

Live Nation Entertainment, Inc.
Form 10-Q
November 05, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012,

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-32601

LIVE NATION ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Delaware
(State of Incorporation)

20-3247759
(I.R.S. Employer Identification No.)

9348 Civic Center Drive

Beverly Hills, CA 90210

(Address of principal executive offices, including zip code)

(310) 867-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

On October 31, 2012, there were 190,744,409 outstanding shares of the registrant's common stock, \$0.01 par value per share, including 3,506,967 shares of unvested restricted stock awards and excluding 44,415 shares held in treasury.

Table of Contents

LIVE NATION ENTERTAINMENT, INC.

INDEX TO FORM 10-Q

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Balance Sheets (Unaudited) as of September 30, 2012 and December 31, 2011</u>	2
<u>Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2012 and 2011</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2012 and 2011</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2012 and 2011</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	41
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	42
Item 1.A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>Mine Safety Disclosure</u>	44
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits</u>	45

Table of Contents

LIVE NATION ENTERTAINMENT, INC.

GLOSSARY OF KEY TERMS

AMG	Academy Music Holdings Limited Group
AOI	Adjusted operating income (loss)
Azoff Trust	The Azoff Family Trust of 1997, of which Irving Azoff is co-Trustee
BigChampagne	BigChampagne, LLC
Cablevision	Cablevision Systems Corporation
Clear Channel	Clear Channel Communications, Inc.
Company	Live Nation Entertainment, Inc. and subsidiaries
Coppel	Michael Coppel Ventures Pty Ltd
Cream	Cream Holdings Limited
CTS	CTS Eventim AG
DPS	Diversified Production Services, LLC
FASB	Financial Accounting Standards Board
FLMG	FLMG Holdings Corp., a wholly-owned subsidiary of Live Nation
Front Line	Front Line Management Group, Inc.
GAAP	United States Generally Accepted Accounting Principles
HARD	HARD Events LLC
Liberty Media	Liberty Media Corporation
Live Nation	Live Nation Entertainment, Inc., formerly known as Live Nation, Inc., and subsidiaries
Merger	Merger between Live Nation, Inc. and Ticketmaster Entertainment, Inc. announced in February 2009 and consummated in January 2010
MSG	The Madison Square Garden Company
SEC	United States Securities and Exchange Commission
Separation	The contribution and transfer by Clear Channel of substantially all of its entertainment assets and liabilities to Live Nation
Serviticket	Serviticket, S.A.
TGLP	Ticketmaster Group Limited Partnership
Ticketmaster	For periods prior to May 6, 2010, Ticketmaster means Ticketmaster Entertainment LLC and its predecessor companies (including without limitation Ticketmaster Entertainment, Inc.); for periods on and after May 6, 2010, Ticketmaster means the Ticketmaster ticketing business of the Company
TicketsNow	TNow Entertainment Group, Inc.
T-Shirt Printers	T-Shirt Printers Pty Ltd

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****LIVE NATION ENTERTAINMENT, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	September 30, 2012	December 31, 2011
	<i>(in thousands)</i>	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 783,671	\$ 844,253
Accounts receivable, less allowance of \$13,947 and \$16,986, respectively	583,322	389,346
Prepaid expenses	444,451	316,491
Other current assets	30,924	26,700
Total current assets	1,842,368	1,576,790
Property, plant and equipment		
Land, buildings and improvements	848,340	851,812
Computer equipment and capitalized software	319,497	261,475
Furniture and other equipment	194,544	172,250
Construction in progress	52,244	60,652
	1,414,625	1,346,189
Less accumulated depreciation	696,720	626,053
	717,905	720,136
Intangible assets		
Definite-lived intangible assets, net	834,690	873,712
Indefinite-lived intangible assets	377,286	377,160
Goodwill	1,338,599	1,257,644
Investments in nonconsolidated affiliates	57,725	55,796
Other long-term assets	263,675	216,106
Total assets	\$ 5,432,248	\$ 5,077,344
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable, client accounts	\$ 549,301	\$ 473,956
Accounts payable	127,356	87,627
Accrued expenses	658,061	579,566
Deferred revenue	326,730	273,536
Current portion of long-term debt	60,070	52,632
Other current liabilities	16,462	25,236
Total current liabilities	1,737,980	1,492,553
Long-term debt, net	1,685,968	1,652,629
Long-term deferred income taxes	190,681	186,298
Other long-term liabilities	106,262	120,693

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Commitments and contingent liabilities		
Redeemable noncontrolling interests	48,136	8,277
Stockholders' equity		
Common stock	1,873	1,868
Additional paid-in capital	2,265,020	2,243,587
Accumulated deficit	(748,701)	(745,191)
Cost of shares held in treasury	(214)	(2,787)
Accumulated other comprehensive loss	(16,436)	(36,374)
Total Live Nation Entertainment, Inc. stockholders' equity	1,501,542	1,461,103
Noncontrolling interests	161,679	155,791
Total stockholders' equity	1,663,221	1,616,894
Total liabilities and stockholders' equity	\$ 5,432,248	\$ 5,077,344

See Notes to Consolidated Financial Statements

Table of Contents

LIVE NATION ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(in thousands except share and per share data)</i>			
Revenue	\$ 1,963,146	\$ 1,790,025	\$ 4,381,820	\$ 4,198,316
Operating expenses:				
Direct operating expenses	1,457,423	1,286,304	3,103,006	2,971,579
Selling, general and administrative expenses	283,846	282,462	832,924	822,226
Depreciation and amortization	84,684	83,341	258,656	237,749
Loss (gain) on sale of operating assets	(60)	231	(255)	866
Corporate expenses	30,842	27,385	81,474	73,011
Acquisition transaction expenses	1,896	5,493	1,335	7,864
Operating income	104,515	104,809	104,680	85,021
Interest expense	35,535	30,388	94,733	90,462
Interest income	(994)	(1,023)	(2,825)	(2,848)
Equity in earnings of nonconsolidated affiliates	(3,117)	(2,777)	(8,799)	(5,549)
Other (income) expense, net	(7,035)	6,461	(3,393)	7,207
Income (loss) before income taxes	80,126	71,760	24,964	(4,251)
Income tax expense (benefit)	11,950	8,739	21,456	(29,544)
Net income	68,176	63,021	3,508	25,293
Net income attributable to noncontrolling interests	10,228	11,309	7,018	8,784
Net income (loss) attributable to common stockholders of Live Nation Entertainment, Inc.	\$ 57,948	\$ 51,712	\$ (3,510)	\$ 16,509
Basic net income (loss) per common share attributable to common stockholders of Live Nation Entertainment, Inc.	\$ 0.31	\$ 0.28	\$ (0.02)	\$ 0.09
Diluted net income (loss) per common share attributable to common stockholders of Live Nation Entertainment, Inc.	\$ 0.31	\$ 0.27	\$ (0.02)	\$ 0.09
Weighted average common shares outstanding:				
Basic	187,153,788	186,127,846	186,857,527	181,115,853
Diluted	189,754,343	188,531,130	186,857,527	183,306,799

See Notes to Consolidated Financial Statements

Table of Contents**LIVE NATION ENTERTAINMENT, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(in thousands)</i>			
Net income	\$ 68,176	\$ 63,021	\$ 3,508	\$ 25,293
Other comprehensive income (loss), net of tax:				
Unrealized loss on cash flow hedges	(68)	(21)	(156)	(158)
Change in funded status of defined benefit pension plan	(202)	(1)	(202)	(33)
Foreign currency translation adjustments	29,161	(37,290)	20,296	17,363
Comprehensive income	97,067	25,709	23,446	42,465
Comprehensive income attributable to noncontrolling interests	10,228	11,309	7,018	8,784
Comprehensive income attributable to common stockholders of Live Nation Entertainment, Inc.	\$ 86,839	\$ 14,400	\$ 16,428	\$ 33,681

See Notes to Consolidated Financial Statements

Table of Contents

LIVE NATION ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2012	2011
	<i>(in thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,508	\$ 25,293
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	90,789	94,184
Amortization	167,867	143,565
Deferred income tax benefit	(11,183)	(40,679)
Amortization of debt issuance costs and discount/premium, net	11,415	9,707
Non-cash gain on extinguishment of debt	(460)	-
Non-cash compensation expense	27,595	40,556
Changes in fair value of contingent consideration	(2,449)	(8,828)
Loss (gain) on sale of operating assets	(255)	866
Equity in earnings of nonconsolidated affiliates	(8,799)	(5,549)
Other, net	2,085	4,091
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Increase in accounts receivable	(186,313)	(164,392)
Decrease (increase) in prepaid expenses	(159,473)	25,704
Increase in other assets	(37,712)	(56,645)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	138,270	(27,682)
Increase (decrease) in deferred revenue	54,154	(67,732)
Net cash provided by (used in) operating activities	89,039	(27,541)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from nonconsolidated affiliates	6,744	8,804
Investments made in nonconsolidated affiliates	(3,212)	(6,437)
Purchases of property, plant and equipment	(92,372)	(69,573)
Proceeds from disposal of operating assets, net of cash divested	7,788	7,361
Cash paid for acquisitions, net of cash acquired	(71,256)	(25,499)
Purchases of intangible assets	(14,553)	(118)
Other, net	(943)	(1,933)
Net cash used in investing activities	(167,804)	(87,395)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of debt issuance costs	481,286	(596)
Payments on long-term debt	(457,487)	(22,699)
Contributions from noncontrolling interests	130	-
Distributions to noncontrolling interest partners	(9,202)	(14,249)
Purchases and sales of noncontrolling interests, net	(259)	(47,559)
Proceeds from exercise of stock options	926	3,210
Proceeds from sale of common stock	-	76,492
Payments for deferred and contingent consideration	(10,585)	(13,807)
Net cash provided by (used in) financing activities	4,809	(19,208)

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	13,374	23,959
Net decrease in cash and cash equivalents	(60,582)	(110,185)
Cash and cash equivalents at beginning of period	844,253	892,758
Cash and cash equivalents at end of period	\$ 783,671	\$ 782,573

See Notes to Consolidated Financial Statements

Table of Contents

LIVE NATION ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

Preparation of Interim Financial Statements

The interim consolidated financial statements included in this report are unaudited; however in the opinion of management, they include all normal and recurring accruals and adjustments necessary to present fairly the results of the interim periods shown. Certain financial presentations and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2011 Annual Report on Form 10-K filed with the SEC on February 24, 2012.

Seasonality

Due to the seasonal nature of shows at outdoor amphitheaters and festivals, which primarily occur May through September, the Company experiences higher revenue for the Concerts segment during the second and third quarters. The Artist Nation segment's revenue is impacted, to a large degree, by the touring schedules of artists it represents. Generally, the Company experiences higher revenue in this segment during the second and third quarters as the period from May through September tends to be a popular time for touring events. The Ticketing segment's sales are impacted by fluctuations in the availability of events for sale to the public, which vary depending upon scheduling by its clients. The Company's seasonality also results in higher balances in cash and cash equivalents, accounts receivable, prepaid expenses, accrued expenses and deferred revenue at different times in the year. Therefore, the results to date are not necessarily indicative of the results expected for the full year.

Acquisitions

During 2012, the Company completed its acquisitions of Coppel, Cream and other smaller acquisitions. These acquisitions were accounted for as business combinations under the acquisition method of accounting and were not considered significant on an individual basis or in the aggregate.

Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation. The Company has reclassified \$23.5 million for the three months ended September 30, 2011 and \$31.3 million for the nine months ended September 30, 2011 in the results of operations for its reportable segments as an increase to revenue and direct operating expenses in the Ticketing segment with corresponding increases to Eliminations in order to properly break out intersegment revenues. There is no impact to the consolidated financial statements. Additionally, the Company reclassified \$10.4 million from other long-term assets to long-term debt to properly reflect the debt discount related to the May 2010 senior secured credit facility.

Recently Adopted Pronouncements

In May 2011, the FASB issued guidance that improves comparability of fair value measurements presented and disclosed in financial statements. This guidance clarifies the application of existing fair value measurement requirements including (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity, and (3) quantitative information required for fair value measurements categorized within Level 3. It also requires additional disclosure for Level 3 measurements regarding the sensitivity of the fair value to changes in unobservable inputs and any interrelationships between those inputs. The Company adopted this guidance on January 1, 2012 and the adoption of this guidance did not have a material effect on its financial position or results of operations.

Recently Issued Pronouncements

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

In July 2012, the FASB issued guidance which gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired, and in some cases, bypass the two-step impairment test. This guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption of the new guidance is permitted. The Company will adopt this guidance on October 1, 2012.

NOTE 2 LONG-LIVED ASSETS

Definite-lived Intangible Assets

The Company has definite-lived intangible assets which are amortized over the shorter of either the lives of the respective agreements or the period of time the assets are expected to contribute to the Company's future cash flows. The amortization is recognized on either a straight-line or expected cash flows basis.

Table of Contents

The following table presents the changes in the gross carrying amount and accumulated amortization of definite-lived intangible assets for the nine months ended September 30, 2012:

	Revenue-generating contracts	Client / vendor relationships	Non-compete agreements	Venue management and leaseholds	Technology	Trademarks and naming rights	Other	Total
	<i>(in thousands)</i>							
Balance as of December 31, 2011:								
Gross carrying amount	\$ 542,426	\$ 330,575	\$ 171,765	\$ 116,772	\$ 103,337	\$ 24,517	\$ 6,426	\$ 1,295,818
Accumulated amortization	(170,889)	(66,548)	(93,464)	(39,017)	(31,812)	(16,202)	(4,174)	(422,106)
Net	371,537	264,027	78,301	77,755	71,525	8,315	2,252	873,712
Gross carrying amount:								
Acquisitions	21,353	67,043	3,000	-	(2,336)	5,764	-	94,824
Foreign exchange	3,205	(501)	(7)	1,450	(107)	334	38	4,412
Other (1)	(39,219)	(9,073)	(4,197)	-	-	(12,356)	-	(64,845)
	(14,661)	57,469	(1,204)	1,450	(2,443)	(6,258)	38	34,391
Accumulated amortization:								
Amortization expense	(51,140)	(38,721)	(19,254)	(9,046)	(15,881)	(2,012)	(337)	(136,391)
Foreign exchange	(2,094)	(23)	(1)	(455)	13	(113)	(28)	(2,701)
Other (1)	39,301	9,073	4,949	-	-	12,356	-	65,679
	(13,933)	(29,671)	(14,306)	(9,501)	(15,868)	10,231	(365)	(73,413)
Balance as of September 30, 2012:								
Gross carrying amount	527,765	388,044	170,561	118,222	100,894	18,259	6,464	1,330,209
Accumulated amortization	(184,822)	(96,219)	(107,770)	(48,518)	(47,680)	(5,971)	(4,539)	(495,519)
Net	\$ 342,943	\$ 291,825	\$ 62,791	\$ 69,704	\$ 53,214	\$ 12,288	\$ 1,925	\$ 834,690

(1) Other includes netdowns of fully amortized or impaired assets. See further discussion of impairments below.

During 2012, the Company recorded definite-lived intangible assets totaling \$94.8 million, primarily related to client/vendor relationships and revenue-generating contracts associated with the April 2012 acquisition of Coppel, a concert promotion business in Australia and New Zealand, the May 2012 acquisition of Cream, an electronic festival promoter in the United Kingdom, the June 2012 acquisition of HARD, an electronic festival promoter in Los Angeles, and the purchase of rights to a festival held in Europe.

The 2012 additions to definite-lived intangible assets have weighted-average lives as follows:

	Weighted-Average Life (years)
Revenue-generating contracts	12
Client/vendor relationships	9
Non-compete agreements	3
Technology	6

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Trademarks and naming rights	10
All categories	9

Table of Contents

The Company tests for possible impairment of definite-lived intangible assets whenever events or circumstances change, such as a significant reduction in operating cash flow or a change in the manner in which the asset is intended to be used which may indicate that the carrying amount of the asset may not be recoverable. During the nine months ended September 30, 2012, the Company reviewed the carrying value of certain definite-lived intangible assets that management determined had an indicator that future operating cash flows may not support their carrying value, and it was determined that those assets were impaired since the estimated undiscounted operating cash flows associated with those assets were less than their carrying value. For the nine months ended September 30, 2012, the Company recorded impairment charges related to definite-lived intangible assets of \$13.8 million as a component of depreciation and amortization. The impairment charges primarily related to intangible assets for revenue-generating contracts and client/vendor relationships in the Concerts segment. See Note 5 Fair Value Measurements for further discussion of the inputs used to determine the fair value.

Amortization expense from definite-lived intangible assets for the three months ended September 30, 2012 and 2011 was \$40.8 million and \$38.8 million, respectively, and for the nine months ended September 30, 2012 and 2011 was \$136.4 million and \$120.7 million, respectively. The increase in amortization expense for the nine months ended September 30, 2012 is primarily driven by the impairment charge discussed above.

Amortization expense related to nonrecoupable ticketing contract advances for the three months ended September 30, 2012 and 2011 was \$12.8 million and \$9.3 million, respectively, and for the nine months ended September 30, 2012 and 2011 was \$31.5 million and \$22.8 million, respectively.

As acquisitions and dispositions occur in the future and the valuations of intangible assets for recent acquisitions are completed, amortization expense may vary.

Goodwill

In 2011, the Company's reportable segments were Concerts, Ticketing, Artist Nation, eCommerce and Sponsorship. Beginning in 2012, the Company no longer presents eCommerce as a reportable segment and has changed the name of its Sponsorship segment to Sponsorship & Advertising. These changes were made to be consistent with how the four key components of the business are now being managed. The Company now includes the business previously reported in the eCommerce segment within the Ticketing and Sponsorship & Advertising segments. As a result of this change, the goodwill previously associated with the eCommerce reporting unit was reallocated to the reporting units that make up the Ticketing and Sponsorship & Advertising segments utilizing a fair value approach. When reallocating goodwill as part of a reorganization, the Company allocates goodwill based on the relative fair values similar to that used when a portion of a reporting unit is disposed of. The Company believes a common method used to determine the fair value of a business in its industry is a multiple of AOI. For the period presented, the Company reallocated the goodwill associated with the eCommerce segment using the relative fair values of the business being allocated to the Ticketing and Sponsorship & Advertising segments as a percentage of the total eCommerce segment AOI. Goodwill related to specific acquisitions was attributed to the respective new reporting units directly (specific allocation).

The following table presents the changes in the carrying amount of goodwill in each of the Company's segments for the nine months ended September 30, 2012:

	Concerts	Ticketing	Artist Nation	eCommerce <i>(in thousands)</i>	Sponsorship & Advertising	Other	Total
Balance as of December 31, 2011:							
Goodwill	\$ 387,188	\$ 577,131	\$ 262,158	\$ 224,562	\$ 76,507	\$ 13,037	\$ 1,540,583
Accumulated impairment losses	(269,902)	-	-	-	-	(13,037)	(282,939)
	117,286	577,131	262,158	224,562	76,507	-	1,257,644
Recast balances (1):							
Fair value approach	-	47,086	-	(214,927)	167,841	-	-
Specific allocation	-	9,635	-	(9,635)	-	-	-
Recast Balance as of January 1, 2012:							
Goodwill	387,188	633,852	262,158	-	244,348	13,037	1,540,583

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Accumulated impairment losses	(269,902)	-	-	-	-	(13,037)	(282,939)
	117,286	633,852	262,158	-	244,348	-	1,257,644
Acquisitions current year	62,047	-	1,348	-	-	-	63,395
Acquisitions prior year	-	2,380	(560)	-	-	-	1,820
Foreign exchange	7,564	(470)	54	-	8,592	-	15,740
Balance as of September 30, 2012:							
Goodwill	456,799	635,762	263,000	-	252,940	13,037	1,621,538
Accumulated impairment losses	(269,902)	-	-	-	-	(13,037)	(282,939)
	\$ 186,897	\$ 635,762	\$ 263,000	\$ -	\$ 252,940	\$ -	\$ 1,338,599

Table of Contents

(1) The beginning balance for the eCommerce segment has been recast to allocate goodwill to the Ticketing and Sponsorship & Advertising segments. The total consolidated amount remained unchanged.

Included in the current year acquisitions amount above is \$63.4 million primarily related to the second quarter 2012 acquisitions of Coppel, Cream and HARD.

The Company is in the process of finalizing its acquisition accounting for recent acquisitions which could result in a change to the associated purchase price allocations, including goodwill.

Investments in nonconsolidated affiliates

The Company has investments in various affiliates which are not consolidated and are accounted for under the equity method of accounting. The Company records its investments in these entities in the balance sheet as investments in nonconsolidated affiliates. The Company's interests in these operations are recorded in the statement of operations as equity in earnings of nonconsolidated affiliates. For the nine months ended September 30, 2012, one of the Company's investments, which is in a ticketing distribution services company, is considered significant. The Company owns a 33% interest in this company.

Summarized unaudited income statement information for the Company's significant nonconsolidated affiliates is as follows (at 100%):

	Nine Months Ended September 30,	
	2012	2011
	<i>(in thousands)</i>	
Revenue	\$ 35,994	\$ 34,217
Operating income	\$ 19,201	\$ 19,515
Net income	\$ 14,505	\$ 14,075

Long-lived Asset Disposals

In January 2012, the Company completed the sale of an amphitheater in Ohio. In January 2011, the Company sold its 50% controlling interest in an artist management company. In May 2011, the Company completed the sale of the Selma amphitheater in San Antonio.

The table below summarizes the asset and liability values at the time of disposal and the resulting loss or gain recorded.

Divested Asset	Segment	Gain (Loss) on Sale of Operating Assets		Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
<i>(in thousands)</i>							
2012 Divestiture							
Ohio amphitheater	Concerts	\$ 444	\$ -	\$ 5,400	\$ 444	\$ -	\$ -
2011 Divestitures							
Selma amphitheater	Concerts	\$ 798	\$ -	\$ 3,206	\$ -	\$ -	\$ -
Artist management company	Artist Nation	\$ (1,256)	\$ 3	\$ 4,145	\$ 119	\$ -	\$ -

Certain agreements relating to disposals of businesses provide for future contingent consideration based on the financial performance of the businesses sold. The Company will record additional amounts related to such contingent consideration, with a corresponding adjustment to gain (loss) on sale of operating assets, if and when it is determinable that the applicable financial performance targets will be met. The aggregate of these contingent considerations, if all existing performance targets are met, would not significantly impact the results of operations of the Company. The last contingency period for which the Company has outstanding contingent consideration is for the year ended December 31, 2013.

NOTE 3 LONG-TERM DEBT

In August 2012, the Company issued \$225 million of 7% senior notes and increased its term loan B borrowings by \$100 million pursuant to the terms of its existing senior secured credit facility. The proceeds were used to repay all of its outstanding 10.75% senior notes with a principal amount of \$287 million, to pay related redemption premium and accrued interest of \$19.5 million and to pay related fees and expenses of \$6.1 million, leaving \$12.4 million in additional cash available for general corporate purposes. The gain on extinguishment of debt resulting from these transactions was not significant.

Table of Contents

Long-term debt, which includes capital leases, at September 30, 2012 and December 31, 2011, consisted of the following:

	September 30, 2012	December 31, 2011
	<i>(in thousands)</i>	
May 2010 Senior Secured Credit Facility:		
Term loan A, net of unamortized discount of \$1.3 million and \$1.2 million at September 30, 2012 and December 31, 2011, respectively	\$ 78,673	\$ 86,341
Term loan B, net of unamortized discount of \$14.7 million and \$12.2 million at September 30, 2012 and December 31, 2011, respectively	865,086	773,773
Revolving credit facility	-	-
7% Senior Notes due 2020	225,000	-
8.125% Senior Notes due 2018	250,000	250,000
10.75% Senior Notes due 2016, plus unamortized premium of \$18.7 million at December 31, 2011	-	305,649
2.875% Convertible Senior Notes due 2027, net of unamortized discount of \$23.6 million and \$32.4 million at September 30, 2012 and December 31, 2011, respectively	196,363	187,627
Other long-term debt	130,916	101,871
	1,746,038	1,705,261
Less: current portion	60,070	52,632
Total long-term debt, net	\$ 1,685,968	\$ 1,652,629

Future maturities of long-term debt at September 30, 2012 are as follows:

	<i>(in thousands)</i>
2012	\$ 34,447
2013	38,310
2014	272,320
2015	80,352
2016	875,723
Thereafter	484,559
Total	1,785,711
Debt discount	(39,673)
Total including discount	\$ 1,746,038

All long-term debt without a stated maturity date is considered current and is reflected as maturing in the earliest period shown in the table above. See Note 5 Fair Value Measurements for discussion of fair value measurement of the Company's long-term debt.

7% Senior Notes

In August 2012, the Company issued \$225 million of 7% senior notes due 2020. Interest on the notes is payable semi-annually in cash in arrears on March 1 and September 1 of each year, beginning on March 1, 2013, and the notes will mature on September 1, 2020. The Company may redeem some or all of the notes at any time prior to September 1, 2016 at a price equal to 100% of the aggregate principal amount, plus any accrued and unpaid interest to the date of redemption, plus a make-whole premium using a discount rate equal to the Treasury Rate plus 50 basis points. The Company may also redeem up to 35% of the notes from the proceeds of certain equity offerings prior to September 1, 2015, at a price equal to 107% of the principal amount, plus any accrued and unpaid interest. In addition, on or after September 1, 2016, the Company may

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

redeem at its option some or all of the notes at redemption prices that start at 103.5% of their principal amount, plus any accrued and unpaid interest to the date of redemption. The Company must make an offer to redeem the notes at 101% of the aggregate principal amount, plus accrued and unpaid interest to the repurchase date, if it experiences certain defined changes of control.

The indentures governing the notes contain covenants that limit, among other things, the Company's ability, and the ability of its restricted subsidiaries, to incur certain additional indebtedness and issue preferred stock; make certain distributions, investments and other restricted payments; sell certain assets; agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company; create certain liens; merge, consolidate or sell substantially all of the Company's assets; or enter into certain transactions with affiliates.

May 2010 Senior Secured Credit Facility

Pursuant to the terms of the Company's senior secured credit facility described below, subject to certain conditions, the Company had the right to increase its original term loan facilities by up to \$300 million in the aggregate. In August 2012, the

Table of Contents

Company exercised this right and entered into an Incremental Term Loan Joinder Agreement that increased the existing term loan B borrowings by \$100 million.

At September 30, 2012, the Company's senior secured credit facility, dated as of May 6, 2010 consists of (i) a \$100 million term loan A with a maturity of five and one-half years, (ii) a \$900 million term loan B with a maturity of six and one-half years and (iii) a \$300 million revolving credit facility with a maturity of five years. In addition, subject to certain conditions, the Company has the right to increase such facilities by up to \$200 million in the aggregate. The five-year revolving credit facility provides for borrowings up to the amount of the facility with sublimits of up to (i) \$150 million to be available for the issuance of letters of credit, (ii) \$50 million to be available for swingline loans and (iii) \$100 million to be available for borrowings in foreign currencies. The senior secured credit facility is secured by a first priority lien on substantially all of the Company's domestic wholly-owned subsidiaries and on 65% of the capital stock of its wholly-owned foreign subsidiaries.

The interest rates per annum applicable to loans under the senior secured credit facility are, at the Company's option, equal to either LIBOR plus 3.25% or a base rate plus 2.25%, subject to stepdowns based on the Company's leverage ratio. The interest rate for the term loan B is subject to a LIBOR floor of 1.5% and a base rate floor of 2.5%. The Company is required to pay a commitment fee of 0.5% per year on the undrawn portion available under the revolving credit facility and variable fees on outstanding letters of credit.

For the term loan A, the Company is required to make quarterly payments ranging from \$1.25 million to \$10 million with the balance due at maturity in November 2015. For the term loan B, the Company is now required to make quarterly payments of \$2.25 million with the balance due at maturity in November 2016. The Company is also required to make mandatory prepayments of the loans under the credit agreement, subject to specified exceptions, from excess cash flow, and with the proceeds of asset sales, debt issuances and specified other events.

Based on the Company's outstanding letters of credit of \$53.9 million, \$246.1 million was available for future borrowings.

NOTE 4 DERIVATIVE INSTRUMENTS

The Company primarily uses forward currency contracts and options to reduce its exposure to foreign currency risk associated with short-term artist fee commitments. The Company also enters into forward currency contracts to minimize the risks and/or costs associated with changes in foreign currency rates on forecasted operating income and short-term intercompany loans. At September 30, 2012 and December 31, 2011, the Company had forward currency contracts and options outstanding with notional amounts of \$70.6 million and \$32.5 million, respectively. These instruments have not been designated as hedging instruments and any change in fair value is reported in earnings during the period of the change. The Company's foreign currency derivative activity, including the related fair values, are not material to any period presented.

Additionally, the Company has entered into certain interest rate swaps and cap agreements to limit its exposure to variable interest rates, related to portions of the Company's outstanding debt, some of which have been designated as cash flow hedges. At September 30, 2012 and December 31, 2011, the Company had interest rate swaps and cap agreements outstanding with notional amounts of \$139.4 million and \$131.0 million, respectively. The Company's interest rate swaps and cap activity, including the related fair values, are not material to any period presented. As of September 30, 2012 and December 31, 2011, there is no ineffective portion or amount excluded from effectiveness testing for derivatives designated as cash flow hedging instruments.

The Company's 2.875% convertible senior notes issued in July 2007 include certain provisions which are bifurcated from the notes and accounted for as derivative instruments. At the date of issuance and as of September 30, 2012 and December 31, 2011, the fair value of these provisions was considered to be de minimis.

The Company does not enter into derivative instruments for speculation or trading purposes and does not anticipate any significant recognition of derivative activity through the income statement in the future related to the instruments currently held. See Note 5 Fair Value Measurements for further discussion and disclosure of the fair values for the Company's derivative instruments.

NOTE 5 FAIR VALUE MEASUREMENTS

The Company currently has various financial instruments carried at fair value, such as marketable securities, derivatives and contingent consideration, but does not currently have nonfinancial assets and nonfinancial liabilities that are required to be measured at fair value on a recurring basis. The Company's financial assets and liabilities are measured using inputs from all levels of the fair value hierarchy as defined in the FASB guidance for fair values. For this categorization, only inputs that are significant to the fair value are considered. The three levels are defined as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (i.e., market corroborated inputs).

Table of Contents

Level 3 Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value on a recurring basis, which are classified on the balance sheets as cash and cash equivalents, other current assets, other long-term assets, other current liabilities and other long-term liabilities:

	Fair Value Measurements at September 30, 2012				Fair Value Measurements at December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(in thousands)</i>				<i>(in thousands)</i>			
Assets:								
Cash equivalents	\$ 131,954	\$ -	\$ -	\$ 131,954	\$ 138,537	\$ -	\$ -	\$ 138,537
Forward currency contracts	-	272	-	272	-	355	-	355
Interest rate cap	-	-	-	-	-	7	-	7
Stock options	-	-	1,201	1,201	-	-	1,060	1,060
Total	\$ 131,954	\$ 272	\$ 1,201	\$ 133,427	\$ 138,537	\$ 362	\$ 1,060	\$ 139,959
Liabilities:								
Interest rate swaps	\$ -	\$ 3,133	\$ -	\$ 3,133	\$ -	\$ 3,037	\$ -	\$ 3,037
Forward currency contracts	-	242	-	242	-	-	-	-
Contingent consideration	-	-	5,164	5,164	-	-	8,363	8,363
Total	\$ -	\$ 3,375	\$ 5,164	\$ 8,539	\$ -	\$ 3,037	\$ 8,363	\$ 11,400

Cash equivalents consist of money market funds. Fair values for cash equivalents are based on quoted prices in an active market. Fair values for forward currency contracts are based on observable market transactions of spot and forward rates. Fair values for the interest rate swaps and the interest rate cap are based on inputs corroborated by observable market data with similar tenors.

The Company has certain contingent consideration obligations related to acquisitions which are measured at fair value using Level 3 inputs. The amounts due to the sellers are based on the achievement of agreed-upon financial performance metrics by the acquired companies where the contingent obligation is either earned or not earned. The Company records the liability at the time of the acquisition based on management's best estimates of the future results of the acquired companies compared to the agreed-upon metrics. Subsequent to the date of acquisition, the Company updates the original valuation to reflect current projections of future results of the acquired companies and the passage of time. Accretion of, and changes in the valuations of, contingent consideration are reported in acquisition transaction expenses. See Note 6 Commitments and Contingent Liabilities for additional information related to the contingent payments.

The Company has stock options in a company that became publicly-traded in the third quarter of 2011 which are measured at fair value using Level 3 inputs. The stock options were received as consideration in connection with a licensing agreement entered into by a subsidiary of the Company and became fully-vested in the second quarter of 2011. The Company has recorded an asset for these options which is valued using the Black-Scholes option pricing model. The Company recorded revenue based on the valuation of the options as of the measurement date, which was the vesting date. The changes in the valuation after the measurement date are recorded in other (income) expense, net.

During 2012, the Company recorded impairments related to definite-lived intangible assets of \$13.8 million, as a component of depreciation and amortization. The impairment charges primarily related to intangible assets for revenue-generating contracts and client/vendor relationships in the Concerts segment. It was determined that these assets were impaired since the estimated undiscounted cash flows associated with these assets were less than their carrying value. These cash flows were calculated using operating cash flows which were discounted to approximate fair value. The operating cash flows for these non-recurring fair value measurements are considered Level 3 inputs.

Due to their short maturity, the carrying amounts of accounts receivable, accounts payable and accrued expenses approximated their fair values at September 30, 2012 and December 31, 2011.

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

The Company's outstanding debt held by third-party financial institutions is carried at cost, adjusted for premiums or discounts. The Company's debt is not publicly-traded and the carrying amounts typically approximate fair value for the Company's debt that accrues interest at a variable rate, which are considered to be Level 1 inputs. The estimated fair values of the 7% senior notes, the 8.125% senior notes and the 2.875% convertible senior notes were \$235.3 million, \$272.0 million and \$216.1 million at September 30, 2012, respectively. The estimated fair values of the 8.125% senior notes, the 10.75% senior notes and the 2.875% convertible senior notes were \$243.3 million, \$306.4 million and \$193.6 million at December 31, 2011, respectively. See Note 3 Long-term Debt for discussion of the issuance of the 7% senior notes and redemption of the 10.75% senior notes. The estimated fair value of the Company's third-party fixed-rate debt is based on quoted market prices in active markets for the same or similar debt, which are considered to be Level 2 inputs. The Company has fixed rate debt held by noncontrolling interest partners with a face value of \$25.9

Table of Contents

million and \$26.0 million at September 30, 2012 and December 31, 2011, respectively. The Company is unable to determine the fair value of this debt.

NOTE 6 COMMITMENTS AND CONTINGENT LIABILITIES

During 2012, the Company has entered into new, or it has exercised options to extend existing, long-term operating leases for office space and venues. These new or extended non-cancelable lease agreements have added future minimum rental commitments of approximately \$1.6 million for the remainder of 2012, \$18.4 million for 2013, \$19.0 million for 2014, \$18.1 million for 2015, \$17.5 million for 2016 and \$222.7 million thereafter. The Company has leases that contain contingent payment requirements for which payments vary depending on revenue, tickets sold or other variables.

Certain agreements relating to acquisitions that occurred prior to the adoption in January 2009 of the new FASB guidance for business combinations provide for purchase price adjustments and other future contingent payments based on the financial performance of the acquired companies. The Company will accrue additional amounts related to such contingent payments, which were part of the business combinations, with a corresponding adjustment to goodwill, if and when it is determinable that the applicable financial performance targets will be met. The aggregate of these contingent payments, if all performance targets are met, would not significantly impact the financial position of the Company. The last contingency period for which the Company has an outstanding contingent earn-out payment is for the period ending December 2017.

The Company also has certain contingent obligations related to acquisitions made after the adoption in January 2009 of the FASB guidance for business combinations. In accordance with the current guidance, contingent consideration associated with business combinations must be recorded at its fair value at the time of the acquisition and reflected at current fair value for each subsequent reporting period thereafter until settled. The Company records these fair value changes in its statements of operations as acquisition transaction expenses. The contingent consideration is generally subject to payout following the achievement of future performance targets and some may be payable in 2012. As of September 30, 2012, the Company has accrued \$0.8 million in other current liabilities and \$4.4 million in other long-term liabilities and, as of December 31, 2011, the Company had accrued \$1.5 million in other current liabilities and \$6.9 million in other long-term liabilities representing the fair value of these estimated earn-out arrangements. The last contingency period for which the Company has an outstanding contingent earn-out payment is for the period ending December 2017. See Note 5 Fair Value Measurements for further discussion related to the valuation of the earn-out payments.

In addition, the Company has certain contingent obligations related to acquisitions where the Company does not consolidate the entity, but rather accounts for the investee under the equity method of accounting. If, at acquisition, the fair value of the Company's share of net assets exceeds the Company's initial cost, the maximum amount of contingent consideration that could be paid is recorded up to that excess amount. When the contingency is resolved, any difference between the amount recorded and the settlement is recorded as an adjustment to the investment account. The aggregate of contingent payments associated with equity method investments, if all performance targets are met, would not significantly impact the financial position of the Company. As of September 30, 2012 and December 31, 2011 the Company has accrued \$3.9 million in other long-term liabilities for each respective period.

Certain agreements relating to acquisitions provide for deferred purchase consideration payments at future dates. A liability is established at the time of the acquisition for these fixed payments. For obligations payable at a date greater than twelve months from the acquisition date, the Company applies a discount rate to present value the obligations. As of December 31, 2011, the Company had accrued \$7.1 million in other current liabilities and \$2.6 million in other long-term liabilities related to these deferred purchase consideration payments. During the first quarter of 2012, the Company paid the balance of all deferred purchase consideration in full.

CTS Arbitration

Live Nation Worldwide, Inc., (Live Nation Worldwide) and CTS were parties to an agreement (the CTS Agreement), pursuant to which CTS was to develop and Live Nation Worldwide licensed or agreed to use ticketing software or ticketing platforms. Under the agreement, CTS was to develop software to be licensed to Live Nation Worldwide to provide ticketing services in the United States and Canada. The CTS Agreement also generally required Live Nation Worldwide to use CTS's ticketing platforms in certain European countries so long as CTS's existing platforms were appropriately modified to meet local market conditions. In June 2010, Live Nation Worldwide terminated the CTS Agreement because CTS materially breached the agreement by failing to deliver a North American ticketing system that met the contractual requirements of being a world class ticketing system . . . that fits the needs of the North American market, and by failing to deliver a ticketing system for the United Kingdom and other European countries that fit the needs of those markets as required by the CTS Agreement.

For North America, had CTS performed on the CTS Agreement, it would have been generally entitled to receive, during the then 10-year term of the CTS Agreement, a per ticket license fee upon the sale of certain tickets that Live Nation Worldwide or any of certain of its subsidiaries

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

(collectively, the Live Nation Worldwide entities) controlled and had the right to distribute by virtue of certain promotion and venue management relations. This per ticket fee for events in North America was payable to CTS regardless of whether the Live Nation Worldwide entities chose to use the CTS ticketing platform, Ticketmaster's ticketing platform or another ticketing platform for the sale of such controlled tickets. For events in certain European countries, not including the United Kingdom, Live Nation Worldwide generally was required, during a 10-year term, to exclusively book on the CTS ticketing platform all tickets

Table of Contents

that the Live Nation Worldwide entities had the right to distribute (or, to the extent other ticketing platforms were used, Live Nation Worldwide was generally required to pay to CTS the same fee that would have been payable had the CTS platform been used). For events in the United Kingdom, Live Nation Worldwide was required, for a 10-year term, to (i) book on the CTS ticketing platform all tickets controlled by Live Nation Worldwide entities that were not allocated by Live Nation Worldwide for sale through other sales channels and (ii) to offer for sale on the CTS UK website a portion of the tickets controlled by the Live Nation Worldwide entities. Finally, the CTS Agreement obligated Live Nation Worldwide and CTS to negotiate a set of noncompete agreements that, subject to legal restrictions, could have precluded Live Nation Worldwide from offering primary market ticketing services to third parties in certain European countries during the term of the CTS Agreement.

In April 2010, CTS filed a request for arbitration with the International Court of Arbitration of the International Chamber of Commerce (ICC), pursuant to the CTS Agreement. In its request for arbitration, CTS asserts, among other things, that (i) the terms of the CTS Agreement, including the North America per ticket license fee, European exclusivity obligations and United Kingdom distribution obligations described above, apply to tickets sold and distributed by Ticketmaster, (ii) Ticketmaster's sales and distribution of tickets following the completion of the Merger have resulted in various breaches of Live Nation Worldwide's obligations under the CTS Agreement, (iii) Live Nation has failed to allocate the proper number of tickets to CTS's system in the United Kingdom and (iv) the Merger and the Company's subsequent actions have breached the implied covenant of good faith and fair dealing. In its request for arbitration, CTS seeks relief in the form of a declaration that Live Nation and Live Nation Worldwide are in breach of the CTS Agreement and the implied covenant of good faith and fair dealing, specific performance of Live Nation Worldwide's obligations under the CTS Agreement, and unspecified damages resulting from such breaches. In March 2011, CTS provided further specifications on its claims and purported damages, including a claim for royalties that would have been paid over the contemplated 10-year term of the CTS Agreement and on Ticketmaster-controlled tickets (as well as tickets controlled by Live Nation Worldwide or any of certain of its subsidiaries).

In May 2010, the Company responded to CTS's request for arbitration and filed counterclaims asserting that CTS breached the CTS Agreement by failing to provide ticketing platforms that met the standard required by the CTS Agreement for the North American and European markets. The Company is seeking relief primarily in the form of damages and a declaration that the Company validly terminated the CTS Agreement based on CTS's material breaches. The Company denies that CTS is entitled to collect damages for royalties that would have been paid over the full 10-year term of the CTS Agreement or on Ticketmaster-controlled tickets. The matter has been assigned to an arbitrator, and hearings were conducted in the summer and fall of 2011. A decision from the arbitrator is currently expected by the end of 2012. While the Company does not believe that a loss is probable of occurring at this time, if the arbitrator rules against the Company on any or all claims, the amounts at stake could be substantial. Considerable uncertainty remains regarding the validity of the claims and damages asserted against the Company. As a result, the Company is currently unable to estimate the possible loss or range of loss for this matter. The Company intends to continue to vigorously defend the action.

Ticketing Fees Consumer Class Action Litigation

In October 2003, a putative representative action was filed in the Superior Court of California challenging Ticketmaster's charges to online customers for shipping fees and alleging that its failure to disclose on its website that the charges contain a profit component is unlawful. The complaint asserted a claim for violation of California's Unfair Competition Law (UCL) and sought restitution or disgorgement of the difference between (i) the total shipping fees charged by Ticketmaster in connection with online ticket sales during the applicable period, and (ii) the amount that Ticketmaster actually paid to the shipper for delivery of those tickets. In August 2005, the plaintiffs filed a first amended complaint, then pleading the case as a putative class action and adding the claim that Ticketmaster's website disclosures in respect of its ticket order processing fees constitute false advertising in violation of California's False Advertising Law. On this new claim, the amended complaint seeks restitution or disgorgement of the entire amount of order processing fees charged by Ticketmaster during the applicable period. In April 2009, the Court granted the plaintiffs' motion for leave to file a second amended complaint adding new claims that (a) Ticketmaster's order processing fees are unconscionable under the UCL, and (b) Ticketmaster's alleged business practices further violate the California Consumer Legal Remedies Act. Plaintiffs later filed a third amended complaint, to which Ticketmaster filed a demurrer in July 2009. The Court overruled Ticketmaster's demurrer in October 2009.

The plaintiffs filed a class certification motion in August 2009, which Ticketmaster opposed. In February 2010, the Court granted certification of a class on the first and second causes of action, which allege that Ticketmaster misrepresents/omits the fact of a profit component in Ticketmaster's shipping and order processing fees. The class would consist of California consumers who purchased tickets through Ticketmaster's website from 1999 to present. The Court denied certification of a class on the third and fourth causes of action, which allege that Ticketmaster's shipping and order processing fees are unconscionably high. In March 2010, Ticketmaster filed a Petition for Writ of Mandate with the California Court of Appeal, and plaintiffs also filed a motion for reconsideration of the Superior Court's class certification order. In April 2010, the Superior Court denied plaintiffs' Motion for Reconsideration of the Court's class certification order, and the Court of Appeal denied Ticketmaster's Petition for Writ of Mandate. In June 2010, the Court of Appeal granted the plaintiffs' Petition for Writ of Mandate and ordered the Superior Court to vacate its February 2010 order denying plaintiffs' motion to certify a national class and enter a new order granting plaintiffs' motion to certify a nationwide class on the first and second claims. In September 2010, Ticketmaster filed its Motion for Summary

Judgment on all

Table of Contents

causes of action in the Superior Court, and that same month plaintiffs filed their Motion for Summary Adjudication of various affirmative defenses asserted by Ticketmaster. In November 2010, Ticketmaster filed its Motion to Decertify Class.

In December 2010, the parties entered into a binding agreement providing for the settlement of the litigation and the resolution of all claims therein. In September 2011, the Court declined to approve the settlement in its then-current form. Litigation continued, and in September 2011, the Court granted in part and denied in part Ticketmaster's Motion for Summary Judgment. The parties reached a new settlement in September 2011, which was approved preliminarily, but in September 2012 the Court declined to grant final approval. In doing so, the court identified potential modifications to the settlement, and the parties continue to discuss such potential modifications and the possibility of a revised settlement agreement. Ticketmaster and its parent, Live Nation, have not acknowledged any violations of law or liability in connection with the matter.

As of September 30, 2012, the Company has accrued \$35.4 million, its best estimate of the probable costs associated with the settlement referred to above. This liability includes an estimated redemption rate. Any difference between the Company's estimated redemption rate and the actual redemption rate it experiences will impact the final settlement amount; however, the Company does not expect this difference to be material.

Canadian Consumer Class Action Litigation Relating to TicketsNow

In February 2009, five putative consumer class action complaints were filed in various provinces of Canada against TicketsNow, Ticketmaster, Ticketmaster Canada Ltd. and Premium Inventory, Inc. All of the cases allege essentially the same set of facts and causes of action. Each plaintiff purports to represent a class consisting of all persons who purchased a ticket from Ticketmaster, Ticketmaster Canada Ltd. or TicketsNow from February 2007 to present and alleges that Ticketmaster conspired to divert a large number of tickets for resale through the TicketsNow website at prices higher than face value. The plaintiffs characterize these actions as being in violation of Ontario's Ticket Speculation Act, the Amusement Act of Manitoba, the Amusement Act of Alberta or the Quebec Consumer Protection Act. The Ontario case contains the additional allegation that Ticketmaster's and TicketsNow's service fees violate anti-scalping laws. Each lawsuit seeks compensatory and punitive damages on behalf of the class.

In February 2012, the parties entered into a settlement agreement that will resolve all of the resale market claims. The court approval process for the settlement has been completed, with final approvals given in all provinces.

As of September 30, 2012, the Company has accrued its best estimate of the probable costs associated with the resale market claims of this matter, the full amount of which was funded by an escrow established in connection with Ticketmaster's 2008 acquisition of TicketsNow.

While it is reasonably possible that a loss related to the primary market claims of this matter could be incurred by the Company in a future period, the Company does not believe that a loss is probable of occurring at this time. Considerable uncertainty remains regarding the validity of the claims and damages asserted against the Company. As a result, the Company is currently unable to estimate the possible loss or range of loss for the primary market claims of this matter. The Company intends to continue to vigorously defend all claims in all of the actions.

Other Litigation

From time to time, the Company is involved in other legal proceedings arising in the ordinary course of its business, including proceedings and claims based upon violations of antitrust laws and tortious interference, which could cause the Company to incur significant expenses. The Company has also been the subject of personal injury and wrongful death claims relating to accidents at its venues in connection with its operations. As required, the Company has accrued its estimate of the probable settlement or other losses for the resolution of any outstanding claims. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, including, in some cases, estimated redemption rates for the settlement offered, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company's assumptions or the effectiveness of its strategies related to these proceedings. In addition, under the Company's agreements with Clear Channel, it has assumed and will indemnify Clear Channel for liabilities related to its business for which they are a party in the defense.

As of September 30, 2012, the Company has accrued \$41.5 million for the specific cases discussed above as its best estimate of the probable costs of legal settlement, including \$35.4 million for the Ticketing Fees Consumer Class Action litigation settlement.

NOTE 7 CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

Agreements with Liberty Media

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

In connection with a stockholder agreement, Liberty Media exercised its right to nominate two members to the Company's board of directors. In February 2011, the Company entered into a subscription agreement with Liberty Media. Pursuant to the subscription agreement, in February and June 2011, the Company sold to Liberty Media 1.8 million and 5.5 million shares, respectively, of the Company's common stock for aggregate cash consideration of \$18.8 million and \$57.7 million, respectively.

Table of Contents**Transactions Involving Directors**

The Company has a non-employee director as of September 30, 2012 who is also a director and executive officer of Clear Channel. This director receives directors' fees, stock options and restricted stock awards on the same basis as other non-employee members of the Company's board of directors. Additionally, as of September 30, 2012, the Company has an employee director who is also a director of Clear Channel. From time to time, the Company purchases advertising from Clear Channel and its subsidiaries in the ordinary course of business on an arms-length basis.

The Company has a non-employee director as of September 30, 2012 who is also a director and executive officer of MSG and Cablevision. This director receives directors' fees, stock options and restricted stock awards on the same basis as other non-employee members of the Company's board of directors. From time to time, the Company promotes events at venues owned and/or operated by MSG and pays rental fees and co-promote fees to MSG and its subsidiaries. In addition, the Company provides ticketing services for venues and sports franchises owned and/or operated by MSG and pays royalty fees to MSG and its subsidiaries. The Company also receives transaction fees from MSG and its subsidiaries for tickets MSG sells using the Company's ticketing software. Finally, the Company purchases advertising from Cablevision and its subsidiaries from time to time. All of these transactions are entered into in the ordinary course of business on an arms-length basis.

The following table sets forth expenses incurred and revenue earned from the transactions noted above:

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2012	2011	2012	2011
	<i>(in thousands)</i>			
Director related-party revenue	\$ 3,188	\$ 7,066	\$ 11,509	\$ 7,066
Director related-party expenses	\$ 4,021	\$ 6,940	\$ 13,174	\$ 8,369

Transactions Involving Executives

ATC Aviation, Inc. (ATC), which is owned by Irving Azoff, owns an aircraft. Irving Azoff is the Company's Executive Chairman and Chairman of the board of directors. An aircraft management and charter company, unrelated to either the Company or ATC, manages and operates the aircraft on ATC's behalf and charges market rates for the use of the aircraft when used by Mr. Azoff or other executives on Company business, a portion of which is paid to ATC. For the three months ended September 30, 2012 and 2011, the Company made payments totaling \$0.1 million and \$0.6 million, respectively, and for the nine months ended September 30, 2012 and 2011, the Company made payments totaling \$1.2 million in each of the respective periods.

Irving Azoff has a minority ownership interest in an entity that subleases office space from the Company. Rent charged by the Company totaled \$0.2 million for each of the three month periods ended September 30, 2012 and 2011 and totaled \$0.6 million for each of the nine month periods ended September 30, 2012 and 2011.

In January 2011, pursuant to the provisions of a then effective stockholders' agreement, the board of directors of Front Line declared a dividend payable in cash to the holders of record of Front Line common stock. This dividend was paid in January 2011 and totaled \$20.1 million of which the Company received \$15.0 million. The Azoff Trust received a pro rata portion of this dividend totaling \$3.0 million. In connection with the January 2011 dividend, Mr. Azoff received a contractual gross-up payment of \$0.6 million. Prior to the payment of the dividend, FLMG made a loan to Front Line principally to fund the dividend, evidenced by a promissory note from Front Line to FLMG with a principal amount of \$20.7 million and bearing interest at a rate of 4.5%, payable no later than December 31, 2011. This loan was repaid in the first quarter of 2012.

Other Related Parties

During the nine months ended September 30, 2011, the Company paid \$6.8 million of deferred consideration due in connection with an acquisition of a company owned by various members of management of one of the Company's subsidiaries. The acquired company holds the lease of a venue. There were no such deferred consideration payments made during the nine months ended September 30, 2012.

In January 2011, the Company sold a 49.9% noncontrolling interest in its clubs and theaters venue promotion business in Boston to a company partially owned by two employees of one of the Company's subsidiaries in exchange for assets and cash valued at \$12.6 million.

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

The Company conducts certain transactions in the ordinary course of business with companies that are owned, in part or in total, by various members of management of the Company's subsidiaries or companies over which it has significant influence. These transactions primarily relate to venue rentals, concession services, equipment rentals, ticketing, marketing and other services. As of September 30, 2012 and December 31, 2011, the Company has a receivable balance of \$12.3 million and \$13.3 million, respectively, from certain of these companies. The following table sets forth expenses incurred and revenue earned from these companies for

Table of Contents

services rendered or provided in relation to these business ventures. None of these transactions were with directors or executive officers of the Company.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(in thousands)</i>			
Other related-parties revenue	\$ 1,651	\$ 1,256	\$ 3,604	\$ 3,196
Other related-parties expenses	\$ 10,123	\$ 1,837	\$ 13,980	\$ 7,667

NOTE 8 INCOME TAXES

The Company calculates interim effective tax rates in accordance with the FASB guidance for income taxes and applies the estimated annual effective tax rate to year-to-date pretax income (loss) at the end of each interim period to compute a year-to-date tax expense (or benefit). This guidance requires departure from effective tax rate computations when losses incurred within tax jurisdictions cannot be carried back and future profits associated with operations in those tax jurisdictions cannot be assured beyond any reasonable doubt. Accordingly, the Company has calculated and applied an expected annual effective tax rate of approximately 19% for 2012 (as compared to 19% in the prior year), excluding significant, unusual or extraordinary items, for ordinary income associated with operations for which the Company currently expects to have annual taxable income, which are principally outside of the United States. The Company has not recorded tax benefits associated with losses from operations for which future taxable income cannot be reasonably assured. As required by this guidance, the Company also includes tax effects of significant, unusual or extraordinary items in income tax expense in the interim period in which they occur.

Net income tax expense is \$21.5 million for the nine months ended September 30, 2012. The components of tax expense that contributed to the net income tax expense for the nine months ended September 30, 2012 primarily consist of income tax expense of \$16.5 million based on the expected annual rate pertaining to ordinary income for the nine-month period, state and local taxes of \$3.2 million, the establishment of valuation allowances of \$0.8 million on deferred tax assets and an increase for discrete unrecognized tax benefits of \$1.7 million partially offset by discrete deferred tax benefits of \$1.1 million related to a decrease in the United Kingdom tax rate.

As of September 30, 2012 and December 31, 2011, the Company had unrecognized tax benefits of approximately \$14.7 million and \$13.4 million, respectively. During the nine months ended September 30, 2012, unrecognized tax benefits increased by approximately \$1.3 million, primarily attributable to tax, interest and penalty accruals of approximately \$2.9 million and currency translation adjustments of \$0.1 million. These increases were partially offset by \$1.7 million for settlements. All of these unrecognized tax benefits would favorably impact the effective tax rate if recognized in the future.

Historically, the Company has reinvested all foreign earnings in its continuing foreign operations. The Company currently believes all undistributed foreign earnings that are not currently subject to United States federal income tax will be indefinitely reinvested in its foreign operations.

The tax years 2001 through 2011 remain open to examination by the major tax jurisdictions to which the Company is subject.

Table of Contents**NOTE 9 STOCKHOLDERS EQUITY**

The following table shows the reconciliation of the carrying amount of redeemable noncontrolling interests, total stockholders' equity, stockholders' equity attributable to Live Nation Entertainment, Inc. and stockholders' equity attributable to noncontrolling interests:

	Redeemable Noncontrolling Interests <i>(in thousands)</i>	Live Nation Entertainment, Inc. Stockholders' Equity	Noncontrolling Interests <i>(in thousands)</i>	Total Stockholders Equity
Balances at December 31, 2011	\$ 8,277	\$ 1,461,103	\$ 155,791	\$ 1,616,894
Non-cash and stock-based compensation	-	23,694	-	23,694
Exercise of stock options	-	926	-	926
Acquisitions	37,864	-	8,128	8,128
Acquisitions of noncontrolling interests	-	-	(238)	(238)
Redeemable noncontrolling interests fair value adjustments	609	(609)	-	(609)
Noncontrolling interests contributions	-	-	130	130
Cash distributions	-	-	(9,202)	(9,202)
Other	1,517	-	(79)	(79)
Comprehensive income (loss):				
Net income (loss)	(131)	(3,510)	7,149	3,639
Unrealized loss on cash flow hedges	-	(156)	-	(156)
Change in funded status of defined benefit pension plan	-	(202)	-	(202)
Currency translation adjustment	-	20,296	-	20,296
Balances at September 30, 2012	\$ 48,136	\$ 1,501,542	\$ 161,679	\$ 1,663,221

Noncontrolling Interests

As of September 30, 2012, for the non-wholly-owned subsidiaries of the Company where the common securities held by the noncontrolling interests do not include put arrangements exercisable outside of the control of the Company, such noncontrolling interests are recorded in stockholders' equity, separate from the Company's own equity.

The purchase or sale of additional ownership in an already controlled subsidiary is recorded as an equity transaction with no gain or loss recognized in consolidated net income or comprehensive income. In the first nine months of 2011, the Company acquired the remaining equity interests in Front Line and other smaller companies. There were no significant acquisitions of noncontrolling interests during the first nine months of 2012.

The following schedule reflects the change in ownership interests for these transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(in thousands)</i>			
Net income (loss) attributable to common stockholders of Live Nation Entertainment, Inc.	\$ 57,948	\$ 51,712	\$ (3,510)	\$ 16,509
Transfers (to) from noncontrolling interest:				
Changes in Live Nation Entertainment, Inc.'s paid in capital for purchase of noncontrolling interests, net of transaction costs	4	274	-	84,711
Net transfers (to) from noncontrolling interest	4	274	-	84,711

Edgar Filing: Live Nation Entertainment, Inc. - Form 10-Q

Change from net income (loss) attributable to common stockholders of Live Nation Entertainment, Inc. and transfers (to) from noncontrolling interests	\$ 57,952	\$ 51,986	\$ (3,510)	\$ 101,220
---	-----------	-----------	------------	------------

Redeemable Noncontrolling Interests

For certain of its consolidated subsidiaries, the Company is subject to put arrangements arising from business combinations where the holders of the noncontrolling interests can require the Company to repurchase their shares at specified dates in the future or within specified periods in the future. Certain of these puts can be exercised earlier upon the occurrence of triggering events as specified in the agreements. The exercise dates for these puts range from November 2012 to December 2018. The redemption amounts for these puts are either at a fixed amount, at fair value at the time of exercise or variable based on a formula linked to earnings. In

Table of Contents

accordance with the FASB guidance for business combinations, the redeemable noncontrolling interests are recorded at their fair value at the acquisition date. As these put arrangements are not currently redeemable, for increases in the estimated redemption value, or reductions in the estimated redemption value to the extent increases had been recognized previously, the Company accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the individual puts, with the offset recorded to additional paid-in capital. Accounting guidance prohibits the recognition of reductions in value below issuance date value. Changes in estimated redemption values that are based on a formula linked to future earnings are computed using projected cash flows each reporting period which take into account the current expectations regarding profitability and the timing of revenue-generating events. For redemption amounts that are fixed dollar amounts, if the initial fair value is the redemption amount, there are no changes recorded until the puts are exercised or expire. The redemption amounts for these put arrangements are reflected in the Company's balance sheets as redeemable noncontrolling interests outside of permanent equity and, at September 30, 2012 and December 31, 2011, were \$48.1 million and \$8.3 million, respectively. The increase during the current year is principally related to puts associated with the 2012 acquisitions.

Earnings per Share

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(in thousands, except for per share data)</i>			
Net income (loss) attributable to common stockholders of Live Nation Entertainment, Inc. basic and diluted	\$ 57,948	\$ 51,712	\$ (3,510)	\$ 16,509