LAMAR ADVERTISING CO/NEW
Form 10-Q
August 08, 2013
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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 June 30, 2013

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 0-30242

Lamar Advertising Company

Commission File Number 1-12407

Lamar Media Corp.

(Exact name of registrants as specified in their charters)

Delaware	**72-1449411**
Delaware	**72-1205791**
(State or other jurisdiction of	**(I.R.S Employer**
incorporation or organization)	**Identification No.)**
5321 Corporate Blvd., Baton Rouge, LA	**70808**
(Address of principal executive offices)	**(Zip Code)**

Registrants telephone number, including area code: (225) 926-1000

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

Indicate by check mark whether each registrant has submitted electronically and posted on their corporate web sites, 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 x No ¨

Indicate by check mark whether Lamar Advertising Company 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether Lamar Advertising Company is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

Indicate by check mark whether Lamar Media Corp. is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

The number of shares of Lamar Advertising Company s Class A common stock outstanding as of August 1, 2013: 79,882,957

The number of shares of the Lamar Advertising Company s Class B common stock outstanding as of August 1, 2013: 14,610,365

The number of shares of Lamar Media Corp. common stock outstanding as of August 1, 2013: 100

This combined Form 10-Q is separately filed by (i) Lamar Advertising Company and (ii) Lamar Media Corp. (which is a wholly owned subsidiary of Lamar Advertising Company). Lamar Media Corp. meets the conditions set forth in general instruction H(1) (a) and (b) of Form 10-Q and is, therefore, filing this form with the reduced disclosure format permitted by such instruction.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this report is forward-looking in nature within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This report uses terminology such as anticipates, believes, plans, expects, future, inter may, will, should, estimates, predicts, potential, continue and similar expressions to identify forward-looking statements. Examples of forward-looking statements in this report include statements about:

- Lamar Advertising Company s (the Company or Lamar) future financial performance and condition;
- the Company s business plans, objectives, prospects, growth and operating strategies;
- the Company s consideration of an election to real estate investment trust status;
- the Company s ability to refinance outstanding indebtedness, including Lamar Media Corp. s 9 3/4% Senior Notes due 2014;
- the Company s anticipated capital expenditures and level of acquisition activity;
- market opportunities and the Company s competitive positions;
- the Company s future cash flows and expected cash requirements; and
- the market price of the Company s Class A common stock.

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors, including but not limited to the following, any of which may cause the Company s actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements:

- current economic conditions and their effect on the markets in which the Company operates;
- the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to the Company s significant indebtedness;
- the demand for outdoor advertising;
- the Company s need for, and ability to obtain, additional funding for acquisitions and operations;

- the Company s ability to qualify for real estate investment trust (REIT) status;
- changes in tax laws applicable to REIT s or in the interpretation of those laws;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry by federal, state and local governments;
- the Company s ability to renew expiring contracts at favorable rates;
- the Company s ability to successfully implement its digital deployment strategy;
- the integration of any businesses that the Company may acquire and its ability to recognize cost savings and operating efficiencies as a result of these acquisitions; and
- changes in accounting principles, policies or guidelines.

The forward-looking statements in this report are based on our current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors. Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising Company and Lamar Media Corp. (Lamar Media) expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

For a further description of these and other risks and uncertainties, the Company encourages you to read carefully Item 1A to the combined Annual Report on Form 10-K for the year ended December 31, 2012 of the Company and Lamar Media (the 2012 Combined Form 10-K), filed on February 28, 2013 and as such risk factors may be updated or supplemented, from time to time, in our combined Quarterly Reports on Form 10-Q.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 118,880	$ 58,911
Receivables, net of allowance for doubtful accounts of $8,500 and $7,615 in 2013 and 2012, respectively	177,699	159,829
Prepaid expenses	61,771	41,132
Deferred income tax assets	9,475	10,817
Other current assets	33,567	30,546
Total current assets	401,392	301,235
Property, plant and equipment	2,983,702	2,940,449
Less accumulated depreciation and amortization	(1,833,454)	(1,760,090)
Net property, plant and equipment	1,150,248	1,180,359
Goodwill	1,491,112	1,485,150
Intangible assets	438,064	468,312
Deferred financing costs, net of accumulated amortization of $28,803 and $25,867 in 2013 and 2012, respectively	34,932	37,787
Other assets	42,773	41,187
Total assets	$ 3,558,521	$ 3,514,030
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 16,303	$ 13,539
Current maturities of long-term debt	384,231	33,134
Accrued expenses	99,271	99,461
Deferred income	59,586	51,323
Total current liabilities	559,391	197,457
Long-term debt	1,764,687	2,127,720
Deferred income tax liabilities	112,247	107,973
Asset retirement obligation	193,824	189,659
Other liabilities	19,175	16,388
Total liabilities	2,649,324	2,639,197

Stockholders equity:		
Series AA preferred stock, par value $.001, $63.80 cumulative dividends, authorized 5,720 shares; 5,720 shares issued and outstanding at 2013 and 2012		
Class A preferred stock, par value $638, $63.80 cumulative dividends, 10,000 shares authorized; 0 shares issued and outstanding at 2013 and 2012		
Class A common stock, par value $.001, 175,000,000 shares authorized, 97,096,597 and 96,082,868 shares issued at 2013 and 2012, respectively; 79,879,962 and 78,963,663 issued and outstanding at 2013 and 2012, respectively	97	96
Class B common stock, par value $.001, 37,500,000 shares authorized, 14,610,365 and 14,910,365 shares issued and outstanding at 2013 and 2012, respectively	15	15
Additional paid-in capital	2,457,618	2,432,518
Accumulated comprehensive income	4,439	5,978
Accumulated deficit	(659,140)	(674,143)
Cost of shares held in treasury, 17,216,635 and 17,119,205 shares in 2013 and 2012, respectively	(893,832)	(889,631)
Stockholders equity	909,197	874,833
Total liabilities and stockholders equity	$ 3,558,521	$ 3,514,030

See accompanying notes to condensed consolidated financial statements.

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LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

(In thousands, except share and per share data)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net revenues	$ 324,684	$ 304,872	$ 608,163	$ 571,110
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	110,723	105,071	217,242	208,494
General and administrative expenses (exclusive of depreciation and amortization)	55,987	52,027	119,125	105,122
Corporate expenses (exclusive of depreciation and amortization)	16,010	13,956	30,608	26,446
Depreciation and amortization	72,408	72,995	146,309	145,368
Gain on disposition of assets	(701)	(3,634)	(1,307)	(4,570)
	254,427	240,415	511,977	480,860
Operating income	70,257	64,457	96,186	90,250
Other expense (income)				
Loss on extinguishment of debt				29,972
Interest income	(51)	(65)	(79)	(123)
Interest expense	37,887	38,633	74,587	78,547
	37,836	38,568	74,508	108,396
Income (loss) before income tax expense	32,421	25,889	21,678	(18,146)
Income tax expense (benefit)	11,166	11,967	6,493	(9,252)
Net income (loss)	21,255	13,922	15,185	(8,894)
Preferred stock dividends	91	91	182	182
Net income (loss) applicable to common stock	$ 21,164	$ 13,831	$ 15,003	$ (9,076)
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.22	$ 0.15	$ 0.16	$ (0.10)
Diluted earnings (loss) per share	$ 0.22	$ 0.15	$ 0.16	$ (0.10)
Weighted average common shares used in computing earnings per share:				
Weighted average common shares outstanding	94,337,967	93,257,798	94,157,464	93,186,036
Incremental common shares from dilutive stock options	475,171	285,673	436,296	

Weighted average common shares diluted	94,813,138	93,543,471	94,593,760	93,186,036
Statements of Comprehensive Income (Loss)				
Net income (loss)	$ 21,255	$ 13,922	$ 15,185	$ (8,894)
Other comprehensive loss				
Foreign currency translation adjustments	(873)	(785)	(1,539)	(104)
Comprehensive income (loss)	$ 20,382	$ 13,137	$ 13,646	$ (8,998)

See accompanying notes to condensed consolidated financial statements.

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LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30, 2013	Six months ended June 30, 2012
Cash flows from operating activities:		
Net income (loss)	$ 15,185	$ (8,894)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	146,309	145,368
Non-cash equity based compensation	17,195	7,033
Amortization included in interest expense	7,092	8,771
Gain on disposition of assets and investments	(1,307)	(4,570)
Loss on extinguishment of debt		29,972
Deferred tax expense (benefit)	5,108	(10,035)
Provision for doubtful accounts	3,101	2,740
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(18,979)	(14,828)
Prepaid expenses	(19,948)	(18,275)
Other assets	(4,062)	(5,538)
Increase (decrease) in:		
Trade accounts payable	2,570	(1,211)
Accrued expenses	(2,811)	(8,310)
Other liabilities	2,501	11,800
Net cash provided by operating activities	151,954	134,023
Cash flows from investing activities:		
Acquisitions	(32,827)	(14,305)
Capital expenditures	(52,721)	(49,542)
Proceeds from disposition of assets and investments	3,278	4,640
Payments received on notes receivable	18	113
Net cash used in investing activities	(82,252)	(59,094)
Cash flows from financing activities:		
Debt issuance costs	(82)	(14,104)
Cash used for purchase of treasury stock	(4,200)	(1,113)
Net proceeds from issuance of common stock	11,947	4,174
Principal payments on long term debt	(16,294)	(46)
Proceeds received from note offering		500,000
Payment on senior subordinated notes		(598,181)
Proceeds received from senior credit facility term loan		100,000
Dividends	(182)	(182)
Net cash used in financing activities	(8,811)	(9,452)

Effect of exchange rate changes in cash and cash equivalents	(922)	(58)
Net increase in cash and cash equivalents	59,969	65,419
Cash and cash equivalents at beginning of period	58,911	33,503
Cash and cash equivalents at end of period	$ 118,880	$ 98,922
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 67,527	$ 72,779
Cash paid for foreign, state and federal income taxes	$ 1,491	$ 1,533

See accompanying notes to condensed consolidated financial statements.

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LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

1. Significant Accounting Policies

The information included in the foregoing interim condensed consolidated financial statements is unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company s financial position and results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and the notes thereto included in the 2012 Combined Form 10-K. Subsequent events, if any, are evaluated through the date on which the financial statements are issued.

2. Stock-Based Compensation

Equity Incentive Plan. Lamar Advertising s 1996 Equity Incentive Plan, as amended, (the Incentive Plan) has reserved 15.5 million shares of Class A common stock for issuance to directors and employees, including shares underlying granted options and common stock reserved for issuance under its performance-based incentive program. Options granted under the plan expire ten years from the grant date with vesting terms ranging from three to five years and include 1) options that vest in one-fifth increments beginning on the grant date and continuing on each of the first four anniversaries of the grant date and 2) options that cliff-vest on the fifth anniversary of the grant date. All grants are made at fair market value based on the closing price of our Class A common stock as reported on the NASDAQ Global Select Market on the date of grant.

We use a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The Company granted options for an aggregate of 2,034,791 shares of its Class A common stock during the six months ended June 30, 2013.

The number of shares of Class A common stock available under the Incentive Plan was increased by 2.5 million shares pursuant to an amendment to the Incentive Plan adopted by our board of directors on February 28, 2013 and approved by our stockholders at the Company s 2013 Annual Meeting of Stockholders on May 23, 2013.

Stock Purchase Plan. In 2009 our board of directors adopted a new employee stock purchase plan, the 2009 Employee Stock Purchase Plan or 2009 ESPP, which was approved by our shareholders on May 28, 2009. The 2009 ESPP reserved 588,154 shares of Class A common stock for issuance to our employees, which included 88,154 shares of Class A common stock that had been available for issuance under our 2000 Employee Stock Purchase Plan or 2000 ESPP. The 2000 ESPP was terminated following the issuance of all shares that were subject to the offer that commenced under the 2000 ESPP on January 1, 2009 and ended June 30, 2009. The terms of the 2009 ESPP are substantially the same as the 2000 ESPP.

The number of shares of Class A common stock available under the 2009 ESPP was automatically increased by 78,963 shares on January 1, 2013 pursuant to the automatic increase provisions of the 2009 ESPP.

The following is a summary of 2009 ESPP share activity for the six months ended June 30, 2013:

	Shares
Available for future purchases, January 1, 2013	358,950
Additional shares reserved under 2009 ESPP	78,963
Purchases	(59,787)

Available for future purchases, June 30, 2013	378,126

Performance-based compensation. Unrestricted shares of our Class A common stock may be awarded to key officers, employees and directors under our 1996 Equity Incentive Plan. The number of shares to be issued, if any, will be dependent on the level of achievement of performance measures for key officers and employees, as determined by the Company s Compensation Committee based on our 2013 results. Any shares issued based on the achievement of performance goals will be issued in the first quarter of 2014. The shares subject to these awards can range from a minimum of 0% to a maximum of 100% of the target number of shares depending on the level at which the goals are attained. For the six months ended June 30, 2013, the Company has recorded $4,139 as non-cash compensation expense related to performance-based awards. In addition, each non-employee director automatically receives upon election or re-election a restricted stock award of our Class A common stock. The awards vest 50% on grant date and 50% on the last day of the directors one year term. The Company recorded a $300 non-cash compensation expense related to these awards for the six months ended June 30, 2013.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

3. Depreciation and Amortization

The Company includes all categories of depreciation and amortization on a separate line in its Statements of Operations. The amounts of depreciation and amortization expense excluded from the following operating expenses in its Statements of Operations are:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Direct advertising expenses	$ 69,999	$ 68,708	$ 138,225	$ 136,943
General and administrative expenses	894	1,046	1,770	2,022
Corporate expenses	1,515	3,241	6,314	6,403
	$ 72,408	$ 72,995	$ 146,309	$ 145,368

4. Goodwill and Other Intangible Assets

The following is a summary of intangible assets at June 30, 2013 and December 31, 2012:

	Estimated	June 30, 2013		December 31, 2012	
	Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists and contracts	7 10	$ 486,407	$ 459,415	$ 482,883	$ 455,549
Non-competition agreements	3 15	63,724	62,759	63,519	62,566
Site locations	15	1,467,144	1,057,626	1,449,181	1,009,631
Other	5 15	14,008	13,419	13,608	13,133
		$ 2,031,283	$ 1,593,219	$ 2,009,191	$ 1,540,879
Unamortizable intangible assets:					
Goodwill		$ 1,744,648	253,536	$ 1,738,686	$ 253,536

5. Asset Retirement Obligations

The Company s asset retirement obligations include the costs associated with the removal of its structures, resurfacing of the land and retirement cost, if applicable, related to the Company s outdoor advertising portfolio. The following table reflects information related to our asset retirement obligations:

Balance at December 31, 2012	$ 189,659
Additions to asset retirement obligations	1,270

Accretion expense	4,526
Liabilities settled	(1,631)
Balance at June 30, 2013	$ 193,824

6. Summarized Financial Information of Subsidiaries

Separate financial statements of each of the Company s direct or indirect wholly owned subsidiaries that have guaranteed Lamar Media s obligations with respect to its publicly issued notes (collectively, the Guarantors) are not included herein because the Company has no independent assets or operations, the guarantees are full and unconditional and joint and several and the only subsidiaries that are not guarantors are in the aggregate minor.

Lamar Media s ability to make distributions to Lamar Advertising is restricted under both the terms of the indentures relating to Lamar Media s outstanding notes and by the terms of its senior credit facility. As of June 30, 2013 and December 31, 2012, Lamar Media was permitted under the terms of its outstanding senior subordinated notes to make transfers to Lamar Advertising in the form of cash dividends, loans or advances in amounts up to $1,872,441 and $1,706,875, respectively. Transfers to Lamar Advertising are subject to additional restrictions if, (i) under Lamar Media s senior credit facility and as defined therein, (x) the total holdings debt ratio is greater than 5.75 to 1 or (y) the senior debt ratio is greater than 3.25 to 1.0, and (ii) if under the indenture for Lamar Media s 9 3/4% senior notes and as defined therein, its senior leverage ratio is greater than or equal to 3.0 to 1. As of June 30, 2013, the total holdings debt ratio was less than 5.75 to 1 and Lamar Media s senior debt ratio was less than 3.25 to 1 and its senior leverage ratio was less than 3.0 to 1; therefore, transfers to Lamar Advertising were not subject to any additional restrictions under the senior credit facility or pursuant to the indenture governing the 9 3/4% senior notes.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

7. Earnings Per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of dilutive shares excluded from this calculation resulting from the antidilutive effect of options is 312,712 for the six months ended June 30, 2012.

8. Long-term Debt

Long-term debt consists of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Senior Credit Facility	$ 368,414	$ 384,664
7 7/8% Senior Subordinated Notes	400,000	400,000
5 7/8% Senior Subordinated Notes	500,000	500,000
5% Senior Subordinated Notes	535,000	535,000
9 3/4% Senior Notes	343,272	339,121
Other notes with various rates and terms	2,232	2,069
	2,148,918	2,160,854
Less current maturities	(384,231)	(33,134)
Long-term debt, excluding current maturities	$ 1,764,687	$ 2,127,720

9 3/4% Senior Notes

On March 27, 2009, Lamar Media issued $350,000 in aggregate principal amount ($314,927 gross proceeds) of 9 3/4% Senior Notes due 2014. The institutional private placement resulted in net proceeds to Lamar Media of approximately $307,489. The senior notes mature on April 1, 2014 and have interest at a rate of 9 3/4% per annum, which is payable semi-annually on April 1 and October 1 of each year, beginning October 1, 2009. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The terms of the senior notes will, among other things, limit Lamar Media s and its restricted subsidiaries ability to (i) incur additional debt and issue preferred stock; (ii) make certain distributions, investments and other restricted payments; (iii) create certain liens; (iv) enter into transactions with affiliates; (v) have the restricted subsidiaries make payments to Lamar Media; (vi) merge, consolidate or sell substantially all of Lamar Media s or the restricted subsidiaries assets; and (vii) sell assets. These covenants are subject to a number of exceptions and qualifications.

At any time prior to April 1, 2014, Lamar Media may redeem some or all of the senior notes at a price equal to 100% of the principal amount plus a make-whole premium. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder s senior notes at a price equal to 101% of the principal amount of the senior notes, plus accrued and unpaid interest (including additional interest, if any), up to but not including the repurchase date.

7 7/8% Senior Subordinated Notes

On April 22, 2010, Lamar Media issued $400,000 in aggregate principal amount of 7 7/8% Senior Subordinated Notes due 2018. The institutional private placement resulted in net proceeds to Lamar Media of approximately $392,000.

Lamar Media may redeem up to 35% of the aggregate principal amount of the notes, at any time and from time to time, at a price equal to 107.875% of the aggregate principal amount so redeemed, plus accrued and unpaid interest thereon (including additional interest, if any), with the net cash proceeds of certain public equity offerings completed before April 15, 2013, provided that following the redemption at least 65% of the notes that were originally issued remain outstanding. At any time prior to April 15, 2014, Lamar Media may redeem some or all of the notes at a price equal to 100% of the principal amount plus a make-whole premium. On or after April 15, 2014, Lamar Media may redeem the notes, in whole or part, in cash at redemption prices specified in the notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder s notes at a price equal to 101% of the principal amount of the notes plus accrued and unpaid interest, up to but not including the repurchase date.

5 7/8% Senior Subordinated Notes

On February 9, 2012, Lamar Media completed an institutional private placement of $500,000 aggregate principle amount of 5 7/8% Senior Subordinated Notes, due 2022. The institutional private placement resulted in net proceeds to Lamar Media of approximately $489,000.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

Lamar Media may redeem up to 35% of the aggregate principal amount of the notes, at any time and from time to time, at a price equal to 105.875% of the aggregate principal amount so redeemed, plus accrued and unpaid interest thereon, with the net cash proceeds of certain public equity offerings completed before February 1, 2015, provided that following the redemption, at least 65% of the notes that were originally issued remain outstanding. At any time prior to February 1, 2017, Lamar Media may redeem some or all of the notes at a price equal to 100% of the aggregate principal amount plus a make-whole premium. On or after February 1, 2017, Lamar Media may redeem the notes, in whole or in part, in cash at redemption prices specified in the notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder s notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, up to but not including the repurchase date.

5% Senior Subordinated Notes

On October 30, 2012, Lamar Media completed an institutional private placement of $535,000 aggregate principal amount of 5% Senior Subordinated Notes due 2023. The institutional private placement resulted in net proceeds to Lamar Media of approximately $527,100.

Lamar Media may redeem up to 35% of the aggregate principal amount of the notes, at any time and from time to time, at a price equal to 105% of the aggregate principal amount so redeemed, plus accrued and unpaid interest thereon, with the net cash proceeds of certain public equity offerings completed before November 1, 2015, provided that following the redemption, at least 65% of the notes that were originally issued remain outstanding. At any time prior to May 1, 2018, Lamar Media may redeem some or all of the notes at a price equal to 100% of the aggregate principal amount plus a make-whole premium. On or after May 1, 2018, Lamar Media may redeem the notes, in whole or in part, in cash at redemption prices specified in the notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder s notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, up to but not including the repurchase date.

2010 Senior Credit Facility

On February 9, 2012, Lamar Media entered into a restatement agreement with respect to its existing senior credit facility in order to fund a new $100,000 Term loan A facility and to make certain covenant changes to the senior credit facility, which was entered into on April 28, 2010, as amended on June 11, 2010, November 18, 2010 and February 9, 2012 (the senior credit facility), for which JPMorgan Chase Bank, N.A. serves as administrative agent. The senior credit facility consists of a $250,000 revolving credit facility, a $270,000 term loan A-1 facility, a $30,000 term loan A-2 facility, a $100,000 term loan A-3 facility, a $575,000 term loan B facility and a $300,000 incremental facility, which may be increased by up to an additional $200,000 based upon our satisfaction of a senior debt ratio test (defined as total consolidated senior debt of Lamar Media and its restricted subsidiaries to EBITDA, as defined in the senior credit facility, for the most recent four fiscal quarters then ended) of less than or equal to 3.25 to 1. Lamar Media is the borrower under the senior credit facility, except with respect to the $30,000 term loan A-2 facility for which Lamar Media s wholly-owned subsidiary, Lamar Advertising of Puerto Rico, Inc. is the borrower. We may also from time to time designate additional wholly-owned subsidiaries as subsidiary borrowers under the incremental loan facility that can borrow up to $110,000 of the incremental facility. Incremental loans may be in the form of additional term loan tranches or increases in the revolving credit facility. Our lenders have no obligation to make additional loans to us, or any designated subsidiary borrower, under the incremental facility, but may enter into such commitments in their sole discretion.

The remaining quarterly amortizations of the Term loan facilities as of June 30, 2013 are as follows:

	Term A-1	Term A-2	Term A-3	Term B
September 30, 2013	$ 6,750	$ 750	$ 625	$

December 31, 2013 March 31, 2014	$ 6,750	$ 750	$ 625	$ 57.4
June 30, 2014 December 31, 2014	$ 13,500	$ 1,500	$ 625	$ 57.4
March 31, 2015	$ 13,500	$ 1,500	$ 1,250	$ 57.4
June 30, 2015 September 30, 2015	$ 37,125	$ 4,125	$ 1,250	$ 57.4
December 31, 2015	$ 74,250	$ 8,250	$ 1,250	$ 57.4
March 31, 2016 September 30, 2016	$	$	$ 1,250	$ 57.4
December 31, 2016	$	$	$ 1,250	$ 21,474.7
March 31, 2017 June 30, 2017	$	$	$ 21,250	$
August 9, 2017	$	$	$ 42,500	$

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LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

In addition to the required amortization payments with respect to our Term loan facilities, Lamar Media may be required to make certain mandatory prepayments on loans outstanding under the senior credit facility that would be applied first to any outstanding term loans. These payments, if any, will be calculated based on a percentage of Consolidated Excess Cash Flow (as defined in the senior credit facility) at the end of each fiscal year. For fiscal years ending or after December 31, 2012, this percentage is subject to reduction to 0% if the total holdings debt ratio (as defined in the senior credit facility) is less than or equal to 5.00 to 1.00 as of the last day of such fiscal year.

As of June 30, 2013, there were no amounts outstanding under the revolving senior facility. The revolving facility terminates April 28, 2015. Availability under the revolving facility is reduced by the amount of any letters of credit outstanding. Lamar Media had $6,989 letters of credit outstanding as of June 30, 2013 resulting in $243,011 of availability under its revolving facility. Revolving credit loans may be requested under the revolving credit facility at any time prior to maturity. The loans bear interest, at Lamar Media s option, at the LIBOR Rate or JPMorgan Chase Prime Rate plus applicable margins, such margins being set from time to time based on Lamar Media s ratio of debt to trailing twelve month EBITDA, as defined in the senior credit facility.

The terms of Lamar Media s senior credit facility and the indentures relating to Lamar Media s outstanding notes restrict, among other things, the ability of Lamar Advertising and Lamar Media to:

- dispose of assets;
- incur or repay debt;
- create liens;
- make investments; and
- pay dividends.

Lamar Media s ability to make distributions to Lamar Advertising is also restricted under the terms of these agreements. Under Lamar Media s senior credit facility the Company must maintain specified financial ratios and levels including:

- a fixed charges ratio;
- a senior debt ratio; and
- a total holdings debt ratio.

Lamar Advertising and Lamar Media were in compliance with all of the terms of the indentures governing the outstanding notes of Lamar Media and the applicable senior credit agreement provisions during the periods presented.

9. Fair Value of Financial Instruments

At June 30, 2013 and December 31, 2012, the Company s financial instruments included cash and cash equivalents, marketable securities, accounts receivable, investments, accounts payable and borrowings. The fair values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings and current portion of long-term debt approximated carrying values because of the short-term nature of these instruments. Investment contracts are reported at fair values. Fair values for investments held at cost are not readily available, but are estimated to approximate fair value. The estimated fair value of the Company s long term debt (including current maturities) was $2,191,441, which exceeded both the gross and carrying amounts of $2,155,646 and $2,148,918, respectively, as of June 30, 2013.

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LAMAR MEDIA CORP.

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 118,380	$ 58,411
Receivables, net of allowance for doubtful accounts of $8,500 and $7,500 in 2013 and 2012, respectively.	177,699	159,829
Prepaid expenses	61,771	41,132
Deferred income tax assets	9,475	10,817
Other current assets	33,567	30,546
Total current assets	400,892	300,735
Property, plant and equipment	2,983,702	2,940,449
Less accumulated depreciation and amortization	(1,833,454)	(1,760,090)
Net property, plant and equipment	1,150,248	1,180,359
Goodwill	1,480,960	1,474,998
Intangible assets	437,596	467,837
Deferred financing costs net of accumulated amortization of $19,516 and $18,899 in 2013 and 2012, respectively	32,979	35,834
Other assets	37,488	35,901
Total assets	$ 3,540,163	$ 3,495,664
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Trade accounts payable	$ 16,303	$ 13,539
Current maturities of long-term debt	384,231	33,134
Accrued expenses	96,314	96,860
Deferred income	59,586	51,323
Total current liabilities	556,434	194,856
Long-term debt	1,764,687	2,127,720
Deferred income tax liabilities	145,576	141,228
Asset retirement obligation	193,824	189,659
Other liabilities	19,175	16,388
Total liabilities	2,679,696	2,669,851
Stockholder s equity:		
Common stock, par value $.01, 3,000 shares authorized, 100 shares issued and outstanding at 2013 and 2012		

Additional paid-in-capital	2,631,258	2,606,157
Accumulated comprehensive income	4,439	5,978
Accumulated deficit	(1,775,230)	(1,786,322)
Stockholder s equity	860,467	825,813
Total liabilities and stockholder s equity	$ 3,540,163	$ 3,495,664

See accompanying note to condensed consolidated financial statements.

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LAMAR MEDIA CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

(In thousands, except share and per share data)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net revenues	$ 324,684	$ 304,872	$ 608,163	$ 571,110
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	110,723	105,071	217,242	208,494
General and administrative expenses (exclusive of depreciation and amortization)	55,987	52,027	119,125	105,122
Corporate expenses (exclusive of depreciation and amortization)	15,922	13,850	30,427	26,247
Depreciation and amortization	72,408	72,995	146,309	145,368
Gain on disposition of assets	(701)	(3,634)	(1,307)	(4,570)
	254,339	240,309	511,796	480,661
Operating income	70,345	64,563	96,367	90,449
Other expense (income)				
Loss on extinguishment of debt				29,972
Interest income	(51)	(65)	(79)	(123)
Interest expense	37,887	38,633	74,587	78,547
	37,836	38,568	74,508	108,396
Income (loss) before income tax expense	32,509	25,995	21,859	(17,947)
Income tax expense (benefit)	11,198	12,003	6,567	(9,114)
Net income (loss)	$ 21,311	$ 13,992	$ 15,292	$ (8,833)
Statements of Comprehensive Income (Loss)				
Net income (loss)	$ 21,311	$ 13,992	$ 15,292	$ (8,833)
Other comprehensive loss				
Foreign currency translation adjustments	(873)	(785)	(1,539)	(104)
Comprehensive income (loss)	$ 20,438	$ 13,207	$ 13,753	$ (8,937)

See accompanying note to condensed consolidated financial statements.

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LAMAR MEDIA CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income (loss)	$ 15,292	$ (8,833)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	146,309	145,368
Non-cash equity based compensation	17,195	7,033
Amortization included in interest expense	7,092	8,771
Gain on disposition of assets and investments	(1,307)	(4,570)
Loss on extinguishment of debt		29,972
Deferred tax expense (benefit)	5,182	(9,897)
Provision for doubtful accounts	3,101	2,740
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(18,979)	(14,828)
Prepaid expenses	(19,948)	(18,275)
Other assets	(4,062)	(5,538)
Increase (decrease) in:		
Trade accounts payable	2,570	(1,211)
Accrued expenses	(2,811)	(8,310)
Other liabilities	(11,015)	4,291
Net cash provided by operating activities	138,619	126,713
Cash flows from investing activities:		
Acquisitions	(32,827)	(14,305)
Capital expenditures	(52,721)	(49,542)
Proceeds from disposition of assets and investments	3,278	4,640
Payment received on notes receivable	18	113
Net cash used in investing activities	(82,252)	(59,094)
Cash flows from financing activities:		
Principal payments on long-term debt	(16,294)	(46)
Payment on senior subordinated notes		(598,181)
Proceeds received from note offering		500,000
Proceeds received from senior credit agreement term loan		100,000
Debt issuance costs	(82)	(14,104)
Contributions from parent		