, much of our current wireless growth and a focus of our customers is related to 3G mobile high-speed data network deployments, which consist of upgrading existing base stations and in some cases providing new base stations and other equipment that enable operators to introduce mobile high-speed data services at rates comparable to wireline connections.

We continue to be the global leader in CDMA2000 spread-spectrum networks, with more than 35 customers on the continents of North and South America, Asia, Europe and in the Australia/New Zealand region.

We currently have 19 commercial CDMA2000 1xEV-DO customers, helping them deliver mobile high-speed data services at speeds of up to 2.4 Megabits per second. For UMTS/HSPA, Cingular launched the world s first commercial High-Speed Downlink Packet Access (HSDPA) network with Lucent-supplied equipment in the Phoenix and Seattle markets and O2 and Manx Telecom launched Europe s first commercial HSDPA network with Lucent-supplied equipment on the Isle of Man. HSDPA is an evolution of UMTS networks that support very high-speed data connections on mobile networks.

Certain operators are now upgrading their networks to support even faster high-speed data capabilities and laying the foundation for future enhancements that enable two-way, real-time data applications, such as VoIP, video telephony and enhanced push-to-talk with technologies such as CDMA2000 1xEV-DO Revision A (Rev. A) for CDMA networks and High-Speed Uplink Packet Access (HSUPA) technology for UMTS/HSPA networks. These technologies make the introduction of VoIP services on mobile networks more efficient and increase the data speeds and capacity of 3G networks. In 2006, Sprint Nextel, Telecom New Zealand and Verizon Wireless announced contracts with us to deploy Rev. A technology.

We are dedicated to helping wireless service providers capture the industry opportunities being created by the growing demand for blended lifestyle services. Our customers are interested in introducing IMS-enabled services that blend voice, video and data capabilities to create next-generation service applications such as video telephony or real-time gaming delivered to subscribers anytime, anywhere and in ways that enhance their lifestyles. Technologies such as Rev. A are an important part of our future in the mobility market because they form the basis of our next-generation networks designed to make these advanced applications a reality by increasing performance and capacity.

The most important products in Mobility Access Solutions CDMA2000 and UMTS/HSPA portfolios are developed internally, including radio access products, circuit and packet core backbone networks, and network management, application and service delivery systems. Mobility Access Solutions also taps into our strengths in voice networking, data and network management and optical networking, and leverages the expertise of Lucent Worldwide Services. We have worked and will continue to work with other equipment vendors to help us offer best-in-class, end-to-end solutions and products.

Key Mobility Access Products

Base station products provide the radio links that transmit and receive wireless subscriber calls and manage handoffs as customers move from cell to cell (a cell is the area in which calls are handled by a particular base station). Each radio base station covers a specific geographic area and has the capacity to handle a certain amount of subscriber traffic. Our base station platform supports both CDMA2000 and UMTS/HSPA technologies and addresses the form, fit and function of future assemblies in a modular fashion. Therefore, many current base station products may be used as the cell evolves to include expanded capacity for wireless voice and/or data transmissions. Core network equipment connects base stations to the public voice and data networks. Our Converged Core Solutions business develops the majority of this voice and packet data core switching network equipment, which can support IMS-enabled services.

Applications Solutions

Applications Solutions is reported as part of the Mobility Access Solutions segment and centralizes our development of software applications designed to enable our customers to deliver advanced communications services to their subscribers. The Applications Solutions Group supports existing applications, such as the widely deployed Lucent AnyPath® Messaging System and the Lucent SurePay® Real-time Rating and Charging Engine, as well as new IMS applications, based on innovative Bell Labs technology, which deliver blended lifestyle services to subscribers.

Key Applications Solutions Products

Lucent AnyPath® Messaging System integrates existing call answering and voice messaging capabilities with a wide array of new and emerging media-rich applications, including advanced multimedia, mobile data, unified communications, speech-enabled and real-time voice portal applications. In addition, the Lucent AnyPath® Messaging System provides continuous new application development to assist in the quick and efficient deployment of innovative differentiated services for subscribers.

Lucent SurePay® Real-time Rating and Charging Engine collects charging information from various network elements and supports rapid deployment of new rating plans and sales promotions, to help service providers respond quickly to changing industry requirements.

Lucent Content Managing and Delivery Solution provides a single platform that supports all content and media types, such as firewall and security software, ring tones, games, music and videos, designed to enable operators to maximize content revenues while increasing operational efficiencies. The platform manages the complete content life cycle by offering software for processing submissions from a content provider, content management in catalogs, digital rights management, rendering to ensure content is formatted for the subscriber s wireless device, a Web-style page that can serve as the carrier s storefront, and a delivery mechanism.

Lucent Unified Subscriber Data Server , an advanced customer information data server, enables the creation and maintenance of a single profile for each subscriber and all of the services they use, in contrast to the traditional method of maintaining individual subscriber databases for each service.

Lucent Intelligent Services Gateway (ISG), a full-featured and flexible Parlay/OSA gateway, offers mediation gateway and policy management capabilities. The ISG supports simplified integration of location- and presence-based applications and other mobile/converged applications into carrier networks.

Multimedia Network Solutions

Multimedia Network Solutions develops optical, data and broadband access solutions for wireline networks, with special focus on providing end-to-end solutions that enable service providers to offer blended multimedia subscriber services over intelligent network infrastructures.

The optical unit builds laser-based transmission and switching systems that transport information using pulses of light. These systems include core backbone high-capacity systems for fast, efficient transport of information over long distances; intelligent optical switches and cross-connects in the center of the network that aggregate and bridge metropolitan area traffic for transport over long-haul and ultra-long haul optical networks; and metropolitan optical systems that aggregate and increase the use of fiber optic systems for both voice and data traffic in metropolitan or regional areas.

Our optical systems are based on industry standards that promote interoperability and allow customers to use some of their existing investments. Our integrated optical network management of single and multi-vendor networks through Navis® Optical Management solutions gives customers cost-effective maintenance and operations support and multiple protection options, which help increase reliability. Our modular designs help customers achieve cost savings through improved space and power requirements.

The data and access units provide large scale, reliable, and secure broadband access and next-generation data networks solutions for the deployment of unique and personalized blended lifestyle services. The data business leverages the large embedded base of Lucent Asynchronous Transfer Mode (ATM) and Frame Relay switches in helping customers evolve to IP/Multiprotocol Label Switching (MPLS) core data networks. The data business supplies Carrier Ethernet solutions through our Riverstone Networks acquisition, and partners with other vendors to provide IP and Ethernet edge solutions as required. In addition, the access business provides a competitive IPTV/IP Multimedia access solution and an end-to-end IPTV software solution, to enable blended lifestyle services.

Key Multimedia Network Products

The LambdaUnite® MultiService Switch is a compact, global, next-generation optical transport system and switch that provides a bridge between data-intensive metro networks and high-speed optical core networks, connecting cities, campuses and corporate networks to the larger, long-haul public networks.

The LambdaXtreme® Transport system is a 3G long-haul optical networking system that can transmit very large amounts of information across continents at one of the lowest costs per bit per kilometer in its class. LambdaXtreme® Transport is a dense wave division multiplexing system that supports new ring architectures as well as traditional span-to-span networks.

Our Metropolis® optical systems are metropolitan area networking systems that provide a simple, differentiated way for our customers to data-enable their installed base of SONET/SDH systems, giving our customers the ability to generate new revenues by supporting Ethernet data transport over SONET/SDH networks that formerly were used to carry only voice traffic.

The CBX 3500® Multiservice Edge Switch uses the same software as our Multiservice GX 550® and CBX 500® switches and is designed for seamless insertion into operating networks to minimize operating expenses during network expansion. We have higher-capacity cards for the CBX 3500®, offering additional capabilities to support high-bandwidth IP, ATM and Frame Relay edge services. All of these switches are widely deployed across the globe.

The Stinger® DSLAM products provide high-speed Digital Subscriber Line (DSL) services in multiple network deployments. We believe these products are ideally suited for IP video broadcast and pay-per-view deployments because of their multicast capabilities, which limit the amount of optical bandwidth carriers must provide between the central office and the remote location, thereby reducing expenses. Stinger® DSLAMs are a critical component of today s largest commercial IPTV deployment.

The AnyMedia® Access Platform is a next-generation Digital Loop Carrier system, widely sold outside the U.S. to support mixed deployments of circuit switched voice lines and broadband DSL. AnyMedia® is an IP Line Gateway that carriers may deploy to migrate from Class 5 switches to softswitches.

The Lucent Ethernet Router portfolio delivers scalable, carrier-grade Ethernet solutions from access to core. Ethernet in the metropolitan network carrier Ethernet is a particularly attractive solution to provide connectivity between multiple business sites. Additionally, carrier Ethernet now features capabilities that makes it suitable not only for delivering business services, but also residential triple play including IPTV and wireless backhaul and transport. The Lucent Ethernet Router portfolio supports the most stringent carrier availability requirements and delivers a range of Ethernet functionality from Ethernet switching, MPLS, Virtual Private LAN Services (VPLS) and Hierarchical-VPLS capabilities.

Lucent s MiViewTV platform is an interactive multimedia delivery platform that supports a wide variety of entertainment programming including on-demand content, broadcast TV, multi-party video gaming as well as interactive communications and information services such as IM/chat, interactive Web services, unified messaging and video conferencing. In fiscal 2006, we acquired the assets that make up MiViewTV from Telefonica as part of a broader strategic relationship with the carrier. The platform includes core IPTV middleware, security and digital rights management, video/content on demand, service quality and operations support system (OSS/BSS) management, subscriber management, service orchestration, and content asset management and distribution as well as a unique audience tracker feature. It also is tightly coupled with our industry-leading IMS to deliver sophisticated blended services that combine video, Web and telecom capabilities.

Converged Core Solutions

Converged Core Solutions provides next-generation switching solutions, such as IMS core products, and traditional switching solutions (i.e., 5ESS® switches) for service providers, government and enterprise customers.

Converged Core Solutions products are part of the Lucent IMS solution that enables service providers to offer blended lifestyle services advanced, converged lifestyle-enhancing applications over wireless and wireline networks that consumer and enterprise customers demand.

Converged Core Solutions is focused on demonstrating our leadership in next-generation technology and providing a next-generation core solution that delivers value over IP, such as blended lifestyle services, and enables us to offer complete solutions that include other NSG products and services.

Key Converged Core Products

The Lucent 5ESS® switch is a central component in traditional telephone networks around the world. The 5ESS® switch is a modular, digital communications hub for circuit-switched voice traffic. We are actively engaged with our traditional voice networking customers to help them evolve their 5ESS® circuit-switched platforms to increase capacity, lower cost of operations, accelerate new feature introductions such as support for Personal Handyphone Systems (PHS) popular in China and Japan and lay the groundwork for the introduction of packet-based IP transport and IMS-based services. PHS is an extension of a wireline network that uses a wireless telephone similar to a cordless phone and provides mobility and extended-range voice and data services.

The Lucent Compact Switch can support from as few as 1,000 subscribers to more than 100,000 subscribers on a single integrated platform. Service providers can deploy the switch for end-office (Class 5) and tandem (Class 4) applications to replace an existing switch or as an addition to the network. In addition to providing VoIP, Internet off-load and gateway mobile switching center features, the Lucent Compact Switch also offers capabilities compliant with U.S. electronic surveillance and enhanced 911 rules. The switch also can serve as a building block for carriers that choose to migrate to an IMS-based network to offer blended lifestyle services.

The Lucent Session Manager℠ provides multiple IMS functions and forms the core of our IMS architecture and manages user presence and call types, dynamically connecting subscribers to a variety of services in an IMS-based network.

The Lucent Network Gateway provides the IMS media gateway function and permits seamless interaction between IP networks and both traditional wireless and wireline networks.

The Lucent Feature Server enables consumer, business and wireless services, on both IMS-based and non-IMS based networks, including the new application feature server that supports a variety of telephony and mobility services on broadband or narrowband networks.

The Lucent Network Controller is an element in our IMS-based solution, which provides the media gateway control function. Carriers have the option of integrating the signaling functionality into the network controller or deploying it as a stand-alone element. These VoIP functions were previously associated with traditional softswitches.

The Lucent Network Gateway acts as a media gateway and bridges both traditional circuit networks and packet-based networks to form the cornerstone of an IMS network architecture. The network gateway interconnects bearer traffic among Public Switched Telephone Network (PSTN), IP and ATM networks, which are used for wireless and wireline applications under the control of the Lucent Network Controller or other H.248 compliant media gateway controllers.

Lucent Worldwide Services

Lucent Worldwide Services (Services) provides professional services, managed services, deployment services and maintenance services. Our network planning, design, optimization, integration and management services are critical to simplifying convergence and empowering service providers to bring profitable lifestyle-changing services to end-users, while driving increased revenues. Services is increasingly providing these services in a multi-vendor environment networks that utilize equipment from numerous other vendors.

Services leverages its core competencies, drawing on the expertise and the innovation of Bell Labs to address this opportunity. Services offerings are provided in combination with Lucent products, as well as services that are offered stand-alone or based on other vendors products. Services is focused on increasing its international presence and capabilities and has plans aimed at penetrating new markets adjacent to the core service provider market, such as government, enterprise, and cable markets.

Professional Services

These network, planning, design, integration and optimization services help our customers identify network areas where they can capitalize on high-margin opportunities, apply Bell Labs tools and techniques to optimize performance and reduce operating expenses, and plan evolution to protect their network investment and increase profits. Enhanced engineering services help our customers determine the best configuration for maximizing traffic capacity and for achieving other operational efficiencies. These services also provide our customers with in service upgrades to help them migrate to new technologies. Enhanced technical services help carriers maintain a high-performing network by identifying and correcting network performance issues, balancing traffic loads and integrating new multi-vendor equipment and software into a live system. Professional services helps our customers improve network quality by troubleshooting, reporting and resolving problems and providing on-the-job training to their staff. Professional services revenues accounted for approximately 30% of fiscal 2006 Services revenues.

Deployment Services

These services help our customers bring their equipment online in an efficient manner, allowing them to begin generating revenues more quickly, through a suite of global solutions and services to implement network plans and designs. Our site location and construction services help research, locate and acquire, and construct facilities to deliver quality, buildable real estate for network deployments. Engineering services design and configure multi-vendor equipment, survey and assess equipment and site conditions, and document equipment and site data to help ensure smooth deployments. Material Sourcing services provide installation site material and third-party network equipment to enable one-stop shopping from us and simplify procurement and delivery processes. Installation services install, test and configure equipment, helping to assure efficient network deployments. Deployment revenues accounted for approximately 31% of fiscal 2006 Services revenues.

Maintenance Services

These services help our customers improve the performance of their multi-vendor networks and maintain network reliability and availability to ensure quality of service. Remote Technical Support Services provide remote support capabilities to diagnose, resolve and restore the network. On-Site Technical Support Services provide technical specialists to deliver on-site maintenance services as our customers expand into new territories, develop new service offers, or face regional technical labor shortages.

Repair & Exchange Services manage inventory and operating expenses with repair and replacement of critical network hardware. Preventive Maintenance Services identify, analyze and recommend products and services that help providers keep networks operating at peak performance. Maintenance revenues accounted for approximately 37% of fiscal 2006 Services revenues.

Managed Services

These services consist of a wide range of outsourced network operations and network transformation services that help our clients reduce their operating expenses while preserving and enhancing network reliability. Managed services help provide a seamless transition to an outsourced environment utilizing state-of-the-art tools and technology plus highly skilled technicians to provide ongoing network management of our customers networks. These functions can be performed at our global network operations centers or at the customer s network operations center. We currently provide network operation services to more than 40 customers around the world. Although these revenues do not represent a significant portion of Services revenues, managed services are often embedded in professional, deployment and maintenance services.

By relying on our global multi-vendor expertise and field-proven processes, our customers can leverage their installed base of assets across multiple technologies and vendors, quickly implement new technologies and applications to expand presence in target markets, and simplify operations through customized support to design, build, and manage communication networks.

Research and Development

Bell Labs, one of the world s largest research and development organizations focused on communications-related technology, supports all of our segments. Bell Labs provides basic and applied research and development support for our business. Bell Labs mission is to develop technically advanced products and services that will keep us at the forefront of communications, to conduct fundamental research in scientific fields important to communications and to create innovations that can be put to use in our new communications products and services. Bell Labs research activities continue to focus on the technologies we view as central to our business strategy, including network design and engineering, network services and IMS, photonics and optical technology, data networking, wireless communications, algorithms and software and computer science. Bell Labs looks at both near-term and long-term opportunities, actively working on current product and service research and development as well as exploring fundamental scientific breakthroughs that may be ten or more years out on the horizon.

Protecting both global communications networks and the people that use them remains a top priority as we work to deliver on the promise of next-generation networking. The industry s migration to an all-IP architecture means that our customers face a host of new network and user vulnerabilities not present in the closed, circuit-switched telephony world. Addressing these vulnerabilities becomes even more difficult when compounded by the large number of vendors and service providers that are working on an increasing number of standards and technologies across multiple networks. To address this challenge, Bell Labs has intensified its focus on the aspects of security that are most relevant to meeting the needs of the market.

We plan to continue to invest in the R&D efforts of Bell Labs because we believe it gives us a competitive advantage in developing innovative technologies. There are more than 9,000 employees in Bell Labs, which includes R&D, services and technical staff. Most of these employees serve in R&D roles in our Mobility Access Solutions, Multimedia Network Solutions and Converged Core Solutions segments. There are approximately 1,000 employees supporting research efforts within Bell Labs core research group. Overall, 11 researchers at Bell Labs have shared in six Nobel Prizes in Physics. Bell Labs researchers have also been awarded nine U.S. National Medals of Science and seven U.S. National Medals of Technology. In addition, our scientists and engineers have earned more than 31,000 patents since 1925.

Our research and development costs are discussed in our Management s Discussion and Analysis of Financial Condition and Results of Operations, starting on page F-11 of Exhibit 13 to this report.

Supply Chain Networks

Supply Chain Networks (SCN) manages our end-to-end global supply chain, which is needed to produce and deliver our products and services to our worldwide customers. The organization designs, implements and optimizes the supply chain for our products, with the goal of establishing product cost, product cycle and interval, and quality that meet our objectives and those of our customers. SCN identifies suppliers needed to support our product lines and ensures continuity of supply at the required price and quality.

We make significant purchases of components and other materials from many U.S. and non-U.S. sources. While there have been some shortages in components and some other materials in technology commodities common across the industry, we have generally been able to obtain sufficient materials and components from various sources around the world to meet our needs. We also develop and maintain alternative sources for essential materials and components. We do not have a concentration of sources of supply of materials, labor or services that, if suddenly eliminated, could severely impact our operations.

We currently use contract manufacturers to supply most of our product lines, but we continue to integrate and test internally many of these products. Celestica Corporation manufactures most of the wireless products we design, while Solectron Corporation manufactures most of the wireline products we design, including access, optical, data and switching products. Our contract manufacturers also include other local companies in various regions. SCN controls the source selection for all significant or strategic components. Our contract manufacturers use their leverage and global buying power to negotiate prices from vendors we approve. SCN monitors their performance to ensure process and technical product specifications are met.

Global Sales and Services Organization

Our Global Sales and Services Organization (GSSO) combines our Global Sales force and Lucent Worldwide Services business, including Managed Services, Professional Services, Maintenance and Deployment, all under one umbrella. The GSSO organization was formed earlier in fiscal 2006 to bring dedicated support to customers around the world, helping them better manage and transform their networks

Corporate Centers

Our corporate centers provide centrally managed but locally deployed corporate support groups that include cash management, legal, accounting, tax, marketing, public relations, insurance, advertising, human resources and information technology services.

Backlog

Our backlog was $2.0 billion and $1.9 billion as of September 30, 2006 and 2005, respectively. Substantially all of the orders included in the September 30, 2006 backlog are scheduled for delivery during fiscal 2007. However, customers may reschedule their orders, which would delay the associated revenues. Further, although we believe that the orders included in the backlog are firm, customers may be able to cancel some orders without penalty, and we may elect to permit cancellation of orders without penalty where management believes that it is in our best interest to do so. Some customers may also become unable to finance their purchases as a result of deterioration in their financial position.

Seasonality

Our revenues and earnings have not demonstrated consistent seasonal characteristics.

Patents, Trademarks and Other Intellectual Property Rights

We have patents to protect some of our innovations and proprietary products and technology. We market our products and services primarily under our own names and marks. We consider our patents and trademarks to be valuable assets. Many of our trademarks are registered throughout the world. We currently own approximately 7,300 patents in the U.S. and 8,900 patents in other countries.

The patents outside the U.S. are, for the most part, counterparts of our U.S. patents.

Our intellectual property licensing division licenses, protects and maintains our intellectual property and enforces our intellectual property rights. This responsibility includes licensing our patents and technology to third parties and negotiating agreements regarding our licensing of intellectual property from others. Many of our patents are licensed to other companies with large patent portfolios, and we are licensed to use patents owned by these other companies, including our former affiliates, Agere, AT&T, Avaya and NCR. The terms of these cross-licenses may vary.

We rely on patent, trademark, trade secret and copyright laws both to protect our intellectual property, including our proprietary technology, and to protect us against claims from others. We believe that we have direct intellectual property rights or rights under cross-licensing arrangements covering substantially all of our material technologies. However, third parties may assert infringement claims against us or against our customers in connection with their use of our systems and products. When infringement claims are made against our customers or us, the outcomes of these claims are sometimes difficult to predict because of the technological complexity of our systems and products.

Employee Relations

As of September 30, 2006, we had approximately 29,800 employees, of whom approximately 17,400, or 58%, were located in the U.S. Unions, primarily the Communications Workers of America, represent approximately 2,800, or 9%, of our employees, or approximately 16% of our U.S. employees.

Forward-looking Statements

This annual report on Form 10-K and other documents we file with the SEC contain statements about future performance, events or developments, which are also known as forward-looking statements. Forward-looking statements are based on current expectations, estimates, forecasts and projections about us, our future performance and the industries in which we operate as well as on our management s assumptions and beliefs. Statements that contain words like expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates words and similar expressions are forward-looking statements. Since they relate to future developments, results or events, these statements are highly speculative and involve risks, uncertainties and assumptions that are difficult to assess. You should not construe any of these statements as a definitive or invariable expression of what will actually occur or result. Any forward-looking statements in this annual report on Form 10-K are not guarantees of future performance, and actual results, developments and business decisions may differ from those contemplated by those forward-looking statements, possibly materially. Except as required by applicable law, we disclaim any duty to update any forward-looking statements in this Form 10-K after its distribution, even if new information, future events, changes in assumptions or any other reason would alter those statements.

Executive Officers of the Registrant

The following information about our executive officers is included herein in accordance with Part III, Item 10 and is as of December 1, 2006.

Name	**Age**	**Title**	**Date Became Executive Officer**
Cynthia Christy-Langenfeld	40	Chief Executive Officer and President	03/04
David Hitchcock	45	Chief Financial Officer and Treasurer	03/06
Timothy Keller	45	General Counsel and Secretary	11/06

All of these executive officers have held high-level managerial positions with us for more than the past five years.

Officers are not elected or appointed for a fixed term of office.

Environmental Matters

Our current and historical operations are subject to a wide range of environmental protection laws. In the U.S., these laws often require parties to fund remedial action regardless of fault. We have remedial and investigatory activities under way at numerous current and former facilities. In addition, we were named a successor to AT&T as a potentially responsible party at numerous Superfund sites pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) or comparable state statutes. Under our Separation and Distribution Agreement with AT&T, we are responsible for all liabilities primarily resulting from or relating to our assets and the operation of our business as conducted at any time prior to or after the separation from AT&T, including related businesses discontinued or disposed of prior to our separation from AT&T. Furthermore, under that Separation and Distribution Agreement, we are required to pay a portion of contingent liabilities in excess of certain amounts paid out by AT&T and NCR, including environmental liabilities. In our separation agreements with Agere and Avaya, those companies have agreed, subject to certain exceptions, to assume all environmental liabilities related to their respective businesses.

The future impact of environmental matters, including potential liabilities, is often difficult to estimate. We record an environmental reserve when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. This practice is followed whether the claims are asserted or unasserted. Management expects that the amounts reserved will be paid out over the periods of remediation for the applicable sites, which typically range from five to 30 years.

For additional information about our environmental matters, see Note 14 to our Consolidated Financial Statements contained in Exhibit 13 to this report.

Separation Agreements

In connection with our separation from AT&T in 1996, we, AT&T and NCR entered into a Separation and Distribution Agreement and related ancillary agreements, including an employee benefits agreement, technology-related agreements, a tax-sharing agreement and other tax-related agreements. We entered into similar agreements with Avaya and Agere when we spun them off.

These agreements provide that we and our former affiliates are separately responsible for all liabilities, including contingent liabilities, related to our and their respective businesses and operations. In addition, these agreements provide for the sharing of contingent liabilities that are neither primarily our contingent liabilities nor contingent liabilities associated with the businesses of our former affiliates. We also share liability for specifically identified liabilities, including liabilities relating to terminated, divested or discontinued businesses or operations, and, in the agreements with AT&T and Avaya, specified contingent liabilities and excess liabilities.

Item 1A. Risk Factors

Risks Related to Our Business

Our business, our future performance and forward-looking statements are affected by general industry and market conditions and growth rates, general U.S. and non-U.S. economic and political conditions (including the global economy), interest rate and currency exchange rate fluctuations and other events. The following items are representative of the risks, uncertainties and other conditions that can affect our business, our future performance and the forward-looking statements that we make in this report or that we may make in the future.

We May Fail To Realize the Anticipated Cost Savings, Revenue Enhancements and Other Benefits Expected From the Merger.

We may fail to realize the anticipated cost savings, revenue enhancements and other benefits that we expect to achieve from the Merger. The Merger integrated Alcatel and Lucent, two companies that had previously operated independently. We and Alcatel entered into the Merger Agreement with the expectation that, among other things, the Merger would enable Alcatel-Lucent to consolidate support functions, optimize its supply chain and procurement structure, leverage its research and development and services across a larger base, and reduce its worldwide workforce by approximately 9,000, all of which is expected to create opportunities to achieve cost savings and revenue synergies and to achieve other synergistic benefits.

Delays encountered by us or Alcatel-Lucent in the transition process could have a material adverse effect on our revenues, expenses, operating results and financial condition. Although we expect significant benefits to result from the Merger, there can be no assurance that we will actually realize these anticipated benefits.

Achieving the benefits of the Merger will depend in part upon meeting the challenges inherent in the successful combination and integration of global business enterprises of the size and scope of us and Alcatel-Lucent and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that we and Alcatel-Lucent will meet these challenges and that such diversion will not negatively affect our operations.

Uncertainties Associated With the Merger May Cause a Loss of Employees and May Otherwise Materially Adversely Affect Our Future Business and Operations.

Our success will depend in part upon our ability to retain key employees. Competition for qualified personnel can be intense. Our current and prospective employees may experience uncertainty about their roles following the Merger. This may materially adversely affect our ability to attract and retain key management, sales, marketing, technical and other personnel. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the Merger. Accordingly, no assurance can be given that we will be able to attract or retain key employees to the same extent we had been able to attract or retain employees in the past.

Technological innovation is important to our success, and depends, to a significant degree, on the work of technically skilled employees. Competition for the services of these types of employees is vigorous. We cannot provide any assurance that we will be able to attract and retain these employees. If we are unable to attract and retain technically skilled employees, our competitive position could be materially adversely affected.

We Operate in a Highly Competitive Industry with Many Participants. Our Failure to Compete Effectively Would Harm Our Business.

We operate in a highly competitive environment in our business, competing on the basis of product offerings, technical capabilities, quality, service and pricing. Competition for new service providers and enterprise customers as well as for new infrastructure deployments is particularly intense and increasingly focused on price. We believe we offer customers and prospective customers many benefits in addition to competitive pricing, including strong support and integrated services for quality, technologically-advanced products; however, in some situations, we may not be able to compete effectively if purchasing decisions are based solely on the lowest price.

We have a number of competitors, some of which are very large, with substantial technological and financial resources and established relationships with global service providers. Some of our competitors have very low cost structures, support from governments in their home countries, or both. In addition, new competitors may enter the industry as a result of shifts in technology. These new competitors, as well as existing competitors, may include entrants from the telecom, computer software, computer services, data networking and semiconductor industries. We cannot assure you that we will be able to compete successfully with these companies. Competitors may be able to offer lower prices, additional products or services or a more attractive mix of products or services, or services or other incentives that we cannot or will not match or offer. These competitors may be in a stronger position to respond quickly to new or emerging technologies and may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to customers, prospective customers, employees and strategic partners.

Technology Drives Our Products and Services. If We Fail to Keep Pace with Technological Advances in Our Industry, or If We Pursue Technologies That Do Not Become Commercially Accepted, Customers May Not Buy Our Products or Use Our Services.

The telecom industry uses numerous and varied technologies and large service providers often invest in several and, sometimes, incompatible technologies. The industry also demands frequent and, at times, significant technology upgrades. Furthermore, enhancing our services revenues requires that we develop and maintain leading tools. We do not have the resources to invest in all of these existing and potential technologies. As a result, we concentrate our resources on those technologies that we believe have or will achieve substantial customer acceptance and in which we have appropriate technical expertise. However, existing products often have short product life cycles characterized by declining prices over their lives. In addition, the choices we make for developing technologies may prove incorrect if customers do not adopt the products that we develop or if those technologies ultimately prove to be unviable. Our revenues and operating results depend to a significant extent on our ability to maintain a product portfolio and service capability that is attractive to our customers, to enhance our existing products, to continue to introduce new products successfully and on a timely basis and to develop new or enhance existing tools for our services offerings.

A Small Number of Our Customers Account for a Substantial Portion of Our Revenues, and Most of Our Revenues Come from Telecommunications Service Providers. The Loss of One or More Key Customers or Reduced Spending of These Service Providers Could Significantly Reduce Our Revenues, Profitability and Cash Flow.

A few large telecommunications service providers account for a substantial portion of our revenues. These customers include Verizon and Verizon Wireless, Sprint Nextel, BellSouth and China Unicom. Verizon and Verizon Wireless together accounted for approximately 28% of our fiscal 2006 revenues, 28% of our fiscal 2005 revenues and 27% of our fiscal 2004 revenues. In addition, the telecom industry has recently experienced substantial consolidation, as evidenced by the mergers of Sprint and Nextel, Cingular and AT&T Wireless, SBC Communications and AT&T, Verizon and MCI, and the pending merger of AT&T and BellSouth. As service providers increase in size, it is possible that an even greater portion of our revenues will be attributable to a smaller number of large service providers going forward. Further, our existing customers are typically not obligated to purchase a certain amount of products or services over any period of time from us and may have the right to reduce, delay or even cancel previous orders. We, therefore, have difficulty projecting future revenues from existing customers with certainty. Although historically our customers have not made sudden supplier changes, our customers could vary, and have varied, their purchases from period to period, sometimes significantly. Combined with our reliance on a small number of large customers, this could have an adverse effect on our revenues, profitability and cash flow. In addition, our concentration of business in the telecommunications service provider industry makes us extremely vulnerable to downturns or slowdowns in spending in that industry.

The Telecom Industry Fluctuates and Is Affected By Many Factors, Including Decisions By Service Providers Regarding Their Deployment of Technology and Their Timing of Purchases, as Well as Demand and Spending for Communications Services By Businesses and Consumers.

After significant deterioration earlier this decade, the global telecom industry stabilized in 2004 and experienced modest growth in 2005 and 2006, as reflected in increased capital expenditures by service providers and growing demand for telecommunications services. Although we believe the overall industry will continue to grow, the rate of growth could vary geographically and across different technologies, and is subject to substantial fluctuations. The specific industry segments in which we participate may not experience the growth of other segments. In that case, our results of operations may be adversely affected.

If capital investment by service providers grows at a slower pace than anticipated, our revenues and profitability may be adversely affected. The level of demand by service providers can change quickly and can vary over short periods of time, including from month to month. As a result of the uncertainty and variations in the telecom industry, accurately forecasting revenues, results and cash flow remains difficult.

In addition, our sales volume and product mix affect our gross margin. Therefore, if reduced demand for our products results in lower than expected sales volume, or we have an unfavorable product mix, we may not achieve the gross margin rate we expect, resulting in lower than expected profitability. These factors may fluctuate from quarter to quarter.

We Have Long-Term Sales Agreements with a Number of Our Large Customers. Some of These Agreements May Prove Unprofitable As Our Costs and Product Mix Shift Over the Lives of the Agreements.

We have entered into long-term sales agreements with a number of our large customers, and we expect that we will continue to enter into long-term sales agreements in the future. Some of our existing sales agreements require us to sell products and services at fixed prices over the lives of the agreements, and some require, or may in the future require, us to sell products and services that we would otherwise discontinue, thereby diverting our resources from developing more profitable or strategically important products. The costs we incur in fulfilling some of our sales agreements may vary substantially from our initial cost estimates. Any cost overruns that we cannot pass on to our customers could adversely affect our results of operations.

We Rely on Two Contractors to Provide Most of the Components and Products We Design. If Either of Them Fails to Deliver Quality Components and Products at Reasonable Prices on a Timely Basis, We May Not Be Able to Fulfill Our Obligations to Some of Our Customers.

We generally purchase most of the wireless products we design from Celestica, and most of the wireline products we design from Solectron. If either of them fails to fulfill their obligations to us, or if we do not properly manage these arrangements, we could fail to perform some of our obligations to our customers and our customer relationships could suffer. If so, our customers may make claims against us for which we do not have sufficient recourse against our supplier. In addition, by limiting the number of our contract manufacturers, we have fewer employees with the expertise needed to manage these third party arrangements. We provide rolling forecasts to our contract manufacturers to manage product supplies, but because of market fluctuations, accurate forecasting is very difficult and we have limited ability to adjust volumes and delivery schedules to satisfy changes customers could require. We also may experience supply interruptions, cost escalations and competitive disadvantages if our contract manufacturers fail to develop, implement or maintain manufacturing methods appropriate for our products and customers.

Our Pension and Postretirement Benefit Plans Are Large and Have Funding Requirements That Fluctuate Based on the Performance of the Financial Markets and the Level of Interest Rates and May Be Affected By Changes in Legal Requirements. These Plans Are Also Costly, and Our Efforts to Fund or Control Those Costs May Be Ineffective.

Among other compensation and benefit programs, many of our former and current employees and retirees in the U.S. participate in one or more of the following benefit plans:

- management pension plan;
- occupational pension plan;
- postretirement health care benefit plan for former management employees; and/or
- postretirement health care benefit plan for former represented employees.

As described in more detail under the captions Application of Critical Accounting Estimates Pension and postretirement benefits and Liquidity and Capital Resources Future capital requirements and funding sources in our Management s Discussion and Analysis of Financial Condition and Results of Operations starting on pages F-6 and F-27, respectively, of Exhibit 13 to this report, the performance of the financial markets, especially the equity markets, and the level of interest rates, impact the funding obligations for these pension plans. Accordingly, the amounts we might contribute to these benefit plans are subject to considerable uncertainty. You should carefully review this discussion in Exhibit 13.

Our U.S. pension plans meet the requirements of ERISA s current funding rules, and we do not expect to make any contributions to our qualified U.S. pension plans through 2008. We are unable to provide an estimate of future funding requirements beyond fiscal 2008 for the pension plans. However, based on our actuarial projections we believe that it is unlikely that any required contributions would have a material effect on our liquidity during fiscal 2008 through fiscal 2011.

Recent legislative changes, in the form of the Pension Protection Act of 2006 (the PPA), impact the funding requirements for our U.S. pension plans. The PPA alters the manner in which liabilities and asset values are determined for the purpose of calculating required pension contributions and the timing and manner in which required contributions to under-funded pension plans would be made. These changes could significantly increase the funding requirements for our U.S. management pension plan and reduce excess pension assets that could be available to fund retiree health care benefits. Accordingly, the amounts we might contribute to these benefit plans in the future are subject to considerable uncertainty.

The PPA also provides for what is called a collectively bargained transfer under Section 420 of the Internal Revenue Code, under which pension assets in excess of 120% of pension plan funding obligations would be available to fund health care costs for our formerly represented retirees. Together with our unions, we are proposing additional changes to Section 420 as technical corrections, which would facilitate our ability to provide a collectively bargained level of retiree health care benefits by using such excess pension assets. With the adoption of the technical corrections that we are pursuing, we believe it is likely that almost all of the health care funding required for formerly represented retirees (assuming the present level and structure of benefits) could be addressed through Section 420 transfers based on current actuarial assumptions. However, no assurances can be given that we will be successful in our efforts to obtain these technical corrections. We have amended our collective bargaining agreement to extend to June 30, 2007 the time period within which the additional changes we are seeking to the PPA must be obtained. If, by that date, the legislation imposes constraints that would significantly impair our ability to fund retiree health care costs using excess pension assets, we would have the ability, at our sole discretion beginning on January 1, 2008, to adjust the level of subsidy we provide for formerly represented retiree health care.

We have also taken some steps, and expect that we will take additional actions over time, to reduce the overall cost of our retiree health care benefit plans and the share of these costs borne by us, consistent with legal requirements and our collective bargaining obligations. However, the rate of cost increases may exceed our actions to reduce these costs. In addition, as described in Note 14 to our Consolidated Financial Statements in Exhibit 13, the reduction or elimination of retiree health care benefits has led to lawsuits against us. Any other initiatives that we undertake to control or reduce costs may lead to additional claims against us.

Many of Our Current and Planned Products Are Highly Complex and May Contain Defects or Errors That Are Detected Only After Deployment in Telecommunications Networks. If That Occurs, Our Reputation May Be Harmed.

Our products are highly complex, and there is no assurance that our extensive product development, manufacturing and integration testing is or will be adequate to detect all defects, errors, failures and quality issues that could affect customer satisfaction or result in claims against us. As a result, we might have to replace certain components and/or provide remediation in response to the discovery of defects in products that are shipped. Most of these occurrences can be rectified without incident, as has generally been the case historically. However, the occurrence of any defects, errors, failures or quality issues could result in cancellation of orders, product returns, diversion of our resources, legal actions by customers or customers end-users and other losses to us, or to our customers or end-users. These occurrences could also result in the loss of or delay in market acceptance of our products and loss of sales, which would harm our business and adversely affect our revenues and profitability.

Rapid Changes to Existing Regulations or Technical Standards or the Implementation of New Ones for Products and Services Not Previously Regulated Could Be Disruptive, Time-Consuming and Costly to Us.

We develop many of our products and services based on existing regulations and technical standards, our interpretation of unfinished technical standards or the lack of such regulations and standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts, by increasing compliance costs and causing delay. Demand for those products and services could also decline.

We Are Involved in Lawsuits, Which, If Determined against Us, Could Require Us to Pay Substantial Damages.

We are defendants in various lawsuits. These lawsuits include such matters as commercial disputes, claims regarding intellectual property, product discontinuance, asbestos claims, labor, employment and benefit claims, shareowner litigation and others. For a discussion of some of these legal proceedings, you should read Note 14 to our Consolidated Financial Statements in Exhibit 13 to this report. We cannot predict the extent to which any of the pending or future actions will be resolved in our favor, or whether significant monetary judgments will be rendered against us. Any material losses resulting from these claims could adversely affect our profitability and cash flow.

If We Fail to Protect Our Intellectual Property Rights, Our Business and Prospects May Be Harmed.

Intellectual property rights, such as patents, are vital to our business, and developing new products and technologies that are unique to us is critical to our success. We have numerous U.S. and foreign patents and numerous pending patents. However, we cannot predict whether any patents, issued or pending, will provide us with any competitive advantage or whether such patents will be challenged by third parties. Moreover, our competitors may already have applied for patents that, once issued, could prevail over our patent rights, or otherwise limit our ability to sell our products. Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our proprietary technology. In addition, patent applications that we have currently pending may not be granted. If we do not receive the patents that we seek or if other problems arise with our intellectual property, our competitiveness could be significantly impaired, which would limit our future revenues and harm our prospects.

We Are Subject to Intellectual Property Litigation and Infringement Claims, Which Could Cause Us to Incur Significant Expenses or Prevent Us from Selling Certain Products.

From time to time, we receive notices or claims from third parties of potential infringement in connection with products or services. We also may receive such notices or claims when we attempt to license our intellectual property to others. Intellectual property litigation can be costly and time-consuming and can divert the attention of management and key personnel from other business issues. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. A successful claim by a third party of patent or other intellectual property infringement by us could compel us to enter into costly royalty or license agreements or force us to pay significant damages and could even require us to stop selling certain products. Further, if one of our important patents or other intellectual property rights is invalidated, we may suffer losses of licensing revenues and be prevented from attempting to block others, including competitors, from using the related technology.

We Are Subject to Environmental, Health and Safety Laws that Restrict Our Operations.

Our operations are subject to a wide range of environmental, health and safety laws, including laws relating to the use, disposal and clean-up of, and human exposure to, hazardous substances. In the U.S., these laws often require parties to fund remedial action regardless of fault. Although we believe our reserves are adequate to cover our environmental liabilities, factors such as the discovery of additional contaminants, the extent of required remediation and the imposition of additional clean-up obligations could cause our capital expenditures and other expenses relating to remediation activities to exceed the amount reflected in our environmental reserve and adversely affect our results of operations and cash flows. Compliance with existing or future environmental, health and safety laws could subject us to future liabilities, cause the suspension of production, restrict our ability to utilize facilities or require us to acquire costly pollution control equipment or incur other significant expenses.

Our Business Requires a Significant Amount of Cash, and We May Require Additional Sources of Funds if Our Sources of Liquidity Are Unavailable or Insufficient to Fund Our Operations.

Our working capital requirements and cash flows have historically been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which could lead us to suffer cash flow fluctuations include:

- the level of sales;
- the collection of receivables;
- the timing and size of capital expenditures;
- costs associated with potential restructuring actions; and

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

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(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.

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.

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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:

(In millions)	**Nine Months Ended September 30, 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

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

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.

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**	**2004**	**2003**
Radio Broadcasting	$ 383,779	$ 388,381	$ 1,072,191	$ 1,044,896
Outdoor Advertising	72,529	55,216	195,388	117,438
Live Entertainment	75,896	81,897	108,105	125,538
Other	14,205	15,387	34,452	36,371
Corporate	(52,311)	(49,876)	(160,159)	(148,784)
Consolidated Operating Income	$ 494,098	$ 491,005	$ 1,249,977	$ 1,175,459

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Operating Activities

Net cash flow from operating activities of $1.3 billion for the nine months ended September 30, 2004 principally reflects a net income of $631.5 million plus depreciation and amortization of $511.1 million. Cash flow from operating activities was negatively impacted during the nine months ended September 30, 2004 by $150.0 million primarily related to the taxes paid on the gain from the sale of our remaining shares of Univision, which was partially offset by the tax loss related to the partial redemption of our Euro denominated debt. Cash flow from operations also reflects a negative change in other operating assets and liabilities, net of effects of acquisitions of approximately $8.2 million.

Net cash flow from operating activities of $1.3 billion for the nine months ended September 30, 2003 principally reflects a net income of $958.4 million plus depreciation and amortization of $487.3 million. Cash flow from operations also reflects a $195.4 million increase in taxes payable, partially offset by increases in accounts receivable and prepaid expenses. The increase in taxes payable is associated with our sale of a portion of our Univision investment and other marketable securities. The proceeds from these transactions are included in investing activities.

Investing Activities

Net cash provided by investing activities of $250.7 million for the nine months ended September 30, 2004 includes proceeds of $627.5 million related to the sale of investments, primarily the sale of our Univision shares. These proceeds were partially offset by capital expenditures of $242.7 million related to purchases of property, plant and equipment and $137.9 million related to acquisitions of operating assets. Net cash provided by investing activities of $59.3 million for the nine months ended September 30, 2003 principally reflect proceeds from the sale of investments of $344.2 million, partially offset by capital expenditures of $231.2 million related to purchases of property, plant and equipment and $55.4 million related to acquisitions of operating assets.

Financing Activities

Financing activities for the nine months ended September 30, 2004 principally reflect the proceeds, net of payments on debt of $146.3 million, repurchases of our stock totaling $1.4 billion and dividends paid of $183.5 million. Financing activities for the nine months ended September 30, 2003 principally reflect proceeds, net of payments on debt of $1.5 billion, proceeds from a secured forward exchange contract of $83.5 million and proceeds of $42.0 million related to the exercise of stock options.

We expect to fund anticipated cash requirements (including payments of principal and interest on outstanding indebtedness and commitments, acquisitions, anticipated capital expenditures, dividends and share repurchases) for the foreseeable future with cash flows from operations and various externally generated funds.

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SOURCES OF CAPITAL

As of September 30, 2004 and December 31, 2003 we had the following debt outstanding:

(In millions)	**September 30, 2004**	**December 31, 2003**
Credit facilities domestic	$ 724.5	$ 660.5
Credit facility international		50.1
Long-term bonds (a)	6,337.9	6,159.4
Other borrowings	185.1	195.0
Total Debt	7,247.5	7,065.0
Less: Cash and cash equivalents	230.6	123.3
	$7,016.9	$6,941.7

(a) Includes $14.5 million and $16.8 million in unamortized fair value purchase accounting adjustment premiums related to the merger with AMFM Inc. at September 30, 2004 and December 31, 2003, respectively. Also includes $16.7 million and $7.0 million at September 30, 2004 and December 31, 2003, respectively, related to fair value adjustments for interest rate swap agreements.

Domestic Credit Facilities

As of September 30, 2004, we had two separate domestic credit facilities.

The first credit facility is a reducing revolving credit facility, originally in the amount of $2.0 billion. At September 30, 2004, $85.0 million was outstanding and $536.9 million was available for future borrowings. The amount available for future borrowings under this credit facility began reducing on September 30, 2000, with quarterly reductions to continue through the last business day of June 2005. The reductions in amounts available for future borrowings total $109.4 million per quarter in 2004, $131.3 million in the first quarter of 2005 and $381.3 million in the second quarter of 2005.

On July 13, 2004, we entered into the second facility, which is a five-year, multi-currency revolving credit facility in the amount of $1.75 billion. This 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. Our prior $1.5 billion five-year multi-currency revolving credit facility was repaid in its entirety and terminated at the same time we entered into this new facility. At September 30, 2004, the outstanding balance on this facility was $639.5 million and, taking into account letters of credit of $164.4 million, $946.1 million was available for future borrowings, with the entire balance to be repaid on July 12, 2009.

During the nine months ended September 30, 2004, we made principal payments totaling $3.7 billion and drew down $3.7 billion on the credit facilities. As of November 4, 2004, the credit facilities aggregate outstanding balance was $876.3 million and, taking into account outstanding letters of credit, $1.3 billion was available for future borrowings.

International Credit Facility

On July 30, 2004, our $150.0 million five-year revolving credit facility with a group of international banks was paid in full through borrowings under our new $1.75 billion five-year, multi-currency revolving credit facility. The $150.0 million five-year revolving credit facility was then terminated on August 6, 2004.

Long-Term Bonds

On September 15, 2004, we 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 bank credit facilities and for general corporate purposes.

Sale of Investments

During the nine months ended September 30, 2004, we received $627.5 million of proceeds primarily related to the sale of our remaining investment in Univision as well as other various investments.

Shelf Registration

On April 22, 2004, we filed a Registration Statement on Form S-3/A covering a combined $3.0 billion of debt securities, junior subordinated debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units (the

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shelf registration statement). The shelf registration statement also covers preferred securities that may be issued from time to time by our three Delaware statutory business trusts and guarantees of such preferred securities by us. The SEC declared this shelf registration statement effective on April 26, 2004. After the debt offering of September 15, 2004, $2.25 billion remains available from this shelf registration statement.

Debt Covenants

Our only significant covenants on our reducing revolving credit facility relate to leverage and interest coverage contained and defined in the credit facility. The leverage ratio covenant requires us to maintain a ratio of total debt to EBITDA (as defined by the credit facility) of less than 5.00x. The interest coverage covenant requires us to maintain a minimum ratio of EBITDA (as defined by the credit facility) to interest expense of 2.00x. In the event that we do not meet these covenants, we are considered to be in default on the credit facility at which time the credit facility may become immediately due. At September 30 2004, our leverage and interest coverage ratios were 3.12x and 6.6x, respectively. Including our cash and cash equivalents recorded at September 30, 2004, our leverage on a net debt basis was 3.02x. This credit facility contains cross default provisions that would be triggered if we were to default on any other indebtedness greater than $25.0 million.

The significant covenants on our new $1.75 billion five-year, multi-currency revolving credit facility also relate to leverage and interest coverage contained and defined in the credit facility. The leverage ratio covenant requires us to maintain a ratio of total debt to EBITDA (as defined by the credit facility) of less than 5.25x. The interest coverage covenant requires us to maintain a minimum ratio of EBITDA (as defined by the credit facility) to interest expense of 2.50x. In the event that we do not meet these covenants, we are considered to be in default on the credit facility at which time the credit facility may become immediately due. This credit facility contains a cross default provision that would be triggered if we were to default on any other indebtedness greater than $200.0 million.

Our other indebtedness does not contain such provisions that would make it a default if we were to default on one of our credit facilities.

The fees we pay on our new $1.75 billion, five-year multi-currency revolving credit facility depend on our long-term debt ratings. Based on our current ratings level of BBB-/Baa3, our fees are 17.5 basis points on the total $1.75 billion facility and a 45.0 basis point spread to LIBOR on borrowings. In the event our ratings improve, the fee on borrowings and facility fee decline gradually to 9.0 basis points and 20.0 basis points, respectively, at ratings of A/A3 or better. In the event that our ratings decline, the fee on borrowings and facility fee increase gradually to 30.0 basis points and 120.0 basis points, respectively, at ratings of BB/Ba2 or lower.

We believe there are no other agreements that contain provisions that trigger an event of default upon a change in long-term debt ratings that would have a material impact to our financial statements.

Additionally, the AMFM long-term bonds contain certain restrictive covenants that limit the ability of AMFM Operating Inc., a wholly-owned subsidiary of Clear Channel, to incur additional indebtedness, enter into certain transactions with affiliates, pay dividends, consolidate, or effect certain asset sales.

At September 30, 2004, we were in compliance with all debt covenants. We expect to remain in compliance throughout 2004.

USES OF CAPITAL

Long-Term Bonds

On February 25, 2004, we redeemed 454.4 million of our 6.5% senior notes due July 7, 2005, for 477.7 million plus accrued interest. As a result of this redemption we 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.

Dividends

Our Board of Directors declared quarterly cash dividends as follows:

(In millions, except per share data) Declaration Date	Amount per Common Share	Record Date	Payment Date	Total Payment
October 23, 2003	$ 0.10	December 31, 2003	January 15, 2004	$ 61.6
February 19, 2004	0.10	March 31, 2004	April 15, 2004	61.7
April 28, 2004	0.10	June 30, 2004	July 15, 2004	60.2
July 21, 2004	0.125	September 30, 2004	October 15, 2004	72.5

Additionally, on October 20, 2004 our Board of Directors declared a quarterly cash dividend of $.125 per share of our Common Stock to be paid on January 15, 2005 to shareholders of record on December 31, 2004.

Acquisitions

During the nine months ended September 30, 2004 we acquired radio stations for $59.4 million in cash and $35.7 million in restricted cash. We also acquired outdoor display faces for $53.4 million in cash and acquired equity interests in international outdoor companies for $1.9 million in cash. Our live entertainment segment made cash payments of $11.9 million, primarily related to business acquisitions and various earn-outs and deferred purchase price consideration on prior year acquisitions. Also, we acquired a television station for $4.2 million in restricted cash and our national representation business acquired new contracts for a total of $11.3 million in cash.

Capital Expenditures

Capital expenditures were $242.7 million and $231.2 million in the nine months ended September 30, 2004 and 2003, respectively.

	Nine Months Ended September 30, 2004 Capital Expenditures				
(In millions)	Radio	Outdoor	Entertainment	Corporate and Other	Total
Non-revenue producing	$45.0	$ 44.5	$ 19.5	$ 19.2	$128.2
Revenue producing		72.0	42.5		114.5
	$45.0	$116.5	$ 62.0	$ 19.2	$242.7

Company Share Repurchase Program

As of November 4, 2004, 45.0 million shares had been repurchased for an aggregate purchase price of $1.6 billion, including commission and fees, under our share repurchase programs.

Commitments, Contingencies and Guarantees

In accordance with generally accepted accounting principles in the United States, we do not record the following transactions on our balance sheet:

Commitments and Contingencies

We were 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 we were 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. We have not received notice of an appeal filed by SBS to the Supreme Court.

There are various other lawsuits and claims pending against us. We believe that any ultimate liability resulting from those actions or claims will not have a material adverse effect on our results of operations, financial position or liquidity.

Certain agreements relating to acquisitions provide for purchase price adjustments and other future contingent payments based on the financial performance of the acquired companies generally over a one to five year period. We 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 our financial position or results of operations.

Guarantees

As of September 30, 2004, we guaranteed the debt of third parties of approximately $13.7 million primarily related to long-term operating contracts. The third parties associated operating assets secure a substantial portion of these obligations.

Market Risk

Interest Rate Risk

At September 30, 2004, approximately 30% of our debt, including fixed-rate debt on which we have entered into interest rate swap agreements, bears interest at variable rates. Accordingly, our earnings are affected by changes in interest rates. Assuming the current level of borrowings at variable rates and assuming a two percentage point change in the year s average interest rate under these borrowings, it is estimated that our interest expense would have changed by $32.6 million and that our net income would have changed by $20.2 million during the nine months ended September 30, 2004. In the event of an adverse change in interest rates, management may take actions to further mitigate our exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, the analysis assumes no such actions. Further the analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

At September 30, 2004, we had entered into interest rate swap agreements with a $1.3 billion aggregate notional amount that effectively float interest at rates based upon LIBOR. These agreements expire from February 2007 to March 2012. The fair value of these agreements at September 30, 2004 was $16.7 million.

Equity Price Risk

At September 30, 2004, the carrying value of our available-for-sale and trading equity securities was $272.4 million and $30.8 million, respectively. These investments are affected by changes in their quoted market prices. It is estimated that a 20% change in the market prices of these securities would change their carrying value at September 30, 2004 by $60.6 million and would change accumulated comprehensive income (loss) and net income (loss) by $33.8 million and $3.8 million, respectively. At September 30, 2004, we also held $19.5 million of investments that do not have a quoted market price, but are subject to fluctuations in their value.

We maintain derivative instruments on certain of our available-for-sale and trading equity securities to limit our exposure to and benefit from price fluctuations on those securities.

Foreign Currency

We have operations in countries throughout the world. Foreign operations are measured in their local currencies except in hyper-inflationary countries in which we operate. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we have operations. To mitigate a portion of the exposure to risk of international currency fluctuations, we maintain a natural hedge through borrowings in currencies other than the U.S. dollar. In addition, we have a U.S.

dollar Euro cross currency swap which is also designated as a hedge of our net investment in foreign denominated assets. These hedge positions are reviewed monthly. Our foreign operations reported a net loss of $21.7 million for the nine months ended September 30, 2004. It is estimated that a 10% change in the value of the U.S. dollar to foreign currencies would change net loss for the nine months ended September 30, 2004 by $2.2 million.

Our earnings are also affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies as a result of our investments in various countries, all of which are accounted for under the equity method. It is estimated that the result of a 10% fluctuation in the value of the dollar relative to these foreign currencies at September 30, 2004 would change our equity in earnings of nonconsolidated affiliates by $2.1 million and would change our net income for the nine months ended September 30, 2004 by approximately $1.3 million. This analysis does not consider the implications that such fluctuations could have on the overall economic activity that could exist in such an environment in the U.S. or the foreign countries or on the results of operations of these foreign entities.

Recent Accounting Pronouncements

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

Inflation

Inflation has affected our performance in terms of higher costs for wages, salaries and equipment. Although the exact impact of inflation is indeterminable, we believe we have offset these higher costs in various manners.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is as follows:

Nine Months ended September 30,		Year Ended December 31,				
2004	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
2.85	3.98	3.62	2.62	*	2.20	2.04

* For the year ended December 31, 2001, fixed charges exceeded earnings before income taxes and fixed charges by $1.3 billion.

The ratio of earnings to fixed charges was computed on a total enterprise basis. Earnings represent income from continuing operations before income taxes less equity in undistributed net income (loss) of unconsolidated affiliates plus fixed charges. Fixed charges represent interest, amortization of debt discount and expense, and the estimated interest portion of rental charges. We had no preferred stock outstanding for any period presented.

Risks Regarding Forward Looking Statements

Except for the historical information, this report contains various forward-looking statements that represent our expectations or beliefs concerning future events, including the future levels of cash flow from operations. Management believes that all statements that express expectations and projections with respect to future matters, including the strategic fit of radio assets, expansion of market share, our ability to capitalize on synergies between the live entertainment and radio broadcasting businesses, the availability of capital resources, and expected changes in advertising revenues, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. We caution that these forward-looking statements involve a number of risks and uncertainties and are subject to many variables that could have an adverse effect upon our financial performance. These statements are made on the basis of management s views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management s expectations will necessarily come to pass.

A wide range of factors could materially affect future developments and performance, including:

the impact of general economic conditions in the U.S. and in other countries in which we currently do business, including those resulting from recessions, political events and acts or threats of terrorism or military conflicts;
the impact of the geopolitical environment;

the effect of leverage on our financial position and earnings;
our ability to integrate the operations of recently acquired companies;
shifts in population and other demographics;
industry conditions, including competition;
fluctuations in operating costs;
technological changes and innovations;
changes in labor conditions;
fluctuations in exchange rates and currency values;
capital expenditure requirements;
the outcome of pending and future litigation;
legislative or regulatory requirements;
interest rates;
the effect of leverage on our financial position and earnings;
taxes;

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- the pending indecency legislation;
- access to capital markets; and
- certain other factors set forth in our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2003.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Required information is within Item 2

ITEM 4. CONTROLS AND PROCEDURES

Our principal executive and financial officers have concluded, based on their evaluation as of the end of the period covered by this Form 10-Q, that our disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Subsequent to our evaluation, there were no significant changes in internal controls or other factors that could significantly affect these internal controls.

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Part II OTHER INFORMATION

Item 1. Legal Proceedings

We were 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 we were 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. We have not received notice of an appeal filed by SBS to the Supreme Court

There are various other lawsuits and claims pending against us. We believe that any ultimate liability resulting from those actions or claims will not have a material adverse effect on our results of operations, financial position or liquidity.

We are currently involved in certain legal proceedings and, as required, have accrued our 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 our assumptions or the effectiveness of our strategies related to these proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchases.

On March 30, 2004, and then again on July 21, 2004, we publicly announced that our Board of Directors authorized share repurchase programs each up to $1.0 billion effective immediately. The March 30, 2004 was program completed at August 2, 2004 upon the repurchase of $1.0 billion in our shares. The second share repurchase program will expire one year from the date of authorization, although prior to such time the program may be discontinued or suspended at any time. During the three months ended September 30, 2004, we repurchased the following shares:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs
July 1 through July 31	9,915,100	$35.64	9,915,100	$ 1,020,616,432
August 1 through August 31	7,846,000	$35.64	7,846,000	$ 740,960,488
September 1 through September 30	5,044,500	$33.51	5,044,500	$ 571,897,248
Total	22,805,600		22,805,600	

Item 6. Exhibits

See Exhibit Index on Page 30

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CLEAR CHANNEL COMMUNICATIONS, INC.
November 4, 2004	/s/ Randall T. Mays
	Randall T. Mays Executive Vice President and Chief Financial Officer
November 4, 2004	/s/ Herbert W. Hill, Jr.
	Herbert W. Hill, Jr. Senior Vice President and Chief Accounting Officer

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of October 2, 1999, among Clear Channel, CCU Merger Sub, Inc. and AMFM Inc. (incorporated by reference to the exhibits of Clear Channel s Current Report on Form 8-K filed October 5, 1999).
2.2	Agreement and Plan of Merger dated as of February 28, 2000, among Clear Channel, CCU II Merger Sub, Inc. and SFX Entertainment, Inc. (incorporated by reference to the exhibits of Clear Channel s Current Report on Form 8-K filed February 29, 2000).
2.3	Agreement and Plan of Merger dated as of October 5, 2001, by and among Clear Channel, CCMM Sub, Inc. and The Ackerley Group, Inc. (incorporated by reference to the exhibits of Clear Channel s Current Report on Form 8-K filed October 9, 2001).
3.1	Current Articles of Incorporation of the Company (incorporated by reference to the exhibits of the Company s Registration Statement on Form S-3 (Reg. No. 333-33371) dated September 9, 1997).
3.2	Third Amended and Restated Bylaws of the Company (incorporated by reference to the exhibits of the Company s Registration Statement on Form S-4 (Reg. No. 333-74196) dated November 29, 2001).
3.3	Amendment to the Company s Articles of Incorporation (incorporated by reference to the exhibits to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Second Amendment to Clear Channel s Articles of Incorporation (incorporated by reference to the exhibits to Clear Channel s Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).
3.5	Third Amendment to Clear Channel s Articles of Incorporation (incorporated by reference to the exhibits to Clear Channel s Quarterly Report on Form 10-Q for the quarter ended May 31, 2000).
4.1	Agreement Concerning Buy-Sell Agreement by and between Clear Channel Communications, Inc., L. Lowry Mays, B.J. McCombs, John M Schaefer and John W. Barger, dated August 3, 1998 (incorporated by reference to the exhibits to Clear Channel s Schedules 13-D/A, dated October 10, 2002).
4.2	Waiver and Second Agreement Concerning Buy-Sell Agreement by and between Clear Channel Communications, Inc., L. Lowry Mays and B.J. McCombs, dated August 17, 1998 (incorporated by reference to the exhibits to Clear Channel s Schedule 13-D/A, dated October 10, 2002).
4.3	Waiver and Third Agreement Concerning Buy-Sell Agreement by and between Clear Channel Communications, Inc., L. Lowry Mays and B.J. McCombs, dated July 26, 2002 (incorporated by reference to the exhibits to Clear Channel s Schedule 13-D/A, dated October 10, 2002).
4.4	Waiver and Fourth Agreement Concerning Buy-Sell Agreement by and between Clear Channel Communications, Inc., L. Lowry Mays and B.J. McCombs, dated September 27, 2002 (incorporated by reference to the exhibits to Clear Channel s Schedule 13-D/A, dated October 10, 2002).

4.5	Buy-Sell Agreement by and between Clear Channel Communications, Inc., L. Lowry Mays, B. J. McCombs, John M. Schaefer and John W. Barger, dated May 31, 1977 (incorporated by reference to the exhibits of the Company s Registration Statement on Form S-1 (Reg. No. 33-289161) dated April 19, 1984).
4.6	Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York as Trustee (incorporated by reference to the exhibits to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
4.7	First Supplemental Indenture dated March 30, 1998 to Senior Indenture dated October 1, 1997, by and between the Company and The Bank of New York, as Trustee (incorporated by reference to the exhibits to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).

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Exhibit Number	Description
4.8	Second Supplemental Indenture dated June 16, 1998 to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and the Bank of New York, as Trustee (incorporated by reference to the exhibits to the Company s Current Report on Form 8-K dated August 27, 1998).
4.9	Third Supplemental Indenture dated June 16, 1998 to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and the Bank of New York, as Trustee (incorporated by reference to the exhibits to the Company s Current Report on Form 8-K dated August 27, 1998).
4.10	Fourth Supplement Indenture dated November 24, 1999 to Senior Indenture dated October 1, 1997, by and between Clear Channel and The Bank of New York as Trustee (incorporated by reference to the exhibits of the Company s Annual Report on Form 10-K for the year ended December 31, 1999).
4.11	Fifth Supplemental Indenture dated June 21, 2000, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits of Clear Channel s registration statement on Form S-3 (Reg. No. 333-42028) dated July 21, 2000).
4.12	Sixth Supplemental Indenture dated June 21, 2000, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits of Clear Channel s registration statement on Form S-3 (Reg. No. 333-42028) dated July 21, 2000).
4.13	Seventh Supplemental Indenture dated July 7, 2000, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits of Clear Channel s registration statement on Form S-3 (Reg. No. 333-42028) dated July 21, 2000).
4.14	Eighth Supplemental Indenture dated September 12, 2000, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
4.15	Ninth Supplemental Indenture dated September 12, 2000, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
4.16	Tenth Supplemental Indenture dated October 26, 2001, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
4.17	

	Eleventh Supplemental Indenture dated January 9, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York as Trustee (incorporated by reference to the exhibits to Clear Channel s Annual Report on Form 10-K for the year ended December 31, 2002).
4.18	Twelfth Supplemental Indenture dated March 17, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated March 18, 2003).
4.19	Thirteenth Supplemental Indenture dated May 1, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated May 2, 2003).

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Exhibit Number	Description
4.20	Fourteenth Supplemental Indenture dated May 21, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated May 22, 2003).
4.21	Fifteenth Supplemental Indenture dated November 5, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated November 14, 2003).
4.22	Sixteenth Supplemental Indenture dated December 9, 2003, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated December 10, 2003).
4.23	Seventeenth Supplemental Indenture dated September 15, 2004, to Senior Indenture dated October 1, 1997, by and between Clear Channel Communications, Inc. and The Bank of New York, as Trustee (incorporated by reference to the exhibits to Clear Channel s Current Report on Form 8-K dated September 21, 2004).
4.24	Termination Agreement by and among Clear Channel Communications, Inc., L. Lowry Mays, Thomas O. Hicks and certain other shareholders affiliated with Mr. Hicks dated March 10, 2004, terminating that certain Shareholders Agreement dated October 2, 1999 (incorporated by reference to the exhibits of Clear Channel s Annual Report on Form 10-K for the year ended December 31, 2003).
4.25	Shareholder s Agreement by and between Clear Channel Communications, Inc. and L. Lowry Mays dated March 10, 2004 (incorporated by reference to the exhibits of Clear Channel s Annual Report on Form 10-K for the year ended December 31, 2003).
4.26	Shareholders Agreement by and among Clear Channel Communications, Inc., Thomas O. Hicks and certain other shareholders affiliated with Mr. Hicks dated March 10, 2004 (incorporated by reference to the exhibits of Clear Channel s Annual Report on Form 10-K for the year ended December 31, 2003).
10.1	Credit Agreement among Clear Channel Communications, Inc., Bank of America, N.A., as Administrative Agent, Offshore Sub-Administrative Agent, Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, as Syndication Agent, and certain other lenders dated July 13, 2004 (incorporated by reference to the exhibit to Clear Channel s Current Report on Form 8-K dated September 17, 2004.)
11	Statement re: Computation of Per Share Earnings.
12	Statement re: Computation of Ratios.

31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.