

Live Nation Entertainment, Inc.

Form 10-Q

November 04, 2010

[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, 2010,

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 | <input type="checkbox"/>                                               | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/>            |

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 29, 2010, there were 173,570,144 outstanding shares of the registrant's common stock, \$0.01 par value per share, including 3,193,856 shares of unvested restricted stock awards and excluding 1,983,138 shares held in treasury.

**Table of Contents**

**LIVE NATION ENTERTAINMENT, INC.**

**INDEX TO FORM 10-Q**

|                                                                                                                               | <b>Page</b> |
|-------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>PART I FINANCIAL INFORMATION</b>                                                                                           |             |
| Item 1. <u>Financial Statements (unaudited)</u>                                                                               | 2           |
| <u>Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u>                                             | 2           |
| <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>                  | 3           |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2010 and 2009</u> | 4           |
| <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>                            | 5           |
| <u>Notes to Consolidated Financial Statements</u>                                                                             | 6           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                          | 36          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                     | 58          |
| Item 4. <u>Controls and Procedures</u>                                                                                        | 58          |
| <b>PART II OTHER INFORMATION</b>                                                                                              |             |
| Item 1. <u>Legal Proceedings</u>                                                                                              | 58          |
| Item 1A. <u>Risk Factors</u>                                                                                                  | 60          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                    | 61          |
| Item 3. <u>Defaults Upon Senior Securities</u>                                                                                | 61          |
| Item 5. <u>Other Information</u>                                                                                              | 61          |
| Item 6. <u>Exhibits</u>                                                                                                       | 61          |

**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                                                                                                                                                                                                                            |
| Brand New Live   | Brand New Live B.V.                                                                                                                                                                                                                                                                            |
| Clear Channel    | Clear Channel Communications, Inc.                                                                                                                                                                                                                                                             |
| Comcast          | Comcast-Spectacor, L.P.                                                                                                                                                                                                                                                                        |
| Company          | Live Nation Entertainment, Inc.                                                                                                                                                                                                                                                                |
| CTS              | CTS Eventim AG                                                                                                                                                                                                                                                                                 |
| DOJ              | United States Department of Justice                                                                                                                                                                                                                                                            |
| 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                                                                                                                                                                                                                                         |
| IAC              | IAC/InterActiveCorp                                                                                                                                                                                                                                                                            |
| IRS              | United States Internal Revenue Service                                                                                                                                                                                                                                                         |
| Liberty Media    | Liberty Media Corporation                                                                                                                                                                                                                                                                      |
| Live Nation      | Live Nation Entertainment, Inc., formerly known as Live Nation, Inc.                                                                                                                                                                                                                           |
| Merger           | Merger between Live Nation, Inc. and Ticketmaster Entertainment, Inc. announced in February 2009 and consummated in January 2010                                                                                                                                                               |
| Merger Agreement | Agreement and Plan of Merger, dated February 10, 2009 and consummated on January 25, 2010, between Live Nation, Inc. and Ticketmaster Entertainment, Inc.                                                                                                                                      |
| OCI              | Other comprehensive income (loss)                                                                                                                                                                                                                                                              |
| Paciolan         | Paciolan, Inc.                                                                                                                                                                                                                                                                                 |
| Parcolimpico     | Parcolimpico S.r.l.                                                                                                                                                                                                                                                                            |
| 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                                                                                                                                                                 |
| Spincos          | Collective referral to Ticketmaster and other companies spun off from IAC on August 20, 2008                                                                                                                                                                                                   |
| Tecjet           | Tecjet Limited                                                                                                                                                                                                                                                                                 |
| 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.                                                                                                                                                                                                                                                                 |

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****CONSOLIDATED BALANCE SHEETS**

|                                                                                                              | September 30,<br>2010<br>(unaudited) | December 31,<br>2009<br>(audited) |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------|
| (in thousands)                                                                                               |                                      |                                   |
| ASSETS                                                                                                       |                                      |                                   |
| Current assets                                                                                               |                                      |                                   |
| Cash and cash equivalents                                                                                    | \$ 855,616                           | \$ 236,955                        |
| Accounts receivable, less allowance of \$13,042 as of September 30, 2010 and \$8,230 as of December 31, 2009 | 470,503                              | 176,179                           |
| Prepaid expenses                                                                                             | 433,434                              | 277,599                           |
| Other current assets                                                                                         | 46,596                               | 27,133                            |
| Total current assets                                                                                         | 1,806,149                            | 717,866                           |
| Property, plant and equipment                                                                                |                                      |                                   |
| Land, buildings and improvements                                                                             | 888,838                              | 875,958                           |
| Computer equipment and capitalized software                                                                  | 186,251                              | 131,875                           |
| Furniture and other equipment                                                                                | 165,245                              | 156,756                           |
| Construction in progress                                                                                     | 32,183                               | 17,398                            |
|                                                                                                              | 1,272,517                            | 1,181,987                         |
| Less accumulated depreciation                                                                                | 503,390                              | 432,003                           |
|                                                                                                              | 769,127                              | 749,984                           |
| Intangible assets                                                                                            |                                      |                                   |
| Definite-lived intangible assets net                                                                         | 967,101                              | 442,641                           |
| Indefinite-lived intangible assets                                                                           | 381,157                              | 28,248                            |
| Goodwill                                                                                                     | 1,232,693                            | 204,672                           |
| Investments in nonconsolidated affiliates                                                                    | 27,719                               | 2,077                             |
| Other long-term assets                                                                                       | 208,603                              | 196,271                           |
| Total assets                                                                                                 | \$ 5,392,549                         | \$ 2,341,759                      |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                                         |                                      |                                   |
| Current liabilities                                                                                          |                                      |                                   |
| Accounts payable, client accounts                                                                            | \$ 428,688                           | \$ -                              |
| Accounts payable                                                                                             | 99,799                               | 50,844                            |
| Accrued expenses                                                                                             | 558,826                              | 357,138                           |
| Deferred revenue                                                                                             | 326,219                              | 284,536                           |
| Current portion of long-term debt                                                                            | 65,324                               | 41,032                            |
| Other current liabilities                                                                                    | 52,613                               | 18,684                            |
| Total current liabilities                                                                                    | 1,531,469                            | 752,234                           |
| Long-term debt, net                                                                                          | 1,671,789                            | 699,037                           |

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

|                                                                   |                     |                     |
|-------------------------------------------------------------------|---------------------|---------------------|
| Long-term deferred income taxes                                   | 227,337             | 30,480              |
| Other long-term liabilities                                       | 198,957             | 94,567              |
| Series A and Series B redeemable preferred stock                  | -                   | 40,000              |
| Commitments and contingent liabilities (Note 8)                   |                     |                     |
| Redeemable noncontrolling interests                               | 132,121             | -                   |
| Stockholders' equity                                              |                     |                     |
| Common stock                                                      | 1,723               | 860                 |
| Additional paid-in capital                                        | 2,044,110           | 1,090,572           |
| Accumulated deficit                                               | (522,881)           | (433,785)           |
| Cost of shares held in treasury                                   | (9,592)             | (9,529)             |
| Accumulated other comprehensive income (loss)                     | (3,211)             | 4,199               |
| <b>Total Live Nation Entertainment, Inc. stockholders' equity</b> | <b>1,510,149</b>    | <b>652,317</b>      |
| Noncontrolling interests                                          | 120,727             | 73,124              |
| <b>Total stockholders' equity</b>                                 | <b>1,630,876</b>    | <b>725,441</b>      |
| <b>Total liabilities and stockholders' equity</b>                 | <b>\$ 5,392,549</b> | <b>\$ 2,341,759</b> |

See Notes to Consolidated Financial Statements

**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|                                                                                            | <b>Three Months Ended<br/>September 30,</b>           |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|--------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------|--------------------------------------------|--------------|
|                                                                                            | <b>2010</b>                                           | <b>2009</b>  | <b>2010</b>                                | <b>2009</b>  |
|                                                                                            | <i>(in thousands except share and per share data)</i> |              |                                            |              |
| Revenue                                                                                    | \$ 1,836,351                                          | \$ 1,794,588 | \$ 3,825,902                               | \$ 3,326,716 |
| Operating expenses:                                                                        |                                                       |              |                                            |              |
| Direct operating expenses                                                                  | 1,387,302                                             | 1,467,647    | 2,769,459                                  | 2,679,438    |
| Selling, general and administrative expenses                                               | 244,065                                               | 158,412      | 727,708                                    | 453,920      |
| Depreciation and amortization                                                              | 65,320                                                | 35,953       | 181,525                                    | 113,539      |
| Loss (gain) on sale of operating assets                                                    | (779)                                                 | (27)         | 3,155                                      | (1,009)      |
| Corporate expenses                                                                         | 27,660                                                | 16,424       | 86,666                                     | 42,308       |
| Acquisition transaction expenses                                                           | 2,581                                                 | 7,780        | 17,992                                     | 26,515       |
| Operating income                                                                           | 110,202                                               | 108,399      | 39,397                                     | 12,005       |
| Interest expense                                                                           | 29,414                                                | 17,438       | 85,773                                     | 50,557       |
| Loss on extinguishment of debt                                                             | -                                                     | -            | 21,172                                     | -            |
| Interest income                                                                            | (715)                                                 | (342)        | (2,158)                                    | (1,908)      |
| Equity in earnings of nonconsolidated affiliates                                           | (629)                                                 | (163)        | (2,884)                                    | (979)        |
| Other expense (income) net                                                                 | (212)                                                 | 3,858        | (1,845)                                    | 4,465        |
| Income (loss) from continuing operations before income taxes                               | 82,344                                                | 87,608       | (60,661)                                   | (40,130)     |
| Income tax expense (benefit):                                                              |                                                       |              |                                            |              |
| Current                                                                                    | 14,004                                                | 17,344       | 17,844                                     | 28,220       |
| Deferred                                                                                   | 2,905                                                 | (2,129)      | (4,950)                                    | (4,316)      |
| Income (loss) from continuing operations                                                   | 65,435                                                | 72,393       | (73,555)                                   | (64,034)     |
| Income (loss) from discontinued operations, net of tax                                     | (3,213)                                               | 6,779        | (3,893)                                    | 13,241       |
| Net income (loss)                                                                          | 62,222                                                | 79,172       | (77,448)                                   | (50,793)     |
| Net income attributable to noncontrolling interests                                        | 10,818                                                | 9,925        | 11,648                                     | 9,865        |
| Net income (loss) attributable to Live Nation Entertainment, Inc.                          | \$ 51,404                                             | \$ 69,247    | \$ (89,096)                                | \$ (60,658)  |
| Basic net income (loss) per common share attributable to common stockholders:              |                                                       |              |                                            |              |
| Income (loss) from continuing operations attributable to Live Nation Entertainment, Inc.   | \$ 0.32                                               | \$ 0.74      | \$ (0.53)                                  | \$ (0.90)    |
| Income (loss) from discontinued operations attributable to Live Nation Entertainment, Inc. | (0.02)                                                | 0.08         | (0.02)                                     | 0.16         |
| Net income (loss) attributable to Live Nation Entertainment, Inc.                          | \$ 0.30                                               | \$ 0.82      | \$ (0.55)                                  | \$ (0.74)    |
| Diluted net income (loss) per common share attributable to common stockholders:            |                                                       |              |                                            |              |
| Income (loss) from continuing operations attributable to Live Nation Entertainment, Inc.   | \$ 0.32                                               | \$ 0.71      | \$ (0.53)                                  | \$ (0.90)    |
| Income (loss) from discontinued operations attributable to Live Nation Entertainment, Inc. | (0.02)                                                | 0.07         | (0.02)                                     | 0.16         |

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

|                                                                   |    |      |    |      |    |        |    |        |
|-------------------------------------------------------------------|----|------|----|------|----|--------|----|--------|
| Net income (loss) attributable to Live Nation Entertainment, Inc. | \$ | 0.30 | \$ | 0.78 | \$ | (0.55) | \$ | (0.74) |
|-------------------------------------------------------------------|----|------|----|------|----|--------|----|--------|

Weighted average common shares outstanding:

|         |             |            |             |            |
|---------|-------------|------------|-------------|------------|
| Basic   | 170,285,159 | 83,631,558 | 162,285,785 | 82,296,605 |
| Diluted | 172,302,273 | 92,717,666 | 162,285,785 | 82,296,605 |

See Notes to Consolidated Financial Statements

## Table of Contents

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

|                                                                             | Three Months Ended<br>September 30,<br>2010 |           | Nine Months Ended<br>September 30,<br>2009 |             |
|-----------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-------------|
|                                                                             | (in thousands)                              |           |                                            |             |
| Net income (loss)                                                           | \$ 62,222                                   | \$ 79,172 | \$ (77,448)                                | \$ (50,793) |
| Other comprehensive income (loss), net of tax:                              |                                             |           |                                            |             |
| Unrealized and realized holding loss (gain) on cash flow hedges             | (318)                                       | 474       | 6,431                                      | 1,834       |
| Change in funded status of defined benefit pension plan                     | -                                           | 196       | -                                          | 180         |
| Foreign currency translation adjustments                                    | 57,985                                      | 9,209     | (13,841)                                   | 7,581       |
| Comprehensive income (loss)                                                 | 119,889                                     | 89,051    | (84,858)                                   | (41,198)    |
| Comprehensive income attributable to noncontrolling interests               | 10,818                                      | 9,925     | 11,648                                     | 9,865       |
| Comprehensive income (loss) attributable to Live Nation Entertainment, Inc. | \$ 109,071                                  | \$ 79,126 | \$ (96,506)                                | \$ (51,063) |

See Notes to Consolidated Financial Statements

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|                                                                                               | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                               | <b>2010</b>                                | <b>2009</b> |
|                                                                                               | <i>(in thousands)</i>                      |             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                                            |             |
| Net loss                                                                                      | \$ (77,448)                                | \$ (50,793) |
| Reconciling items:                                                                            |                                            |             |
| Depreciation                                                                                  | 90,239                                     | 76,033      |
| Amortization                                                                                  | 91,286                                     | 41,666      |
| Deferred income tax benefit                                                                   | (4,950)                                    | (4,651)     |
| Amortization of debt issuance costs                                                           | 3,265                                      | 2,763       |
| Amortization of debt discount/premium, net                                                    | 5,109                                      | 6,528       |
| Provision for uncollectible accounts receivable and advances                                  | 16,661                                     | 2,704       |
| Non-cash loss on extinguishment of debt                                                       | 8,272                                      | -           |
| Non-cash compensation expense                                                                 | 45,532                                     | 10,011      |
| Unrealized changes in fair value of contingent consideration                                  | 2,965                                      | -           |
| Loss (gain) on sale of operating assets                                                       | 7,048                                      | (3,658)     |
| Equity in earnings of nonconsolidated affiliates                                              | (2,884)                                    | (1,982)     |
| Changes in operating assets and liabilities, net of effects of acquisitions and dispositions: |                                            |             |
| Increase in accounts receivable                                                               | (153,403)                                  | (110,707)   |
| Increase in prepaid expenses                                                                  | (110,428)                                  | (73,228)    |
| Increase in other assets                                                                      | (27,083)                                   | (22,522)    |
| Increase in accounts payable, accrued expenses and other liabilities                          | 84,829                                     | 203,412     |
| Increase (decrease) in deferred revenue                                                       | 34,696                                     | (995)       |
| Net cash provided by operating activities                                                     | 13,706                                     | 74,581      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                   |                                            |             |
| Collections and advances of notes receivable                                                  | 485                                        | 61          |
| Distributions from nonconsolidated affiliates                                                 | 6,019                                      | 2,223       |
| Investments made in nonconsolidated affiliates                                                | (775)                                      | (821)       |
| Purchases of property, plant and equipment                                                    | (49,165)                                   | (53,854)    |
| Proceeds from disposal of operating assets, net of cash divested                              | 22,119                                     | 38,516      |
| Cash paid for acquisitions, net of cash acquired                                              | 560,732                                    | (5,146)     |
| Purchases of intangible assets                                                                | (1,371)                                    | (27,863)    |
| Decrease (increase) in other net                                                              | (246)                                      | 187         |
| Net cash provided by (used in) investing activities                                           | 537,798                                    | (46,697)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                   |                                            |             |
| Proceeds from long-term debt, net of debt issuance costs                                      | 1,318,132                                  | 430,511     |
| Payments on long-term debt                                                                    | (1,191,712)                                | (416,143)   |
| Redemption of preferred stock                                                                 | (40,000)                                   | -           |
| Contributions from noncontrolling interest partners                                           | 14                                         | -           |
| Distributions to and purchases from noncontrolling interest partners                          | (10,538)                                   | (816)       |
| Proceeds from exercise of stock options                                                       | 4,526                                      | -           |
| Issuance of treasury stock                                                                    | -                                          | 1,553       |
| Equity issuance costs                                                                         | (357)                                      | -           |
| Payments for purchases of common stock                                                        | (1,567)                                    | (5,803)     |
| Payments for deferred and contingent consideration                                            | (11,109)                                   | (7,392)     |
| Net cash provided by financing activities                                                     | 67,389                                     | 1,910       |
| Effect of exchange rate changes on cash and cash equivalents                                  | (232)                                      | 28,635      |

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

|                                                  |            |            |
|--------------------------------------------------|------------|------------|
| Net increase in cash and cash equivalents        | 618,661    | 58,429     |
| Cash and cash equivalents at beginning of period | 236,955    | 199,660    |
| Cash and cash equivalents at end of period       | \$ 855,616 | \$ 258,089 |

See Notes to Consolidated Financial Statements

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Recent Developments in the Business***

On January 25, 2010, the Company merged with Ticketmaster and changed its name from Live Nation, Inc. to Live Nation Entertainment, Inc. Ticketmaster's results of operations are included in the Company's consolidated financial statements beginning January 26, 2010. See Note 3 Business Acquisitions for further information regarding the impacts of this Merger. Prior year results have not been restated as a result of the Merger.

As a result of the Merger, the Company reorganized its business units and the way in which these businesses are assessed and therefore changed its reportable segments to Concerts, Ticketing, Artist Nation, eCommerce and Sponsorship. See Note 13 Segment Data for further discussion of segments.

***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 Ticketing segment's sales are impacted by fluctuations in the availability of events for sale to the public, which may vary depending upon scheduling by its clients. Generally, the first and second quarters of the year experience the highest domestic ticketing revenue, earned primarily in the concerts and sports categories. Generally, international ticketing revenue is highest in the fourth quarter of the year, earned primarily in the concerts category. The Artist Nation segment's revenue is impacted, to a large degree, by the touring schedules of the artists represented by the Company. 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. This 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.

***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 2009 Annual Report on Form 10-K filed with the SEC on February 25, 2010, as amended by the Company's Form 10-K/A filed with the SEC on April 30, 2010.

***Gross versus Net Revenue Recognition***

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. To the extent the Company acts as the principal, revenue is reported on a gross basis. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company has the substantial risks and rewards of ownership under the terms of an arrangement. The Ticketing segment's revenue, which primarily consists of convenience charges and order processing fees from its ticketing operations, is recorded net of the face value of the ticket as the Company generally acts as an agent in these transactions.

***Contract Advances***

Ticketing contract advances, which can be either recoupable or non-recoupable, represent amounts paid in advance to the Company's clients pursuant to ticketing agreements. Recoupable ticketing contract advances are generally recoupable against future royalties earned by the clients based on the contract terms over the life of the contract. Non-recoupable ticketing contract advances are fixed additional incentives sometimes paid by the Company to secure exclusive rights with certain clients and are normally amortized over the life of the contract on a straight-line basis. Amortization of non-recoupable ticketing contract advances is included in depreciation and amortization in the consolidated statements of

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

operations. For the three and nine months ended September 30, 2010, the Company amortized \$2.9 million and \$7.6 million, respectively, related to nonrecoupable-ticketing contract advances. There were no such amounts in the first nine months of 2009.

## **Table of Contents**

### ***Acquisition Transaction Expenses***

Acquisition transaction expenses consist of direct costs related to business combinations, such as legal and accounting transaction charges related to reviewing and closing an acquisition and also other legal costs directly tied to the closing of the transaction. In addition, for acquisitions made after the adoption in January 2009 of the FASB guidance for business combinations, this account also reflects changes in the fair value of accrued acquisition-related contingent consideration arrangements.

### ***Accounts Payable, Client Accounts***

Accounts payable, client accounts consists of contractual amounts due to ticketing clients which includes the face value of tickets sold and the clients' share of convenience and order processing charges.

### ***Reclassifications***

The Company has reclassified \$14.5 million in the 2009 consolidated statement of cash flows as an increase to cash paid for purchases of property, plant and equipment and a decrease to cash used for accounts payable, accrued expenses and other liabilities to reflect accrued capital expenditures. The Company has reclassified \$2.0 million in the 2009 consolidated statement of cash flows as a decrease to cash used for accounts payable, accrued expenses and other liabilities with an offset to the effect of exchange rate changes on cash and cash equivalents to reflect the change in fair value of the Company's cash flow hedges. The Company has reclassified \$7.4 million in the 2009 consolidated statement of cash flows as an increase to cash used for accounts payable, accrued expenses and other liabilities and a decrease to cash paid for acquisitions to reflect deferred payments upon acquisition of a business.

### ***Recent Accounting Pronouncements***

#### ***Recently Adopted Pronouncements***

In June 2009, the FASB issued guidance to determine when a variable interest entity should be consolidated. Along with other accounting and disclosure requirements, the pronouncement replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. The Company adopted this guidance on January 1, 2010 and is applying the requirements prospectively. The Company's adoption of the variable interest entity guidance did not have a material impact on its financial position or results of operations.

In January 2010, the FASB issued amended guidance for improving disclosures about fair value measurements. This updated guidance requires: (i) disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and (ii) presentation of activities within the Level 3 rollforward reconciliation on a gross basis. In addition, the updated guidance requires the following clarifications regarding existing disclosures: (i) a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities and (ii) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. With the exception of the requirement related to presentation of the activities within the Level 3 rollforward reconciliation, which is effective for fiscal years beginning after December 15, 2010, the Company adopted this updated guidance on January 1, 2010 and has included the required disclosures in Note 7 Fair Value Measurements which discusses the foregoing hierarchy levels in more detail.

#### ***Recently Issued Pronouncements***

In October 2009, the FASB issued guidance on multiple-deliverable revenue arrangements which requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. This guidance eliminates the use of the residual method of allocation and requires allocation using the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. The guidance is effective for fiscal years beginning on or after June 15, 2010. The Company will adopt the guidance on January 1, 2011 and apply it prospectively. The adoption of this guidance is not expected to have a material effect on the Company's financial position or results of operations.

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

In July 2010, the FASB issued guidance requiring an entity to provide a greater level of disaggregated information about the credit quality of financing receivables and its allowance for credit losses. The guidance also requires new disclosures about credit quality indicators, past-due information and modifications of financing receivables. The guidance is effective for the first interim or annual reporting period ending on or after December 15, 2010. The Company will adopt this guidance on December 31, 2010 and apply it prospectively and will include the required disclosures.

### **NOTE 2 LONG-LIVED ASSETS**

#### ***Property, Plant and Equipment***

During 2010, the Company recorded no significant impairment charges. During 2009, the Company recorded impairment charges of \$9.7 million related to two theaters, two clubs and a theater development project that was no longer being pursued in the Concerts segment. It was determined that these assets were impaired since the estimated

## Table of Contents

undiscounted cash flows associated with these assets were less than their carrying value. These cash flows were calculated using the estimated sales values for the assets being sold, in addition to operating cash flows, all of which were used to approximate fair value. The estimated sales values and operating cash flows used for these non-recurring fair value measurements are considered Level 2 and Level 3 inputs, respectively. See Note 7 Fair Value Measurements for discussion of the levels of the fair value hierarchy. The impairment charges were recorded as a component of depreciation and amortization.

### Definite-lived Intangible Assets

The Company has definite-lived intangible assets which are amortized over the shorter of either the respective lives of the 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 units of production basis. The following table presents the gross carrying amount and accumulated amortization of definite-lived intangible assets as of September 30, 2010 and December 31, 2009:

|                                 | September 30, 2010    |                          |            | December 31, 2009     |                          |            |
|---------------------------------|-----------------------|--------------------------|------------|-----------------------|--------------------------|------------|
|                                 | Gross Carrying Amount | Accumulated Amortization | Net        | Gross Carrying Amount | Accumulated Amortization | Net        |
|                                 | <i>(in thousands)</i> |                          |            |                       |                          |            |
| Revenue-generating contracts    | \$ 451,259            | \$ (82,986)              | \$ 368,273 | \$ 285,145            | \$ (52,576)              | \$ 232,569 |
| Non-compete agreements          | 169,102               | (62,451)                 | 106,651    | 132,912               | (45,568)                 | 87,344     |
| Venue management and leaseholds | 115,477               | (28,738)                 | 86,739     | 112,044               | (23,354)                 | 88,690     |
| Trademarks and naming rights    | 23,775                | (8,775)                  | 15,000     | 21,925                | (8,525)                  | 13,400     |
| Client/vendor relationships     | 338,595               | (21,863)                 | 316,732    | 19,276                | (3,930)                  | 15,346     |
| Technology                      | 76,984                | (6,761)                  | 70,223     | -                     | -                        | -          |
| Other                           | 6,360                 | (2,877)                  | 3,483      | 7,536                 | (2,244)                  | 5,292      |
| Total                           | \$ 1,181,552          | \$ (214,451)             | \$ 967,101 | \$ 578,838            | \$ (136,197)             | \$ 442,641 |

During 2010, the Company recorded definite-lived intangible assets totaling \$617.3 million, primarily related to revenue-generating contracts, non-compete agreements, trademarks and naming rights, client/vendor relationships and technology resulting from \$541.0 million in additions from the Merger (see Note 3 Business Acquisitions for further discussion of the Merger) along with \$70.4 million of additions in non-compete agreements, venue management and leaseholds and client/vendor relationships resulting from the April 2010 acquisition of the remaining 49% interest in, and control of, Live Nation Haymon Ventures, LLC. The 2010 additions to definite-lived intangible assets have a weighted-average life of approximately nine years in total and approximately nine years for revenue-generating contracts, four years for non-compete agreements, 13 years for venue management and leaseholds, seven years for trademarks and naming rights, nine years for client/vendor relationships and eight years for technology. In addition, the definite-lived intangibles were impacted by approximately \$3.1 million of decrease from foreign exchange rate changes.

Total amortization expense from definite-lived intangible assets for the three months ended September 30, 2010 and 2009 was \$32.9 million and \$15.9 million, respectively, and total amortization expense for the nine months ended September 30, 2010 and 2009 was \$83.7 million and \$41.7 million, respectively. The increase in amortization expense is primarily driven by the additional definite-lived intangible assets obtained in the Merger. Partially offsetting the increase in amortization expense for the nine months ended September 30, 2010 as compared to the same period of the prior year was a \$6.1 million reduction related to a non-cash gain on the settlement of a pre-existing relationship with Live Nation Haymon Ventures, LLC. Although identified in the current quarter, pursuant to the FASB guidance, this settlement has only been reflected in the nine months ended September 30, 2010 as it is required to be reported in the period of the business combination, which occurred in April 2010.

**Table of Contents**

The following table presents the Company's estimate of future amortization expense for the remainder of 2010 and through 2014 for definite-lived intangible assets that exist at September 30, 2010:

|      | <i>(in thousands)</i> |
|------|-----------------------|
| 2010 | \$ 34,202             |
| 2011 | \$ 129,398            |
| 2012 | \$ 124,483            |
| 2013 | \$ 129,954            |
| 2014 | \$ 121,348            |

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

***Indefinite-lived Intangible Assets***

The Company has indefinite-lived intangible assets which consist primarily of the intangible value related to trade names. These indefinite-lived intangible assets had a carrying value of \$381.2 million and \$28.2 million as of September 30, 2010 and December 31, 2009, respectively. As part of the Merger, the Company recorded a \$353.0 million asset relating to the Ticketmaster trade name.

***Goodwill***

In 2009, the Company's reportable operating segments were North American Music, International Music and Ticketing. In 2010, subsequent to the Merger, the Company reorganized its business units and the way in which these businesses are assessed and therefore changed its reportable segments to Concerts, Ticketing, Artist Nation, eCommerce and Sponsorship. The Company's businesses formerly reported as North American Music and International Music are now allocated primarily to the Concerts segment with a portion allocated to the Sponsorship segment. The Company's remaining business formerly reported as Ticketing remains in the Ticketing segment in 2010 with the exception of the allocation to the eCommerce segment of a fee per ticket for every ticket sold online in North America along with online advertising. The Artist Nation segment is primarily made up of Ticketmaster's artist management and services businesses and the Company's artist services business which was previously reported as a component of the North American Music segment. As a result of this reorganization, goodwill has been reallocated to the new reporting business units that make up these 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 projected AOI. For the periods presented, the Company reallocated goodwill using each reporting unit's relative fair value as calculated by the respective reporting unit's percentage of total Company projected AOI, excluding Corporate and reporting units that had a projected AOI less than zero. Goodwill related to specific acquisitions was attributed to the respective new reporting units directly (specific allocation).

## Table of Contents

The following table presents the changes in the carrying amount of goodwill in each of the Company's recasted segments for the nine months ended September 30, 2010:

|                                      | 2009 Segments        |                     |           | 2010 Segments |            |               |            |             |          |              |
|--------------------------------------|----------------------|---------------------|-----------|---------------|------------|---------------|------------|-------------|----------|--------------|
|                                      | North American Music | International Music | Other     | Concerts      | Ticketing  | Artist Nation | eCommerce  | Sponsorship | Other    | Total        |
|                                      | (in thousands)       |                     |           |               |            |               |            |             |          |              |
| Balance as of December 31, 2009 (1): |                      |                     |           |               |            |               |            |             |          |              |
| Goodwill                             | \$ 278,987           | \$ 204,672          | \$ 13,037 |               |            |               |            |             |          | \$ 496,696   |
| Accumulated impairment losses        | (278,987)            | -                   | (13,037)  |               |            |               |            |             |          | (292,024)    |
|                                      | -                    | 204,672             | -         |               |            |               |            |             |          | 204,672      |
| Recast balances (2):                 |                      |                     |           |               |            |               |            |             |          |              |
| Fair value approach                  | -                    | (85,943)            |           |               |            |               |            | 85,943      |          | -            |
| Specific allocation                  | (278,987)            | (118,729)           | (13,037)  | 397,716       | -          | -             | -          | -           | 13,037   | -            |
| Accumulated impairment losses        | 278,987              | -                   | 13,037    | (278,987)     | -          | -             | -          | -           | (13,037) | -            |
| Acquisitions current year            |                      |                     |           | -             | 527,884    | 273,962       | 232,003    | -           | -        | 1,033,849    |
| Acquisitions prior year              |                      |                     |           | 173           | -          | 250           | -          | 125         | -        | 548          |
| Foreign currency                     |                      |                     |           | (3,699)       | -          | -             | -          | (2,677)     | -        | (6,376)      |
| Balance as of September 30, 2010:    |                      |                     |           |               |            |               |            |             |          |              |
| Goodwill                             | -                    | -                   | -         | 394,190       | 527,884    | 274,212       | 232,003    | 83,391      | 13,037   | 1,524,717    |
| Accumulated impairment losses        | -                    | -                   | -         | (278,987)     | -          | -             | -          | -           | (13,037) | (292,024)    |
|                                      | \$ -                 | \$ -                | \$ -      | \$ 115,203    | \$ 527,884 | \$ 274,212    | \$ 232,003 | \$ 83,391   | \$ -     | \$ 1,232,693 |

(1) As of December 31, 2009, the Ticketing segment had no goodwill balance.

(2) The beginning balance for each segment has been recast to record goodwill related to a segment that was previously not included in the allocation. The total consolidated amount remains unchanged.

Included in the current year acquisitions amount above is \$1.0 billion of goodwill related to the Merger. See Note 3 Business Acquisitions for further discussion of the Merger.

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

### Other Operating Assets

The Company makes investments in various operating assets, including artist rights agreements and rights related to assets for DVD production and distribution. These assets are reviewed for impairment or collectability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During 2010, it was determined that certain artist advances may not be recoverable since the estimated future undiscounted operating cash flows associated with those advances were less than their carrying value. These operating cash flows were also used to approximate fair value. The operating cash flows used for these non-recurring fair value measurements are considered Level 3 inputs. See Note 7 Fair Value Measurements for further discussion of the fair value hierarchy levels. During 2010, the Company recorded an allowance in direct operating expenses of \$13.4 million in its Concerts segment related to these advances.

***Long-lived Asset Disposals***

In connection with the Merger, the Company reached an agreement with the DOJ that Ticketmaster would divest its Paciolan ticketing business and, in March 2010, the Company completed this sale to Comcast. In September 2009, the Company sold the Boston Opera House, a non-core operational asset, along with rights under a theater management agreement and a leasehold interest in a club. All venues were located in Boston. The sales price for the theater management agreement included a contingent earn-out to be paid over the next five years. The Company impaired these assets during the first and second quarters of 2009, as discussed above in Property, Plant and Equipment.

**Table of Contents**

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

| Divested Asset | Segment   | Gain (Loss)<br>on Sale | Current<br>Assets<br>(in thousands) | Noncurrent<br>Assets | Current<br>Liabilities | Non-Current<br>Liabilities |
|----------------|-----------|------------------------|-------------------------------------|----------------------|------------------------|----------------------------|
| <b>2010</b>    |           |                        |                                     |                      |                        |                            |
| Paciolan       | Ticketing | \$ (5,218)             | \$ 8,357                            | \$ 33,492            | \$ 7,595               | \$ 6,364                   |
| <b>2009</b>    |           |                        |                                     |                      |                        |                            |
| Boston Venues  | Concerts  | \$ 85                  | \$ 114                              | \$ 22,424            | \$ 1,227               | \$ -                       |

**NOTE 3 BUSINESS ACQUISITIONS****Merger with Ticketmaster****Description of Transaction**

In January 2010, Live Nation completed the merger of Ticketmaster with and into a wholly-owned subsidiary of Live Nation pursuant to the Merger Agreement. In connection with the Merger, each issued and outstanding share of Ticketmaster common stock was cancelled and converted into the right to receive 1.4743728 shares of Live Nation common stock plus cash in lieu of any fractional shares such that Ticketmaster stockholders received approximately 50.01% of the voting power of the combined company.

At the Merger date, Ticketmaster operated in 19 global markets, providing ticket sales, ticket resale services, marketing and distribution through [www.ticketmaster.com](http://www.ticketmaster.com), numerous retail outlets and worldwide call centers. Established in 1976, Ticketmaster serves clients worldwide across multiple event categories, providing exclusive ticketing services for leading arenas, stadiums, professional sports franchises and leagues, college sports teams, performing arts venues, museums and theaters. Ticketmaster's business also includes the operations of Front Line, one of the world's leading artist management companies. Through Live Nation's merger with Ticketmaster, it is expected the combined company will have the tools to develop new products, expand access and deliver artists and fans more choices.

The combination of Live Nation and Ticketmaster was structured as a merger of equals. The Merger is accounted for as a business combination under the acquisition method of accounting in accordance with GAAP. Live Nation was the deemed accounting acquirer of Ticketmaster for accounting purposes.

**Fair Value of Consideration Transferred**

(in thousands except exchange ratio, share and per share amounts)

|                                                                       |            |
|-----------------------------------------------------------------------|------------|
| Ticketmaster common stock outstanding on acquisition date             | 57,389,598 |
| Final Exchange Ratio per share                                        | 1.4743728  |
| Number of converted shares of Live Nation common stock                | 84,613,662 |
| Less: fractional shares                                               | (1,312)    |
| Number of shares of Live Nation common stock issued in the Merger     | 84,612,350 |
| Per share price of Live Nation common stock on January 25, 2010       | \$ 10.51   |
| Fair value of shares of Live Nation common stock issued in the Merger | \$ 889,276 |
| Fair value of exchanged equity and liability awards (1)               | \$ 40,841  |
| Cash paid for fractional shares                                       | \$ 13      |

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

Total consideration transferred

\$ 930,130

- (1) Represents the fair value, including the tax impact, of Ticketmaster stock option, restricted stock and restricted stock unit replacement awards for precombination services provided, as well as for the precombination service portion of the outstanding shares of Ticketmaster Series A preferred stock exchanged for a note. Certain holders of restricted stock units have the right to receive cash in exchange for these instruments pursuant to the terms of those awards. The fair value of outstanding awards which immediately vested at the time of the Merger has been attributed to precombination service and included in the consideration transferred. The fair value of the awards attributed to postcombination services of \$80.4 million will be recorded as compensation cost in the postcombination financial statements of Live Nation. The fair value of the stock options exchanged related to precombination service is included in the calculation of purchase consideration and was determined using the Black-Scholes option pricing model. See Note 12 Stock-Based Compensation for further discussion of the Company's stock-based compensation.

## Table of Contents

### *Recording of Assets Acquired, Liabilities Assumed and Noncontrolling Interests in Ticketmaster*

The Company has not finalized the valuation of assets acquired and liabilities assumed and the recorded amounts are subject to further revisions and such revisions could be material.

The following table summarizes the preliminary acquisition-date fair value of the identifiable assets acquired, liabilities assumed and noncontrolling interests including an amount for goodwill:

|                                                                                  | <i>(in thousands)</i> |
|----------------------------------------------------------------------------------|-----------------------|
| Fair value of consideration transferred                                          | \$ 930,130            |
| Plus: Fair value of noncontrolling interests                                     | 165,171               |
| Less: Recognized amounts of identifiable assets acquired and liabilities assumed |                       |
| Cash and cash equivalents                                                        | 575,579               |
| Accounts receivable                                                              | 137,226               |
| Prepaid expenses                                                                 | 48,813                |
| Other current assets                                                             | 31,424                |
| Asset held for sale (Paciolan)                                                   | 30,000                |
| Property, plant and equipment                                                    | 64,839                |
| Intangible assets                                                                | 893,980               |
| Investments in nonconsolidated affiliates                                        | 24,630                |
| Other long-term assets                                                           | 41,092                |
| Accounts payable                                                                 | (414,304)             |
| Accrued expenses                                                                 | (126,153)             |
| Deferred revenue                                                                 | (26,641)              |
| Other current liabilities                                                        | (21,682)              |
| Long-term debt                                                                   | (837,329)             |
| Long-term deferred income taxes                                                  | (264,266)             |
| Other long-term liabilities                                                      | (95,756)              |
| Goodwill                                                                         | \$ 1,033,849          |

Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the Merger consists largely of the synergies expected from combining the operations of Live Nation and Ticketmaster. The anticipated synergies primarily relate to redundant staffing and related internal support costs, redundant locations, redundant systems and IT costs, purchasing economies of scale and expanded sponsorship revenue opportunities as well as an assembled workforce and reduced public company costs. Of the total amount of goodwill recognized in connection with the Merger, approximately \$41.4 million is expected to be deductible for tax purposes. Goodwill of \$527.9 million, \$274.0 million and \$232.0 million has been allocated to the Ticketing, Artist Nation and eCommerce segments, respectively, as a result of the Merger.

## Table of Contents

Below is a summary of the methodologies and significant assumptions used in estimating the fair value of intangible assets and noncontrolling interests.

*Intangible assets* The fair value of the acquired intangible assets was determined using a variety of valuation approaches. In estimating the fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following:

|                                                 | Valuation<br>Method                                                                  | Estimated<br>Fair Value<br>(in thousands) | Estimated<br>Useful Lives (1)<br>(years) |
|-------------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Revenue-generating contracts                    | Multi-Period<br><br>Excess Earnings (2);<br><br>Incremental Income<br><br>Method (3) | \$ 166,800                                | 3 to 9                                   |
| Non-compete agreements                          | With & Without (4)                                                                   | 35,680                                    | 1 to 5                                   |
| Technology                                      | Relief-from<br><br>Royalty (5)                                                       | 77,000                                    | 5 to 8                                   |
| Trademarks and trade names (definite-lived)     | Relief-from<br><br>Royalty (5)                                                       | 5,300                                     | 3 to 8                                   |
| Client/Vendor relationships                     | Multi-Period<br><br>Excess Earnings (2)                                              | 256,200                                   | 4 to 15                                  |
| Total acquired definite-lived intangible assets |                                                                                      | 540,980                                   |                                          |
| Trade name (indefinite-lived)                   | Relief-from<br><br>Royalty (5)                                                       | 353,000                                   | N/A                                      |
| Total acquired intangible assets                |                                                                                      | \$ 893,980                                |                                          |

- (1) Determination of the estimated useful lives of the individual categories of intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with definite lives is recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.
- (2) The multi-period excess earnings method estimates an intangible asset's value based on the present value of the prospective net cash flows (or excess earnings) attributable to it. The value attributed to these intangibles was based on projected net cash inflows from existing contracts or relationships. Specifically, the revenue-generating contracts intangibles relate to contracts the Company has in place with various promoters, sports teams, venue locations and domestic and international ticketing outlets to distribute tickets on the clients' behalf.

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

The client/vendor relationships intangibles relate to relationships the Company has in place with ticketing brokers, artists and customers. For artist relationships, the Company estimated that the touring cycle is generally three years from the release of a new album. At the conclusion of each three-year cycle, there is a possibility that the individual artist will elect to end the relationship with the artist's manager based on whether the artist has a continuing interest in touring, or simply would prefer alternative representation. The artists were grouped into three categories by age and then an estimated artist renewal rate was applied after each three-year cycle to account for the declining probability of the relationship continuing into the next cycle. For customer relationships, projected net cash inflows relate to three separate revenue streams: providing automated ticketing technology, selling VIP ticketing packages to concertgoers and selling merchandise through retail channels.

- (3) The incremental income method compares existing contractual arrangements to market comparable terms and develops incremental income representing the difference to market terms related to the contracts, if any. The value attributed to certain of the revenue-generating contracts was based on projected net cash inflows from contracts in place with specific customers.
- (4) The with & without method is a specific application of the discounted cash flow method that compares the present values of the debt-free net cash flows with and without the asset being valued and treats the difference as the asset's fair value. The value attributed to the non-compete agreements was based on projected net cash inflows from agreements with certain key executives or individuals not to enter into, or consult on behalf of, any business venture in competition with their existing business.

## Table of Contents

- (5) The relief-from royalty method estimates an intangible asset's value based on the cost savings realized by its owner as a result of not having to pay a royalty to another party for using the asset. For technology intangibles, the value attributed was based on projected net cash inflows from royalty savings realized by Ticketmaster as a result of developing its own proprietary ticketing applications, printing technology and website technology. The value attributed to trade names was based on projected net cash inflows from royalty savings realized by Ticketmaster from the name recognition associated with the respective entities. The Company projected earnings attributable to the acquired trade names and then applied a royalty rate of 2% to 3% to these earnings.

Some of the more significant estimates and assumptions inherent in determining the fair value of the identifiable intangible assets are associated with forecasting cash flows and profitability. The primary assumptions used were generally based upon the present value of anticipated cash flows discounted at rates ranging from 10% to 15%. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

**Noncontrolling interests** The fair value of the noncontrolling interests of \$165.2 million was estimated by applying the income approach. The fair value estimates are based on (i) an assumed discount rate range of 12% to 15%, (ii) a terminal cash flow growth rate of 3%, and (iii) adjustments of 0% to 30% to account for lack of marketability that market participants would consider when estimating the fair value of the individual noncontrolling interests.

### Actual and Pro Forma Impact of Acquisition

The revenue, income from continuing operations and net income of Ticketmaster that are included in the Company's consolidated statements of operations since the Merger are detailed below. These amounts are not necessarily indicative of the results of operations that Ticketmaster would have realized if it had continued to operate as a stand-alone company during the periods presented primarily due to the elimination of certain headcount and administrative costs since the Merger that are the result of synergy impacts or due to costs that are now reflected by the Company in its results of operations and not allocated to Ticketmaster.

|                                                            | For the Three<br>Months<br>Ended<br>September 30, 2010 | From the Merger<br>Date through<br>September 30, 2010 |
|------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------|
|                                                            | (in thousands)                                         |                                                       |
| Revenue                                                    | \$ 335,545                                             | \$ 889,794                                            |
| Income from continuing operations                          | \$ 48,303                                              | \$ 60,316                                             |
| Net income attributable to Live Nation Entertainment, Inc. | \$ 46,311                                              | \$ 61,006                                             |

The following unaudited pro forma information presents the consolidated results of Live Nation and Ticketmaster for the three and nine months ended September 30, 2010 and 2009, with adjustments to give effect to pro forma events that are directly attributable to the Merger and have a continuing impact, as well as to exclude the impact of pro forma events that are directly attributable to the Merger and are one-time in nature. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods or the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results that the combined company will experience after the Merger. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the Merger. The unaudited pro forma information also does not include any integration costs, dis-synergies or remaining future transaction costs that the companies may incur related to the Merger as part of combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2009, are as follows:

|                                           | For the Three Months Ended<br>September 30,<br>2010 |              | For the Nine Months Ended<br>September 30,<br>2010 |              |
|-------------------------------------------|-----------------------------------------------------|--------------|----------------------------------------------------|--------------|
|                                           | 2009                                                | 2009         | 2010                                               | 2009         |
|                                           | (in thousands)                                      |              |                                                    |              |
| Unaudited pro forma consolidated results: |                                                     |              |                                                    |              |
| Revenue                                   | \$ 1,830,313                                        | \$ 2,105,559 | \$ 3,851,264                                       | \$ 4,288,750 |
| Income (loss) from continuing operations  | \$ 72,326                                           | \$ 96,575    | \$ (29,443)                                        | \$ 10,383    |

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

|                                                                   |    |        |    |        |    |          |    |        |
|-------------------------------------------------------------------|----|--------|----|--------|----|----------|----|--------|
| Net income (loss) attributable to Live Nation Entertainment, Inc. | \$ | 58,295 | \$ | 96,404 | \$ | (44,032) | \$ | 22,099 |
|-------------------------------------------------------------------|----|--------|----|--------|----|----------|----|--------|

## Table of Contents

The Company has incurred a total of \$49.1 million of acquisition transaction expenses to date relating to the Merger, of which \$3.7 million and \$7.1 million are included in the results of operations for the three months ended September 30, 2010 and 2009, respectively, and \$14.2 million and \$25.7 million are included in the results of operations for the nine months ended September 30, 2010 and 2009, respectively. The Company has incurred a total of \$2.7 million of equity issuance costs to date which have been recorded as a charge to additional paid-in capital, as a reduction of the otherwise determined fair value of the equity issued.

In connection with the Merger, the Company has incurred severance costs of \$0.5 million as a component of selling, general and administrative expenses in its Ticketing segment for the three months ended September 30, 2010 and \$7.0 million, \$1.1 million, \$0.7 million and \$0.1 million as a component of selling, general and administrative expenses in its Ticketing, Artist Nation, eCommerce and Sponsorship segments, respectively, and \$4.7 million as a component of corporate expenses for the nine months ended September 30, 2010. The Company does not expect to incur additional significant severance costs in connection with the merger.

## NOTE 4 DISCONTINUED OPERATIONS

In October 2009, the Company sold its remaining theatrical venues and operations in the United Kingdom to The Ambassador Theatre Group Limited for a gross sales price of approximately \$148.7 million. After fees, expenses and a working capital adjustment, the Company received approximately \$111.3 million of net proceeds. The sale of the U.K. theatrical business resulted in a tax-free gain of \$56.6 million in the fourth quarter of 2009. During 2009, the Company also sold its 33% interest in Dominion Theatre Investments Limited which was part of the U.K. theatrical business. The Company has reported the U.K. theatrical business as discontinued operations in accordance with the FASB guidance for presentation of financial statements. Accordingly, the results of operations for all periods presented have been reclassified. For the three and nine months ended September 30, 2010, the Company reported an additional \$3.2 million and \$3.9 million, respectively, of expense related to the sale.

Summary operating results of discontinued operations are as follows:

|                                                                                            | For the Three<br>Months<br>Ended September 30,<br>2010 |           | For the Nine<br>Months Ended September 30,<br>2009 |           |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------|----------------------------------------------------|-----------|
|                                                                                            | 2010                                                   | 2009      | 2010                                               | 2009      |
|                                                                                            | (in thousands)                                         |           |                                                    |           |
| Revenue                                                                                    | \$ -                                                   | \$ 13,708 | \$ -                                               | \$ 43,853 |
| Operating expenses                                                                         | -                                                      | 9,933     | -                                                  | 31,554    |
| Gain on sale of operating assets                                                           | -                                                      | (2,645)   | -                                                  | (2,649)   |
| Other income net                                                                           | -                                                      | (1,994)   | -                                                  | (2,619)   |
| Income from discontinued operations before income taxes                                    | -                                                      | 8,414     | -                                                  | 17,567    |
| Income tax expense                                                                         | -                                                      | 1,635     | -                                                  | 4,326     |
| Income from discontinued operations before loss on disposal                                | -                                                      | 6,779     | -                                                  | 13,241    |
| Loss on disposal, net of tax                                                               | 3,213                                                  | -         | 3,893                                              | -         |
| Income (loss) from discontinued operations, net of tax                                     | (3,213)                                                | 6,779     | (3,893)                                            | 13,241    |
| Income (loss) from discontinued operations attributable to noncontrolling interests        | -                                                      | -         | -                                                  | -         |
| Income (loss) from discontinued operations attributable to Live Nation Entertainment, Inc. | \$ (3,213)                                             | \$ 6,779  | \$ (3,893)                                         | \$ 13,241 |

**Table of Contents****NOTE 5 LONG-TERM DEBT**

Long-term debt, which includes capital leases, at September 30, 2010 and December 31, 2009, consisted of the following:

|                                                                                                                                                       | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                       | <i>(in thousands)</i> |                      |
| May 2010 Senior Secured Credit Facility:                                                                                                              |                       |                      |
| Term loan A                                                                                                                                           | \$ 97,500             | \$ -                 |
| Term loan B, net of unamortized discount of \$3.7 million at September 30, 2010                                                                       | 792,263               | -                    |
| Revolving credit facility                                                                                                                             | -                     | -                    |
| December 2005 Senior Secured Credit Facility:                                                                                                         |                       |                      |
| Term loan                                                                                                                                             | -                     | 343,483              |
| Revolving credit facility                                                                                                                             | -                     | 101,335              |
| 8.125% Senior Notes due 2018                                                                                                                          | 250,000               | -                    |
| 10.75% Senior Notes due 2016, plus unamortized premium of \$23.8 million at September 30, 2010                                                        | 310,755               | -                    |
| 2.875% Convertible Senior Notes due 2027, net of unamortized discount of \$45.6 million at September 30, 2010 and \$52.8 million at December 31, 2009 | 174,411               | 167,217              |
| Other long-term debt                                                                                                                                  | 112,184               | 128,034              |
|                                                                                                                                                       | 1,737,113             | 740,069              |
| Less: current portion                                                                                                                                 | 65,324                | 41,032               |
| Total long-term debt, net                                                                                                                             | \$ 1,671,789          | \$ 699,037           |

Future maturities of long-term debt at September 30, 2010 are as follows:

|                                      |                       |
|--------------------------------------|-----------------------|
|                                      | <i>(in thousands)</i> |
| 2010                                 | \$ 34,075             |
| 2011                                 | 38,209                |
| 2012                                 | 36,764                |
| 2013                                 | 28,132                |
| 2014                                 | 263,758               |
| Thereafter                           | 1,361,727             |
| Total                                | 1,762,665             |
| Debt discount                        | (49,327)              |
| Debt premium                         | 23,775                |
| Total including premium and discount | \$ 1,737,113          |

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 7 Fair Value Measurements for discussion of the fair value of the Company's long-term debt.

***May 2010 Senior Secured Credit Facility***

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

In May 2010, the Company replaced its existing senior secured credit facilities, including the Ticketmaster senior secured credit facility, by entering into a credit agreement dated as of May 6, 2010 that provides for \$1.2 billion in credit facilities (the "Credit Agreement"). As a result, the Company recorded a loss on extinguishment of debt during the second quarter of 2010. This new senior secured credit facility consists of (i) a \$100 million term loan A with a maturity of five and one-half years, (ii) an \$800 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 \$300 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 interest rates per annum applicable to loans under the senior secured credit facility are, at the Company's option, equal to either LIBOR plus 3.0% or a base rate plus 2.0%, 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.

## **Table of Contents**

During the first five and one-quarter years after the closing date, the Company is required to make quarterly payments on the term loan A at a rate ranging from 5% of the original principal amount in the first year of the facility to 40% in the last half-year of the facility. During the first six and one-quarter years after the closing date, the Company is required to make quarterly amortization payments on the term loan B at a rate of 0.25% of the original principal amount thereof. 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.

At September 30, 2010, the outstanding balance on the term loans, excluding the debt discount, and revolving credit facility were \$893.5 million and zero, respectively. Based on the Company's outstanding letters of credit of \$43.8 million, \$256.2 million was available for future borrowings.

### ***8.125% Senior Notes***

In May 2010, the Company issued \$250 million of 8.125% senior notes due 2018. Interest on the notes is payable semi-annually in cash in arrears on May 15 and November 15 of each year, beginning on November 15, 2010, and the notes will mature on May 15, 2018. The Company may redeem some or all of the notes at any time prior to May 15, 2014 at a price equal to 100% of the 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 May 15, 2013, at a price equal to 108.125% of their principal amount, plus any accrued and unpaid interest. In addition, on or after May 15, 2014, the Company may redeem some or all of the notes at any time at redemption prices that start at 104.063% of their aggregate principal amount. The Company must also offer to redeem the notes at 101% of their principal amount, plus accrued and unpaid interest to the repurchase date, if it experiences certain kinds of changes of control.

### ***10.75% Senior Notes***

As part of the Merger, the Company acquired Ticketmaster's obligations under its 10.75% senior notes due 2016, with an aggregate principal amount of \$287 million outstanding. Interest is payable semi-annually in cash in arrears on August 1 and February 1 of each year. These notes are guaranteed by existing and future domestic restricted subsidiaries of Ticketmaster.

The notes are redeemable by the Company, in whole or in part, on or after August 1, 2012 at the following prices (expressed as percentages of the principal amount), plus accrued and unpaid interest, on August 1 of the following years: 105.375% (2012), 102.688% (2013) and 100.00% (2014 and thereafter). At any time and from time to time prior to August 1, 2012, the notes are redeemable by the Company at a redemption price equal to 100% of the principal amount plus the greater of (i) 1% of the principal amount of such note; and (ii) the excess, if any, of: (A) an amount equal to the present value of (1) the redemption price of such note at August 1, 2012, plus (2) the remaining scheduled interest payments on the notes to be redeemed (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date) to August 1, 2012 (other than interest accrued to the redemption date), computed using a discount rate equal to the Treasury Rate plus 50 basis points; over (B) the principal amount of the notes to be redeemed. In addition, up to 35% of the notes may be redeemed by the Company with proceeds from certain equity offerings before August 1, 2011 at a price equal to 110.75% of their principal amount, plus accrued and unpaid interest. The Company must also offer to redeem the notes at 101% of their principal amount, plus accrued and unpaid interest, if it experiences certain kinds of changes of control. Due to its legal structure, the Merger was not considered a restricted transaction under these covenants and did not meet the requirements of a change of control. Lastly, if certain of the Company's subsidiaries (specifically, those that are designated restricted subsidiaries under the indenture governing the notes) sell assets and do not apply the sale proceeds in a specified manner within a specified time, the Company will be required to make an offer to purchase the notes at their face amount, plus accrued and unpaid interest to the repurchase date.

### ***Debt Extinguishment***

The December 2005 senior secured credit facility and the Ticketmaster senior secured credit facility were paid in full in May 2010 with proceeds from the Credit Agreement and the issuance of the 8.125% senior notes. In addition, the interest rate swap agreements affiliated with the December 2005 senior secured credit facility were settled in conjunction with the termination of the prior credit facility. See Note 6 Derivative Instruments for further discussion of the interest rate swap settlements. Also, the Company converted the existing preferred stock of one of its subsidiaries into the right to receive a cash payment of the outstanding principal and a make-whole payment to compensate the holders for their interest through maturity and settled this obligation. Finally, the Company expensed the deferred debt issuance costs associated with the December 2005 senior secured credit facility and preferred stock. The Company recorded a total of \$21.2 million for the loss on extinguishment of debt in the second quarter of 2010.



## **Table of Contents**

### *December 2005 Senior Secured Credit Facility*

The Company had a senior secured credit facility that was entered into in December 2005 which consisted of term loans totaling \$550 million and a \$285 million revolving credit facility. Under the senior secured credit facility, revolving loans bore interest at an annual rate of LIBOR plus 2.25% and term loans bore interest at an annual rate of LIBOR plus 3.25%.

The interest rate paid on the Company's \$285 million, multi-currency revolving credit facility depended on its total leverage ratio. In addition to paying interest on outstanding principal under the credit facility, the Company was required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments. The Company was also required to pay customary letter of credit fees, as necessary.

### *Ticketmaster Senior Secured Credit Facility*

As part of the Merger, the Company acquired the Ticketmaster senior secured credit facility, which consisted of a \$100 million term loan A with a maturity of five years, a \$350 million term loan B with a maturity of six years and a \$200 million revolving credit facility with a maturity of five years.

The interest rates per annum applicable to loans under the senior secured credit facility at the Merger date were a base rate plus an applicable margin in the case of term loan A and the revolving credit facility and 4.5% per annum plus LIBOR for term loan B. The base rate was the greater of (i) the prime rate as quoted from time to time by JPMorgan Chase Bank, N.A. or (ii) the Federal Funds rate plus 0.5%. At the Merger date, the base rate was 2.5%.

### ***Debt Covenants***

The Company's Credit Agreement contains a number of covenants and restrictions that, among other things, require the Company to satisfy certain financial covenants and restrict the Company's and its subsidiaries' ability to incur additional debt, make certain investments and acquisitions, repurchase its stock and prepay certain indebtedness, create liens, enter into agreements with affiliates, modify the nature of its business, enter into sale-leaseback transactions, transfer and sell material assets, merge or consolidate, and pay dividends and make distributions (with the exception of subsidiary dividends or distributions to the parent company or other subsidiaries on at least a pro-rata basis with any noncontrolling interest partners). Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the credit facility becoming immediately due and payable. The Credit Agreement has two covenants measured quarterly starting June 30, 2010 that relate to total leverage and interest coverage. The consolidated total leverage covenant requires the Company to maintain a ratio of consolidated total debt to consolidated EBITDA (both as defined in the Credit Agreement) of less than 4.9x over the trailing four consecutive quarters. The total leverage ratio will reduce to 4.5x on September 30, 2011, 4.0x on September 30, 2012, 3.75x September 30, 2013 and 3.5x on March 31, 2015. The consolidated interest coverage covenant requires the Company to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense (both as defined in the senior secured credit facility agreement) of 2.5x over the trailing four consecutive quarters. The interest coverage will increase to 2.75x on September 30, 2011, and 3.0x on September 30, 2012.

The indentures governing the 10.75% senior notes and the 8.125% senior 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; merge, consolidate or sell all of the Company's assets; create certain liens; and engage in transactions with affiliates on terms that are not arm's length. Certain covenants, including those pertaining to incurrence of indebtedness, restricted payments, asset sales, mergers and transactions with affiliates will be suspended during any period in which the notes are rated investment grade by both rating agencies and no default or event of default under the indentures has occurred and is continuing. The 10.75% senior notes and the 8.125% senior notes each contain two incurrence-based financial covenants, as defined, requiring a minimum fixed charge coverage ratio of 2.0 to 1.0 and a maximum secured indebtedness leverage ratio of 2.75 to 1.0.

As of September 30, 2010, the Company believes it was in compliance with all of its debt covenants. The Company expects to remain in compliance with all of its debt covenants throughout 2010.

### **NOTE 6 DERIVATIVE INSTRUMENTS**

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

The Company is required to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. See Note 7 Fair Value Measurements for further discussion of the fair values for derivative instruments. The Company accounts for its derivative instruments that are not designated as hedges at fair value with changes in fair value recorded in earnings to the same line item associated with the forecasted transaction. The Company does not enter into derivative instruments for speculation or trading purposes.

## Table of Contents

In May 2010, in conjunction with the debt extinguishment (see Note 5 Long-Term Debt for discussion of the Company's debt extinguishment), the Company settled three interest rate swap agreements, one of which was designated as a cash flow hedge for accounting purposes, that were associated with the term loans under the Company's December 2005 senior secured credit facility. The Company recognized expenses of \$2.2 million and \$2.3 million for the settlement of the designated and undesignated interest rate swap agreements, respectively, as a component of loss on extinguishment of debt.

In May 2010, the Company entered into an interest rate cap agreement which is designated as a cash flow hedge for accounting purposes. The interest payments being hedged are the LIBOR-based interest payments for the Company's term loan A. The purpose of the interest rate cap agreement is to limit the Company's cash flow exposure to the variable LIBOR rate to a maximum interest rate of 4% per annum. The Company expects minimal gain or loss to be reclassified into earnings within the next 12 months. Approximately 11% of the Company's outstanding term loans under the senior secured credit facility had their interest payments designated as the hedged forecasted transactions against the interest rate cap agreement at September 30, 2010.

Additionally, the Company has two interest rate swap agreements that have not been designated as hedging instruments. The Company has an interest rate swap agreement to convert a portion of AMG's long-term debt from floating-rate debt to a fixed-rate basis with a notional amount of \$15.9 million. Also, in connection with the financing of the redevelopment of the O<sub>2</sub> Dublin, the Company has an interest rate swap agreement to convert a portion of long-term debt from floating-rate debt to a fixed-rate basis with a notional amount of \$16.1 million. Any changes in fair value are recorded in earnings during the period of the change.

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, 2010 and December 31, 2009, the fair value of these provisions is considered de minimis.

The Company primarily uses forward currency contracts in addition to options to reduce its exposure to foreign currency risk. The principal objective of such contracts is to minimize the risks and/or costs 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. At September 30, 2010 and December 31, 2009, the Company had forward currency contracts outstanding with notional amounts of \$76.9 million and \$5.9 million, respectively. These forward currency contracts have not been designated as hedging instruments. Any change in fair value is reported in earnings during the period of the change.

The Company's derivative instruments are subject to master netting arrangements and are presented on a net basis in the consolidated balance sheets. The fair value of derivative instruments in the consolidated balance sheets as of September 30, 2010 and December 31, 2009 presented on a gross basis are as follows:

|                                                                      |                        | As of September 30, 2010               |                             |         |
|----------------------------------------------------------------------|------------------------|----------------------------------------|-----------------------------|---------|
| Asset Derivatives<br>Balance Sheet                                   |                        | Liability Derivatives<br>Balance Sheet |                             |         |
| Location                                                             | Fair<br>Value          | Location                               | Fair<br>Value               |         |
| (in thousands)                                                       |                        |                                        |                             |         |
| Derivatives designated as hedging instruments:                       |                        |                                        |                             |         |
| Interest rate cap                                                    | Other long-term assets | \$ 92                                  | Other current liabilities   | \$ -    |
| Total derivatives designated as hedging instruments                  |                        | 92                                     | -                           |         |
| Derivatives not designated as hedging instruments:                   |                        |                                        |                             |         |
| Interest rate swaps                                                  | Other long-term assets | -                                      | Other long-term liabilities | (1,897) |
| Forward currency contracts                                           | Other current assets   | 354                                    | Other current liabilities   | (3,769) |
| Contingent interest provision on 2.875% convertible senior notes (1) |                        | -                                      | -                           |         |
|                                                                      |                        | 354                                    | (5,666)                     |         |

**Total derivatives not designated as hedging  
instruments**

|                          |               |                   |
|--------------------------|---------------|-------------------|
| <b>Total derivatives</b> | <b>\$ 446</b> | <b>\$ (5,666)</b> |
|--------------------------|---------------|-------------------|

## Table of Contents

|                                                                      |                                 | As of December 31, 2009                |                                      |
|----------------------------------------------------------------------|---------------------------------|----------------------------------------|--------------------------------------|
| Asset Derivatives<br>Balance Sheet                                   |                                 | Liability Derivatives<br>Balance Sheet |                                      |
| Location                                                             | Fair<br>Value<br>(in thousands) | Location                               | Fair<br>Value                        |
| <b>Derivatives designated as hedging instruments:</b>                |                                 |                                        |                                      |
| Interest rate swap                                                   | Other long-term assets          | \$ -                                   | Other current liabilities \$ (3,255) |
| Forward currency contract                                            | Other current assets            | 71                                     | Other current liabilities -          |
| <b>Total derivatives designated as hedging instruments</b>           |                                 | 71                                     | (3,255)                              |
| <b>Derivatives not designated as hedging instruments:</b>            |                                 |                                        |                                      |
| Interest rate swaps                                                  | Other long-term assets          | 378                                    | Other long-term liabilities (6,603)  |
| Forward currency contracts                                           | Other current assets            | 144                                    | Other current liabilities (7)        |
| Contingent interest provision on 2.875% convertible senior notes (1) |                                 | -                                      | -                                    |
| <b>Total derivatives not designated as hedging instruments</b>       |                                 | 522                                    | (6,610)                              |
| <b>Total derivatives</b>                                             |                                 | \$ 593                                 | \$ (9,865)                           |

(1) At the date of issuance and as of September 30, 2010 and December 31, 2009, this fair value was considered de minimis.

## Table of Contents

The effect of derivative instruments on the consolidated statements of operations for the three months ended September 30, 2010 and 2009 was as follows:

| For the Three Months Ended September 30, 2010                        |                                                                           |                                                             |                                                                                         |                                                                                                                                  |                                                                                                                                |
|----------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Derivatives Designated as                                            |                                                                           | Location of Gain (Loss) Reclassified from Accumulated       | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
| Cash Flow Hedging Instruments                                        | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | OCI into Income (Effective Portion)                         |                                                                                         |                                                                                                                                  |                                                                                                                                |
|                                                                      |                                                                           | (in thousands)                                              |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Interest rate cap                                                    | \$ 345                                                                    | Interest expense                                            | \$ -                                                                                    | Other expense (income) net                                                                                                       | \$ -                                                                                                                           |
| Interest rate swaps                                                  | \$ -                                                                      | Interest expense                                            | \$ -                                                                                    | Other expense (income) net                                                                                                       | \$ -                                                                                                                           |
| Interest rate swaps                                                  | \$ -                                                                      | Loss on extinguishment of debt                              | \$ -                                                                                    | Other expense (income) net                                                                                                       | \$ -                                                                                                                           |
| Forward currency contract                                            | \$ -                                                                      | Direct operating expenses                                   | \$ -                                                                                    | Other expense (income) net                                                                                                       | \$ -                                                                                                                           |
| Derivatives Not Designated as Hedging Instruments                    | Amount of Gain (Loss) Recognized in Income on Derivatives (in thousands)  | Location of Gain (Loss) Recognized in Income on Derivatives |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Interest rate swaps                                                  | \$ 34                                                                     | Interest expense                                            |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Forward currency contracts                                           | \$ (1,434)                                                                | Revenue                                                     |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Forward currency contracts                                           |                                                                           | Direct operating expenses                                   |                                                                                         |                                                                                                                                  |                                                                                                                                |
|                                                                      | \$ (3,914)                                                                |                                                             |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Forward currency contracts                                           |                                                                           | Other expense (income) net                                  |                                                                                         |                                                                                                                                  |                                                                                                                                |
|                                                                      | \$ (276)                                                                  |                                                             |                                                                                         |                                                                                                                                  |                                                                                                                                |
| Contingent interest provision on 2.875% convertible senior notes (1) | \$ -                                                                      | Other expense (income) net                                  |                                                                                         |                                                                                                                                  |                                                                                                                                |

| For the Three Months Ended September 30, 2009           |                                                                           |                                                                       |                                                                                         |                                                                                                                                  |                                                                                                                                |
|---------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Derivatives Designated as Cash Flow Hedging Instruments | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) |

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

|                    |    | (Effective Portion) |                  | Portion) |         | Portion and Amount Excluded from Effectiveness Testing) |
|--------------------|----|---------------------|------------------|----------|---------|---------------------------------------------------------|
|                    |    |                     | (in thousands)   |          |         |                                                         |
| Interest rate swap | \$ | (2,025)             | Interest expense | \$       | (1,421) | Other expense (income) net                              |
|                    |    |                     |                  |          |         | \$ -                                                    |

|                                                                      |                                     | Location of Gain           |
|----------------------------------------------------------------------|-------------------------------------|----------------------------|
|                                                                      | Amount of Gain (Loss)               | (Loss) Recognized          |
| Derivatives Not Designated as Hedging Instruments                    | Recognized in Income on Derivatives | in Income on Derivatives   |
|                                                                      | (in thousands)                      |                            |
| Interest rate swaps (2)                                              | \$ (1,844)                          | Interest expense           |
| Forward currency contracts                                           |                                     | Direct operating           |
|                                                                      | \$ 3,108                            | expenses                   |
| Forward currency contracts related to business unit disposal         |                                     | Gain on sale of            |
|                                                                      | \$ 2,887                            | operating assets           |
| Contingent interest provision on 2.875% convertible senior notes (1) | \$ -                                | Other expense (income) net |

**Table of Contents**

- (1) For the three months ended September 30, 2010 and 2009, this provision was considered de minimis and no gain (loss) was recognized.
- (2) Includes an interest rate swap that was de-designated in the third quarter of 2009. The de-designated instrument contributed a \$1.1 million loss from OCI that is included in the amount reported in this table. At September 30, 2009, a \$4.9 million loss remained in OCI to be amortized into earnings in future periods. The swap was settled in May 2010.

The effect of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2010 and 2009 was as follows:

**For the Nine Months Ended September 30, 2010**

| Derivatives Designated as<br><br>Cash Flow Hedging<br>Instruments          | Amount of Gain<br>(Loss) Recognized<br>in OCI on Derivative<br>(Effective<br>Portion)                 | Location of Gain<br>(Loss) Reclassified<br>from Accumulated<br><br>OCI into Income<br>(Effective Portion)<br><i>(in thousands)</i> | Amount of<br>Gain<br>(Loss)<br><br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) | Location of Gain<br>(Loss) Recognized in<br>Income on Derivatives<br>(Ineffective Portion<br>and Amount Excluded<br>from Effectiveness<br>Testing) | Amount of Gain<br>(Loss) Recognized<br>in<br>Income on Derivatives<br>(Ineffective<br>Portion<br>and Amount Excluded<br>from<br>Effectiveness<br>Testing) |
|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                            |                                                                                                       |                                                                                                                                    |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Interest rate cap                                                          | \$ 570                                                                                                | Interest expense                                                                                                                   | \$ -                                                                                                          | Other expense                                                                                                                                      | \$ -                                                                                                                                                      |
|                                                                            |                                                                                                       |                                                                                                                                    |                                                                                                               | (income) net                                                                                                                                       |                                                                                                                                                           |
| Interest rate swaps                                                        | \$ (222)                                                                                              | Interest expense                                                                                                                   | \$ (2,780)                                                                                                    | Other expense                                                                                                                                      | \$ -                                                                                                                                                      |
|                                                                            |                                                                                                       |                                                                                                                                    |                                                                                                               | (income) net                                                                                                                                       |                                                                                                                                                           |
| Interest rate swaps                                                        | \$ -                                                                                                  | Loss on extinguishment                                                                                                             | \$ (4,484)                                                                                                    | Other expense                                                                                                                                      | \$ -                                                                                                                                                      |
|                                                                            |                                                                                                       | of debt                                                                                                                            |                                                                                                               | (income) net                                                                                                                                       |                                                                                                                                                           |
| Forward currency contract                                                  | \$ 273                                                                                                | Direct operating                                                                                                                   | \$ 344                                                                                                        | Other expense                                                                                                                                      | \$ -                                                                                                                                                      |
|                                                                            |                                                                                                       | expenses                                                                                                                           |                                                                                                               | (income) net                                                                                                                                       |                                                                                                                                                           |
| Derivatives Not Designated<br><br>as Hedging Instruments                   | Amount of<br>Gain<br>(Loss)<br><br>Recognized<br>in Income on<br>Derivatives<br><i>(in thousands)</i> | Location of Gain<br>(Loss) Recognized<br><br>in Income on<br><br>Derivatives                                                       |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
|                                                                            |                                                                                                       |                                                                                                                                    |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Interest rate swaps                                                        | \$ (1,381)                                                                                            | Interest expense                                                                                                                   |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Forward currency contracts                                                 | \$ (793)                                                                                              | Revenue                                                                                                                            |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Forward currency contracts                                                 |                                                                                                       | Direct operating                                                                                                                   |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
|                                                                            | \$ (2,483)                                                                                            | expenses                                                                                                                           |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Forward currency contracts                                                 |                                                                                                       | Other expense                                                                                                                      |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
|                                                                            | \$ (276)                                                                                              | (income) net                                                                                                                       |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
| Contingent interest provision on<br>2.875% convertible senior notes<br>(1) | \$ -                                                                                                  | Other expense                                                                                                                      |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |
|                                                                            |                                                                                                       | (income) net                                                                                                                       |                                                                                                               |                                                                                                                                                    |                                                                                                                                                           |



## Table of Contents

| For the Nine Months Ended September 30, 2009                               |                                                                                            |                                                                                                     |                                                                                                              |                                                                               |                                                                                                                                                        |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives Designated as<br>Cash Flow Hedging<br>Instruments              | Amount of Gain<br>(Loss) Recognized<br>in OCI on Derivative<br>(Effective<br>Portion)      | Location of Gain                                                                                    |                                                                                                              | Location of Gain                                                              |                                                                                                                                                        |
|                                                                            |                                                                                            | (Loss) Reclassified<br>from Accumulated<br>OCI into Income<br>(Effective Portion)<br>(in thousands) | Amount of<br>Gain<br>(Loss)<br>Reclassified<br>from<br>Accumulated OCI<br>into Income<br>(Effective Portion) | (Ineffective Portion<br>and Amount Excluded<br>from Effectiveness<br>Testing) | Amount of<br>Gain<br>(Loss) Recognized in<br>Income on Derivatives<br>(Ineffective Portion<br>and Amount Excluded<br>from<br>Effectiveness<br>Testing) |
| Interest rate swap                                                         | \$ (4,145)                                                                                 | Interest expense                                                                                    | \$ (4,901)                                                                                                   | Other expense                                                                 | \$ -                                                                                                                                                   |
|                                                                            |                                                                                            |                                                                                                     |                                                                                                              | (income) net                                                                  |                                                                                                                                                        |
| Derivatives Not Designated<br>as Hedging Instruments                       | Amount of<br>Gain<br>(Loss)<br>Recognized<br>in Income on<br>Derivatives<br>(in thousands) | Location of Gain                                                                                    |                                                                                                              | Location of Gain                                                              |                                                                                                                                                        |
|                                                                            |                                                                                            | (Loss) Recognized<br>in Income on<br>Derivatives                                                    |                                                                                                              |                                                                               |                                                                                                                                                        |
| Interest rate swaps (2)                                                    | \$(2,242)                                                                                  | Interest expense                                                                                    |                                                                                                              |                                                                               |                                                                                                                                                        |
| Forward currency contracts                                                 | \$(1,403)                                                                                  | Direct operating<br>expenses                                                                        |                                                                                                              |                                                                               |                                                                                                                                                        |
| Forward currency contracts<br>related to business unit<br>disposal         | \$2,887                                                                                    | Gain on sale of<br>operating assets                                                                 |                                                                                                              |                                                                               |                                                                                                                                                        |
| Contractual guarantee (3)                                                  |                                                                                            | Depreciation and<br>amortization                                                                    |                                                                                                              |                                                                               |                                                                                                                                                        |
|                                                                            | \$(2,398)                                                                                  | expense                                                                                             |                                                                                                              |                                                                               |                                                                                                                                                        |
| Contingent interest provision<br>on 2.875% convertible<br>senior notes (1) | \$ -                                                                                       | Other expense                                                                                       |                                                                                                              |                                                                               |                                                                                                                                                        |
|                                                                            |                                                                                            | (income) net                                                                                        |                                                                                                              |                                                                               |                                                                                                                                                        |

- (1) For the nine months ended September 30, 2010 and 2009, this provision was considered de minimis and no gain (loss) was recognized.
- (2) Includes an interest rate swap that was de-designated in the third quarter of 2009. The de-designated instrument contributed a \$1.1 million loss from OCI that is included in the amount reported in this table. At September 30, 2009, a \$4.9 million loss remained in OCI to be amortized into earnings in future periods. The swap was settled in May 2010.
- (3) The contractual guarantee was settled in the first quarter of 2009.

### NOTE 7 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:

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

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

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).

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.

**Table of Contents**

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, as of September 30, 2010 and December 31, 2009, which are classified as other current assets, other long-term assets, other current liabilities and other long-term liabilities:

|                             | Fair Value Measurements<br>at September 30, 2010 |                           |                  |                  | Fair Value Measurements<br>at December 31, 2009 |                           |             |                  |
|-----------------------------|--------------------------------------------------|---------------------------|------------------|------------------|-------------------------------------------------|---------------------------|-------------|------------------|
|                             | Level 1                                          | Level 2<br>(in thousands) | Level 3          | Total            | Level 1                                         | Level 2<br>(in thousands) | Level 3     | Total            |
| <b>Assets:</b>              |                                                  |                           |                  |                  |                                                 |                           |             |                  |
| Forward currency contracts  | -                                                | -                         | -                | -                | -                                               | 208                       | -           | 208              |
| Interest rate cap           | -                                                | 92                        | -                | 92               | -                                               | -                         | -           | -                |
| Investments in rabbi trusts | 3,576                                            | -                         | -                | 3,576            | 3,431                                           | -                         | -           | 3,431            |
| <b>Total</b>                | <b>\$ 3,576</b>                                  | <b>\$ 92</b>              | <b>\$ -</b>      | <b>\$ 3,668</b>  | <b>\$ 3,431</b>                                 | <b>\$ 208</b>             | <b>\$ -</b> | <b>\$ 3,639</b>  |
| <b>Liabilities:</b>         |                                                  |                           |                  |                  |                                                 |                           |             |                  |
| Interest rate swaps         | \$ -                                             | \$ 1,897                  | \$ -             | \$ 1,897         | \$ -                                            | \$ 9,480                  | \$ -        | \$ 9,480         |
| Forward currency contracts  | -                                                | 3,415                     | -                | 3,415            | -                                               | -                         | -           | -                |
| Contingent consideration    | -                                                | -                         | 22,284           | 22,284           | -                                               | -                         | -           | -                |
| Other liabilities           | 3,576                                            | -                         | -                | 3,576            | 3,431                                           | -                         | -           | 3,431            |
| <b>Total</b>                | <b>\$ 3,576</b>                                  | <b>\$ 5,312</b>           | <b>\$ 22,284</b> | <b>\$ 31,172</b> | <b>\$ 3,431</b>                                 | <b>\$ 9,480</b>           | <b>\$ -</b> | <b>\$ 12,911</b> |

Fair values for forward currency contracts are based on observable market transactions of spot and forward rates. Investments in rabbi trusts include exchange-traded equity securities and mutual funds. Fair values for these investments are based on quoted prices in active markets. Fair values for the interest rate swaps and the interest rate cap are based upon inputs corroborated by observable market data with similar tenors. Other liabilities represent deferred compensation obligations to employees under certain plans. The liabilities related to these plans are adjusted based on changes in the fair value of the underlying employee-directed investments and therefore are classified consistent with the investments.

The Company has certain contingent consideration obligations for those acquisitions that occurred after December 31, 2008, 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. 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. The most significant estimate involved in the measurement process is the projection of future results of the acquired companies. By comparing these estimates to the agreed-upon metrics, the Company estimates the amount, if any, anticipated to be paid to the seller on the agreed-upon future date. For obligations payable at a date greater than twelve months from the acquisition date, the Company applies a discount rate to present value the estimated obligations. The discount rate is intended to reflect the risks of ownership and the associated risks of realizing the stream of projected cash flows. Subsequent to the date of acquisition, the Company updates the original valuation to reflect updated projections of future results of the acquired companies and the passage of time. Changes in the valuations of contingent consideration are reported in acquisition transaction expenses. See Note 8 Commitments and Contingent Liabilities for additional information related to the contingent payments.

The following table summarizes the changes in fair value of the Company's Level 3 liabilities for the nine months ended September 30, 2010:

|                                                | Contingent<br>Consideration<br>(in thousands) |
|------------------------------------------------|-----------------------------------------------|
| Balance as of December 31, 2009                | \$ -                                          |
| Total gains and losses (realized/unrealized) : |                                               |
| Included in earnings                           | 2,965                                         |

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

|                                               |               |
|-----------------------------------------------|---------------|
| Included in other comprehensive income (loss) | -             |
| Purchases or acquisitions                     | 23,494        |
| Issuances                                     | -             |
| Settlements                                   | (4,175)       |
| Transfer in and/or out of Level 3             | -             |
| <br>Balance as of September 30, 2010          | <br>\$ 22,284 |

|                                                                                                                                                                                       |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| The amount of total gains and losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2010 | \$ 2,965 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

## **Table of Contents**

Due to the short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximated their fair values at September 30, 2010 and December 31, 2009.

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, for the Company's debt that accrues interest at a variable rate, the carrying amounts typically approximate their fair value. The estimated fair values of the 8.125% senior notes, the 10.75% senior notes and the 2.875% convertible senior notes were \$249.4 million, \$314.3 million and \$187.0 million at September 30, 2010, respectively. The estimated fair value of the 2.875% convertible senior notes was \$176.0 million at December 31, 2009. The estimated fair value of the Company's third-party fixed-rate debt is based on third-party quotes, which are considered to be level 2 inputs.

The Company has fixed rate debt with a noncontrolling interest partner of \$30.1 million and \$31.9 million at September 30, 2010 and December 31, 2009, respectively. The Company is unable to determine the fair value of this debt.

### **NOTE 8 COMMITMENTS AND CONTINGENT LIABILITIES**

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, 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 performance targets are met, would not significantly impact the financial position or results of operations of the Company.

The Company has certain contingent obligations related to acquisitions made after the adoption in January 2009 of the FASB guidance for business combinations of various artist management companies and a concert promotion company. In accordance with the current guidance for business combinations, contingent consideration must be accrued at the time of the acquisition. The contingent consideration is generally subject to payout following the achievement of future performance targets and some may be payable in 2010. As of September 30, 2010, the Company has accrued \$7.9 million in other current liabilities and \$14.4 million in other long-term liabilities representing the fair value of these estimated earn-out arrangements. See Note 7 Fair Value Measurements for further discussion related to the valuation of the earn-out payments.

#### **CTS Arbitration**

CTS filed a request for arbitration with the International Court of Arbitration of the International Chamber of Commerce in April 2010. CTS asserts that the Company has breached its obligations under the terms of its agreement with CTS and failed to allocate the proper number of tickets to CTS's system in the United Kingdom, and that the Merger with Ticketmaster and the Company's subsequent actions have breached the implied covenant of good faith and fair dealing. CTS seeks a declaration that the Company is in breach of the agreement and of the implied covenant of good faith and fair dealing, unspecified damages resulting from such breaches and specific performance of the Company's obligations under the agreement. In June 2010, the Company terminated its agreement with CTS, based on CTS' multiple, material failures to perform its obligations under the agreement. The Company intends to vigorously defend the action.

#### **Live Concert Antitrust Litigation**

The Company was a defendant in a lawsuit filed by Malinda Heerwagen in June 2002 in U.S. District Court. The plaintiff, on behalf of a putative class consisting of certain concert ticket purchasers, alleged that anti-competitive practices for concert promotion services by the Company nationwide caused artificially high ticket prices. In August 2003, the District Court ruled in the Company's favor, denying the plaintiff's class certification motion. The plaintiff appealed to the U.S. Court of Appeals. In January 2006, the Court of Appeals affirmed, and the plaintiff then dismissed her action that same month. Subsequently, twenty-two putative class actions were filed by different named plaintiffs in various U.S. District Courts throughout the country, making claims substantially similar to those made in the *Heerwagen* action, except that the geographic markets alleged are regional, statewide or more local in nature, and the members of the putative classes are limited to individuals who purchased tickets to concerts in the relevant geographic markets alleged. The plaintiffs seek unspecified compensatory, punitive and treble damages, declaratory and injunctive relief and costs of suit, including attorneys' fees. The Company has filed its answers in some of these actions and has denied liability. In April 2006, granting the Company's motion, the Judicial Panel on Multidistrict Litigation transferred these actions to the U.S. District Court for the Central District of California for coordinated pre-trial proceedings. In June 2007, the District Court conducted a

hearing on the plaintiffs' motion for class certification, and also that month the Court entered an order to stay

## **Table of Contents**

all proceedings pending the Court's ruling on class certification. In October 2007, the Court granted the plaintiffs' motion and certified classes in the Chicago, New England, New York/New Jersey, Colorado and Southern California regional markets. In November 2007, the Court extended its stay of all proceedings pending further developments in the U.S. Court of Appeals for the Ninth Circuit. In February 2008, the Company filed with the District Court a Motion for Reconsideration of its October 2007 class certification order. In October 2010, the District Court denied the Company's Motion for Reconsideration and lifted the stay of all proceedings. The Company intends to vigorously defend all claims in all of the actions.

### **UPS Consumer Class Action Litigation**

In October 2003, a purported representative action was filed in the Superior Court of California challenging Ticketmaster's charges to online customers for UPS ticket delivery 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 UPS delivery fees charged by Ticketmaster in connection with online ticket sales during the applicable period, and (ii) the amount that Ticketmaster actually paid to UPS for delivery of those tickets. In August 2005, the plaintiff 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 plaintiff's 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. Plaintiff 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 plaintiff filed a class certification motion in August 2009, which Ticketmaster opposed. In February 2010, the Court granted certification of a class on the first two causes of action, which allege that Ticketmaster misrepresents/omits the fact of a profit component in its UPS 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 UPS 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 two claims. In September 2010, Ticketmaster filed its Motion for Summary Judgment on all 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. The Company intends to vigorously defend the action.

### **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 and TicketsNow's service fees run afoul of anti-scalping laws. Each lawsuit seeks compensatory and punitive damages on behalf of the class. The Company intends to vigorously defend all claims in all of the actions.

### **United States Consumer Class Action Litigation Relating to TicketsNow**

From February through June 2009, eleven purported class action lawsuits asserting causes of action under various state consumer protection laws were filed against Ticketmaster and TicketsNow in U.S. District Courts in California, New Jersey, Minnesota, Pennsylvania and North Carolina. The lawsuits allege that Ticketmaster and TicketsNow unlawfully deceived consumers by, among other things, selling large quantities of tickets to TicketsNow's ticket brokers, either prior to or at the time that tickets for an event go on sale, thereby forcing consumers to purchase tickets at significantly marked-up prices on TicketsNow.com instead of Ticketmaster.com. The plaintiffs further claim violation of the consumer

## **Table of Contents**

protection laws by Ticketmaster's alleged redirecting of consumers from Ticketmaster.com to Ticketsnow.com, thereby engaging in false advertising and an unfair business practice by deceiving consumers into inadvertently purchasing tickets from TicketsNow for amounts greater than face value. The plaintiffs claim that Ticketmaster has been unjustly enriched by this conduct and seek compensatory damages, a refund to every class member of the difference between tickets' face value and the amount paid to TicketsNow, an injunction preventing Ticketmaster from engaging in further unfair business practices with TicketsNow and attorney fees and costs. In July 2009, all of the cases were consolidated and transferred to the U.S. District Court for the Central District of California. The plaintiffs filed their consolidated class action complaint in September 2009, to which Ticketmaster filed its answer the following month. In July 2010, Ticketmaster filed its Motion for Summary Judgment. The Company intends to vigorously defend all claims in all of the actions.

### **Litigation Relating to the Merger of Live Nation and Ticketmaster**

Ticketmaster and its Board of Directors were named as defendants in a pair of lawsuits filed in February 2009 in the Superior Court of California challenging the merger of Live Nation and Ticketmaster. These actions were consolidated by court order in March 2009. The consolidated complaint, as amended, generally alleges that Ticketmaster and its directors breached their fiduciary duties by entering into the Merger Agreement without regard to the fairness of its terms to the Ticketmaster stockholders and in return for illicit payments of surplus Live Nation stock. It also alleges that the joint proxy statement/prospectus of Live Nation and Ticketmaster contained material omissions and misstatements. The plaintiffs moved for a preliminary injunction barring the completion of the Merger in December 2009, which motion was denied at a hearing held later that month. The Ticketmaster and Live Nation stockholders each approved the Merger in January 2010, and the Merger was consummated later that same month. The plaintiffs continue to prosecute the case, now seeking compensatory damages, attorneys' fees and expenses. The Ticketmaster defendants have answered the complaint, denying its allegations and asserting defenses. In April 2010, the parties reached a settlement which the Court preliminarily approved in July 2010.

### **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 also has 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 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, 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.

## **NOTE 9 CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS**

### ***Transactions with Clear Channel***

The Company has one non-employee director as of September 30, 2010 that is also a director and executive officer of Clear Channel. In October 2010, an employee director also became 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. For the three months ended September 30, 2010 and 2009, the Company recorded \$1.9 million and \$3.3 million, respectively, and for the nine months ended September 30, 2010 and 2009, the Company recorded \$3.6 million and \$6.6 million, respectively, as components of direct operating expenses and selling, general and administrative expenses for these advertisements.

### ***Transactions with IAC***

The Company has two non-employee directors as of September 30, 2010 that are also directors and executive officers of IAC.

For purposes of governing certain of the ongoing relationships between IAC and Ticketmaster at and after the spin-off of the Spincos from IAC, and to provide for an orderly transition, IAC, Ticketmaster and the other Spincos entered into a separation agreement and a tax sharing agreement, among other agreements.

The tax sharing agreement governs the respective rights, responsibilities and obligations of IAC and Ticketmaster after the spin-off with respect to taxes for the periods ended on or before the spin-off. Generally, IAC agreed to pay taxes with respect to Ticketmaster's income included on its consolidated, unitary or combined federal or state tax returns, including audit adjustments with respect thereto, but other pre-distribution taxes that are attributable to Ticketmaster.



## **Table of Contents**

including taxes reported on separately-filed returns and all foreign returns and audit adjustments with respect thereto were agreed to be borne solely by Ticketmaster. The tax sharing agreement contains certain customary restrictive covenants that generally prohibit Ticketmaster (absent a supplemental IRS ruling or an unqualified opinion of counsel to the contrary, in each case, in a form and substance satisfactory to IAC in its sole discretion) from taking actions that could jeopardize the tax free nature of the spin-off. Ticketmaster agreed to indemnify IAC for any taxes and related losses resulting from its non-compliance with these restrictive covenants, as well as for the breach of certain representations in the spin-off agreements and other documentation relating to the tax-free nature of the spin-off.

Ticketmaster currently occupies office space in a building in Los Angeles that is owned by IAC. Related rental expense charged to Ticketmaster by IAC for the Los Angeles office space totaled \$0.5 million and \$1.5 million for the three months ended September 30, 2010 and from the Merger date through September 30, 2010, respectively. These charges are recorded as components of selling, general and administrative expenses.

### ***Agreements with Liberty Media***

In connection with the Merger Agreement, in February 2009 the Company entered into a Stockholder Agreement with Liberty Media and Liberty USA Holdings, LLC (the "Liberty Stockholder Agreement") regarding certain corporate governance rights, designation rights and registration rights with respect to the Company's common stock to be received by Liberty Media in the Merger. The Liberty Stockholder Agreement became effective upon consummation of the Merger. Among other things, subject to certain restrictions and limitations set forth in the Liberty Stockholder Agreement, Liberty Media has exercised its right to nominate two directors to serve on the Company's board of directors. The Liberty Stockholder Agreement also contains provisions relating to limitations on the ownership of the Company's equity securities by Liberty Media and its affiliates following the Merger and on transfers of the Company's equity securities and rights and obligations under the Liberty Stockholder Agreement following the Merger.

### ***Transactions Involving Executives***

ATC Aviation, Inc., or ATC, which is owned by Irving Azoff, our Executive Chairman and a director of the Company, owns both an aircraft and a fractional interest in a different aircraft. An aircraft management and charter company unrelated to either the Company or ATC, manages and operates the fully-owned aircraft on ATC's behalf and charges market rates for the use of the fully-owned aircraft when used by Mr. Azoff or other executives on Company business, a portion of which is paid to ATC. In addition, ATC is reimbursed by the Company for expenses incurred from the use of its fractional interest when used by Mr. Azoff or other executives for Company business. For the three months ended September 30, 2010 and from the Merger date through September 30, 2010, the Company made payments to ATC and the outside aircraft management and charter company totaling \$0.2 million and \$0.5 million, respectively, pursuant to the foregoing arrangements.

The Azoff Trust is a party to the Amended and Restated Stockholders' Agreement of Front Line (the "Front Line Stockholders' Agreement"). The Front Line Stockholders' Agreement governs certain matters related to Front Line and the ownership of securities of Front Line. Under the Front Line Stockholders' Agreement, the Azoff Trust has the right to designate two of the seven members of the Front Line board of directors, the Company has the right to designate four of the seven members of the Front Line board of directors and another noncontrolling interest holder has the right to designate the remaining director. Under the Front Line Stockholders' Agreement, specified corporate transactions require the approval of both a majority of the directors designated by the Company and a majority of the directors designated by the Azoff Trust and the other noncontrolling interest holder. The Front Line Stockholders' Agreement contains certain restrictions on transfer of shares of stock of Front Line, as well as a right of first refusal to Front Line and then to other stockholders of Front Line in the event of certain proposed sales of Front Line stock by stockholders of Front Line and a tag-along right allowing the Azoff Trust to participate in certain sales of Front Line stock by certain stockholders of Front Line, as defined in the agreement.

In connection with Ticketmaster entering into the Merger Agreement, Ticketmaster entered into a letter agreement with Mr. Azoff, pursuant to which Ticketmaster agreed, upon consummation of the Merger, to amend the Front Line Stockholders' Agreement such that the Azoff Trust would have a put right that would allow the trust to sell 100% of its shares and stock options to Live Nation at fair value, at any time during the 60-day period following October 29, 2014. Upon consummation of the Merger, Ticketmaster amended the Stockholders' Agreement under the terms of the letter agreement with Mr. Azoff. Similarly, Live Nation has a call right, exercisable during the same period as the Azoff Trust's put right, to purchase all (but not less than all) of the trust's Front Line shares and stock options. The Front Line Stockholders' Agreement also provides that, as soon as reasonably practicable after the end of each fiscal year of Front Line, Front Line will pay an annual pro rata dividend to the stockholders consisting of all of Front Line's Excess Cash (as defined in the agreement).

## Table of Contents

In March 2010, the board of directors of Front Line declared a dividend in the amount of \$115.74844 per share of Front Line common stock payable in cash to the holders of record of Front Line common stock. This dividend totaled \$20.6 million and was paid in March 2010. The Azoff Trust received a pro rata portion of this dividend totaling \$3.0 million with respect to the 25,918,276 shares of Front Line common stock held by the trust. Mr. Azoff, pursuant to the terms of a restricted share grant agreement, also may be entitled to certain gross-up payments from Front Line associated with distributions made on the unvested portion of his restricted Front Line common shares for the difference between ordinary income and capital gains tax treatment. Such payments to Mr. Azoff were \$0.7 million related to the March 2010 Front Line dividend. The amount of the pro rata dividend paid to the Company was \$15.0 million. Prior to the payment of the dividend, FLMG made a loan to Front Line in the amount of \$21.3 million principally to fund the dividend, evidenced by a promissory note from Front Line to FLMG with a principal amount of \$21.3 million and bearing interest at a rate of 4.5%, payable no later than November 30, 2010.

### Other Related Parties

During the nine months ended September 30, 2010 and 2009, the Company paid \$6.9 million and \$6.6 million, respectively, for 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 held the lease of a venue.

During the nine months ended September 30, 2009, the Company received \$21.3 million in connection with the sale of interests in three venues to an entity partially owned by employees of one of the Company's subsidiaries.

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 the Company has significant influence. These transactions primarily relate to venue rentals, concession services, equipment rentals, ticketing, marketing and other services and reimbursement of certain costs. The following table sets forth expenses incurred and revenue earned from these companies for services rendered or provided in relation to these business ventures.

|                                | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|--------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                | 2010                             | 2009     | 2010                            | 2009      |
|                                | <i>(in thousands)</i>            |          |                                 |           |
| Other related parties revenue  | \$ 908                           | \$ 556   | \$ 1,329                        | \$ 1,636  |
| Other related parties expenses | \$ 3,592                         | \$ 4,007 | \$ 11,961                       | \$ 11,132 |

None of these transactions were with directors or executive officers of the Company.

### NOTE 10 INCOME TAXES

The Company customarily calculates interim effective tax rates in accordance with the FASB guidance for income taxes. As required by this guidance, the Company 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 customary 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 an expected annual effective tax rate of approximately 16% (as compared to 27% in the prior year), excluding significant, unusual or extraordinary items, for ordinary income associated with operations, which are principally outside of the United States, for which the Company currently expects to have annual taxable income. The significant decrease in the expected annual effective tax rate is driven by the change in composition of earnings in lower-taxed foreign jurisdictions, primarily driven by the acquisition of Ticketmaster. The effective tax rate has been applied to year-to-date earnings for those operations for which the Company currently expects to have taxable income. 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 from continuing operations is \$16.9 million and \$12.9 million for the three and nine months ended September 30, 2010, respectively. The components of tax expense that contributed to the net income tax expense for the nine months ended September 30, 2010 included income tax expense of \$10.5 million based on the expected annual rate pertaining to income for the nine month period ending on September 30, 2010, state and local taxes of \$4.0 million, withholding taxes of \$2.9 million, tax reserve accruals and settlements of uncertain tax positions of \$0.6 million, federal tax benefit of (\$2.5) million attributable to the carryback of net operating losses, (\$1.6) million related to

discrete impairment charges and other discrete items totaling a net of (\$1.0) million.

## **Table of Contents**

As of September 30, 2010 and December 31, 2009, the Company had unrecognized tax benefits of approximately \$10.7 million and \$4.1 million, respectively. During the nine months ended September 30, 2010, unrecognized tax benefits increased by approximately \$6.0 million for acquired unrecognized tax benefits of Ticketmaster and by approximately \$0.6 million for tax reserve accruals net of settlements of uncertain tax positions. If unrecognized tax benefits as of September 30, 2010 are subsequently recognized, approximately \$10.0 million, net of related deferred tax assets and interest, would reduce the income tax provision from continuing operations. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company has U.S. federal net operating loss carry forwards that, if not used, will expire between calendar years 2010 and 2029. The amount of U.S. net operating loss carryforwards that will expire if not utilized in 2010 is \$4.3 million. The Company's federal net operating loss carry forwards are subject to statutory limitations on the amount that can be utilized in any given year.

Historically, the Company has reinvested all foreign earnings in its foreign operations. The Company currently believes all undistributed foreign earnings will be indefinitely reinvested in its foreign operations.

The tax years 2002 through 2009 remain open to examination by the major tax jurisdictions to which the Company is subject.

## **NOTE 11 STOCKHOLDERS' EQUITY**

### ***Common Stock***

In connection with the Merger, each issued and outstanding share of Ticketmaster common stock was exchanged for the right to receive 1.4743728 shares of common stock of Live Nation plus cash in lieu of any fractional shares. The Merger resulted in the issuance of 84.6 million shares of common stock.

### ***Redeemable Noncontrolling Interests***

As a result of the Merger, the Company acquired fair value put arrangements with respect to the common securities that represent the noncontrolling interests of certain non wholly-owned Ticketmaster subsidiaries. These put arrangements are exercisable at fair value by the counterparty outside of the control of the Company and are classified as mezzanine equity. Accordingly, to the extent the fair value of these redeemable interests exceeds the value determined by normal noncontrolling interests accounting, the value of such interests is adjusted to fair value with a corresponding adjustment to additional paid-in capital. In instances where the put arrangements held by the noncontrolling interests are not currently redeemable, for increases in fair value, or reductions in fair value to the extent increases have been recognized previously, the Company accretes changes in fair value over the period from the date of issuance to the earliest redemption date of the individual securities. Accounting guidance prohibits the recognition of reductions in value below issuance date value, in this case the date of the Merger. In accordance with the FASB guidance for business combinations, the redeemable noncontrolling interests were recorded at their fair value as of the consummation of the Merger on January 25, 2010. The currently redeemable put arrangements held by the noncontrolling interests of certain subsidiaries of Ticketmaster had an estimated redemption fair value of \$2.6 million as of September 30, 2010.

All of the 27,821 shares of Front Line common stock held by noncontrolling interests include put arrangements that are not currently redeemable as of September 30, 2010. These shares had an estimated fair value as of the Merger date of \$77.2 million. As of September 30, 2010, 17,279 shares are redeemable on October 29, 2011 and 10,542 shares are redeemable on October 29, 2014; these shares had estimated redemption fair values of \$45.8 million and \$27.9 million, respectively, as of September 30, 2010. The carrying value of the Front Line common shares with put arrangements was \$77.2 million as of September 30, 2010.

Additionally, Mr. Azoff and the Azoff Trust hold options and shares of restricted Front Line common stock that are redeemable on October 29, 2014, subject to vesting. The options and restricted Front Line common stock had a total estimated redemption fair value of \$43.3 million as of September 30, 2010. From the Merger date through September 30, 2010, the Company accreted \$4.4 million of the change from book value to the redemption fair value using the interest method. The carrying value of the options and restricted stock, including the recorded accretion, was \$24.8 million as of September 30, 2010.

The common stock of two subsidiaries of Front Line held by noncontrolling interests also includes put arrangements. The first put arrangement does not have a determinable redemption date, but is considered to be currently redeemable based on the terms of redemption. The stock held by the noncontrolling interest had an estimated redemption value of \$16.0 million as of September 30, 2010. The second put arrangement, redeemable on August 23, 2012, had an estimated redemption fair value of \$11.5 million as of September 30, 2010. The carrying value for these

interests was \$27.5 million as of September 30, 2010.

## Table of Contents

### Noncontrolling Interests

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<br>Noncontrolling<br>Interests | Live Nation<br>Entertainment, Inc. | Noncontrolling<br>Stockholders<br>Equity | Interests      | Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders<br>Equity |
|---------------------------------------------------------------|-------------------------------------------|------------------------------------|------------------------------------------|----------------|-----------------------------------|---------------------------------|
|                                                               | (in thousands)                            |                                    |                                          | (in thousands) |                                   |                                 |
| <b>Balances at December 31, 2009</b>                          | \$ -                                      | \$ 652,317                         | \$                                       | 73,124         | \$ -                              | \$ 725,441                      |
| Non-cash compensation                                         | 19                                        | 41,716                             |                                          | -              |                                   | 41,716                          |
| Common shares issued for business acquisitions                | -                                         | 919,143                            |                                          | -              |                                   | 919,143                         |
| Exercise of stock options                                     | -                                         | 4,526                              |                                          | -              |                                   | 4,526                           |
| Acquisitions                                                  | 127,765                                   | -                                  |                                          | 37,421         |                                   | 37,421                          |
| Acquisitions from noncontrolling interests                    | -                                         | 1,181                              |                                          | (229)          |                                   | 952                             |
| Fair value of redeemable noncontrolling interests adjustments | 12,228                                    | (12,228)                           |                                          | -              |                                   | (12,228)                        |
| Cash dividends                                                | (5,375)                                   | -                                  |                                          | (3,753)        |                                   | (3,753)                         |
| Comprehensive income (loss):                                  |                                           |                                    |                                          |                |                                   |                                 |
| Net income (loss)                                             | (2,516)                                   | (89,096)                           |                                          | 14,164         | (74,932)                          | (74,932)                        |
| Realized loss on cash flow hedges                             | -                                         | 6,724                              |                                          | -              | 6,724                             | 6,724                           |
| Unrealized loss on cash flow hedges                           | -                                         | (293)                              |                                          | -              | (293)                             | (293)                           |
| Currency translation adjustment                               | -                                         | (13,841)                           |                                          | -              | (13,841)                          | (13,841)                        |
| Total comprehensive loss                                      |                                           |                                    |                                          |                | \$ (82,342)                       | (82,342)                        |
| <b>Balances at September 30, 2010</b>                         | \$ 132,121                                | \$ 1,510,149                       | \$                                       | 120,727        |                                   | \$ 1,630,876                    |

For certain non-wholly-owned subsidiaries of Front Line, the common securities held by the noncontrolling interests do not include put arrangements exercisable outside of the control of the Company. The noncontrolling interests that do not include such put arrangements are recorded in stockholders' equity, separate from the Company's own equity. In accordance with the FASB guidance for business combinations, the noncontrolling interests were recorded at their fair value as of the consummation of the Merger.

## Table of Contents

### Earnings per Share

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Three Months Ended<br>September 30,<br>2010 |           | Nine Months Ended<br>September 30,<br>2009 |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | (in thousands, except for per share data)   |           |                                            |             |
| <b>Basic earnings per share:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                             |           |                                            |             |
| Net income (loss) attributable to Live Nation Entertainment, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                  | \$ 51,404                                   | \$ 69,247 | \$ (89,096)                                | \$ (60,658) |
| Less (income) loss from discontinued operations, net of tax                                                                                                                                                                                                                                                                                                                                                                                                                        | 3,213                                       | (6,779)   | 3,893                                      | (13,241)    |
| Less income from continuing operations allocated to participating securities                                                                                                                                                                                                                                                                                                                                                                                                       | -                                           | (678)     | -                                          | -           |
| Net income (loss) from continuing operations attributable to common stockholders                                                                                                                                                                                                                                                                                                                                                                                                   | \$ 54,617                                   | \$ 61,790 | \$ (85,203)                                | \$ (73,899) |
| Weighted average common shares                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 170,285                                     | 83,632    | 162,286                                    | 82,297      |
| Basic income (loss) from continuing operations per common share                                                                                                                                                                                                                                                                                                                                                                                                                    | \$ 0.32                                     | \$ 0.74   | \$ (0.53)                                  | \$ (0.90)   |
| <b>Diluted earnings per share:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                             |           |                                            |             |
| Net income (loss) attributable to Live Nation Entertainment, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                  | \$ 51,404                                   | \$ 69,247 | \$ (89,096)                                | \$ (60,658) |
| Effect of dilutive securities:                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                             |           |                                            |             |
| 2.875% convertible senior notes                                                                                                                                                                                                                                                                                                                                                                                                                                                    | -                                           | 3,810     | -                                          | -           |
| Less (income) loss from discontinued operations, net of tax                                                                                                                                                                                                                                                                                                                                                                                                                        | 3,213                                       | (6,779)   | 3,893                                      | (13,241)    |
| Less income from continuing operations allocated to participating securities                                                                                                                                                                                                                                                                                                                                                                                                       | -                                           | (650)     | -                                          | -           |
| Net income (loss) from continuing operations attributable to common stockholders                                                                                                                                                                                                                                                                                                                                                                                                   | \$ 54,617                                   | \$ 65,628 | \$ (85,203)                                | \$ (73,899) |
| Weighted average common shares                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 170,285                                     | 83,632    | 162,286                                    | 82,297      |
| Effect of dilutive securities:                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                             |           |                                            |             |
| Stock options, restricted stock and warrants                                                                                                                                                                                                                                                                                                                                                                                                                                       | 2,017                                       | 981       | -                                          | -           |
| 2.875% convertible senior notes                                                                                                                                                                                                                                                                                                                                                                                                                                                    | -                                           | 8,105     | -                                          | -           |
| Diluted weighted average common shares                                                                                                                                                                                                                                                                                                                                                                                                                                             | 172,302                                     | 92,718    | 162,286                                    | 82,297      |
| Diluted income (loss) from continuing operations per common share                                                                                                                                                                                                                                                                                                                                                                                                                  | \$ 0.32                                     | \$ 0.71   | \$ (0.53)                                  | \$ (0.90)   |
| The calculation of diluted net income (loss) per common share includes the effects of the assumed exercise of any outstanding stock options and warrants, the assumed vesting of shares of restricted stock and the assumed conversion of the 2.875% convertible senior notes where dilutive. The following table shows all potentially dilutive securities excluded from the calculation of diluted net income (loss) per common share because such securities are anti-dilutive: |                                             |           |                                            |             |

|                                                              | Three Months Ended<br>September 30,<br>2010 |       | Nine Months Ended<br>September 30,<br>2009 |       |
|--------------------------------------------------------------|---------------------------------------------|-------|--------------------------------------------|-------|
|                                                              | (in thousands)                              |       |                                            |       |
| Options to purchase shares of common stock                   | 17,143                                      | 4,748 | 21,257                                     | 7,133 |
| Restricted stock awards and units unvested                   | 3,236                                       | -     | 3,649                                      | 868   |
| Warrants                                                     | 500                                         | 500   | 500                                        | 500   |
| Conversion shares related to 2.875% convertible senior notes | 8,105                                       | -     | 8,105                                      | 8,105 |

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

|                                                                                                     |        |       |        |        |
|-----------------------------------------------------------------------------------------------------|--------|-------|--------|--------|
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 28,984 | 5,248 | 33,511 | 16,606 |
|-----------------------------------------------------------------------------------------------------|--------|-------|--------|--------|

**Table of Contents****NOTE 12 STOCK-BASED COMPENSATION**

The following is a summary of stock-based compensation expense recorded by the Company during the respective periods:

|                                                                       | <b>Three Months Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |
|-----------------------------------------------------------------------|---------------------------------------------|-----------------|--------------------------------------------|------------------|
|                                                                       | <b>2010</b>                                 | <b>2009</b>     | <b>2010</b>                                | <b>2009</b>      |
|                                                                       | <i>(in thousands)</i>                       |                 |                                            |                  |
| Selling, general and administrative expenses                          | \$ 7,273                                    | \$ 2,241        | \$ 22,786                                  | \$ 4,526         |
| Corporate expenses                                                    | 4,996                                       | 1,037           | 21,969                                     | 5,501            |
| <b>Total non-cash compensation expense from continuing operations</b> | <b>\$ 12,269</b>                            | <b>\$ 3,278</b> | <b>\$ 44,755</b>                           | <b>\$ 10,027</b> |
| Total non-cash compensation expense from discontinued operations      | \$ -                                        | \$ (17)         | \$ -                                       | \$ (17)          |

In June 2010, the Company granted 0.3 million shares of restricted stock and 2.5 million stock options to certain employees under the Company's stock incentive plans. In January 2010, the Company granted 2.8 million shares of restricted stock to certain employees subsequent to the Merger date, of which 0.2 million were performance-based awards and 0.4 million will begin to vest based on achieving a specified stock price. These awards will all vest over four years with the exception of the performance-based awards which will vest within two years if the performance criteria are met. Also in January 2010, the Company registered an additional 4.9 million shares to service the Live Nation stock incentive plan, 1.5 million shares to service the Live Nation stock bonus plan and 16.7 million shares to service the Ticketmaster stock and annual incentive plan.

As part of the Merger Agreement, all Ticketmaster stock options, restricted stock awards and restricted stock units that were outstanding immediately before the Merger were exchanged for Live Nation awards using the final exchange ratio of 1.4743728. As a result, Live Nation issued 13.0 million stock options, 1.5 million shares of restricted stock and 0.9 million restricted stock units to employees and directors of Ticketmaster, as well as 2.5 million stock options and 0.2 million restricted stock units to employees of IAC and the Spincos. The Live Nation awards have the same vesting periods, terms and conditions as the previous Ticketmaster awards, with the exception of 1.5 million shares of restricted Live Nation common stock held by the Azoff Trust which now has a guaranteed minimum value of \$15.0 million at the end of the vesting period in 2013. Stock-based compensation expense of \$0.9 million and \$2.3 million related to the restricted Live Nation common stock was recorded for the three months ended September 30, 2010 and from the Merger date until September 30, 2010, respectively, as a component of corporate expenses. As discussed in Note 3 Business Acquisitions, the value of all exchanged awards which related to services already rendered as of the date of the Merger was included as part of the consideration transferred.

Also as part of the Merger, a note was issued to the Azoff Trust in exchange for shares of Ticketmaster's series A convertible redeemable preferred stock (the Preferred Stock) held by the Azoff Trust. The note accrues interest equal to 3.0% of the outstanding principal balance and is payable in monthly installments of \$0.8 million through October 1, 2013, subject to Mr. Azoff's continued employment with the Company. In the event of a termination of Mr. Azoff's employment with the Company without cause or good reason or due to death or disability, the note immediately will vest and the balance of the note will be due and paid in a cash lump sum. Upon any other termination of Mr. Azoff's employment, the Azoff Trust will forfeit the balance of the note.

The Company accounts for the note in accordance with the guidance for stock-based compensation because the note is considered a modification of an existing stock-based award. The Company included \$14.4 million in consideration transferred relating to the exchanged award, calculated as the full fair value of the note, as determined by the Company, multiplied by the ratio of the pre-combination service period to the total service period. The Company will recognize a total of \$24.0 million of stock-based compensation expense, which is the difference between the total cash payments due under the note of \$38.4 million and the initial carrying value of \$14.4 million, on a straight-line basis over the remaining service period. For the three months ended September 30, 2010 and from the date of the Merger through September 30, 2010, the Company recorded \$1.6 million and \$4.3 million, respectively, related to this note as a component of corporate expenses.

There were 23,825 stock-based awards issued by Front Line that were not exchanged or modified as a result of the Merger. The Company recorded \$1.9 million and \$5.0 million relating to these awards for the three months ended September 30, 2010 and from the date of the Merger through September 30, 2010, respectively, as a component of selling, general and administrative expenses.



## **Table of Contents**

In the first nine months of 2010, the Company accelerated and modified the vesting of 1.4 million shares of unvested outstanding stock-based equity awards granted to certain employees of Ticketmaster effective upon termination, all of which had been converted to Live Nation equity awards in the Merger. The Company also accelerated 1.1 million shares of unvested outstanding stock-based equity awards as a result of the Merger based on employment contract change of control provisions for certain employees. As a result of these accelerations, the Company recognized \$14.7 million of stock-based compensation expense for the nine months ended September 30, 2010. Of this amount, \$8.3 million was recorded in corporate expenses and \$6.4 million was recorded in selling, general and administrative expenses. There was no stock-based compensation expense recorded related to these accelerations and modifications for the three months ended September 30, 2010.

### **NOTE 13 SEGMENT DATA**

As a result of the Merger, the Company reorganized its business units and the way in which these businesses are assessed and therefore changed its reportable segments to Concerts, Ticketing, Artist Nation, eCommerce and Sponsorship.

The Concerts segment involves the promotion of live music events globally in the Company's owned and/or operated venues and in rented third-party venues, the production of music festivals and the operation and management of music venues. The Ticketing segment involves the management of the Company's global ticketing operations including providing ticketing software and services to clients. The Artist Nation segment provides management services to artists and other services including merchandise, artist fan sites and VIP tickets. The eCommerce segment provides online access for customers relating to ticket and event information and is responsible for the Company's primary websites, *www.livenation.com* and *www.ticketmaster.com*. The Sponsorship segment manages the development of strategic sponsorship programs in addition to the sale of national and local sponsorships and placement of advertising including signage and promotional programs. The Company's U.K. theatrical business was sold in October 2009. It was previously included in other operations and is now reported as discontinued operations.

The Company has reclassified all periods presented to conform to the current period presentation. Revenue and expenses earned and charged between segments are eliminated in consolidation. Corporate expenses and all line items below operating income (loss) are managed on a total company basis.

The Company manages its working capital on a consolidated basis. Accordingly, segment assets are not reported to, or used by, the Company's management to allocate resources to or assess performance of the segments, and therefore, total segment assets have not been disclosed.

## Table of Contents

|                                                  | Concerts     | Ticketing  | Artist<br>Nation | eCommerce | Sponsorship | Other    | Corporate    | Eliminations | Consolidated |
|--------------------------------------------------|--------------|------------|------------------|-----------|-------------|----------|--------------|--------------|--------------|
| <i>(in thousands)</i>                            |              |            |                  |           |             |          |              |              |              |
| <b>Three Months Ended<br/>September 30, 2010</b> |              |            |                  |           |             |          |              |              |              |
| Revenue                                          | \$ 1,380,527 | \$ 261,720 | \$ 110,960       | \$ 25,822 | \$ 69,534   | \$ 1,569 | \$ -         | \$ (13,781)  | \$ 1,836,351 |
| Direct operating expenses                        | 1,192,486    | 122,636    | 70,212           | 2,377     | 10,324      | -        | 2,417        | (13,150)     | 1,387,302    |
| Selling, general and<br>administrative expenses  | 128,680      | 75,574     | 22,419           | 10,202    | 6,230       | 960      | -            | -            | 244,065      |
| Depreciation and<br>amortization                 | 29,741       | 20,691     | 12,585           | 2,239     | 66          | 6        | 623          | (631)        | 65,320       |
| Loss (gain) on sale of<br>operating assets       | (776)        | (13)       | 7                | -         | -           | (1)      | 4            | -            | (779)        |
| Corporate expenses                               | -            | -          | -                | -         | -           | -        | 27,660       | -            | 27,660       |
| Acquisition transaction<br>expenses              | (2,863)      | 373        | 1,290            | -         | -           | -        | 3,781        | -            | 2,581        |
| Operating income (loss)                          | \$ 33,259    | \$ 42,459  | \$ 4,447         | \$ 11,004 | \$ 52,914   | \$ 604   | \$ (34,485)  | \$ -         | \$ 110,202   |
| Intersegment revenue                             | \$ 6,563     | \$ -       | \$ 7,218         | \$ -      | \$ -        | \$ -     | \$ -         | \$ -         | \$ 13,781    |
| <b>Three Months Ended<br/>September 30, 2009</b> |              |            |                  |           |             |          |              |              |              |
| Revenue                                          | \$ 1,613,665 | \$ 25,951  | \$ 90,210        | \$ 5,450  | \$ 73,509   | \$ 1,302 | \$ -         | \$ (15,499)  | \$ 1,794,588 |
| Direct operating expenses                        | 1,378,433    | 9,068      | 74,802           | 913       | 20,574      | (169)    | (475)        | (15,499)     | 1,467,647    |
| Selling, general and<br>administrative expenses  | 133,874      | 5,608      | 8,663            | 3,945     | 5,257       | 1,065    | -            | -            | 158,412      |
| Depreciation and<br>amortization                 | 30,045       | 2,530      | 1,972            | 1,038     | 61          | 91       | 216          | -            | 35,953       |
| Loss (gain) on sale of<br>operating assets       | (165)        | 5          | -                | -         | -           | 131      | 2            | -            | (27)         |
| Corporate expenses                               | -            | -          | -                | -         | -           | -        | 16,424       | -            | 16,424       |
| Acquisition transaction<br>expenses              | 657          | -          | -                | -         | -           | -        | 7,123        | -            | 7,780        |
| Operating income (loss)                          | \$ 70,821    | \$ 8,740   | \$ 4,773         | \$ (446)  | \$ 47,617   | \$ 184   | \$ (23,290)  | \$ -         | \$ 108,399   |
| Intersegment revenue                             | \$ -         | \$ -       | \$ 15,499        | \$ -      | \$ -        | \$ -     | \$ -         | \$ -         | \$ 15,499    |
| <b>Nine Months Ended<br/>September 30, 2010</b>  |              |            |                  |           |             |          |              |              |              |
| Revenue                                          | \$ 2,648,147 | \$ 734,722 | \$ 269,228       | \$ 62,801 | \$ 129,596  | \$ 3,483 | \$ -         | \$ (22,075)  | \$ 3,825,902 |
| Direct operating expenses                        | 2,226,341    | 355,321    | 175,443          | 8,755     | 22,360      | -        | 1,639        | (20,400)     | 2,769,459    |
| Selling, general and<br>administrative expenses  | 384,784      | 222,045    | 68,276           | 30,782    | 19,594      | 2,227    | -            | -            | 727,708      |
| Depreciation and<br>amortization                 | 79,897       | 65,123     | 30,754           | 5,323     | 187         | 19       | 1,897        | (1,675)      | 181,525      |
| Loss (gain) on sale of<br>operating assets       | (2,045)      | 5,192      | 6                | -         | 6           | (8)      | 4            | -            | 3,155        |
| Corporate expenses                               | -            | -          | -                | -         | -           | -        | 86,666       | -            | 86,666       |
| Acquisition transaction<br>expenses              | (2,718)      | 373        | 6,024            | -         | -           | -        | 14,313       | -            | 17,992       |
| Operating income (loss)                          | \$ (38,112)  | \$ 86,668  | \$ (11,275)      | \$ 17,941 | \$ 87,449   | \$ 1,245 | \$ (104,519) | \$ -         | \$ 39,397    |

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

|                      |    |        |    |        |    |        |    |       |    |    |    |     |    |       |    |   |    |        |
|----------------------|----|--------|----|--------|----|--------|----|-------|----|----|----|-----|----|-------|----|---|----|--------|
| Intersegment revenue | \$ | 10,895 | \$ | -      | \$ | 11,180 | \$ | -     | \$ | -  | \$ | -   | \$ | -     | \$ | - | \$ | 22,075 |
| Capital expenditures | \$ | 14,856 | \$ | 25,372 | \$ | 647    | \$ | 1,568 | \$ | 60 | \$ | 297 | \$ | 5,787 | \$ | - | \$ | 48,587 |

**Nine Months Ended  
September 30, 2009**

|                                              |    |           |    |        |    |         |    |         |    |         |    |       |    |          |    |          |    |           |
|----------------------------------------------|----|-----------|----|--------|----|---------|----|---------|----|---------|----|-------|----|----------|----|----------|----|-----------|
| Revenue                                      | \$ | 2,951,618 | \$ | 51,923 | \$ | 193,662 | \$ | 10,986  | \$ | 132,291 | \$ | 3,853 | \$ | -        | \$ | (17,617) | \$ | 3,326,716 |
| Direct operating expenses                    |    | 2,480,707 |    | 20,743 |    | 157,807 |    | 2,075   |    | 36,283  |    | (169) |    | (391)    |    | (17,617) |    | 2,679,438 |
| Selling, general and administrative expenses |    | 373,695   |    | 20,838 |    | 27,968  |    | 12,983  |    | 15,463  |    | 2,973 |    | -        |    | -        |    | 453,920   |
| Depreciation and amortization                |    | 93,633    |    | 7,785  |    | 6,908   |    | 3,745   |    | 166     |    | 226   |    | 1,076    |    | -        |    | 113,539   |
| Loss (gain) on sale of operating assets      |    | (1,156)   |    | 5      |    | 9       |    | -       |    | -       |    | 131   |    | 2        |    | -        |    | (1,009)   |
| Corporate expenses                           |    | -         |    | -      |    | -       |    | -       |    | -       |    | -     |    | 42,308   |    | -        |    | 42,308    |
| Acquisition transaction expenses             |    | 802       |    | -      |    | -       |    | -       |    | -       |    | -     |    | 25,713   |    | -        |    | 26,515    |
| Operating income (loss)                      | \$ | 3,937     | \$ | 2,552  | \$ | 970     | \$ | (7,817) | \$ | 80,379  | \$ | 692   | \$ | (68,708) | \$ | -        | \$ | 12,005    |
| Intersegment revenue                         | \$ | -         | \$ | -      | \$ | 17,617  | \$ | -       | \$ | -       | \$ | -     | \$ | -        | \$ | -        | \$ | 17,617    |
| Capital expenditures                         | \$ | 29,438    | \$ | 5,523  | \$ | 333     | \$ | 2,159   | \$ | 88      | \$ | 846   | \$ | 971      | \$ | -        | \$ | 39,358    |

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Live Nation (which may be referred to as the Company, we, us or our) means Live Nation Entertainment, Inc. and its subsidiaries, or one of our segments or subsidiaries, as the context requires. You should read the following discussion of our financial condition and results of operations together with the unaudited consolidated financial statements and notes to the financial statements included elsewhere in this quarterly report.*

#### **Special Note About Forward-Looking Statements**

Certain statements contained in this quarterly report (or otherwise made by us or on our behalf from time to time in other reports, filings with the SEC, news releases, conferences, internet postings or otherwise) that are not statements of historical fact constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, notwithstanding that such statements are not specifically identified. Forward-looking statements include, but are not limited to, statements about our financial position, business strategy, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition, the effects of future legislation or regulations and plans and objectives of our management for future operations. We have based our forward-looking statements on our beliefs and assumptions based on information available to us at the time the statements are made. Use of the words may, should, continue, plan, potential, anticipate, believe, estimate, expect, intend, outlook, could, predict, or variations of such words and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those set forth below under Part II Item 1A. Risk Factors, as well as other factors described herein or in our annual, quarterly and other reports we file with the SEC (collectively, cautionary statements). Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in any forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. We do not intend to update these forward-looking statements, except as required by applicable law.

#### **Executive Overview**

In January 2010, we completed our merger with Ticketmaster, which we believe will allow the combined company to capitalize on strategic advantages and other opportunities created by bringing together a global concert business, global ticketing operations and a leading artist management company, including lowering costs and developing new distribution platforms and new revenue streams (through sponsorships and increased eCommerce opportunities, among others). The Merger has produced a combined company that we believe is well-positioned to address the challenges of better serving artists and fans through improved ticketing options and other services. As we complete the third quarter of 2010, the majority of the initial integration efforts and the merger-related planned staffing reductions are essentially complete. We continue to focus on the strategy and change that we believe is necessary to take this combined company forward.

We have continued to see the overall weakness in the concert industry in the third quarter, which was first indicated in the second quarter, as the volume of ticket sales continued to decline year over year. This quarter is generally the largest quarter for our Concerts segment, as our festivals and amphitheater shows happen throughout this period. Although our total events held in the third quarter were up by 3% to 4,907 compared to the same period of last year, the reduced ticket sales impacted our overall attendance by 16%, a reduction of 3.1 million. This resulted in a decrease in overall average attendance of almost 740 attendees per event. In North America, we implemented a ticket discounting program in order to encourage fans to attend shows which impacted the average revenue per ticket. But, we saw our ancillary revenue per attendee in the amphitheaters stay in-line with last year at \$17.53 per attendee. Internationally, we saw strong festival results including an increase in the ancillary revenue per attendee at these festivals of 4% to \$15.47 per person.

Reduced ticket sales continued to impact our Ticketing segment as well, as ticket volumes, primarily in concert tickets, declined by 9% overall compared to prior year combined sales by us and Ticketmaster, as our Ticketing clients are experiencing reductions consistent with the declines we saw in the Concerts segment. The Artist Nation segment was impacted by reduced touring by the artists it serves in both the management and services businesses. Our Sponsorship segment has continued to be an oasis in the midst of these ticket declines as it showed growth again in the third quarter as average sponsorship per client increased over the prior year.



## **Table of Contents**

We continue to be optimistic about the long-term future of this combined company, and despite the current challenges of the decline in ticket sales, we remain focused on driving our strategy, which includes four main levers of the business surrounding the concert ticketing/eCommerce, artist management, sponsorship and onsite ancillary spend and we are focused on expanding these levers in key markets where we currently do not have all four elements of the model. Our strategy also includes growing and monetizing our database in order to drive increased ticket sales and sponsorship growth, selling more tickets through effective marketing and pricing and redefining the growth potential in our ticketing business.

### **Our History**

We were incorporated in Delaware on August 2, 2005 in preparation for the spin-off of substantially all of Clear Channel's entertainment assets and liabilities. The Separation was completed on December 21, 2005, at which point we became a publicly traded company on the New York Stock Exchange trading under the symbol LYV.

### **Our Merger with Ticketmaster**

On January 25, 2010, we and Ticketmaster completed our Merger following the receipt of regulatory clearances from the DOJ and the Canadian Bureau of Competition (having previously received clearance from all other government authorities required under the Merger Agreement), and the approval of Live Nation and Ticketmaster stockholders. As part of the Merger, Ticketmaster stockholders received 1.4743728 shares of Live Nation common stock for each share of Ticketmaster common stock they owned. Effective on the date of the Merger, Ticketmaster became a wholly-owned subsidiary of Live Nation named Ticketmaster Entertainment LLC and Live Nation, Inc. changed its name to Live Nation Entertainment, Inc.; subsequently, in connection with certain financing transactions completed on May 6, 2010, Ticketmaster was merged into the Company and the separate corporate existence of Ticketmaster ceased.

Under the terms of the agreement reached with the DOJ, we agreed to divest our ticketing subsidiary, Paciolan, and to license the Ticketmaster Host technology to Anschutz Entertainment Group, Inc., in addition to other terms intended to protect competitive conditions in ticketing and promotions. In March 2010, we entered into an agreement with Comcast whereby Comcast purchased 100% of the issued and outstanding shares of common stock of Paciolan.

### **Segment Overview**

In 2009, our reportable operating segments were North American Music, International Music and Ticketing. In 2010, subsequent to the Merger, we reorganized our business units and the way in which these businesses are assessed and therefore changed our reportable segments to Concerts, Ticketing, Artist Nation, eCommerce and Sponsorship. Our businesses formerly reported as North American Music and International Music are now allocated primarily to the Concerts segment with a portion allocated to our Sponsorship segment. Our business formerly reported as Ticketing remains in the Ticketing segment in 2010 with the exception of the allocation to our eCommerce segment of a fee per ticket for every ticket sold online along with online advertising. The Artist Nation segment is primarily made up of Ticketmaster's artist management business and our artist services business which was previously reported as a component of the North American Music segment. These changes were made to be consistent with the way the chief operating decision makers are now managing the business after our merger with Ticketmaster.

The segment results for all periods presented have been reclassified to conform to the current year presentation.

#### ***Concerts***

Our Concerts segment principally involves the global promotion of live music events in our owned and/or operated venues and in rented third-party venues, the operation and management of music venues and the production of music festivals across the world. While our Concerts segment operates year-round, we experience higher revenue during the second and third quarters due to the seasonal nature of shows at our outdoor amphitheaters and festivals, which primarily occur May through September.

To judge the health of our Concerts segment, we primarily monitor the number of confirmed events in our network of owned and/or operated and third-party venues, talent fees, average paid attendance and advance ticket sales. In addition, at our owned and/or operated venues, we monitor attendance, ancillary revenue per fan and premium seat sales. For business that is conducted in foreign markets, we look at the operating results from our foreign operations on a constant dollar basis.

***Ticketing***

The Ticketing segment is primarily an agency business that sells tickets for events on behalf of our clients and retains a convenience charge and order processing fee for our services. We sell tickets through a combination of websites,

## **Table of Contents**

telephone services and ticket outlets. Our ticketing sales are impacted by fluctuations in the availability of events for sale to the public, which may vary depending upon scheduling by our clients. Generally, the first and second quarters of the year experience the highest domestic ticketing revenue, earned primarily in the concerts and sports categories. Generally international ticketing revenue is highest in the fourth quarter of the year, earned primarily in the concerts category.

To judge the health of our Ticketing segment, we primarily review the number of tickets sold through our ticketing operations, the percentage of visitors to our websites that buy tickets, the number of clients and the average royalty rate paid to clients who use our ticketing services.

### ***Artist Nation***

The Artist Nation segment primarily provides management services to music recording artists in exchange for a commission on the earnings of these artists. Our Artist Nation segment also sells merchandise associated with musical artists at live musical performances, to retailers, and directly to consumers via the internet and also provides other services to artists. Revenue earned from our Artist Nation segment is impacted to a large degree by the touring schedules of the artists we represent. Generally, we experience higher revenue during the second and third quarters as the period from May through September tends to be a popular time for touring events.

To judge the health of our Artist Nation segment, we primarily review the average annual earnings of each artist represented, commissions earned by individual managers, planned album releases and future touring schedules.

### ***eCommerce***

Our eCommerce segment manages our online, or eCommerce, activities including enhancements to our websites, execution of paperless tickets, bundling product offerings and online advertising at our websites. Through our websites, we sell tickets to our own events as well as tickets for our ticketing services clients and disseminate event and related merchandise information online. This segment records a fee per ticket that is paid to it by the Ticketing segment on every ticket sold online via *www.ticketmaster.com* in the United States and Canada.

To judge the health of our eCommerce segment, we primarily review the number of unique visitors to our websites, the overall number of customers in our database and the online revenue received from sponsors advertising on our websites.

### ***Sponsorship***

Our Sponsorship segment employs a sales force that creates and maintains relationships with sponsors, through a combination of strategic, international, national and local opportunities for corporations to reach customers through our concert, venue, artist relationship and ticketing assets.

To judge the health of our Sponsorship segment, we primarily review the number of sponsors, the average revenue per sponsor and the total revenue generated through sponsorship arrangements.

## Table of Contents

### Consolidated Results of Operations

|                                                              | Three Months Ended September 30, |              |        | Nine Months Ended September 30, |              |        |
|--------------------------------------------------------------|----------------------------------|--------------|--------|---------------------------------|--------------|--------|
|                                                              | 2010                             | 2009         | %      | 2010                            | 2009         | %      |
|                                                              | (in thousands)                   |              | Change | (in thousands)                  |              | Change |
| Revenue                                                      | \$ 1,836,351                     | \$ 1,794,588 | 2%     | \$ 3,825,902                    | \$ 3,326,716 | 15%    |
| Operating expenses:                                          |                                  |              |        |                                 |              |        |
| Direct operating expenses                                    | 1,387,302                        | 1,467,647    | (5)%   | 2,769,459                       | 2,679,438    | 3%     |
| Selling, general and administrative expenses                 | 244,065                          | 158,412      | 54%    | 727,708                         | 453,920      | 60%    |
| Depreciation and amortization                                | 65,320                           | 35,953       | 82%    | 181,525                         | 113,539      | 60%    |
| Loss (gain) on sale of operating assets                      | (779)                            | (27)         | *      | 3,155                           | (1,009)      | *      |
| Corporate expenses                                           | 27,660                           | 16,424       | 68%    | 86,666                          | 42,308       | *      |
| Acquisition transaction expenses                             | 2,581                            | 7,780        | (67)%  | 17,992                          | 26,515       | (32)%  |
| Operating income                                             | 110,202                          | 108,399      | 2%     | 39,397                          | 12,005       | *      |
| Operating margin                                             | 6.0%                             | 6.0%         |        | 1.0%                            | 0.4%         |        |
| Interest expense                                             | 29,414                           | 17,438       |        | 85,773                          | 50,557       |        |
| Loss on extinguishment of debt                               | -                                | -            |        | 21,172                          | -            |        |
| Interest income                                              | (715)                            | (342)        |        | (2,158)                         | (1,908)      |        |
| Equity in earnings of nonconsolidated affiliates             | (629)                            | (163)        |        | (2,884)                         | (979)        |        |
| Other expense (income) net                                   | (212)                            | 3,858        |        | (1,845)                         | 4,465        |        |
| Income (loss) from continuing operations before income taxes | 82,344                           | 87,608       |        | (60,661)                        | (40,130)     |        |
| Income tax expense (benefit):                                |                                  |              |        |                                 |              |        |
| Current                                                      | 14,004                           | 17,344       |        | 17,844                          | 28,220       |        |
| Deferred                                                     | 2,905                            | (2,129)      |        | (4,950)                         | (4,316)      |        |
| Income (loss) from continuing operations                     | 65,435                           | 72,393       |        | (73,555)                        | (64,034)     |        |
| Income (loss) from discontinued operations, net of tax       | (3,213)                          | 6,779        |        | (3,893)                         | 13,241       |        |
| Net income (loss) attributable to                            | 62,222                           | 79,172       |        | (77,448)                        | (50,793)     |        |
| Net income attributable to noncontrolling interests          | 10,818                           | 9,925        |        | 11,648                          | 9,865        |        |
| Net income (loss) attributable to Live                       |                                  |              |        |                                 |              |        |
| Nation Entertainment, Inc.                                   | \$ 51,404                        | \$ 69,247    |        | \$ (89,096)                     | \$ (60,658)  |        |

Note: Non-cash compensation expense of \$5.0 million and \$1.7 million is included in corporate expenses and \$7.7 million and \$1.8 million is included in selling, general and administrative expenses for the three months ended September 30, 2010 and 2009, respectively. Non-cash compensation expense of \$22.0 million and \$5.5 million is included in corporate expenses and \$23.5 million and \$4.5 million is included in selling, general and administrative expenses for the nine months ended September 30, 2010 and 2009, respectively. No significant amounts were recorded for non-cash compensation expense in discontinued operations for the three and nine months ended September 30, 2010 and 2009.

\* Percentages are not meaningful.

## Table of Contents

### Key Operating Metrics

|                                                          | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|----------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                          | 2010                             | 2009       | 2010                            | 2009       |
| <b>Concerts</b>                                          |                                  |            |                                 |            |
| Estimated Events:                                        |                                  |            |                                 |            |
| Owned and/or operated amphitheaters                      | 665                              | 497        | 883                             | 745        |
| All other promotions:                                    |                                  |            |                                 |            |
| North America                                            | 1,828                            | 2,209      | 5,544                           | 6,134      |
| International                                            | 620                              | 560        | 2,550                           | 2,680      |
| Third-party rentals at our owned and/or operated venues: |                                  |            |                                 |            |
| North America                                            | 1,297                            | 955        | 4,064                           | 3,400      |
| International                                            | 497                              | 554        | 2,008                           | 1,974      |
| Total estimated events                                   | 4,907                            | 4,775      | 15,049                          | 14,933     |
| Estimated Attendance ( <i>rounded</i> ):                 |                                  |            |                                 |            |
| Owned and/or operated amphitheaters                      | 6,880,000                        | 5,963,000  | 9,339,000                       | 8,747,000  |
| All other promotions:                                    |                                  |            |                                 |            |
| North America                                            | 5,416,000                        | 7,105,000  | 13,627,000                      | 15,762,000 |
| International                                            | 3,089,000                        | 5,253,000  | 8,185,000                       | 10,628,000 |
| Third-party rentals at our owned and/or operated venues: |                                  |            |                                 |            |
| North America                                            | 537,000                          | 592,000    | 1,781,000                       | 1,908,000  |
| International                                            | 525,000                          | 621,000    | 2,735,000                       | 2,666,000  |
| Total estimated attendance                               | 16,447,000                       | 19,534,000 | 35,667,000                      | 39,711,000 |
| Ancillary net revenue per attendee:                      |                                  |            |                                 |            |
| North America amphitheaters                              | \$ 17.53                         | \$ 17.67   | \$ 17.80                        | \$ 17.89   |
| International festivals                                  | \$ 15.47                         | \$ 14.81   | \$ 15.50                        | \$ 14.43   |
| <b>Ticketing (<i>in thousands</i>)</b>                   |                                  |            |                                 |            |
| Number of tickets sold:                                  |                                  |            |                                 |            |
| Concerts                                                 | 17,948                           | 56%        | 4,736                           | 100%       |
| Sports                                                   | 6,084                            | 19%        | -                               | -          |
| Arts & theater                                           | 4,563                            | 14%        | -                               | -          |
| Family                                                   | 2,392                            | 7%         | -                               | -          |
| Other                                                    | 1,284                            | 4%         | -                               | -          |
|                                                          | 32,271                           | 100%       | 4,736                           | 100%       |
|                                                          |                                  |            | 86,015                          | 100%       |
|                                                          |                                  |            | 8,720                           | 100%       |
| Gross value of tickets sold ( <i>in thousands</i> ):     |                                  |            |                                 |            |
| Concerts                                                 | \$ 1,067,550                     | \$ 254,607 | \$ 2,978,654                    | \$ 483,347 |
| Sports                                                   | 329,847                          | -          | 861,111                         | -          |
| Arts & theater                                           | 319,172                          | -          | 849,614                         | -          |
| Family                                                   | 99,752                           | -          | 287,486                         | -          |
| Other                                                    | 43,541                           | -          | 113,180                         | -          |
|                                                          | \$ 1,859,862                     | \$ 254,607 | \$ 5,090,045                    | \$ 483,347 |

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

### Sponsorship

|                                                                      |           |           |            |            |
|----------------------------------------------------------------------|-----------|-----------|------------|------------|
| Estimated number of sponsors ( <i>as of period end</i> )             | 722       | 789       | 722        | 789        |
| Sponsorship revenue recognized ( <i>in thousands</i> )               | \$ 69,534 | \$ 73,509 | \$ 129,596 | \$ 132,291 |
| Estimated average sponsorship dollars per sponsor ( <i>rounded</i> ) | \$ 96,000 | \$ 93,000 | \$ 179,000 | \$ 168,000 |

Note: Events generally represent a single performance by an artist for both promotions and third-party rentals. Attendance generally represents the number of fans who were present at an event. Festivals are counted as one event in the quarter in which the festival begins but attendance is split over the days of the festival and can be split between quarters. The metrics reported are estimated each quarter.

Adjustments to previously reported quarters, if any, are only included in the year-to-date events and attendance metrics.

Promotions listed above include events in our owned and/or operated venues as well as events we promote in third-party venues. Excluded from the table above are events and attendance that occurred in our United Kingdom theatrical business that was sold in October 2009.

The number and gross value of tickets sold are inclusive of primary and secondary tickets.

## **Table of Contents**

### ***Revenue***

Our revenue increased \$41.8 million, or 2%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$34.8 million related to the impact of changes in foreign exchange rates, revenue increased \$76.6 million, or 4%. The overall increase in revenue was primarily due to increases in our Ticketing, Artist Nation and eCommerce segments of \$235.8 million, \$20.8 million and \$20.4 million, respectively, partially offset by a decrease in our Concerts segment of \$233.1 million.

Our revenue increased \$499.2 million, or 15%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$31.8 million related to the impact of changes in foreign exchange rates, revenue increased \$531.0 million, or 16%. The overall increase in revenue was primarily due to increases in our Ticketing, Artist Nation and eCommerce segments of \$682.8 million and \$75.6 million and \$51.8 million, respectively, partially offset by a decrease in our Concerts segment of \$303.5 million.

More detailed explanations of these changes are included in the applicable segment discussions below.

### ***Direct operating expenses***

Our direct operating expenses decreased \$80.3 million, or 5%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$27.7 million related to the impact of changes in foreign exchange rates, direct operating expenses decreased \$52.6 million, or 4%. The overall decrease in direct operating expenses was primarily due to a decrease in our Concerts segment of \$185.9 million partially offset by an increase in our Ticketing segment of \$113.6 million.

Our direct operating expenses increased \$90.0 million, or 3%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$26.3 million related to the impact of changes in foreign exchange rates, direct operating expenses increased \$116.3 million, or 4%. The overall increase in direct operating expenses was primarily due to increases in our Ticketing and Artist Nation segments of \$334.6 million and \$17.6 million, respectively, partially offset by a decrease in our Concerts segment of \$254.4 million.

Direct operating expenses include artist fees, ticketing client royalties, show-related marketing and advertising expenses along with other costs.

More detailed explanations of these changes are included in the applicable segment discussions below.

### ***Selling, general and administrative expenses***

Our selling, general and administrative expenses increased \$85.7 million, or 54%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$3.4 million related to the impact of changes in foreign exchange rates, selling, general and administrative expenses increased \$89.1 million, or 56%. The overall increase in selling, general and administrative expenses was primarily due to increases in our Ticketing and Artist Nation segments of \$70.0 million and \$13.8 million, respectively.

Our selling, general and administrative expenses increased \$273.8 million, or 60%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$0.9 million related to the impact of changes in foreign exchange rates, selling, general and administrative expenses increased \$274.7 million, or 61%. The overall increase in selling, general and administrative expenses was primarily due to increases in our Ticketing, Artist Nation, eCommerce and Concerts segments of \$201.2 million, \$40.3 million, \$17.8 million and \$11.1 million, respectively.

Selling, general and administrative expenses for the three and nine months ended September 30, 2010 include \$0.5 million and \$9.3 million of severance cost associated with the reorganization of our business units subsequent to the Merger and other acquisitions, primarily in the Ticketing segment.

More detailed explanations of these changes are included in the applicable segment discussions below.

### ***Depreciation and amortization***

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

Depreciation and amortization increased \$29.4 million, or 82%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decreases of approximately \$0.5 million related to the impact of changes in foreign exchange rates, depreciation and amortization increased \$29.9 million, or 83%. The overall increase in depreciation and amortization was primarily due to increases in our Ticketing and Artist Nation segments of \$18.2 million and \$10.6 million, respectively.

## **Table of Contents**

Depreciation and amortization increased \$68.0 million, or 60%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the increases of approximately \$0.3 million related to the impact of changes in foreign exchange rates, depreciation and amortization increased \$67.7 million, or 60%. The overall increase in depreciation and amortization was primarily due to increases in our Ticketing and Artist Nation segments of \$57.3 million and \$23.8 million, respectively, partially offset by a decrease in our Concerts segment of \$13.7 million.

More detailed explanations of these changes are included in the applicable segment discussions below.

### ***Loss (gain) on sale of operating assets***

The loss on sale of operating assets for the nine months ended September 30, 2010 was \$3.2 million primarily due to the \$5.2 million loss resulting from our sale of Paciolan in the first quarter of 2010. There were no significant sales in 2009, other than the sale of the U.K. theatrical business which is presented in discontinued operations.

### ***Corporate expenses***

Corporate expenses increased \$11.2 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to \$8.3 million in incremental expenses resulting from the expansion of corporate functions as a result of the Merger.

Corporate expenses increased \$44.4 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to \$11.2 million of incremental non-cash compensation expense associated with equity awards exchanged and accelerated in connection with the Merger, \$4.7 million of severance cost associated with the reorganization of our business units subsequent to the Merger and \$31.8 million in incremental expenses resulting from the expansion of corporate functions as a result of the Merger.

### ***Acquisition transaction expenses***

Acquisition transaction expenses decreased \$5.2 million for the three months ended September 30, 2010 and \$8.5 million, or 32%, for the nine months ended September 30, 2010 as compared to the same periods of the prior year primarily due to the completion of the Merger in January 2010 and changes in the fair value of contingent consideration.

### ***Interest expense***

Interest expense increased \$12.0 million, or 69%, and \$35.2 million, or 70%, during the three and nine months ended September 30, 2010, respectively, as compared to the same periods of the prior year primarily due to higher debt balances, including the debt obtained in the Merger, and higher average interest rates.

Our debt balances and weighted-average cost of debt, excluding the debt discount on convertible senior notes and the debt premium on the 10.75% senior notes, were \$1.763 billion and 6.0%, respectively, at September 30, 2010 and \$949.7 million and 5.1%, respectively, at September 30, 2009.

### ***Loss on extinguishment of debt***

We recorded a loss on extinguishment of debt of \$21.2 million during the nine months ended September 30, 2010, relating to the replacement of our senior secured credit facilities in May 2010 with a new credit agreement that provides for \$1.2 billion in credit facilities.

### ***Income Taxes***

We customarily calculate interim effective tax rates in accordance with the FASB guidance for income taxes. As required by this guidance, we apply 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 customary 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, we have calculated an expected annual effective tax rate of approximately 16% (as compared to 27% in the prior year), excluding significant, unusual or extraordinary items, for ordinary income associated with operations, which are principally outside of the

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

United States, for which we currently expect to have annual taxable income. The significant decrease in the expected annual effective tax rate is driven by the change in composition of earnings in lower-taxed foreign jurisdictions, primarily driven by the acquisition of Ticketmaster. The effective tax rate has been applied to year-to-date earnings for those operations for which we currently expect to have taxable income. We have not recorded tax benefits associated with losses from operations for which future taxable income cannot be reasonably assured. As required by this guidance, we also include tax effects of significant, unusual or extraordinary items in income tax expense in the interim period in which they occur.

## Table of Contents

Net income tax expense from continuing operations is \$16.9 million and \$12.9 million for the three and nine months ended September 30, 2010, respectively. The components of tax expense that contributed to the net tax expense for the nine months ended September 30, 2010, included income tax expense of \$10.5 million based on the expected annual rate pertaining to income for the nine months ended September 30, 2010, state and local taxes of \$4.0 million, withholding taxes of \$2.9 million, tax reserve accruals and settlements of uncertain tax positions of \$0.6 million, federal tax benefit of (\$2.5) million attributable to the carryback of net operating losses, (\$1.6) million related to discrete impairment charges and other discrete items totaling a net of (\$1.0) million.

As of September 30, 2010 and December 31, 2009, we had unrecognized tax benefits of approximately \$10.7 million and \$4.1 million, respectively. During the nine months ended September 30, 2010, unrecognized tax benefits increased by approximately \$6.0 million for acquired unrecognized tax benefits of Ticketmaster and by approximately \$0.6 million for tax reserve accruals net of settlements of uncertain tax positions. If unrecognized tax benefits as of September 30, 2010 are subsequently recognized, approximately \$10.0 million, net of related deferred tax assets and interest, would reduce the income tax provision from continuing operations.

We have U.S. federal net operating loss carry forwards that, if not used, will expire between calendar years 2010 and 2029. The amounts of net operating loss carry forwards that will expire in 2010 if not used is \$4.3 million.

### Discontinued Operations

In October 2009, we sold our remaining theatrical venues and operations in the United Kingdom to The Ambassador Theatre Group Limited for a gross sales price of \$148.7 million. After fees, expenses, and a working capital adjustment, we received \$111.3 million of net proceeds. The sale of the U.K. theatrical business resulted in a tax-free gain of \$56.6 million in the fourth quarter of 2009. For the three and nine months ended September 30, 2010, we reported an additional \$3.2 million and \$3.9 million, respectively, of expense related to the sale.

### Concerts Results of Operations

Our Concerts segment operating results were, and discussions of significant variances are, as follows:

|                                              | Three Months Ended<br>September 30, |              | %<br>Change | Nine Months Ended<br>September 30, |              | %<br>Change |
|----------------------------------------------|-------------------------------------|--------------|-------------|------------------------------------|--------------|-------------|
|                                              | 2010                                | 2009         |             | 2010                               | 2009         |             |
|                                              | (in thousands)                      |              |             | (in thousands)                     |              |             |
| Revenue                                      | \$ 1,380,527                        | \$ 1,613,665 | (14)%       | \$ 2,648,147                       | \$ 2,951,618 | (10)%       |
| Direct operating expenses                    | 1,192,486                           | 1,378,433    | (13)%       | 2,226,341                          | 2,480,707    | (10)%       |
| Selling, general and administrative expenses | 128,680                             | 133,874      | (4)%        | 384,784                            | 373,695      | 3%          |
| Depreciation and amortization                | 29,741                              | 30,045       | (1)%        | 79,897                             | 93,633       | (15)%       |
| Gain on sale of operating assets             | (776)                               | (165)        | *           | (2,045)                            | (1,156)      | 77%         |
| Acquisition transaction expenses             | (2,863)                             | 657          | *           | (2,718)                            | 802          | *           |
| Operating income (loss)                      | \$ 33,259                           | \$ 70,821    | (53)%       | \$ (38,112)                        | \$ 3,937     | *           |
| Operating margin                             | 2.4%                                | 4.4%         |             | (1.4)%                             | 0.1%         |             |
| Adjusted operating income **                 | \$ 61,914                           | \$ 103,109   | (40)%       | \$ 43,661                          | \$ 101,034   | (57)%       |

\* Percentages are not meaningful.

\*\* Adjusted operating income (loss) is discussed in more detail and reconciled to operating income (loss) below.

### Three Months

Concerts revenue decreased \$233.1 million, or 14%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$32.3 million related to the impact of changes in foreign exchange rates, revenue decreased \$200.8 million,

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

or 12%, primarily due to an overall decrease in events for stadiums, attendance for arenas, and a decrease in average attendance for amphitheaters. Partially offsetting these decreases was increased revenue related to more shows in our amphitheaters and strong festival operations internationally along with an increase of \$1.8 million related to our acquisition of Parcolimpico in November 2009.

Concerts direct operating expenses decreased \$185.9 million, or 13%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$27.1 million related to the impact of

## **Table of Contents**

changes in foreign exchange rates, direct operating expenses decreased \$158.8 million, or 12%, primarily due to lower expenses associated with the decreased events noted above and overall show cost declines. Partially offsetting these decreases were increased costs for amphitheaters and festivals along with incremental direct operating expenses of \$0.9 million related to the acquisition noted above.

Concerts selling, general and administrative expenses decreased \$5.2 million, or 4%, during the three months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$3.2 million related to the impact of changes in foreign exchange rates and \$0.6 million incremental expense related to the acquisition noted above, selling, general and administrative expenses decreased \$2.6 million, or 2%.

The decrease in operating income for Concerts was primarily related to the reduction in show results at stadiums, arenas and amphitheaters, partially offset by strong festival results.

### ***Nine Months***

Concerts revenue decreased \$303.5 million, or 10%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$28.4 million related to the impact of changes in foreign exchange rates, revenue decreased \$275.1 million, or 9%, primarily due to an overall decrease in events and attendance for stadiums and arenas, a decrease in average attendance for amphitheaters, lower ancillary revenue per fan at amphitheaters driven by reduced service charges on discounted tickets offset by higher food and beverage sales and a reduction in revenue of \$7.0 million related to the effect of our divestiture of two theaters and a club in September 2009. Offsetting these decreases were strong festival operations internationally and an increase in revenue of \$8.6 million related to our acquisitions of Brand New Live in February 2009, Tecjet in March 2009 and Parcolimpico in November 2009.

Concerts direct operating expenses decreased \$254.4 million, or 10%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$24.9 million related to the impact of changes in foreign exchange rates, direct operating expenses decreased \$229.5 million, or 9%, primarily due to lower expenses associated with the decreased events along with \$4.1 million less expense due to the divestiture noted above. Partially offsetting these decreases were incremental direct operating expenses of \$2.1 million related to the acquisitions noted above and a \$13.4 million allowance recorded related to certain artist advances.

Concerts selling, general and administrative expenses increased \$11.1 million, or 3%, during the nine months ended September 30, 2010 as compared to the same period of the prior year. Excluding the decrease of \$0.8 million related to the impact of changes in foreign exchange rates, selling, general and administrative expenses increased \$11.9 million, or 3%, due to higher costs related to salaries, insurance and new office openings in 2010 in Germany and Australia, \$1.0 million in severance relating to reorganization in North America and \$5.1 million in incremental expenses related to the acquisitions noted above. Partially offsetting these increases were decreases in selling, general and administrative expenses of \$2.0 million relating to the divestiture noted above.

Concerts depreciation and amortization decreased \$13.7 million, or 15%, during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to an impairment of \$9.7 million recorded during 2009 related to two theaters, four clubs and a theater development project that was no longer being pursued.

The increase in operating loss for Concerts was primarily related to the reduction in show results for stadiums, arenas and amphitheaters along with the allowance recorded related to certain artist advances and partially offset by strong festival results.

## Table of Contents

### Ticketing Results of Operations

Our Ticketing segment operating results were, and discussions of significant variances are, as follows:

|                                              | Three Months Ended<br>September 30,<br>2010 |           | %<br>Change | Nine Months Ended<br>September 30,<br>2010 |           | %<br>Change |
|----------------------------------------------|---------------------------------------------|-----------|-------------|--------------------------------------------|-----------|-------------|
|                                              | (in thousands)                              |           |             | (in thousands)                             |           |             |
| Revenue                                      | \$ 261,720                                  | \$ 25,951 | *           | \$ 734,722                                 | \$ 51,923 | *           |
| Direct operating expenses                    | 122,636                                     | 9,068     | *           | 355,321                                    | 20,743    | *           |
| Selling, general and administrative expenses | 75,574                                      | 5,608     | *           | 222,045                                    | 20,838    | *           |
| Depreciation and amortization                | 20,691                                      | 2,530     | *           | 65,123                                     | 7,785     | *           |
| Loss (gain) on sale of operating assets      | (13)                                        | 5         | *           | 5,192                                      | 5         | *           |
| Acquisition transaction expenses             | 373                                         | -         | *           | 373                                        | -         | *           |
| Operating income                             | \$ 42,459                                   | \$ 8,740  | *           | \$ 86,668                                  | \$ 2,552  | *           |
| Operating margin                             | 16.2%                                       | 33.7%     |             | 11.8%                                      | 4.9%      |             |
| Adjusted operating income **                 | \$ 65,485                                   | \$ 11,364 | *           | \$ 175,132                                 | \$ 10,513 | *           |

\* Percentages are not meaningful.

\*\* Adjusted operating income (loss) is discussed in more detail and reconciled to operating income (loss) below.

The current year incremental impacts reported below as being attributable to the Merger include the migration back to Ticketmaster of Live Nation's stand-alone ticketing business.

#### Three Months

Ticketing revenue increased \$235.8 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$261.6 million increase resulting from our Merger. Revenue related to ticketing service charges for our events where we control ticketing is deferred and recognized as the event occurs.

Ticketing direct operating expenses increased \$113.6 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$119.8 million increase resulting from our Merger.

Ticketing selling, general and administrative expenses increased \$70.0 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$71.8 million increase resulting from our Merger.

Ticketing depreciation and amortization increased \$18.2 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$17.8 million increase resulting from our Merger.

The increase in operating income for Ticketing was primarily due to the addition of the Ticketmaster ticketing operations.

#### Nine Months

Ticketing revenue increased \$682.8 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$717.1 million increase resulting from our Merger. Revenue related to ticketing service charges for our events where we control ticketing is deferred and recognized as the event occurs. We sell tickets online, through independent sales outlets and call centers. During the nine months ended September 30, 2010, we sold 78%, 14% and 8% of primary tickets through these channels, respectively.

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

Ticketing direct operating expenses increased \$334.6 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$345.1 million increase resulting from our Merger.

Ticketing selling, general and administrative expenses increased \$201.2 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$207.0 million increase resulting from our Merger.

Ticketing depreciation and amortization increased \$57.3 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$52.0 million increase resulting from our Merger along with \$4.5 million related to the acceleration of depreciation expense for the CTS ticketing platform assets.

Ticketing loss on sale of operating assets of \$5.2 million during the nine months ended September 30, 2010 is primarily due to the sale of Paciolan in March 2010.

## Table of Contents

The increase in operating income for Ticketing was primarily due to the addition of the Ticketmaster ticketing operations.

### Artist Nation Results of Operations

Our Artist Nation segment operating results were, and discussions of significant variances are, as follows:

|                                              | Three Months Ended<br>September 30,<br>2010      2009<br>(in thousands) |           | %<br>Change | Nine Months Ended<br>September 30,<br>2010      2009<br>(in thousands) |            | %<br>Change |
|----------------------------------------------|-------------------------------------------------------------------------|-----------|-------------|------------------------------------------------------------------------|------------|-------------|
| Revenue                                      | \$ 110,960                                                              | \$ 90,210 | 23%         | \$ 269,228                                                             | \$ 193,662 | 39%         |
| Direct operating expenses                    | 70,212                                                                  | 74,802    | (6)%        | 175,443                                                                | 157,807    | 11%         |
| Selling, general and administrative expenses | 22,419                                                                  | 8,663     | *           | 68,276                                                                 | 27,968     | *           |
| Depreciation and amortization                | 12,585                                                                  | 1,972     | *           | 30,754                                                                 | 6,908      | *           |
| Loss on sale of operating assets             | 7                                                                       | -         | *           | 6                                                                      | 9          | *           |
| Acquisition transaction expenses             | 1,290                                                                   | -         | *           | 6,024                                                                  | -          | *           |
| Operating income (loss)                      | \$ 4,447                                                                | \$ 4,773  | *           | \$ (11,275)                                                            | \$ 970     | *           |
| Operating margin                             | 4.0%                                                                    | 5.3%      |             | (4.2)%                                                                 | 0.5%       |             |
| Adjusted operating income **                 | \$ 21,741                                                               | \$ 6,745  | *           | \$ 32,431                                                              | \$ 8,208   | *           |

\* Percentages are not meaningful.

\*\* Adjusted operating income (loss) is discussed in more detail and reconciled to operating income (loss) below.

#### Three Months

Artist Nation revenue increased \$20.8 million, or 23%, during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental revenue of \$53.0 million related to our Merger partially offset by a decline in tour merchandise revenue driven by the timing of artist tours.

Artist Nation direct operating expenses decreased \$4.6 million, or 6%, during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to a decline in tour merchandise expense driven by the timing of artist tours partially offset by incremental direct operating expenses of \$24.7 million related to our Merger.

Artist Nation selling, general and administrative expenses increased \$13.8 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental selling, general and administrative expenses of \$15.3 million related to our Merger.

Artist Nation depreciation and amortization increased \$10.6 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental amortization expense of \$10.4 million related to definite-lived intangible assets resulting from our Merger.

#### Nine Months

Artist Nation revenue increased \$75.6 million, or 39%, during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental revenue of \$121.8 million related to our Merger partially offset by a decline in tour merchandise revenue driven by the timing of artist tours.

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

Artist Nation direct operating expenses increased \$17.6 million, or 11%, during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental direct operating expenses of \$59.0 million related to our Merger partially offset by a decline in tour merchandise expense driven by the timing of artist tours.

Artist Nation selling, general and administrative expenses increased \$40.3 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental selling, general and administrative expenses of \$45.6 million related to our Merger.

Artist Nation depreciation and amortization increased \$23.8 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to incremental amortization expense of \$23.8 million related to definite-lived intangible assets resulting from our Merger.

The increase in operating loss for Artist Nation was related to the acquisition transaction expenses, the decline in tour merchandise and the business acquired in the Merger.

## Table of Contents

### eCommerce Results of Operations

Our eCommerce segment operating results were, and discussions of significant variances are, as follows:

|                                              | Three Months Ended<br>September 30,<br>2010 |          | %<br>Change | Nine Months Ended<br>September 30,<br>2010 |            | %<br>Change |
|----------------------------------------------|---------------------------------------------|----------|-------------|--------------------------------------------|------------|-------------|
|                                              | 2009                                        |          |             | 2009                                       |            |             |
|                                              | (in thousands)                              |          |             | (in thousands)                             |            |             |
| Revenue                                      | \$ 25,822                                   | \$ 5,450 | *           | \$ 62,801                                  | \$ 10,986  | *           |
| Direct operating expenses                    | 2,377                                       | 913      | *           | 8,755                                      | 2,075      | *           |
| Selling, general and administrative expenses | 10,202                                      | 3,945    | *           | 30,782                                     | 12,983     | *           |
| Depreciation and amortization                | 2,239                                       | 1,038    | *           | 5,323                                      | 3,745      | 42%         |
| Operating income (loss)                      | \$ 11,004                                   | \$ (446) | *           | \$ 17,941                                  | \$ (7,817) | *           |
| Operating margin                             | 42.6%                                       | (8.2)%   |             | 28.6%                                      | (71.2)%    |             |
| Adjusted operating income (loss) **          | \$ 13,476                                   | \$ 592   | *           | \$ 24,408                                  | \$ (3,856) | *           |

\* Percentages are not meaningful.

\*\* Adjusted operating income (loss) is discussed in more detail and reconciled to operating income (loss) below.

#### Three Months

eCommerce revenue increased \$20.4 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to a \$20.7 million increase resulting from our Merger.

eCommerce direct operating expenses increased \$1.5 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$1.2 million increase resulting from our Merger.

eCommerce selling, general and administrative expenses increased \$6.3 million during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$5.8 million increase due to our Merger.

The increased operating income for eCommerce was primarily a result of our Merger.

#### Nine Months

eCommerce revenue increased \$51.8 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to a \$50.6 million increase resulting from our Merger.

eCommerce direct operating expenses increased \$6.7 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$5.6 million increase resulting from our Merger.

eCommerce selling, general and administrative expenses increased \$17.8 million during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to the \$15.6 million increase due to our Merger.

The increased operating income for eCommerce was primarily a result of our Merger.



**Table of Contents****Sponsorship Results of Operations**

Our Sponsorship segment operating results were as follows:

**Sponsorship:**

|                                              | <b>Three Months Ended<br/>September 30,<br/>2010      2009</b> |           | <b>%<br/>Change</b> | <b>Nine Months Ended<br/>September 30,<br/>2010      2009</b> |            | <b>%<br/>Change</b> |
|----------------------------------------------|----------------------------------------------------------------|-----------|---------------------|---------------------------------------------------------------|------------|---------------------|
|                                              | <i>(in thousands)</i>                                          |           |                     | <i>(in thousands)</i>                                         |            |                     |
| Revenue                                      | \$ 69,534                                                      | \$ 73,509 | (5)%                | \$ 129,596                                                    | \$ 132,291 | (2)%                |
| Direct operating expenses                    | 10,324                                                         | 20,574    | (50)%               | 22,360                                                        | 36,283     | (38)%               |
| Selling, general and administrative expenses | 6,230                                                          | 5,257     | 19%                 | 19,594                                                        | 15,463     | 27%                 |
| Depreciation and amortization                | 66                                                             | 61        | 8%                  | 187                                                           | 166        | 13%                 |
| Loss on sale of operating assets             | -                                                              | -         | *                   | 6                                                             | -          | *                   |
| Operating income                             | \$ 52,914                                                      | \$ 47,617 | 11%                 | \$ 87,449                                                     | \$ 80,379  | 9%                  |
| Operating margin                             | 76.1%                                                          | 64.8%     |                     | 67.5%                                                         | 60.8%      |                     |
| Adjusted operating income **                 | \$ 53,113                                                      | \$ 47,678 | 11%                 | \$ 88,138                                                     | \$ 80,545  | 9%                  |

\* Percentages are not meaningful.

\*\* Adjusted operating income (loss) is discussed in more detail and reconciled to operating income (loss) below.

**Three Months**

Sponsorship operating income increased \$5.3 million, or 11%, for the three months ended September 30, 2010 as compared to the same period of the prior year primarily driven by higher international festival sponsorships. Sponsorship direct operating expenses decreased \$10.3 million, or 50%, during the three months ended September 30, 2010 as compared to the same period of the prior year primarily due to fees paid to artists for tour sponsorship agreements in 2009.

**Nine Months**

Sponsorship operating income increased \$7.1 million, or 9%, for the nine months ended September 30, 2010 as compared to the same period of the prior year primarily driven by higher international festival sponsorships. Sponsorship direct operating expenses decreased \$13.9 million, or 38%, during the nine months ended September 30, 2010 as compared to the same period of the prior year primarily due to fees paid to artists for tour sponsorship agreements in 2009. Excluding the expense relating to artist tour sponsorships, direct operating and selling, general and administrative expenses in total decreased \$1.4 million during the nine months ended September 30, 2010 as compared to the same period of the prior year. In 2010, we have changed the pay structures of many of our sponsorship sales people from a commission structure to a salary plus bonus structure in order to properly align sales incentives with the overall growth drivers and goals of the Company. This has caused a decrease in direct operating expenses and an increase in selling, general and administrative expenses.

**Reconciliation of Segment Operating Income**

| <b>Three Months Ended<br/>September 30,<br/>2010      2009</b> |  | <b>Nine Months Ended<br/>September 30,<br/>2010      2009</b> |  |
|----------------------------------------------------------------|--|---------------------------------------------------------------|--|
| <i>(in thousands)</i>                                          |  | <i>(in thousands)</i>                                         |  |

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

|                               |            |            |             |           |
|-------------------------------|------------|------------|-------------|-----------|
| Concerts                      | \$ 33,259  | \$ 70,821  | \$ (38,112) | \$ 3,937  |
| Ticketing                     | 42,459     | 8,740      | 86,668      | 2,552     |
| Artist Nation                 | 4,447      | 4,773      | (11,275)    | 970       |
| eCommerce                     | 11,004     | (446)      | 17,941      | (7,817)   |
| Sponsorship                   | 52,914     | 47,617     | 87,449      | 80,379    |
| Other                         | 604        | 184        | 1,245       | 692       |
| Corporate                     | (34,485)   | (23,290)   | (104,519)   | (68,708)  |
| Consolidated operating income | \$ 111,202 | \$ 108,399 | \$ 39,397   | \$ 12,005 |

**Table of Contents**

**Reconciliation of Segment Adjusted Operating Income (Loss)**

AOI is a non-GAAP financial measure that we define as operating income (loss) before acquisition expenses (including transaction costs, changes in the fair value of accrued acquisition-related contingent consideration arrangements, merger bonuses, payments under the Azoff Trust note and merger-related severance), depreciation and amortization (including goodwill impairment), loss (gain) on sale of operating assets and non-cash and certain stock-based compensation expense (including expense associated with grants of certain stock-based awards which are classified as liabilities). We use AOI to evaluate the performance of our operating segments. We believe that information about AOI assists investors by allowing them to evaluate changes in the operating results of our portfolio of businesses separate from non-operational factors that affect net income, thus providing insights into both operations and the other factors that affect reported results. AOI is not calculated or presented in accordance with GAAP. A limitation of the use of AOI as a performance measure is that it does not reflect the periodic costs of certain amortizing assets used in generating revenue in our business. Accordingly, AOI should be considered in addition to, and not as a substitute for, operating income (loss), net income (loss), and other measures of financial performance reported in accordance with GAAP. Furthermore, this measure may vary among other companies; thus, AOI as presented herein may not be comparable to similarly titled measures of other companies.

**Table of Contents**

The following table sets forth the computation of adjusted operating income (loss) as a supplemental measure to GAAP:

|                                              | Adjusted<br>operating<br>income<br>(loss) | Non-cash<br>and stock-<br>based<br>compensation<br>expense | Loss (gain)<br>on sale of<br>operating<br>assets | Depreciation<br>and<br>amortization | Acquisition<br>expenses | Operating<br>income<br>(loss) |
|----------------------------------------------|-------------------------------------------|------------------------------------------------------------|--------------------------------------------------|-------------------------------------|-------------------------|-------------------------------|
| <b>Three Months Ended September 30, 2010</b> |                                           |                                                            |                                                  |                                     |                         |                               |
| Concerts                                     | \$ 61,914                                 | \$ 2,610                                                   | \$ (776)                                         | \$ 29,741                           | \$ (2,920)              | \$ 33,259                     |
| Ticketing                                    | 65,485                                    | 1,453                                                      | (13)                                             | 20,691                              | 895                     | 42,459                        |
| Artist Nation                                | 21,741                                    | 3,421                                                      | 7                                                | 12,585                              | 1,281                   | 4,447                         |
| eCommerce                                    | 13,476                                    | 121                                                        | -                                                | 2,239                               | 112                     | 11,004                        |
| Sponsorship                                  | 53,113                                    | 133                                                        | -                                                | 66                                  | -                       | 52,914                        |
| Other                                        | 609                                       | -                                                          | (1)                                              | 6                                   | -                       | 604                           |
| Corporate                                    | (23,491)                                  | 4,996                                                      | 4                                                | 623                                 | 5,371                   | (34,485)                      |
| Eliminations                                 | (631)                                     | -                                                          | -                                                | (631)                               | -                       | -                             |
| Total                                        | \$ 192,216                                | \$ 12,734                                                  | \$ (779)                                         | \$ 65,320                           | \$ 4,739                | \$ 110,202                    |

|                                              |            |          |          |           |          |            |
|----------------------------------------------|------------|----------|----------|-----------|----------|------------|
| <b>Three Months Ended September 30, 2009</b> |            |          |          |           |          |            |
| Concerts                                     | \$ 103,109 | \$ 1,751 | \$ (165) | \$ 30,045 | \$ 657   | \$ 70,821  |
| Ticketing                                    | 11,364     | 89       | 5        | 2,530     | -        | 8,740      |
| Artist Nation                                | 6,745      | -        | -        | 1,972     | -        | 4,773      |
| eCommerce                                    | 592        | -        | -        | 1,038     | -        | (446)      |
| Sponsorship                                  | 47,678     | -        | -        | 61        | -        | 47,617     |
| Other                                        | 406        | -        | 131      | 91        | -        | 184        |
| Corporate                                    | (14,287)   | 1,662    | 2        | 216       | 7,123    | (23,290)   |
| Eliminations                                 | -          | -        | -        | -         | -        | -          |
| Total                                        | \$ 155,607 | \$ 3,502 | \$ (27)  | \$ 35,953 | \$ 7,780 | \$ 108,399 |

|                                             |            |           |            |            |            |             |
|---------------------------------------------|------------|-----------|------------|------------|------------|-------------|
| <b>Nine Months Ended September 30, 2010</b> |            |           |            |            |            |             |
| Concerts                                    | \$ 43,661  | \$ 6,234  | \$ (2,045) | \$ 79,897  | \$ (2,313) | \$ (38,112) |
| Ticketing                                   | 175,132    | 10,798    | 5,192      | 65,123     | 7,351      | 86,668      |
| Artist Nation                               | 32,431     | 5,822     | 6          | 30,754     | 7,124      | (11,275)    |
| eCommerce                                   | 24,408     | 353       | -          | 5,323      | 791        | 17,941      |
| Sponsorship                                 | 88,138     | 356       | 6          | 187        | 140        | 87,449      |
| Other                                       | 1,256      | -         | (8)        | 19         | -          | 1,245       |
| Corporate                                   | (57,374)   | 21,969    | 4          | 1,897      | 23,275     | (104,519)   |
| Eliminations                                | (1,675)    | -         | -          | (1,675)    | -          | -           |
| Total                                       | \$ 305,977 | \$ 45,532 | \$ 3,155   | \$ 181,525 | \$ 36,368  | \$ 39,397   |

|                                             |            |          |            |           |        |          |
|---------------------------------------------|------------|----------|------------|-----------|--------|----------|
| <b>Nine Months Ended September 30, 2009</b> |            |          |            |           |        |          |
| Concerts                                    | \$ 101,034 | \$ 3,818 | \$ (1,156) | \$ 93,633 | \$ 802 | \$ 3,937 |
| Ticketing                                   | 10,513     | 171      | 5          | 7,785     | -      | 2,552    |
| Artist Nation                               | 8,208      | 321      | 9          | 6,908     | -      | 970      |
| eCommerce                                   | (3,856)    | 216      | -          | 3,745     | -      | (7,817)  |

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

|              |            |           |            |            |           |           |
|--------------|------------|-----------|------------|------------|-----------|-----------|
| Sponsorship  | 80,545     | -         | -          | 166        | -         | 80,379    |
| Other        | 1,049      | -         | 131        | 226        | -         | 692       |
| Corporate    | (36,416)   | 5,501     | 2          | 1,076      | 25,713    | (68,708)  |
| Eliminations | -          | -         | -          | -          | -         | -         |
| Total        | \$ 161,077 | \$ 10,027 | \$ (1,009) | \$ 113,539 | \$ 26,515 | \$ 12,005 |

## **Table of Contents**

### **Liquidity and Capital Resources**

Our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, are funded from operations or from borrowings under our senior secured credit facility described below. Our cash is currently managed on a worldwide basis.

Our balance sheet reflects cash and cash equivalents of \$855.6 million at September 30, 2010 and \$237.0 million at December 31, 2009. Included in the September 30, 2010 cash and cash equivalents balance is \$350.2 million of funds representing amounts equal to the face value of tickets sold on behalf of clients, or client funds. The Company does not utilize client funds for its own financing or investing activities as the amounts are payable to clients. Our balance sheet reflects current and long-term debt of \$1.737 billion at September 30, 2010 and \$740.1 million at December 31, 2009. Our weighted-average cost of debt, excluding the debt discount on our term loan and convertible notes and the debt premium on our 10.75% senior notes, was 6.0% at September 30, 2010.

Our available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash in our operating accounts and invested cash. Cash held in operating accounts in many cases exceeds the Federal Deposit Insurance Corporation insurance limits. The invested cash is invested in interest-bearing funds managed by third-party financial institutions. While we monitor cash and cash equivalent balances in our operating accounts on a regular basis and adjust the balances as appropriate, these balances could be impacted if the underlying financial institutions fail. To date, we have experienced no loss or lack of access to our cash or cash equivalents; however, we can provide no assurances that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

We may need to incur additional debt or issue equity to make other strategic acquisitions or investments. There can be no assurance that such financing will be available to us on acceptable terms or at all. We may make significant acquisitions in the near term, subject to limitations imposed by our financing documents and market conditions.

The lenders under our revolving credit facility and counterparties to our interest rate cap agreement consist of banks and other third-party financial institutions. While we currently have no indications or expectations that such lenders and counterparties will be unable to fund their commitments as required, we can provide no assurances that future funding availability will not be impacted by adverse conditions in the financial markets. Should an individual lender default on its obligations, the remaining lenders would not be required to fund the shortfall, resulting in a reduction in the total amount available to us for future borrowings, but would remain obligated to fund their own commitments. Should any counterparty to our interest rate cap agreement default on its obligations, we could experience higher interest rate volatility during the period of any such default.

For our Concerts segment, we generally receive cash related to ticket revenue at our owned and/or operated venues in advance of the event, which is recorded in deferred revenue until the event occurs. With the exception of some upfront costs and artist deposits, which are recorded in prepaid expenses until the event occurs, we pay the majority of event-related expenses at or after the event.

We view our available cash as cash and cash equivalents, less ticketing-related client funds, less event-related deferred revenue, less accrued expenses due to artists and for cash collected on behalf of others for ticket sales, plus event-related prepaids. This is essentially our cash available to, among other things, repay debt balances, make acquisitions, repurchase stock and finance capital expenditures.

Our intra-year cash fluctuations are impacted by the seasonality of our various businesses. Examples of seasonal effects include our Concerts and Artist Nation segments, which report the majority of their revenue in the second and third quarters, whereas our Ticketing segment generally reports higher domestic ticketing revenue in the first and second quarters. Cash inflows and outflows depend on the timing of event-related payments but the majority of the inflows generally occur prior to the event. See Seasonality below. We believe that we have sufficient financial flexibility to fund these fluctuations and to access the global capital markets on satisfactory terms and in adequate amounts, although there can be no assurance that this will be the case, and capital could be less accessible and/or more costly given current economic conditions. We expect cash flow from operations and borrowings under our senior secured credit facility, along with other financing alternatives, to satisfy working capital, capital expenditures and debt service requirements for at least the succeeding year.

## **Table of Contents**

### **Sources of Cash**

#### ***May 2010 Senior Secured Credit Facility***

In May 2010, we replaced our existing senior secured credit facilities, including the Ticketmaster senior secured credit facility, by entering into a Credit Agreement dated as of May 6, 2010 that provides for \$1.2 billion in credit facilities. This new senior secured credit facility consists of (i) a \$100 million term loan A with a maturity of five and one-half years, (ii) an \$800 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, we have the right to increase such facilities by up to \$300 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 interest rates per annum applicable to loans under the senior secured credit facility are, at our option, equal to either LIBOR plus 3.0% or a base rate plus 2.0%, subject to stepdowns based on our 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%. We are 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.

During the first five and one-quarter years after the closing date, we are required to make quarterly payments on the term loan A at a rate ranging from 5% of the original principal amount in the first year of the facility to 40% in the last half-year of the facility. During the first six and one-quarter years after the closing date, we are required to make quarterly amortization payments on the term loan B at a rate of 0.25% of the original principal amount thereof. We are 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.

Borrowings on the May 2010 senior secured credit facility were primarily used to repay the borrowings under ours and Ticketmaster's existing credit facilities, convert existing preferred stock of one of our subsidiaries into the right to receive a cash payment and settle this obligation, pay related fees and expenses and for general corporate purposes. During the nine months ended September 30, 2010, we made principal payments totaling \$6.5 million on these term loans. Our revolving credit facility had not been drawn on as of September 30, 2010. At September 30, 2010, the outstanding balances on the term loans and revolving credit facility were \$889.8 million and zero, respectively. Based on our letters of credit of \$43.8 million, \$256.2 million was available for future borrowings.

#### ***8.125% Senior Notes***

In May 2010, we issued \$250 million of 8.125% senior notes due 2018. Interest on the notes is payable semi-annually in cash in arrears on May 15 and November 15 of each year, beginning on November 15, 2010, and the notes will mature on May 15, 2018. We may redeem some or all of the notes at any time prior to May 15, 2014 at a price equal to 100% of the 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. We may also redeem up to 35% of the notes from the proceeds of certain equity offerings prior to May 15, 2013, at a price equal to 108.125% of their principal amount, plus any accrued and unpaid interest. In addition, on or after May 15, 2014, we may redeem some or all of the notes at any time at redemption prices that start at 104.063% of their principal amount. We must also offer to redeem the notes at 101% of their aggregate principal amount, plus accrued and unpaid interest to the repurchase date, if we experience certain kinds of changes of control.

Borrowings on the 8.125% senior notes were primarily used to partially repay the borrowings under ours and Ticketmaster's existing credit facilities. During the nine months ended September 30, 2010, we made no principal payments on these senior notes. At September 30, 2010, the outstanding balance on the 8.125% senior notes was \$250.0 million.

### ***Debt Covenants***

Our senior secured credit facility, which was entered into in May 2010, contains a number of covenants and restrictions that, among other things, requires us to satisfy certain financial covenants and restricts our and our subsidiaries' ability to incur additional debt, make certain investments and acquisitions, repurchase our stock and prepay certain indebtedness, create liens, enter into agreements with affiliates, modify the nature of our business, enter into sale-leaseback transactions, transfer and sell material assets, merge or consolidate, and pay dividends and make distributions (with the exception of subsidiary dividends or distributions to the parent company or other subsidiaries on at least a pro-rata basis with any noncontrolling interest partners). Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the credit facility becoming immediately due and payable. The senior secured credit facility agreement has two covenants

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

measured quarterly starting June 30, 2010 that relate to total leverage and interest coverage. The consolidated total leverage covenant requires us to maintain a ratio of consolidated total debt to consolidated EBITDA (both as defined in the senior secured credit facility agreement) of less than 4.9x over the trailing four consecutive quarters. The total leverage ratio will reduce to 4.5x on September 30, 2011, 4.0x on September 30, 2012,

## **Table of Contents**

3.75x on September 30, 2013 and 3.5x on March 31, 2015. The consolidated interest coverage covenant requires us to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense (both as defined in the senior secured credit facility agreement) of 2.5x over the trailing four consecutive quarters. The interest coverage will increase to 2.75x on September 30, 2011, and 3.0x on September 30, 2012.

The indentures governing the 10.75% senior notes and the 8.125% senior notes contain covenants that limit, among other things, our ability and the ability of our 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 us; merge, consolidate or sell all of our assets; create certain liens; and engage in transactions with affiliates on terms that are not arm's length. Certain covenants, including those pertaining to incurrence of indebtedness, restricted payments, asset sales, mergers and transactions with affiliates will be suspended during any period in which the notes are rated investment grade by both rating agencies and no default or event of default under the indentures has occurred and is continuing. The 10.75% senior notes and the 8.125% senior notes each contain two incurrence-based financial covenants, as defined, requiring a minimum fixed charge coverage ratio of 2.0 to 1.0 and a maximum secured indebtedness leverage ratio of 2.75 to 1.0.

As of September 30, 2010, we believe we were in compliance with all of our debt covenants. We expect to remain in compliance with all of our debt covenants throughout 2010.

### ***Guarantees of Third-Party Obligations***

As of September 30, 2010, we guaranteed the debt of third parties of approximately \$3.5 million primarily related to maximum credit limits on employee and tour-related credit cards and guarantees of bank lines of credit of a nonconsolidated affiliate and a third-party promoter.

### **Uses of Cash**

#### ***Acquisitions***

During the nine months ended September 30, 2010, our cash increased by \$618.7 million from acquisitions in our Concerts, Ticketing, Artist Nation and eCommerce segments, primarily due to the stock for stock merger with Ticketmaster in January 2010. When we make acquisitions, the acquired entity may have cash on its balance sheet at the time of acquisition. All amounts discussed in this section are presented net of any cash acquired.

#### ***Capital Expenditures***

Venue operations and ticketing services operations are capital intensive businesses, requiring continual investment in our existing venues and ticketing software in order to address audience and artist expectations, technological industry advances and various federal, state and/or local regulations.

We categorize capital outlays between maintenance capital expenditures and revenue generating capital expenditures. Maintenance capital expenditures are associated with the renewal and improvement of existing venues and information systems, web development and administrative offices. Revenue generating capital expenditures generally relate to the construction of new venues or major renovations to existing buildings or buildings that are being added to our venue network or the development of new online or ticketing tools or technology enhancements. Revenue generating capital expenditures can also include smaller projects whose purpose is to add revenue and/or improve operating income. Capital expenditures typically increase during periods when venues are not in operation since that is the time that such improvements can be completed.

Our capital expenditures, including accruals but excluding expenditures funded by outside parties such as insurance companies and landlords, consisted of the following:

|                                         | <b>Nine Months Ended<br/>September 30,<br/>2010      2009</b> |           |
|-----------------------------------------|---------------------------------------------------------------|-----------|
|                                         | <i>(in thousands)</i>                                         |           |
| Maintenance capital expenditures        | \$ 29,987                                                     | \$ 13,934 |
| Revenue generating capital expenditures | 18,600                                                        | 25,424    |

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

|                            |           |           |
|----------------------------|-----------|-----------|
| Total capital expenditures | \$ 48,587 | \$ 39,358 |
|----------------------------|-----------|-----------|

Maintenance capital expenditures during the first nine months of 2010 increased from the same period of the prior year primarily due to our Merger.

**Table of Contents**

Revenue generating capital expenditures during the first nine months of 2010 decreased from the same period of the prior year primarily due to the 2009 development and renovation of various venues including a *House of Blues* club in Boston, the Gibson Amphitheater in California and the AMG venue expansion in Birmingham.

We currently expect capital expenditures to be approximately \$85.0 million for the full year 2010, with approximately \$50.0 million of that amount expected to be spent on maintenance capital projects.

**Contractual Obligations**

In May 2010, we replaced our existing senior secured credit facilities, including the Ticketmaster senior secured credit facility, by entering into a credit agreement that provides for \$1.2 billion in credit facilities and we also issued \$250 million of 8.125% senior notes due 2018 (see Note 5 Long-Term Debt in the notes to our Consolidated Financial Statements for further discussion of our debt). The scheduled maturities of our outstanding long-term debt as of September 30, 2010 are as follows:

|                                                           | Total               | Payments Due by Period |                             |                   | 2015 and thereafter |
|-----------------------------------------------------------|---------------------|------------------------|-----------------------------|-------------------|---------------------|
|                                                           |                     | 2010                   | 2011-2012<br>(in thousands) | 2013-2014         |                     |
| Long-term debt obligations, including current maturities: |                     |                        |                             |                   |                     |
| Term loans and revolving credit facility                  | \$ 893,500          | \$ 3,250               | \$ 34,750                   | \$ 48,500         | \$ 807,000          |
| 8.125% senior notes                                       | 250,000             | -                      | -                           | -                 | 250,000             |
| 10.75% senior notes                                       | 286,980             | -                      | -                           | -                 | 286,980             |
| 2.875% convertible senior notes                           | 220,000             | -                      | -                           | 220,000           | -                   |
| Other long-term debt                                      | 112,185             | 30,825                 | 40,222                      | 23,390            | 17,748              |
| Redeemable preferred stock                                | -                   | -                      | -                           | -                 | -                   |
| Estimated interest payments (1)                           | 629,631             | 38,553                 | 198,749                     | 190,279           | 202,050             |
| <b>Total</b>                                              | <b>\$ 2,392,296</b> | <b>\$ 72,628</b>       | <b>\$ 273,721</b>           | <b>\$ 482,169</b> | <b>\$ 1,563,778</b> |

(1) Includes interest on the 2.875% convertible senior notes through July 2014. Excludes interest on the outstanding revolver balance which was zero at September 30, 2010.

Other than the changes to our debt structure described above, there have been no material changes in our contractual obligations other than in the ordinary course of business since the end of fiscal year 2009. Please see our 2009 Annual Report on Form 10-K filed with the SEC on February 25, 2010, as amended by our Form 10-K/A filed with the SEC on April 30, 2010.

**Summary**

Our primary short-term liquidity needs are to fund general working capital requirements and capital expenditures while our long-term liquidity needs are primarily acquisition related. Our primary sources of funds for our short-term liquidity needs will be cash flows from operations and borrowings under our senior secured credit facility, while our long-term sources of funds will be from cash from operations, long-term bank borrowings and other debt or equity financing.

**Table of Contents****Cash Flows**

|                             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------|--------------------------------------------|-------------|
|                             | <b>2010</b>                                | <b>2009</b> |
|                             | <i>(in thousands)</i>                      |             |
| Cash provided by (used in): |                                            |             |
| Operating activities        | \$ 13,706                                  | \$ 74,581   |
| Investing activities        | \$ 537,798                                 | \$ (46,697) |
| Financing activities        | \$ 67,389                                  | \$ 1,910    |

***Operating Activities***

Cash provided by operations was \$13.7 million for the nine months ended September 30, 2010, compared to \$74.6 million for the nine months ended September 30, 2009. The \$60.9 million decrease in cash provided by operations resulted primarily from changes in the event-related operating accounts which are dependent on the timing of ticket sales along with the size and number of events for upcoming periods partially offset by the increase in the cash-related portion of net income. During the first nine months of 2010, we paid more accrued event-related expenses as compared to the same period of 2009 resulting in a decrease to cash provided by operations.

***Investing Activities***

Cash provided by investing activities was \$537.8 million for the nine months ended September 30, 2010, compared to cash used in investing activities of \$46.7 million for the nine months ended September 30, 2009. The \$584.5 million increase in cash provided by investing activities is primarily due to cash acquired in the Merger.

***Financing Activities***

Cash provided by financing activities was \$67.4 million for the nine months ended September 30, 2010, compared to \$1.9 million for the nine months ended September 30, 2009. The \$65.5 million increase in cash provided by financing activities was primarily a result of net proceeds received in 2010 from the issuance of \$250 million of 8.125% senior notes and our new senior secured credit facility, after repayment of the borrowings under the Live Nation and Ticketmaster credit facilities, payment of debt issuance costs as well as the redemption of preferred stock, as compared to lower overall net borrowings in the same period of the prior year.

**Seasonality**

Our Concerts and Artist Nation segments typically experience higher operating income in the second and third quarters as our outdoor venues and international festivals are primarily used or occur during May through September, while domestic ticket sales in our Ticketing segment for concerts and sporting events are generally earned in the first and second quarters of the year. Generally, international ticketing revenues and operating income are highest in the fourth quarter of the year, earned primarily through concert ticket sales. In addition, the timing of tours of top-grossing acts can impact comparability of quarterly results year over year, although annual results may not be impacted. Our Ticketing segment sales are impacted by fluctuations in the availability of events for sale to the public, which vary depending upon scheduling by our clients.

Cash flows from our Concerts segment typically have a slightly different seasonality as payments are often made for artist performance fees and production costs in advance of the date the related event tickets go on sale. These artist fees and production costs are expensed when the event occurs. Once tickets for an event go on sale, we generally begin to receive payments from ticket sales in advance of when the event occurs. We record these ticket sales as revenue when the event occurs.

**Market Risk**

We are exposed to market risks arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates.

***Foreign Currency Risk***

We have operations in countries throughout the world. The financial results of our foreign operations are measured in their local currencies. 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. Currently, we do not operate in any hyper-inflationary countries. Our foreign operations reported operating income of \$79.1 million for the nine months

## Table of Contents

ended September 30, 2010. We estimate that a 10% change in the value of the United States dollar relative to foreign currencies would change our operating income for the nine months ended September 30, 2010 by \$7.9 million. As of September 30, 2010, our primary foreign exchange exposure included the Euro, British Pound and Canadian Dollar. This analysis does not consider the implication such currency fluctuations could have on the overall economic conditions of the United States or other foreign countries in which we operate or on the results of operations of our foreign entities.

We primarily use forward currency contracts in addition to options to reduce our exposure to foreign currency risk. The principal objective of such contracts is to minimize the risks and/or costs associated with short-term artist fee commitments. In certain limited instances, we also enter into forward currency contracts to minimize the risks and/or costs associated with changes in foreign currency rates on short-term intercompany loans payable to certain international subsidiaries and on forecasted operating income. At September 30, 2010, we had forward currency contracts outstanding with a notional amount of \$76.9 million.

### Interest Rate Risk

Our market risk is also affected by changes in interest rates. We had \$1.737 billion total debt, net of unamortized discounts and premiums, outstanding as of September 30, 2010. Of the total amount, taking into consideration existing interest rate hedges, we have \$920.5 million of fixed-rate debt and \$816.6 million of floating-rate debt.

Based on the amount of our floating-rate debt as of September 30, 2010, each 25 basis point increase or decrease in interest rates would increase or decrease our annual interest expense and cash outlay by approximately \$2.0 million when the floor rate is not applicable. 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, 2010 with no subsequent change in rates for the remainder of the period.

At September 30, 2010, we have one interest rate cap agreement that is designated as a cash flow hedge for accounting purposes. The interest rate cap had a notional amount of \$97.5 million at September 30, 2010, to limit our cash flow exposure to an interest rate of 4% per annum. This agreement expires on June 30, 2013. The fair value of this agreement at September 30, 2010 was an asset of \$0.1 million. This agreement was put in place to reduce the variability of a portion of the cash flows from the interest payments related to the May 2010 senior secured credit facility. The original terms of the May 2010 senior secured credit facility require one or more interest rate protection agreements, with an effect of fixing or limiting the interest costs, for at least 50% of the consolidated total funded debt at the closing date for at least three years. Upon the execution of this interest rate cap agreement, the existing interest rate protection agreements fully met this requirement.

Through our AMG subsidiary, we have an interest rate swap agreement with a \$15.9 million aggregate notional amount that effectively converts a portion of our floating-rate debt to a fixed-rate basis. This agreement expires in January 2015. Also, in connection with the financing of the redevelopment of the O<sub>2</sub> Dublin, we have an interest rate swap agreement with a notional amount of \$16.1 million that expires in December 2013 effectively converting a portion of our floating-rate debt to a fixed-rate basis. These interest rate swap agreements have not been designated as hedging instruments. Therefore, any change in fair value is recorded in earnings during the period of the change.

We currently have 2.875% convertible senior notes due 2027 with a principal amount of \$220.0 million. Beginning with the period commencing on July 20, 2014 and ending on January 14, 2015, and for each of the interest periods commencing thereafter, we will pay contingent interest on the notes if the average trading price of the notes during the five consecutive trading days ending on the second trading day immediately preceding the first day of the applicable interest period equals or exceeds 120% of the principal amount of the notes. The contingent interest payable per note will equal 0.25% per year of the average trading price of such note during the applicable five trading-day reference period, payable in arrears.

### Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is as follows:

| Nine Months Ended September 30, |      | 2009 | Year Ended December 31, |      | 2006 |
|---------------------------------|------|------|-------------------------|------|------|
| 2010                            | 2009 |      | 2008                    | 2007 |      |
| *                               | *    | *    | *                       | *    | *    |

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

\* For the nine months ended September 30, 2010 and 2009, fixed charges exceeded earnings from continuing operations before income taxes and fixed charges by \$57.8 million and \$39.2 million, respectively. For the years

---

## **Table of Contents**

ended December 31, 2009, 2008, 2007 and 2006, fixed charges exceeded earnings from continuing operations before income taxes and fixed charges by \$116.5 million, \$358.6 million, \$45.8 million and \$30.0 million, respectively.

The ratio of earnings to fixed charges was computed on a total enterprise basis. Earnings represent income from continuing operations before income taxes less equity in undistributed net income (loss) of nonconsolidated affiliates plus fixed charges. Fixed charges represent interest, amortization of debt discount and premium and the estimated interest portion of rental charges. Rental charges exclude variable rent expense for events in third-party venues.

### **Stock-Based Compensation**

As of September 30, 2010, there was \$106.2 million of total unrecognized compensation cost related to unvested stock-based compensation arrangements for stock options, restricted stock awards and restricted stock units. This cost is expected to be recognized over the next four years.

### **Recent Accounting Pronouncements**

#### ***Recently Adopted Pronouncements***

In June 2009, the FASB issued guidance to determine when a variable interest entity should be consolidated. Along with other accounting and disclosure requirements, the pronouncement replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. We adopted this guidance on January 1, 2010 and are applying the requirements prospectively. Our adoption of the variable interest entity guidance did not have a material impact on our financial position or results of operations.

In January 2010, the FASB issued amended guidance for improving disclosures about fair value measurements. This updated guidance requires: (i) disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and (ii) presentation of activities within the Level 3 rollforward reconciliation on a gross basis. In addition, the updated guidance requires the following clarifications regarding existing disclosures: (i) a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities and (ii) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. With the exception of the requirement related to presentation of the activities within the Level 3 rollforward reconciliation, which is effective for fiscal years beginning after December 15, 2010, we adopted this updated guidance on January 1, 2010 and have included the required disclosures in our consolidated financial statements.

#### ***Recently Issued Pronouncements***

In October 2009, the FASB issued guidance on multiple-deliverable revenue arrangements which requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. This guidance eliminates the use of the residual method of allocation and requires allocation using the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. The guidance is effective for fiscal years beginning on or after June 15, 2010. We will adopt the guidance on January 1, 2011 and apply it prospectively. The adoption of this guidance is not expected to have a material effect on our financial position or results of operations.

In July 2010, the FASB issued guidance requiring an entity to provide a greater level of disaggregated information about the credit quality of financing receivables and its allowance for credit losses. The guidance also requires new disclosures about credit quality indicators, past-due information and modifications of financing receivables. The guidance is effective for the first interim or annual reporting period ending on or after December 15, 2010. We will adopt this guidance on December 31, 2010 and apply it prospectively and will include the required disclosures.

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. On an ongoing basis, we evaluate our estimates that are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenue and expenses that are not readily apparent from other sources. Because future events and their effects cannot be determined with certainty, actual results could differ from our

assumptions and estimates, and such difference could be material.

## **Table of Contents**

Management believes that the accounting estimates involved in the allowance for doubtful accounts, impairment of long-lived assets and goodwill, revenue recognition, litigation accruals, stock-based compensation and accounting for income taxes are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. These critical accounting estimates, the judgments and assumptions and the effect if actual results differ from these assumptions are described in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K filed with the SEC on February 25, 2010 and as amended by our Form 10-K/A filed with the SEC on April 30, 2010.

There have been no changes to our critical accounting policies during the nine months ended September 30, 2010.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Required information is within Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We have established disclosure controls and procedures to ensure that material information relating to our company, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and our board of directors.

Based on their evaluation as of September 30, 2010, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective to ensure that (1) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) the information we are required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal controls will prevent all possible errors and fraud. Our disclosure controls and procedures are, however, designed to provide reasonable assurance of achieving their objectives, and our Chief Executive Officer and Chief Financial Officer have concluded that our financial controls and procedures are effective at that reasonable assurance level.

#### **Changes in Internal Control Over Financial Reporting**

Except as noted below, there has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In January 2010, we completed our merger of Ticketmaster with and into a wholly-owned subsidiary of Live Nation. We are currently integrating policies, processes, technology and operations for the combined company and will continue to evaluate our internal control over financial reporting as we develop and execute our integration plans. Until the companies are fully integrated, we will maintain the operational integrity of each company's legacy internal controls over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

#### **CTS Arbitration**

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

CTS filed a request for arbitration with the International Court of Arbitration of the International Chamber of Commerce in April 2010. CTS asserts that we breached our obligations under the terms of our agreement with CTS and failed to allocate the proper number of tickets to CTS's system in the United Kingdom, and that the Merger with Ticketmaster and our subsequent actions have breached the implied covenant of good faith and fair dealing. CTS seeks a declaration that we are in breach of the agreement and of the implied covenant of good faith and fair dealing, unspecified

## **Table of Contents**

damages resulting from such breaches and specific performance of our obligations under the agreement. In June 2010, we terminated our agreement with CTS, based on CTS' multiple, material failures to perform its obligations under the agreement. We intend to vigorously defend the action.

### **Live Concert Antitrust Litigation**

We were a defendant in a lawsuit filed by Malinda Heerwagen in June 2002 in U.S. District Court. The plaintiff, on behalf of a putative class consisting of certain concert ticket purchasers, alleged that anti-competitive practices for concert promotion services by us nationwide caused artificially high ticket prices. In August 2003, the District Court ruled in our favor, denying the plaintiff's class certification motion. The plaintiff appealed to the U.S. Court of Appeals. In January 2006, the Court of Appeals affirmed, and the plaintiff then dismissed her action that same month. Subsequently, twenty-two putative class actions were filed by different named plaintiffs in various U.S. District Courts throughout the country, making claims substantially similar to those made in the *Heerwagen* action, except that the geographic markets alleged are regional, statewide or more local in nature, and the members of the putative classes are limited to individuals who purchased tickets to concerts in the relevant geographic markets alleged. The plaintiffs seek unspecified compensatory, punitive and treble damages, declaratory and injunctive relief and costs of suit, including attorneys' fees. We have filed our answers in some of these actions and have denied liability. In April 2006, granting our motion, the Judicial Panel on Multidistrict Litigation transferred these actions to the U.S. District Court for the Central District of California for coordinated pre-trial proceedings. In June 2007, the District Court conducted a hearing on the plaintiffs' motion for class certification, and also that month the Court entered an order to stay all proceedings pending the Court's ruling on class certification. In October 2007, the Court granted the plaintiffs' motion and certified classes in the Chicago, New England, New York/New Jersey, Colorado and Southern California regional markets. In November 2007, the Court extended its stay of all proceedings pending further developments in the U.S. Court of Appeals for the Ninth Circuit. In February 2008, we filed with the District Court a Motion for Reconsideration of its October 2007 class certification order. In October 2010, the District Court denied our Motion for Reconsideration and lifted the stay of all proceedings. We intend to vigorously defend all claims in all of the actions.

### **UPS Consumer Class Action Litigation**

In October 2003, a purported representative action was filed in the Superior Court of California challenging Ticketmaster's charges to online customers for UPS ticket delivery 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, or UCL, and sought restitution or disgorgement of the difference between (i) the total UPS delivery fees charged by Ticketmaster in connection with online ticket sales during the applicable period, and (ii) the amount that Ticketmaster actually paid to UPS for delivery of those tickets. In August 2005, the plaintiff 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 plaintiff's 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. Plaintiff 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 plaintiff filed a class certification motion in August 2009, which Ticketmaster opposed. In February 2010, the Court granted certification of a class on the first two causes of action, which allege that Ticketmaster misrepresents/omits the fact of a profit component in its UPS 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 UPS 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 two claims. In September 2010, Ticketmaster filed its Motion for Summary Judgment on all 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 their Motion to Decertify Class. We intend to vigorously defend the action.

## **Table of Contents**

### **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 and TicketsNow's service fees run afoul of anti-scalping laws. Each lawsuit seeks compensatory and punitive damages on behalf of the class. We intend to vigorously defend all claims in all of the actions.

### **United States Consumer Class Action Litigation Relating to TicketsNow**

From February through June 2009, eleven purported class action lawsuits asserting causes of action under various state consumer protection laws were filed against Ticketmaster and TicketsNow in U.S. District Courts in California, New Jersey, Minnesota, Pennsylvania and North Carolina. The lawsuits allege that Ticketmaster and TicketsNow unlawfully deceived consumers by, among other things, selling large quantities of tickets to TicketsNow's ticket brokers, either prior to or at the time that tickets for an event go on sale, thereby forcing consumers to purchase tickets at significantly marked-up prices on TicketsNow.com instead of Ticketmaster.com. The plaintiffs further claim violation of the consumer protection laws by Ticketmaster's alleged redirecting of consumers from Ticketmaster.com to Ticketsnow.com, thereby engaging in false advertising and an unfair business practice by deceiving consumers into inadvertently purchasing tickets from TicketsNow for amounts greater than face value. The plaintiffs claim that Ticketmaster has been unjustly enriched by this conduct and seek compensatory damages, a refund to every class member of the difference between tickets' face value and the amount paid to TicketsNow, an injunction preventing Ticketmaster from engaging in further unfair business practices with TicketsNow and attorney fees and costs. In July 2009, all of the cases were consolidated and transferred to the U.S. District Court for the Central District of California. The plaintiffs filed their consolidated class action complaint in September 2009, to which Ticketmaster filed its answer the following month. In July 2010, Ticketmaster filed its Motion for Summary Judgment. We intend to vigorously defend all claims in all of the actions.

### **Litigation Relating to the Merger of Live Nation and Ticketmaster**

Ticketmaster and their Board of Directors were named as defendants in a pair of lawsuits filed in February 2009 in the Superior Court of California challenging the Merger. These actions were consolidated by court order in March 2009. The consolidated complaint, as amended, generally alleges that Ticketmaster and its directors breached their fiduciary duties by entering into the Merger Agreement without regard to the fairness of its terms to the Ticketmaster stockholders and in return for illicit payments of surplus Live Nation stock. It also alleges that the joint proxy statement/prospectus of Live Nation and Ticketmaster contained material omissions and misstatements. The plaintiffs moved for a preliminary injunction barring the completion of the Merger in December 2009, which motion was denied at a hearing held later that month. The Ticketmaster and Live Nation stockholders each approved the Merger in January 2010, and the Merger was consummated later that same month. The plaintiffs continue to prosecute the case, now seeking compensatory damages, attorneys' fees and expenses. The Ticketmaster defendants have answered the complaint, denying its allegations and asserting defenses. In April 2010, the parties reached a settlement which the court preliminarily approved in July 2010.

### **Other Litigation**

From time to time, we are involved in other legal proceedings arising in the ordinary course of our business, including proceedings and claims based upon violations of antitrust laws and tortious interference, which could cause us to incur significant expenses. We have also been the subject of personal injury and wrongful death claims relating to accidents at our venues in connection with our operations. As required, we accrued our 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, 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. In addition, under our agreements with Clear Channel, we have assumed and will indemnify Clear Channel for liabilities related to our business for which they are a party in the defense.

## **Item 1A. Risk Factors**

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

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Quarterly

## **Table of Contents**

Report on Form 10-Q for the quarter ended March 31, 2010, which amended and restated Item 1A of our 2009 Annual Report on Form 10-K as amended by our Form 10-K/A filed with the SEC on April 30, 2010, describes some of the risks and uncertainties associated with our business which have the potential to materially affect our business, financial condition or results of operations. We do not believe that there have been any material changes to the risk factors previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

| Exhibit No. | Exhibit Description                                                                                                   | Form | File No.  | Incorporated by Reference |             | Filed By                        | Filed Here with |
|-------------|-----------------------------------------------------------------------------------------------------------------------|------|-----------|---------------------------|-------------|---------------------------------|-----------------|
|             |                                                                                                                       |      |           | Exhibit No.               | Filing Date |                                 |                 |
| 2.1         | Agreement and Plan of Merger, dated February 10, 2009, between Ticketmaster Entertainment, Inc. and Live Nation, Inc. | 8-K  | 001-32601 | 2.1                       | 2/13/2009   | Live Nation Entertainment, Inc. |                 |
| 10.1        | Amendment No. 1 to the Amended and Restated Ticketmaster Entertainment, Inc. 2008 Stock and Annual Incentive Plan     |      |           |                           |             |                                 | X               |
| 31.1        | Certification of Chief Executive Officer.                                                                             |      |           |                           |             |                                 | X               |
| 31.2        | Certification of Chief Financial Officer.                                                                             |      |           |                           |             |                                 | X               |
| 32.1        | Section 1350 Certification of Chief Executive Officer.                                                                |      |           |                           |             |                                 | X               |
| 32.2        | Section 1350 Certification of Chief Financial Officer.                                                                |      |           |                           |             |                                 | X               |

**Table of Contents**

**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, on November 4, 2010.

LIVE NATION ENTERTAINMENT, INC.

By: */s/ BRIAN CAPO*  
**Brian Capo**  
**Chief Accounting Officer**

**Table of Contents**

**EXHIBIT INDEX**

| Exhibit<br>No. | Exhibit Description                                                                                                   | Form | File No.  | Incorporated by Reference |             | Filed By                        | Filed<br>Here<br>with |
|----------------|-----------------------------------------------------------------------------------------------------------------------|------|-----------|---------------------------|-------------|---------------------------------|-----------------------|
|                |                                                                                                                       |      |           | Exhibit No.               | Filing Date |                                 |                       |
| 2.1            | Agreement and Plan of Merger, dated February 10, 2009, between Ticketmaster Entertainment, Inc. and Live Nation, Inc. | 8-K  | 001-32601 | 2.1                       | 2/13/2009   | Live Nation Entertainment, Inc. |                       |
| 10.1           | Amendment No. 1 to the Amended and Restated Ticketmaster Entertainment, Inc. 2008 Stock and Annual Incentive Plan     |      |           |                           |             |                                 | X                     |
| 31.1           | Certification of Chief Executive Officer.                                                                             |      |           |                           |             |                                 | X                     |
| 31.2           | Certification of Chief Financial Officer.                                                                             |      |           |                           |             |                                 | X                     |
| 32.1           | Section 1350 Certification of Chief Executive Officer.                                                                |      |           |                           |             |                                 | X                     |
| 32.2           | Section 1350 Certification of Chief Financial Officer.                                                                |      |           |                           |             |                                 | X                     |