Clear Channel Outdoor Holdings, Inc.
Form 10-Q
November 13, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 AND 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended September 30, 2006
Commission file number 1-32663
CLEAR CHANNEL OUTDOOR HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Class	Outstanding at November 9, 2006
Class A Common Stock, $.01 par value	39,486,517
Class B Common Stock, $.01 par value	315,000,000

CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
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Certification of CFO Pursuant to Section 302
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PART I

Item 1. UNAUDITED FINANCIAL STATEMENTS

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

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Current Assets		
Cash and cash equivalents	$ 104,657	$ 108,644
Accounts receivable, less allowance of $23,289 at September 30, 2006 and $21,699 at December 31, 2005	715,681	689,007
Due from Clear Channel Communications		131
Prepaid expenses	90,091	70,459
Other current assets	203,338	181,939
Total Current Assets	1,113,767	1,050,180
Property, Plant and Equipment		
Land, buildings and improvements	335,197	313,011
Structures	3,490,365	3,327,326
Furniture and other equipment	235,632	231,758
Construction in progress	57,874	43,012
	4,119,068	3,915,107
Less accumulated depreciation	1,961,663	1,761,679
	2,157,405	2,153,428
Intangible Assets		
Definite-lived intangibles, net	290,758	251,951
Indefinite-lived intangibles permits	257,516	207,921
Goodwill	1,016,744	748,886
Other Assets		
Notes receivable	6,150	5,452
Investments in, and advances to, nonconsolidated affiliates	93,630	98,975
Deferred tax asset	193,816	239,947
Other assets	92,917	161,605
Total Assets	$ 5,222,703	$ 4,918,345

See Notes to Consolidated and Combined Financial Statements

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

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Current Liabilities		
Accounts payable	$ 98,530	$ 213,021
Accrued expenses	477,966	337,441
Due to Clear Channel Communications	49,933	
Accrued interest	4,380	2,496
Accrued income taxes	7,605	16,812
Deferred income	116,660	83,196
Current portion of long-term debt	77,723	140,846
Deferred tax liabilities	3,186	
Total Current Liabilities	835,983	793,812
Long-term debt	105,268	86,940
Debt with Clear Channel Communications	2,500,000	2,500,000
Other long-term liabilities	165,023	160,879
Minority interest	171,515	167,277
Commitment and contingent liabilities (Note 6)		
Shareholders Equity		
Class A common stock	395	352
Class B common stock	3,150	3,150
Additional paid-in capital	1,275,726	1,183,258
Retained earnings	108,218	20,205
Accumulated other comprehensive income	57,425	2,472
Total Shareholders Equity	1,444,914	1,209,437
Total Liabilities and Shareholders Equity	$ 5,222,703	$ 4,918,345

See Notes to Consolidated and Combined Financial Statements

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2006	2005	2006	2005
Revenue	$ 2,067,026	$ 1,931,471	$ 720,254	$ 668,003
Operating expenses:				
Direct operating expenses (includes share-based payments of $3,279, $512, $1,081 and $334 for the nine and three months ended September 30, 2006 and 2005, respectively, and excludes depreciation and amortization)	1,053,843	988,448	367,620	329,688
Selling, general and administrative expenses (includes share-based payments of $1,275 $0, $420 and $0 for the nine and three months ended September 30, 2006 and 2005, respectively, and excludes depreciation and amortization)	401,603	410,075	134,637	153,162
Depreciation and amortization	299,270	290,233	102,123	95,405
Corporate expenses (includes share-based payments of $67, $0, $22 and $0 for the nine and three months ended September 30, 2006 and 2005, respectively, and excludes depreciation and amortization)	43,830	39,397	15,125	12,999
Gain (loss) on the disposition of assets net	21,607	2,914	(834)	1,043
Operating income	290,087	206,232	99,915	77,792
Interest expense on debt with Clear Channel Communications	114,101	133,093	39,538	60,265
Interest expense	11,244	9,874	4,061	3,407
Equity in earnings of nonconsolidated affiliates	5,622	9,908	1,823	3,961
Other income (expense) net	1,667	(9,719)	467	(5,748)
Income before income taxes and minority interest	172,031	63,454	58,606	12,333
Income tax (expense) benefit:				
Current	(28,578)	(37,767)	(14,376)	8,978
Deferred	(47,975)	6,023	(12,270)	(5,856)
Income tax (expense) benefit:	(76,553)	(31,744)	(26,646)	3,122
Minority interest income (expense), net of tax	(7,465)	(10,548)	(127)	(5,913)
Net income	88,013	21,162	31,833	9,542
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	54,953	(162,466)	(6,655)	878
Comprehensive income (loss)	$ 142,966	$ (141,304)	$ 25,178	$ 10,420

Net income per common share:								
Basic	$	.25	$	.07	$	.09	$	.03
Diluted	$	.25	$	.07	$	.09	$	.03

See Notes to Consolidated and Combined Financial Statements

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

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 88,013	$ 21,162
Reconciling items:		
Depreciation and amortization	299,270	290,233
Deferred taxes	47,975	(6,023)
(Gain) loss on sale of operating and fixed assets	(21,607)	(2,914)
Other reconciling items, net	(288)	(886)
Changes in operating assets and liabilities, net of effects of acquisitions	(26,918)	35,065
Net cash provided by operating activities	386,445	336,637
Cash flows from investing activities:		
Decrease (increase) in notes receivable, net	(699)	51
Decrease (increase) in investments in, and advances to nonconsolidated affiliates net	2,776	1,114
Purchases of property, plant and equipment	(163,980)	(130,484)
Proceeds from disposal of assets	11,342	9,593
Acquisition of operating assets, net of cash acquired	(200,654)	(43,737)
Decrease (increase) in other net	(31,731)	(59,726)
Net cash used in investing activities	(382,946)	(223,189)
Cash flows from financing activities:		
Draws on credit facilities	72,898	58,206
Payments on credit facilities	(49,437)	(21,424)
Proceeds from long-term debt	31,693	
Payments on long-term debt	(111,231)	(25,416)
Net transfers (to) from Clear Channel Communications	50,076	(59,520)
Proceeds from exercise of stock options	101	
Net cash used in financing activities	(5,900)	(48,154)
Effect of exchange rate changes on cash	(1,586)	(11,566)
Net (decrease) increase in cash and cash equivalents	(3,987)	53,728
Cash and cash equivalents at beginning of period	108,644	37,948

Cash and cash equivalents at end of period	$	104,657	$	91,676

See Notes to Consolidated and Combined Financial Statements

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CLEAR CHANNEL OUTDOOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Preparation of Interim Financial Statements

The consolidated and combined financial statements were prepared by Clear Channel Outdoor Holdings, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal recurring accruals and adjustments necessary for adoption of new accounting standards) necessary to present fairly the results of the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Due to seasonality and other factors, the results for the interim periods are not necessarily indicative of results for the full year. The financial statements contained herein should be read in conjunction with the consolidated and combined financial statements and notes thereto included in the Company s 2005 Annual Report on Form 10-K. The combined financial statements include amounts prior to the initial public offering (IPO) derived from Clear Channel Communications consolidated financial statements using the historical results of operations and bases of the assets and liabilities of Clear Channel Communications outdoor advertising businesses and give effect to allocations of expenses from Clear Channel Communications. These allocations were made on a specifically identifiable basis or using relative percentages of headcount or other methods management considered to be a reasonable reflection of the utilization of services provided. The Company s historical financial data may not be indicative of its future performance nor will such data reflect what its financial position and results of operations would have been had it operated as an independent publicly traded company during the periods shown. Significant intercompany accounts among the combined businesses have been eliminated in consolidation. Investments in nonconsolidated affiliates are accounted for using the equity method of accounting.

Certain Reclassifications

The Company has reclassified prior year operating gains and losses to be included as a component of operating income, reclassified minority interest expense below its provision for income taxes and reclassified certain other assets to current assets to conform to current year presentation.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (Statement 155). Statement 155 is an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133) and FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (Statement 140) and allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. Statement 155 also requires companies to identify interest in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to Statement 133, and amends Statement 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. Statement 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company will adopt Statement 155 on January 1, 2007 and anticipates that adoption will not materially impact its financial position or results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 requires that entities recognize in their financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings upon adoption. FIN 48 is

effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on January 1, 2007 and is currently evaluating the impact FIN 48 will have on its financial position and results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Statement 157 does not expand the use of fair value in any new circumstances. Statement 157 is effective for financial statements issued for fiscal years

beginning after November 15, 2007. The Company will adopt Statement 157 on January 1, 2008 and anticipates that adoption will not materially impact its financial position or results of operations.

In September 2006, the FASB issued Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (Statement 158). Statement 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The portions of Statement 158 that apply to the Company are effective as of the end of the fiscal year ending after December 15, 2006. The Company will adopt Statement 158 as of December 31, 2006 and anticipates that adoption will not materially impact its financial position or results of operations.

Note 2: SHARE-BASED PAYMENTS

The Company has granted options to purchase shares of its Class A common stock to employees and directors of the Company and its affiliates under its incentive stock plan typically at no less than the fair value of the underlying stock on the date of grant. These options are granted for a term not exceeding ten years and are forfeited, except in certain circumstances, in the event the employee or director terminates his or her employment or relationship with the Company or one of its affiliates. These options generally vest over five years. The incentive stock plan contains anti-dilutive provisions that permit an adjustment of the number of shares of the Company s common stock represented by each option for any change in capitalization.

The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (Statement 123(R)), on January 1, 2006, using the modified-prospective-transition method. The fair value of the options is estimated using a Black-Scholes option-pricing model and amortized straight-line to expense over five years. Prior to January 1, 2006, the Company accounted for its share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations, as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123). Under that method, when options are granted with a strike price equal to or greater than the market price on the date of issuance, there is no impact on earnings either on the date of grant or thereafter, absent certain modifications to the options. The amounts recorded as share-based payments prior to adopting Statement 123(R) related to the expense associated with restricted stock awards. Under the modified-prospective-transition method, compensation cost recognized beginning in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company s income before income taxes and minority interest for the nine and three months ended September 30, 2006, was $3.4 million and $1.1 million lower, respectively, and net income for the nine and three months ended September 30, 2006, was $1.9 million and $0.6 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the nine months ended September 30, 2006 were $0.01 and $0.01 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended September 30, 2006 remained unchanged even if the Company had continued to account for share-based compensation under APB 25.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The excess tax benefit that is required to be classified as a financing cash inflow after adoption of Statement 123(R) is not material.

Prior to the IPO, the Company did not have any compensation plans under which it granted stock awards to employees. However, Clear Channel Communications granted certain of the Company s officers and other key employees stock options to purchase shares of Clear Channel Communications common stock. All outstanding

options to purchase shares of Clear Channel Communications common stock held by the Company s employees were converted using an intrinsic value method into options to purchase shares of the Company s Class A common stock concurrent with the closing of the IPO. As did the Company, Clear Channel Communications accounted for its stock-based award plans in accordance with APB 25, and related interpretations. Clear Channel Communications calculated the pro forma stock compensation expense as if the stock-based awards had been accounted for using the provisions of Statement 123. The stock compensation expense was then allocated to the Company based on the percentage of options outstanding to employees of the Company.

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Pro forma net income and earnings per share, assuming the Company and Clear Channel Communications accounted for all employee stock options using the fair value method and amortized such to expense over the options vesting period is as follows:

(In thousands, except per share data)		Nine Months Ended September 30, 2005		Three Months Ended September 30, 2005
Net income:				
Reported	$	21,162	$	9,542
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		163		106
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		1,758		351
Pro Forma	$	19,567	$	9,297
Net income per common share:				
Basic:				
Reported	$	.07	$	.03
Pro Forma	$	.06	$	.03
Diluted:				
Reported	$	.07	$	.03
Pro Forma	$	.06	$	.03

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on the Company s stock, historical volatility on the Company s stock, and other factors. The expected life is based on historical data of options granted and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. Prior to the adoption of Statement 123(R), the Company recognized forfeitures as they occurred in its Statement 123 pro forma disclosures. Beginning January 1, 2006, the Company includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of awards. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods equal to the expected life of the option.

The following assumptions were used to calculate the fair value of the Company s options on the date of grant during the nine months ended September 30, 2006:

Expected volatility	27%
Expected life in years	5.0 7.5
Risk-free interest rate	4.58% 5.08%
Dividend yield	0%

The following table presents a summary of the Company s stock options outstanding at and stock option activity during the nine months ended September 30, 2006 (Price reflects the weighted average exercise price per share):

(In thousands, except per share data)	Options	Price	Weighted Average Remaining	Aggregate Intrinsic Value

			Contractual Term		
Outstanding, beginning of year	8,509	$ 24.05			
Granted	177	19.85			
Exercised	(6)	20.42			
Forfeited	(276)	22.59			
Expired	(510)	32.37			
Outstanding, September 30	7,894	23.43	4.5 years	$	8,262
Exercisable, September 30	3,064		2.3 years	$	174
Weighted average fair value per option granted	$ 6.55				

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A summary of the Company s nonvested options at December 31, 2005, and changes during the nine months ended September 30, 2006, is presented below:

(In thousands, except per share data)	Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	5,634	$ 4.56
Granted	177	6.55
Vested	(705)	.91
Forfeited	(276)	4.01
Nonvested, September 30	4,830	5.21

There were 33.9 million shares available for future grants under the Company s option plan at September 30, 2006. Vesting dates range from April 2004 to April 2011, and expiration dates range from November 2006 to April 2016 at exercise prices and average contractual lives as follows:

(In thousands of shares) Range of Exercise Prices		Outstanding as of 9/30/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of 9/30/06	Weighted Average Exercise Price
$15.01	$20.00	3,408	6.5	$17.98	57	$17.35
20.01	25.00	1,097	4.2	21.08	229	21.57
25.01	30.00	2,143	2.9	26.12	1,532	26.04
30.01	35.00	692	2.4	32.78	692	32.78
35.01	40.00	417	0.6	37.86	417	37.86
40.01	45.00	98	3.8	42.80	98	42.80
45.01	50.00	39	0.2	49.52	39	49.52
		7,894	4.5	23.43	3,064	29.50

Restricted Stock Awards

The Company also grants restricted stock awards to employees and directors of the Company and its affiliates. These common shares hold a legend which restricts their transferability for a term of up to five years and are forfeited, except in certain circumstances, in the event the employee terminates his or her employment or relationship with the Company prior to the lapse of the restriction. The restricted stock awards were granted out of the Company s stock option plan.

The following table presents a summary of the Company s restricted stock outstanding at and restricted stock activity during the nine months ended September 30, 2006 (Price reflects the weighted average share price at the date of grant):

	2006	
(In thousands, except per share data)	Awards	Price
Outstanding, beginning of year	236	$ 18.00
Granted	6	19.87
Vested (restriction lapsed)		
Forfeited	(19)	18.01

Outstanding, September 30	223	18.04

The Company recorded compensation expense of $0.6 million and $0.5 million for the nine months ended September 30, 2006 and 2005, respectively, and $0.2 million and $0.3 million for the three months ended September 30, 2006 and 2005, respectively, related to shares of Clear Channel Communications restricted stock granted to the Company s employees prior to the IPO.

Unrecognized Share-Based Compensation Cost

As of September 30, 2006, there was $12.2 million of unrecognized compensation cost related to nonvested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately three years.

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Note 3: INTANGIBLE ASSETS AND GOODWILL

Definite-lived Intangibles

The Company has definite-lived intangible assets which consist primarily of transit and street furniture contracts and other contractual rights acquired in business combinations, all of which are amortized over the shorter of either the respective lives of the agreements or over the period of time the assets are expected to contribute to the Company s future cash flows. Other definite-lived intangible assets are amortized over the period of time the assets are expected to contribute directly or indirectly to the Company s future cash flows. The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible assets at September 30, 2006 and December 31, 2005:

	September 30, 2006		December 31, 2005	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Transit, street furniture, and other contractual rights	$ 777,850	$ 488,893	$ 651,456	$ 408,017
Other	41,969	40,168	56,449	47,937
Total	$ 819,819	$ 529,061	$ 707,905	$ 455,954

The Company completed the acquisition of Interspace Airport Advertising (Interspace) on July 1, 2006. As a result of the acquisition, the company recorded $39.5 million in definite-lived intangible assets which consists primarily of airport contracts with a remaining weighted average life of 5 years. See further discussion of the acquisition at Note 4. Total amortization expense from definite-lived intangible assets for the nine and three months ended September 30, 2006 and for the year ended December 31, 2005 was $61.3 million, $19.3 million and $89.3 million, respectively. The following table presents the Company s estimate of amortization expense for each of the five succeeding fiscal years for definite-lived intangible assets:

(In thousands)	
2007	$61,070
2008	37,656
2009	28,071
2010	26,368
2011	17,423

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

Indefinite-lived Intangibles

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

The Company does not amortize its billboard permits. The Company tests these indefinite-lived intangible assets for impairment at least annually using the direct method. Under the direct method, it is assumed that rather than acquiring indefinite-lived intangible assets as a part of a going concern business, the buyer hypothetically obtains indefinite-lived intangible assets and builds a new operation with similar attributes from scratch. Thus, the buyer

incurs start-up costs during the build-up phase which are normally associated with going concern value. Initial capital costs are deducted from the discounted cash flows model which results in value that is directly attributable to the indefinite-lived intangible assets.

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

The carrying amount for billboard permits at September 30, 2006 and December 31, 2005 was $257.5 million and $207.9 million, respectively.

Goodwill

The Company tests goodwill for impairment using a two-step process. The first step, used to screen for potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. The second step, used to measure the amount of the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The following table presents the changes in the carrying amount of goodwill in each of the Company s reportable segments for the nine-month period ended September 30, 2006:

(In thousands)	Americas	International	Total
Balance as of December 31, 2005	$ 405,275	$ 343,611	$ 748,886
Acquisitions	211,649	33,917	245,566
Dispositions	(1,913)		(1,913)
Foreign currency	401	24,119	24,520
Adjustments		(315)	(315)
Balance as of September 30, 2006	$ 615,412	$ 401,332	$ 1,016,744

Included in the Americas acquisitions amount above is $127.6 million related to the acquisition of Interspace, all of which is expected to be deductible for tax purposes.

Note 4: RECENT DEVELOPMENTS

Acquisitions

The Company completed the acquisition of Interspace on July 1, 2006, by issuing 4,250,000 shares of the Company s Class A common stock and the payment of approximately $81.3 million. The acquisition was valued at approximately $170.4 million based on the Company s common shares issued at the closing share price on the date of acquisition of $89.1 million and the cash consideration paid. Interspace s 2005 revenues and operating expenses (direct and SG&A expenses) were approximately $45.8 million and $32.5 million, respectively.

In addition to the Interspace acquisition, during the nine months ended September 30, 2006, the Company s Americas segment acquired display faces for $27.9 million in cash, including assets acquired in the exchange of one of its Americas markets for assets located in a different market. In addition, the Company s international segment paid $91.4 million, primarily related to the acquisition of an outdoor advertising business in the United Kingdom.

Disposition of Assets

During the first quarter of 2006, the Company exchanged assets in one of its Americas markets for assets located in a different market and recognized a gain of $13.2 million in Gain (loss) on disposition of assets net.

Recent Legal Proceedings

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

The Company is currently involved in certain other legal proceedings and, as required, has accrued an estimate of the probable costs for the resolution of these claims, inclusive of those discussed above. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of

litigation and settlement strategies. It is

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possible, however, that future results of operations for any particular period could be materially affected by changes in the Company s assumptions or the effectiveness of its strategies related to these proceedings.

Note 5: RESTRUCTURING

In the third quarter of 2005, the Company restructured its operations in France. As a result, the Company recorded $26.6 million in restructuring costs as a component of selling, general and administrative expenses; $22.5 million was related to severance costs and $4.1 million was related to other costs. During the nine months ended September 30, 2006, $7.4 million was paid and charged to the restructuring reserve. As of September 30, 2006, the accrual balance was $14.7 million.

In addition to the France restructuring, the Company has a restructuring liability related to Clear Channel Communications merger with Ackerley in June 2002. At September 30, 2006, the accrual balance for this restructuring was $1.5 million. The remaining restructuring accrual is comprised solely of lease termination, which will be paid over the next five years.

Note 6: COMMITMENTS AND CONTINGENCIES

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

As discussed in Note 4, there are various lawsuits and claims pending against the Company. Based on current assumptions, the Company has accrued its estimate of the probable costs for the resolution of these claims. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company s assumptions or the effectiveness of its strategies related to these proceedings.

Note 7: RELATED PARTY TRANSACTIONS

The Company records net amounts, up to a maximum of $1.0 billion, due to or from Clear Channel Communications as Due from Clear Channel Communications or Due to Clear Channel Communications on the consolidated balance sheets. The account represents the Company s revolving promissory note with Clear Channel Communications. Subsequent to the IPO, the account accrues interest pursuant to the Master Agreement and is generally payable on demand. Included in the account is the net activity resulting from day-to-day cash management services provided by Clear Channel Communications. As a part of these services, the Company maintains collection bank accounts swept daily by Clear Channel Communications. In return, Clear Channel Communications funds the Company s controlled disbursement accounts as checks or electronic payments are presented for payment. At September 30, 2006, the balance of $49.9 million was a liability recorded in Due to Clear Channel Communications on the consolidated balance sheet. At December 31, 2005, the balance of $0.1 million was an asset recorded in Due from Clear Channel Communications on the consolidated balance sheet. The increase in the net amount due to Clear Channel Communications during the nine months ended September 30, 2006 was a result of Clear Channel Communications funding a portion of the Company s debt payments and certain acquisitions. The net interest income for the nine months ended September 30, 2006 was $0.8 million and the net interest expense for the three months ended September 30, 2006 was $0.4 million.

On August 2, 2005, the Company distributed a note in the original principal amount of $2.5 billion to Clear Channel Communications as a dividend. This note matures on August 2, 2010 and may be prepaid in whole at any time, or in part from time to time. This note accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. This note is mandatorily payable upon a change of control of us and, subject to certain exceptions, all proceeds from debt or equity raised by us must be used to prepay such note. At September 30, 2006, the interest rate on the $2.5 billion intercompany note was 6.1%.

Clear Channel Communications has a five-year, multi-currency revolving credit facility in the amount of $1.75 billion. Certain of the Company s international subsidiaries may borrow under a $150.0 million sub-limit within this credit facility to the extent Clear Channel Communications has not already borrowed against this capacity. This sub-limit allows for borrowings in various foreign currencies, which are used to hedge net assets in those currencies and provides funds to the Company s international operations for certain working capital needs. Certain of the

Company s international subsidiary borrowings under this sub-limit are guaranteed by Clear Channel Communications. The interest rate is based upon LIBOR or, for Euro denominated borrowings, EURIBOR, plus, in

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each case, a margin. At September 30, 2006, the interest rate on borrowings under this credit facility ranged from 4.2% to 5.4%. At September 30, 2006, the outstanding balance on the sub-limit was approximately $30.7 million, and approximately $119.3 million was available for future borrowings, with the entire balance to be paid on July 12, 2009.

The Company provides advertising space on its billboards for radio stations owned by Clear Channel Communications. For the nine months ended September 30, 2006 and 2005, the Company recorded $6.9 million and $7.0 million, respectively, in revenue for these advertisements. For the three months ended September 30, 2006 and 2005, the Company recorded $1.9 million and $1.6 million, respectively, in revenue for these advertisements.

Under the corporate services agreement entered into between Clear Channel Communications and the Company at the IPO, Clear Channel Communications provides management services to the Company, which include, among other things: (i) treasury, payroll and other financial related services; (ii) executive officer services; (iii) human resources and employee benefits services; (iv) legal and related services; (v) information systems, network and related services; (vi) investment services; (vii) procurement and sourcing support services; and (viii) other general corporate services. These services are charged to the Company based on actual direct costs incurred or allocated by Clear Channel Communications based on headcount, revenue or other factors on a pro rata basis. For the nine months ended September 30, 2006 and 2005, the Company recorded $15.8 million and $11.8 million, respectively, as a component of corporate expenses for these services. For the three months ended September 30, 2006 and 2005, the Company recorded $5.2 million and $4.0 million, respectively, as a component of corporate expenses for these services.

Pursuant to the tax matters agreement entered into between Clear Channel Communications and the Company at the IPO, the operations of the Company are included in a consolidated federal income tax return filed by Clear Channel Communications. The Company s provision for income taxes has been computed on the basis that the Company files separate consolidated income tax returns with its subsidiaries. Tax payments are made to Clear Channel Communications on the basis of the Company s separate taxable income. Tax benefits recognized on the Company s employee stock options exercises are retained by the Company.

The Company computes its deferred income tax provision using the liability method in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, as if the Company was a separate taxpayer. Deferred tax assets and liabilities are determined based on differences between financial reporting bases and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. Deferred tax assets are reduced by valuation allowances if the Company believes it is more likely than not some portion or all of the asset will not be realized.

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Note 8: SEGMENT DATA

The Company has two reportable segments Americas and international. The Americas segment includes operations in the United States, Canada and Latin America, and the international segment includes operations in Europe, Asia, Africa and Australia.

(In thousands)	Americas	International	Corporate expenses and gain (loss) on disposition of assets - net	Consolidated/ Combined
Nine months ended September 30, 2006				
Revenue	$ 965,733	$ 1,101,293	$ ¾	$ 2,067,026
Direct operating expenses	382,401	671,442	¾	1,053,843
Selling, general and administrative expenses	150,846	250,757	¾	401,603
Depreciation and amortization	129,382	169,888	¾	299,270
Corporate expenses			43,830	43,830
Gain (loss) on disposition of assets net			21,607	21,607
Operating income (loss)	$ 303,104	$ 9,206	$ (22,223)	$ 290,087
Identifiable assets	$ 2,764,509	$ 2,265,066	$ 193,128	$ 5,222,703
Capital expenditures	$ 60,367	$ 103,613	$ ¾	$ 163,980
Three months ended September 30, 2006				
Revenue	$ 356,384	$ 363,870	$ ¾	$ 720,254
Direct operating expenses	133,468	234,152	¾	367,620
Selling, general and administrative expenses	52,029	82,608	¾	134,637
Depreciation and amortization	45,897	56,226	¾	102,123
Corporate expenses			15,125	15,125
Gain (loss) on disposition of assets net			(834)	(834)
Operating income (loss)	$ 124,990	$ (9,116)	$ (15,959)	$ 99,915
Nine months ended September 30, 2005				
Revenue	$ 886,649	$ 1,044,822	$ ¾	$ 1,931,471
Direct operating expenses	359,263	629,185	¾	988,448
Selling, general and administrative expenses	136,919	273,156	¾	410,075
Depreciation and amortization	127,019	163,214	¾	290,233
Corporate expenses			39,397	39,397
Gain (loss) on disposition of assets net			2,914	2,914
Operating income (loss)	$ 263,448	$ (20,733)	$ (36,483)	$ 206,232
Identifiable assets	$ 2,515,518	$ 2,166,667	$ 613,337	$ 5,295,522
Capital expenditures	$ 50,012	$ 80,472	$ ¾	$ 130,484

Three months ended September 30, 2005				
Revenue	$ 317,705	$ 350,298	$ ¾	$ 668,003
Direct operating expenses	122,040	207,648	¾	329,688
Selling, general and administrative expenses	45,768	107,394	¾	153,162
Depreciation and amortization	40,928	54,477	¾	95,405
Corporate expenses			12,999	12,999
Gain (loss) on disposition of assets net			1,043	1,043
Operating income (loss)	$ 108,969	$ (19,221)	$ (11,956)	$ 77,792

Revenue of $59.3 million and $46.3 million derived from the Company s operations in Latin America and Canada is included in the Americas data above for the nine months ended September 30, 2006 and 2005, respectively. Revenue of $19.5 million and $17.0 million derived from the Company s operations in Latin America and Canada is included in the Americas data above for the three months ended September 30, 2006 and 2005, respectively. Identifiable assets of $216.1 million and $196.9 million derived from the Company s operations in Latin America and Canada are included in the Americas data above for the nine months ended September 30, 2006 and 2005, respectively.

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

INTRODUCTION

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

Description of Business

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

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

The significant expenses associated with our operations include (i) direct production, maintenance and installation expenses, (ii) site lease expenses for land under our displays and (iii) revenue-sharing or minimum guaranteed amounts payable under our billboard, street furniture and transit display contracts. Our direct production, maintenance and installation expenses include costs for printing, transporting and changing the advertising copy on our displays, the related labor costs, the vinyl and paper costs and the costs for cleaning and maintaining our displays. Vinyl and paper costs vary according to the complexity of the advertising copy and the quantity of displays. Our site lease expenses include lease payments for use of the land under our displays, as well as any revenue-sharing arrangements we may have with the landlords. The terms of our Americas site leases generally range from 1 to 20 years. The terms of our international site leases generally range from 1 to 15 years, but vary across our networks.

Relationship with Clear Channel Communications

Clear Channel Communications has advised us its current intent is to continue to hold all of our Class B common stock and thereby retain its controlling interest in us. However, Clear Channel Communications is not subject to any contractual obligation that would prohibit it from selling, spinning off, splitting off or otherwise disposing of any shares of our common stock.

Basis of Presentation

Our combined financial statements for the periods prior to our IPO have been derived from the financial statements and accounting records of Clear Channel Communications, principally from the statements and records representing Clear Channel Communications Americas and International Outdoor segments, using the historical results of operations and historical bases of assets and liabilities of our business. The consolidated and combined statements of operations include expense allocations for certain corporate functions historically provided to us by Clear Channel Communications. These allocations were made on a specifically identifiable basis or using relative percentages of headcount as compared to Clear Channel Communications other businesses or other methods. We and Clear Channel Communications considered these allocations to be a reflection of the utilization of services provided.

Under the Corporate Services Agreement, Clear Channel Communications allocates to us our share of costs for services provided on our behalf based on actual direct costs incurred by Clear Channel Communications or an estimate of Clear Channel Communications expenses incurred on our behalf. For the three months ended September 30, 2006 and 2005, we recorded approximately $5.2 million and $4.0 million, respectively, as a component of corporate expenses for these services. For the nine months ended September 30, 2006 and 2005, we recorded approximately $15.8 million and $11.8 million, respectively, as a component of corporate expenses for these services.

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We believe the assumptions underlying the combined financial statements prior to the IPO are reasonable. However, the combined financial statements may not necessarily reflect our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone company during the periods presented.

Share-Based Payments

We adopted FAS 123(R), *Share-Based Payment*, on January 1, 2006, under the modified-prospective approach which requires us to recognize share-based payments in the same line items as cash compensation in the 2006 financial statements for all options granted after the date of adoption as well as for any options that were unvested at adoption. Under the modified-prospective approach, no stock option expense attributable to these options is reflected in the financial statements for 2005. The amounts recorded as share-based payments in the financial statements prior to adopting FAS 123(R) related to the expense associated with restricted stock awards. As a result of adoption, we recognized $3.2 million, $1.2 million and $0.07 million of share-based payments in direct operating, SG&A and corporate expenses, respectively, during the nine months ended September 30, 2006. As of September 30, 2006, there was $12.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of approximately three years.

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on the Company s stock, historical volatility on the Company s stock, and other factors. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise and employees terminations within the valuation model. The risk free rate for periods equal to the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

RESULTS OF OPERATIONS

Consolidated and Combined Results of Operations

The comparison of the Three and Nine Months Ended September 30, 2006 to the Three and Nine Months Ended September 30, 2005 is as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
(In thousands)	2006	2005	Change	2006	2005	Change
Revenue	$ 720,254	$ 668,003	8%	$ 2,067,026	$ 1,931,471	7%
Operating expenses:						
Direct operating expenses	367,620	329,688	12%	1,053,843	988,448	7%
Selling, general and administrative expenses	134,637	153,162	(12%)	401,603	410,075	(2%)
Depreciation and amortization	102,123	95,405	7%	299,270	290,233	3%
Corporate expenses	15,125	12,999	16%	43,830	39,397	11%
Gain (loss) on disposition of assets net	(834)	1,043		21,607	2,914	
Operating income	99,915	77,792	28%	290,087	206,232	41%
Interest expense (including interest on debt with Clear Channel Communications)	43,599	63,672		125,345	142,967	
Equity in earnings of nonconsolidated affiliates	1,823	3,961		5,622	9,908	
Other income (expense) net	467	(5,748)		1,667	(9,719)	

Income before income taxes and minority interest	58,606	12,333	172,031	63,454
Income tax (expense) benefit:				
Current	(14,376)	8,978	(28,578)	(37,767)
Deferred	(12,270)	(5,856)	(47,975)	6,023
Income tax (expense) benefit:	(26,646)	3,122	(76,553)	(31,744)
Minority interest income (expense), net of tax	(127)	(5,913)	(7,465)	(10,548)
Net income	$ 31,833	$ 9,542	$ 88,013	$ 21,162

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Revenue

Three Months

Consolidated revenue increased $52.3 million for the third quarter of 2006 compared to the third quarter of 2005. Our Americas segment s revenue increased $38.7 million, primarily from increased bulletin and airport revenues, as well as the acquisition of Interspace which contributed $14.6 million. Our international segment contributed $13.6 million of the increase, primarily related to $13.1 million attributable to foreign exchange gains

Nine Months

Consolidated revenue increased $135.6 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Our Americas segment s revenue increased $79.1 million from an increase in bulletin and airport revenues. Our international segment contributed $56.5 million, of which approximately $44.9 million during the first six months of 2006 related to Clear Media, a Chinese outdoor advertising company, which we began consolidating in the third quarter of 2005. Increased street furniture revenues also contributed to our international revenue growth, which were partially offset by a revenue decline of $18.7 million from foreign exchange fluctuations.

Direct Operating Expenses

Three Months

Direct operating expenses increased $37.9 million during the third quarter of 2006 compared to the third quarter of 2005. Our Americas segment contributed $11.4 million, principally from an increase in site-lease expenses and our acquisition of Interspace. Direct operating expenses in our international segment increased $26.5 million over the third quarter of 2005, primarily from an increase in fixed rent associated with guarantees on new contracts and $8.3 million from movements in foreign exchange. Share-based payments included in direct operating expenses associated with the adoption of FAS 123(R) were $1.1 million for the third quarter of 2006.

Nine Months

Direct operating expenses increased $65.4 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. Americas direct operating expenses increased $23.1 million, driven by increased site lease expenses associated with the increase in revenue and the acquisition of Interspace. Interspace contributed $6.2 million to direct operating expenses in the third quarter of 2006. Our international segment contributed $42.3 million, of which $18.0 million during the first six months of 2006 related to our consolidation of Clear Media and the remainder was principally due to an increase in site lease expenses. The increase in the international segment s direct operating expense was partially offset by a decline of $11.2 million related to movements in foreign exchange. Share-based payments included in direct operating expenses associated with the adoption of FAS 123(R) were $3.2 million for the nine months ended September 30, 2006.

Selling, General and Administrative Expenses (SG&A)

Three Months

SG&A decreased $18.5 million during the third quarter of 2006 compared to the third quarter of 2005, which included a $26.6 million charge related to restructuring our businesses in France during the third quarter of 2005, partially offset by $2.9 million related to movements in foreign exchange. SG&A increased in our Americas segment $6.3 million primarily from sales expenses associated with the increase in revenue. Share-based payments included in SG&A associated with the adoption of FAS 123(R) were $0.4 million during the third quarter of 2006.

Nine Months

SG&A decreased $8.5 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. SG&A increased $13.9 million in our Americas segment principally related to an increase in bonus and commission expenses associated with the increase in revenues. Our international SG&A expenses declined $22.4 million, primarily attributable to a decline of $4.6 million from movements in foreign exchange, as well as $26.6 million related to restructuring our businesses in France recorded in the third quarter of 2005. Share-based payments included in SG&A associated with the adoption of FAS 123(R) were $1.2 million for the nine months ended September 30, 2006.

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Depreciation and Amortization

Depreciation and amortization increased $6.7 million and $9.0 million during the three and nine months ended September 30, 2006, respectively, as compared to the same periods of 2005. The increase was primarily due to the acquisition of Interspace during the current quarter, the acquisition of an outdoor advertising business in the United Kingdom during the second quarter of 2006 and the consolidation of Clear Media beginning in the third quarter of 2005.

Corporate Expenses

Corporate expenses increased $2.1 million and $4.4 million during the three and nine months ended September 20, 3006, respectively, as compared to the same periods of 2005. The increase was the result of additional outside professional services primarily from costs related to the first three full quarters as a public Company.

Gain (Loss) on Disposition of Assets Net

The gain (loss) on disposition of assets net for the nine months ended September 30, 2006 increased $18.7 million as compared to the same period of 2005. The increase was primarily related to a $13.2 million gain in our Americas segment from the exchange of assets in one of our markets for the assets of a third party located in a different market during the first quarter of 2006.

Interest Expense (Including Interest on Debt with Clear Channel Communications)

Interest expense decreased $20.1 million and $17.6 million during the three and nine months ended September 30, 2006 as compared to the same periods of 2005, primarily as a result of a decrease in average debt outstanding. In 2005, we had in place two fixed principal and interest rate notes in the aggregate amount of $1.5 billion and a variable rate note in the amount of $2.5 billion. We used all of the net proceeds of the IPO, along with our balance in the Due from Clear Channel Communications account, to repay a portion of the outstanding balance of the aggregate $1.5 billion intercompany notes and the remaining balance was contributed to our capital by Clear Channel Communications.

Other Income (Expense) Net

Other income (expense) net was income of $0.5 million during the third quarter of 2006, an increase of $6.2 million over the expense of $5.7 million recorded during the same period of 2005. Other income (expense) net was income of $1.7 million in the first nine months of 2006, an increase of $11.4 million compared to an expense of $9.7 million for the same period of 2005. During the three and nine months ended September 20, 2005, we recorded $4.7 million and $11.0 million in royalty fees which represent payments to Clear Channel Communications for our use of certain trademarks and licenses. The royalty fee was discontinued as of January 1, 2006.

Income Taxes

Our operations are included in a consolidated income tax return filed by Clear Channel Communications. However, for our financial statements, our provision for income taxes was computed on the basis that we file separate consolidated income tax returns with our subsidiaries.

Current tax expense for the three months ended September 30, 2006 increased $23.4 million as compared to the same period of 2005. The increase is primarily due to an increase in taxable income of $46.3 million. Current tax expense for the nine months ended September 30, 2006 decreased $9.2 million as compared to the same period of 2005. The decrease was due to current tax benefits of approximately $21.3 million recorded in 2006 related to the filing of an amended tax return and the exchange of certain operating assets in the period. In addition, current tax expense decreased due to additional expense being recorded in the first nine months of 2005 for our international operations for changes in tax laws in various countries in which we operate. These amounts were offset by additional current tax expense recorded in the nine months ended September 30, 2006 due to an increase in taxable income of $108.6 million. Our effective tax rate for the nine months ended September 30, 2006 and 2005 was 44.5% and 50.0%, respectively.

Deferred tax expense for the three months and nine months ended September 30, 2006 increased $6.4 million and $54.0 million, respectively, over the same periods of 2005. The increase was primarily due to deferred tax expense of approximately $21.3 million being recorded in the first nine months of 2006 related to the filing of an amended tax return and the exchange of certain operating assets in the period. In addition, there was an increase in deferred tax expense related to the uncertainty of our ability to utilize certain tax losses in the future for certain international

operations as well as additional deferred tax benefits recorded during the first nine months of 2005 in our international operations for changes in tax laws in various countries in which we operate.

Minority Interest Income (Expense), Net of Tax

Minority interest expense decreased $5.8 million and $3.1 million for the three and nine months ended September 30, 2006 and 2005, respectively. The decrease was mainly attributable to an overall decline in operating results in Italy and Australia as well as adjustments related to our investment in China made to be in accordance with generally accepted accounting principles in the United States.

Americas Results of Operations

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
(In thousands)	2006	2005	Change	2006	2005	Change
Revenue	$ 356,384	$ 317,705	12%	$ 965,733	$ 886,649	9%
Direct operating expenses	133,468	122,040	9%	382,401	359,263	6%
Selling, general and administrative expenses	52,029	45,768	14%	150,846	136,919	10%
Depreciation and amortization	45,897	40,928	12%	129,382	127,019	2%
Operating income	$ 124,990	$ 108,969	15%	$ 303,104	$ 263,448	15%

Three Months

Our Americas revenue increased 12% during the third quarter of 2006, as compared to the third quarter of 2005, primarily attributable to bulletin and airport revenues, as well as revenues associated with the acquisition of Interspace. The increase in bulletin revenue was driven by an increase in rates. The increase in airport revenues was attributable to increased occupancy and rates as well as the acquisition of Interspace in the current quarter, which contributed $14.6 million to revenue growth over the third quarter of 2005. Strong revenue growth for the quarter was achieved across a broad spectrum of markets including Boston, Cleveland, Dallas, Minneapolis, Orlando, Sacramento, San Antonio and Tucson. Top advertising client categories during the quarter included autos, business and consumer services, entertainment, insurance and retail.

Direct operating expenses increased $11.4 million during the third quarter of 2006 as compared to the third quarter of 2005. The increase was driven by increased site lease expenses associated with the increase in revenue. Interspace contributed $6.2 million to direct operating expenses in the third quarter of 2006. Share-based payments were $0.9 million related to the adoption of FAS 123(R). SG&A expenses increased $6.3 million primarily related to an increase in commission expenses associated with the increase in revenue. Share-based payments were $0.3 million related to the adoption of FAS 123 (R).

Nine Months

Our Americas revenue increased 9% during the nine months ended September 30, 2006 as compared to the same period of 2005 primarily attributable to bulletin and airport revenues. Bulletin revenues increased primarily from an increase in average rates, while the increase in airport revenues was attributable to increased occupancy and rates. Also contributing to the increased airport revenues was $14.6 million from our acquisition of Interspace.

Direct operating expenses increased $23.1 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, primarily from an increase in site lease expenses of approximately $14.9 million, as well as $2.6 million related to the adoption of FAS 123(R). Interspace contributed $6.2 million to direct operating expenses in the nine months ended September 30, 2006. Our SG&A expenses increased $13.9 million in the nine months of 2006 over the same period of 2005, primarily from an increase in bonus and commission expenses of $7.2 million related to the increase in revenue, and $0.9 million of share-based payments related to the adoption of FAS 123(R).

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International Results of Operations

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
(In thousands)	2006	2005	Change	2006	2005	Change
Revenue	$ 363,870	$ 350,298	4%	$ 1,101,293	$ 1,044,822	5%
Direct operating expenses	234,152	207,648	13%	671,442	629,185	7%
Selling, general and administrative expenses	82,608	107,394	(23%)	250,757	273,156	(8%)
Depreciation and amortization	56,226	54,477	3%	169,888	163,214	4%
Operating income (loss)	$ (9,116)	$ (19,221)	N.A.	$ 9,206	$ (20,733)	N.A.

Three Months

Revenues from our international operations increased 4% in the third quarter of 2006 as compared to the third quarter of 2005 primarily related to $13.1 million from movements in foreign exchange. Excluding the effects of foreign exchange, our international revenue was flat over the third quarter of 2005, with growth in our street furniture revenues offset by a decline in our billboard revenues in France and the United Kingdom. Top advertising client categories during the quarter included autos, business and consumer services, entertainment, insurance and retail.

Direct operating expenses increased $26.5 million over the third quarter of 2005, primarily from an increase in fixed rent associated with guarantees on new contracts and $8.3 million from movements in foreign exchange. Share-based payments were $0.2 million related to the adoption of FAS 123(R). SG&A expenses decreased $24.8 million primarily from a $26.6 million charge from restructuring our businesses in France recorded in the third quarter of 2005, partially offset by $2.9 million related to movements in foreign exchange. Share-based payments were $0.1 million related to the adoption of FAS 123(R).

Nine Months

Revenue in our international segment increased 5% in the first nine months of 2006 compared to the same period of 2005. The increase includes approximately $44.9 million during the first six months of 2006 related to our consolidation of Clear Media, which we began consolidating in the third quarter of 2005. Also contributing to the increase was growth in street furniture revenues, partially offset by a decline in billboard revenues and approximately $18.7 million related to movements in foreign exchange for the first nine months of 2006 compared to the same period of 2005.

Direct operating expenses increased $42.3 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increase was primarily attributable to $18.0 million during the first six months of 2006 related to our consolidation of Clear Media and an increase in site lease expenses. Also included in the increase was $0.6 million related to the adoption of FAS 123(R). SG&A expenses decreased $22.4 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, primarily attributable to a decline of $4.6 million from movements in foreign exchange, as well as $26.6 million related to restructuring our businesses in France recorded in the third quarter of 2005. Share-based payments were $0.3 million related to the adoption of FAS 123(R).

Reconciliation of Segment Operating Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2006	2005	2006	2005
Americas	$ 124,990	$ 108,969	$ 303,104	$ 263,448
International	(9,116)	(19,221)	9,206	(20,733)
Corporate expenses	(15,125)	(12,999)	(43,830)	(39,397)

Gain (loss)on disposition of assets net	(834)	1,043	21,607	2,914
Consolidated and combined operating income	$ 99,915	$ 77,792	$ 290,087	$ 206,232

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Operating Activities:

Net cash provided by operating activities of $386.4 million for the nine months ended September 30, 2006 principally reflects net income of $88.0 million, depreciation and amortization of $299.3 million, and deferred taxes of $48.0 million. Net cash flow from operating activities is partially offset by a negative change in working capital of approximately $26.9 million and gains on sales of operating and fixed assets of $21.6 million. Net cash provided by operating activities of $336.6 million for the nine months ended September 30, 2005 principally reflects net income of $21.2 million, depreciation and amortization of $290.2 million, and a positive change in working capital of approximately $35.1 million.

Investing Activities:

Net cash used in investing activities of $382.9 million for the nine months ended September 30, 2006 principally reflects cash used for the acquisition of operating assets of $200.7 million and capital expenditures of $164.0 million related to purchases of property, plant and equipment. The cash used for the acquisition of operating assets primarily relates to the acquisition of Interspace and an outdoor advertising business in the United Kingdom. Net cash used in investing activities for the nine months ended September 30, 2005 principally reflects capital expenditures of $130.5 million related to purchases of property, plant and equipment and $43.8 million related to acquisitions of operating assets.

Financing Activities:

Net cash used in financing activities of $5.9 million for the nine months ended September 30, 2006 principally relates to a net decrease in debt of $56.1 million, offset by a net transfer of cash from Clear Channel Communications of $50.1 million. Net cash used in financing activities of $48.2 million for the nine months ended September 30, 2005 principally reflects a net transfer of cash to Clear Channel Communications of $59.5 million, offset by a net increase in debt of $11.4 million.

SOURCES OF CAPITAL

As of September 30, 2006 and December 31, 2005 we had the following debt outstanding:

(In millions)	September 30, 2006	December 31, 2005
Bank credit facility	$ 30.7	$ 15.0
Debt with Clear Channel Communications	2,500.0	2,500.0
Other borrowings	152.3	212.8
Due to Clear Channel Communications	49.9	
Total debt	2,732.9	2,727.8
Less: Cash and cash equivalents	104.7	108.6
Less: Due from Clear Channel Communications		0.1
	$ 2,628.2	$ 2,619.1

Credit Facility

In addition to cash flows from operations, another source of liquidity is through borrowings under a $150.0 million sub-limit included in Clear Channel Communications five-year, multicurrency $1.75 billion revolving credit facility. Certain of our international subsidiaries may borrow under the sub-limit to the extent Clear Channel Communications has not already borrowed against this capacity and is in compliance with its covenants under the credit facility. The interest rate on outstanding balances under the credit facility is based upon LIBOR or, for Euro denominated borrowings, EURIBOR, plus, in each case, a margin. At September 30, 2006, the outstanding balance on the sub-limit was approximately $30.7 million, and approximately $119.3 million was available for future borrowings, with the

entire balance to be paid on July 12, 2009. At September 30, 2006, the interest rate on borrowings under this credit facility ranged from 4.2% to 5.4%. As of November 10, 2006, the outstanding balance on the sub-limit was $31.1 million and $118.9 million was available for future borrowings.

Debt With Clear Channel Communications

As part of the day-to-day cash management services provided by Clear Channel Communications, we maintain an account that represents net amounts, up to a maximum of $1.0 billion, due to or from Clear Channel Communications, which is recorded as

Due from Clear Channel Communications or Due to Clear Channel Communications on the consolidated balance sheets. The account represents our revolving promissory note with Clear Channel Communications. Subsequent to the IPO, the account accrues interest pursuant to the Master Agreement and is generally payable on demand. Included in the account is the net activity resulting from day-to-day cash management services provided by Clear Channel Communications. As a part of these services, we maintain collection bank accounts swept daily by Clear Channel Communications. In return, Clear Channel Communications funds our controlled disbursement accounts as checks or electronic payments are presented for payment. At September 30, 2006, the balance of $49.9 million was a liability recorded in Due to Clear Channel Communications on the consolidated balance sheet. At December 31, 2005, the balance of $0.1 million was an asset recorded in Due from Clear Channel Communications on the consolidated balance sheet. The increase in the net amount due to Clear Channel Communications during the nine months ended September 30, 2006 was a result of Clear Channel Communications funding a portion of our debt payments and certain acquisitions. The net interest expense for the three months ended September 30, 2006 was $0.4 million and the net interest income for the nine months ended September 30, 2006 was $0.8 million.

On August 2, 2005, we distributed a note in the original principal amount of $2.5 billion to Clear Channel Communications as a dividend. This note matures on August 2, 2010 and may be prepaid in whole at any time, or in part from time to time. The note accrues interest at a variable per annum rate equal to the weighted average cost of debt for Clear Channel Communications, calculated on a monthly basis. This note is mandatorily payable upon a change of control of us and, subject to certain exceptions, all proceeds from debt or equity raised by us must be used to prepay such note. At September 30, 2006, the interest rate on the $2.5 billion intercompany note was 6.1%.

Debt Covenants

The $2.5 billion intercompany note requires us to comply with various negative covenants, including restrictions on the following activities: incurring consolidated funded indebtedness (as defined in the note), excluding intercompany indebtedness, in a principal amount in excess of $400.0 million at any one time outstanding; creating liens; making investments; entering into sale and leaseback transactions (as defined in the note), which when aggregated with consolidated funded indebtedness secured by liens, will not exceed an amount equal to 10% of our total consolidated shareholders equity (as defined in the note) as shown on our most recently reported annual audited consolidated financial statements; disposing of all or substantially all of our assets; entering into mergers and consolidations; declaring or making dividends or other distributions; repurchasing our equity; and entering into transactions with our affiliates.

In addition, the note requires us to prepay it in full upon a change of control. The note defines a change of control to occur when Clear Channel Communications ceases to control (i) directly or indirectly, more than 50% of the aggregate voting equity interests of us, our operating subsidiary or our respective successors or assigns, or (ii) the ability to elect a majority of the Board of Directors of us, our operating subsidiary or our respective successors or assigns. Upon our issuances of equity and incurrences of debt, subject to certain exceptions, we are also required to prepay the note in the amount of the net proceeds received by us from such events.

The significant covenants contained in the Clear Channel Communications $1.75 billion revolving credit facility relate to leverage and interest coverage (as defined in the credit facility). The leverage ratio covenant requires Clear Channel Communications to maintain a ratio of consolidated funded indebtedness to operating cash flow (as defined by the credit facility) of less than 5.25x. The interest coverage covenant requires Clear Channel Communications to maintain a minimum ratio of operating cash flow to interest expense (as defined by the credit facility) of 2.50x. At September 30, 2006, Clear Channel Communications leverage and interest coverage ratios were 3.7x and 4.6x, respectively.

There are no significant covenants or events of default contained in the cash management note issued by Clear Channel Communications to us or the cash management note issued by us to Clear Channel Communications.

At September 30, 2006, we and Clear Channel Communications were in compliance with all debt covenants. We expect to remain in compliance throughout 2006.

USES OF CAPITAL

Acquisitions

We completed the acquisition of Interspace Airport Advertising on July 1, 2006, by issuing 4,250,000 shares of our Class A common stock and the payment of approximately $81.3 million, funded through our revolving promissory note with Clear Channel Communications. The acquisition is valued at approximately $170.4 million based on the Company s common shares issued at the

closing share price on the date of acquisition of $89.1 million and the cash consideration paid. Interspace s 2005 revenues and operating expenses (direct and SG&A expenses) were approximately $45.8 million and $32.5 million, respectively.

In addition to the Interspace acquisition, during the nine months ended September 30, 2006, our Americas segment acquired display faces for $27.9 million in cash, including assets acquired in the exchange of one of our Americas markets for assets located in a different market. In addition, our international segment paid $91.4 million, primarily related to the acquisition of an outdoor advertising business in the United Kingdom.

Capital Expenditures

Capital expenditures were $164.0 million and $130.5 million in the nine months ended September 30, 2006 and 2005, respectively.

	Nine Months Ended September 30,	
(In millions)	2006	2005
Non-revenue producing	$ 58.3	$ 53.0
Revenue producing	105.7	77.5
Total capital expenditures	$ 164.0	$ 130.5

Commitments, Contingencies and Guarantees

From time to time, we are involved in legal proceedings arising in the ordinary course of business. Under our agreements with Clear Channel Communications, we have assumed and will indemnify Clear Channel Communications for liabilities related to our business. Other than as described in our Annual Report on Form 10-K for the year ended December 31, 2005, we do not believe there is any litigation pending that would have, individually or in the aggregate, a material adverse effect on our financial position, results of operations or cash flow.

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.

MARKET RISK

Interest Rate Risk

We had approximately $2.7 billion total debt outstanding as of September 30, 2006, substantially all of which was variable rate debt. Based on the amount of our floating-rate debt as of September 30, 2006, each 50 basis point increase or decrease in interest rates would increase or decrease our interest expense and cash outlay for the nine months ended September 30, 2006 by approximately $10.0 million. This potential increase or decrease is based on the simplified assumption that the level of floating-rate debt remains constant with an immediate across-the-board increase or decrease as of September 30, 2006 with no subsequent change in rates for the remainder of the period.

Foreign Currency

We have operations in countries throughout the world. The financial results of our foreign operations are measured in their local currencies, except in the hyperinflationary 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 operate. We believe we mitigate a small portion of our exposure to foreign currency fluctuations with a natural hedge through borrowings in currencies other than the U.S. dollar. Our foreign operations reported a net loss of approximately $29.7 million for the nine months ended September 30, 2006. We estimate a 10% change in the value of the U.S. dollar relative to foreign currencies would have changed our net income for the nine months ended September 30, 2006 by approximately $3.0 million.

This analysis does not consider the implication such currency fluctuations could have on the overall economic activity that could exist in such an environment in the United States or the foreign countries or on the results of

operations of these foreign entities.

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Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (Statement 155). Statement 155 is an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133) and FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (Statement 140) and allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. Statement 155 also requires companies to identify interest in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to Statement 133, and amends Statement 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. Statement 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We will adopt Statement 155 on January 1, 2007 and anticipate that adoption will not materially impact our financial position or results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 requires that entities recognize in their financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings upon adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 on January 1, 2007 and are currently evaluating the impact FIN 48 will have on our financial position and results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Statement 157 does not expand the use of fair value in any new circumstances. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We will adopt Statement 157 on January 1, 2008 and anticipate that adoption will not materially impact our financial position or results of operations.

In September 2006, the FASB issued Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (Statement 158). Statement 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The portions of Statement 158 that apply to us are effective as of the end of the fiscal year ending after December 15, 2006. We will adopt Statement 158 as of December 31, 2006 and anticipate that adoption will not materially impact our financial position or results of operations.

Critical Accounting Estimates

Management believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Due to the implementation of FAS 123(R), we identified a new critical accounting policy related to share-based compensation, which is listed below. Our other critical accounting policies and estimates are disclosed in the Note A of our Annual Report on Form 10-K for the year ended December 31, 2005.

Stock Based Compensation

Prior to January 1, 2006, we accounted for our share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations, as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (Statement 123). Under that method, when options were granted with a strike price equal to or greater than market price on date of issuance, there is no impact on earnings either on the date of grant or thereafter, absent certain modifications to the

options. Subsequent to January 1, 2006, we account for stock based compensation in accordance with FAS 123(R), *Share-Based Payment*. Under the fair value recognition provisions of this statement, stock based compensation cost is measured at the grant date based on the value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors. If actual results differ significantly from these estimates, our results of operations could be materially impacted.

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Risks Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Except for the historical information, this report contains various forward-looking statements which represent our expectations or beliefs concerning future events, including the future levels of cash flow from operations. Management believes all statements expressing expectations and projections with respect to future matters, including our ability to negotiate contracts having more favorable terms and the availability of capital resources; 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 which could impact 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 and political 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;
- 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;
- changes in capital expenditure requirements;
- the outcome of pending and future litigation;
- legislative or regulatory requirements;
- fluctuations in interest rates;
- the effect of leverage on our financial position and earnings;
- changes in tax rates;
- access to capital markets and changes in credit ratings; and
- certain other factors set forth in our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2005.

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.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

We are currently involved in certain legal proceedings and, as required, have accrued an 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 1A. Risk Factors

For information regarding risk factors, please refer to Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. Additional information relating to risk factors is described in Management s Discussion and Analysis of Financial Condition and Results of Operations under Risks Regarding Forward Looking Statements.

Item 6. Exhibits

See Exhibit Index on Page 29

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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 OUTDOOR HOLDINGS, INC.
November 10, 2006	/s/ Randall T. Mays Randall T. Mays Chief Financial Officer
November 10, 2006	/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
3.1	Amended and Restated Certificate of Incorporation of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to the exhibits to the Company s Annual Report on Form 10-K filed March 31, 2006)
3.2	Amended and Restated Bylaws of the Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to the exhibits to the Company s Annual Report on Form 10-K filed March 31, 2006)
4.1	Form of Specimen Class A Common Stock certificate of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (File No. 333-333-127375 (the Registration Statement))
4.2	Form of Specimen Class B Common Stock certificate of Clear Channel Outdoor Holdings, Inc. (incorporated herein by reference to Exhibit 4.2 to the Registration Statement)
11*	Statement re: Computation of Per Share Earnings.
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.

* Filed herewith