LAMAR ADVERTISING CO/NEW
Form 10-Q
August 09, 2016

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, 2016

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 1-36756

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 incorporation or organization)	(I.R.S Employer 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	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

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, 2016: 82,848,234

The number of shares of the Lamar Advertising Company's Class B common stock outstanding as of August 1, 2016: 14,610,365

The number of shares of Lamar Media Corp. common stock outstanding as of August 1, 2016: 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.

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," "intends," "may," "will," "should," "estimates," "predicts," "potential," similar expressions to identify forward-looking statements. Examples of forward-looking statements in this report include statements about:

- our future financial performance and condition;
- our business plans, objectives, prospects, growth and operating strategies;
- our future capital expenditures and level of acquisition activity;
- market opportunities and competitive positions;
- our future cash flows and expected cash requirements;
- estimated risks;
- our ability to maintain compliance with applicable covenants and restrictions included in Lamar Media's senior credit facility and the indentures relating to its outstanding notes;
- stock price;
- estimated future dividend distributions; and
- our ability to remain qualified as a Real Estate Investment Trust ("REIT").

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 actual results, performance or achievements of Lamar Advertising Company (referred to herein as the "Company" or "Lamar Advertising") or Lamar Media Corp. (referred to herein as "Lamar Media") to differ materially from those expressed or implied by the forward-looking statements:

- the state of the economy and financial markets generally and their effects on the markets in which we operate and the broader demand for advertising;
    - the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to our significant indebtedness;
- the demand for outdoor advertising and its continued popularity as an advertising medium;
- our need for, and ability to obtain, additional funding for acquisitions, operations and debt refinancing;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry by federal, state and local governments;
- our ability to renew expiring contracts at favorable rates;
- the integration of businesses that we acquire and our ability to recognize cost savings and operating efficiencies as a result of these acquisitions;
- our ability to successfully implement our digital deployment strategy;
- the market for our Class A common stock;
- changes in accounting principles, policies or guidelines;
- our ability to effectively mitigate the threat of and damages caused by hurricanes and other kinds of severe weather;
- our ability to qualify as a REIT and maintain our status as a REIT; and
- changes in tax laws applicable to REIT's or in the interpretation of those laws.

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 and 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.

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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, 2015 of the Company and Lamar Media (the “2015 Combined Form 10-K”), filed on February 25, 2016 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, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$41,737	$ 22,327
Receivables, net of allowance for doubtful accounts of $10,209 and $8,984 in 2016 and 2015, respectively	207,435	174,398
Prepaid lease expenses	71,362	44,437
Deferred income tax assets	1,155	1,352
Other current assets	41,964	39,218
Total current assets	363,653	281,732
Property, plant and equipment	3,260,640	3,139,239
Less accumulated depreciation and amortization	(2,079,222)	(2,044,102)
Net property, plant and equipment	1,181,418	1,095,137
Goodwill	1,705,099	1,546,594
Intangible assets	623,832	402,886
Other assets	38,519	37,395
Total assets	$3,912,521	$ 3,363,744
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$18,444	$ 17,452
Current maturities of long-term debt, net of deferred financing costs of $5,344 and $4,823 in 2016 and 2015, respectively	23,369	16,509
Accrued expenses	113,744	115,208
Deferred income	113,122	87,661
Total current liabilities	268,679	236,830
Long-term debt, net of deferred financing costs of $25,969 and $23,211 in 2016 and 2015, respectively	2,369,308	1,874,941
Deferred income tax liabilities	2,035	2,052

Asset retirement obligation	210,249	206,234
Other liabilities	22,519	22,628
Total liabilities	2,872,790	2,342,685
Stockholders' equity:		
Series AA preferred stock, par value $.001, $63.80 cumulative dividends, 5,720 shares authorized; 5,720 shares issued and outstanding at 2016 and 2015	—	—
Class A common stock, par value $.001, 362,500,000 shares authorized; 82,844,623 and 82,188,372 shares issued at 2016 and 2015, respectively; 82,628,535 and 82,083,536 issued and outstanding at 2016 and 2015, respectively	83	82
Class B common stock, par value $.001, 37,500,000 shares authorized, 14,610,365 shares issued and outstanding at 2016 and 2015	15	15
Additional paid-in capital	1,700,039	1,664,038
Accumulated comprehensive income (loss)	301	(1,178)
Accumulated deficit	(648,404)	(635,799)
Cost of shares held in treasury, 216,088 and 104,836 shares at 2016 and 2015, respectively	(12,303)	(6,099)
Stockholders' equity	1,039,731	1,021,059
Total liabilities and stockholders' equity	$3,912,521	$3,363,744

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Statements of Income				
Net revenues	$387,528	$344,249	$726,061	$646,726
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	132,725	115,951	261,450	229,183
General and administrative expenses (exclusive of depreciation and amortization)	66,457	60,729	133,247	119,935
Corporate expenses (exclusive of depreciation and amortization)	20,047	19,689	36,073	35,080
Depreciation and amortization	51,933	48,725	103,422	97,955
Gain on disposition of assets	(705)	(191)	(12,032)	(2,027)
	270,457	244,903	522,160	480,126
Operating income	117,071	99,346	203,901	166,600
Other expense (income)				
Loss on extinguishment of debt	56	—	3,198	—
Interest income	(3)	(24)	(4)	(26)
Interest expense	31,299	24,712	61,367	49,244
	31,352	24,688	64,561	49,218
Income before income tax expense	85,719	74,658	139,340	117,382
Income tax expense	3,810	15,298	6,117	17,306
Net income	81,909	59,360	133,223	100,076
Cash dividends declared and paid on preferred stock	91	91	182	182
Net income applicable to common stock	$81,818	$59,269	$133,041	$99,894
Earnings per share:				
Basic earnings per share	$0.84	$0.61	$1.37	$1.04
Diluted earnings per share	$0.84	$0.61	$1.36	$1.04
Cash dividends declared per share of common stock	$0.75	$0.69	$1.50	$1.37
Weighted average common shares used in computing earnings				

per share:				
Weighted average common shares outstanding basic	97,121,619	96,405,105	96,956,535	96,056,912
Weighted average common shares outstanding diluted	97,731,467	96,482,919	97,523,379	96,115,587
Statements of Comprehensive Income				
Net income	$81,909	$59,360	$133,223	$100,076
Other comprehensive income (loss)				
Foreign currency translation adjustments	11	407	1,479	(1,203)
Comprehensive income	$81,920	$59,767	$134,702	$98,873

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$133,223	$100,076
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	103,422	97,955
Stock-based compensation	11,292	11,387
Amortization included in interest expense	2,661	2,324
Gain on disposition of assets and investments	(12,032)	(2,027)
Loss on extinguishment of debt	3,198	—
Deferred tax expense	359	10,878
Provision for doubtful accounts	3,540	3,986
Changes in operating assets and liabilities		
(Increase) decrease in:		
Receivables	(36,639)	(18,419)
Prepaid lease expenses	(22,945)	(22,798)
Other assets	2,244	(5,324)
Increase (decrease) in:		
Trade accounts payable	152	1,856
Accrued expenses	3,187	(4,301)
Other liabilities	19,363	12,624
Net cash provided by operating activities	211,025	188,217
Cash flows from investing activities:		
Acquisitions	(506,147)	(59,389)
Capital expenditures	(51,513)	(56,365)
Proceeds from disposition of assets and investments	6,734	5,692
Decrease (increase) in notes receivable	13	(15)
Net cash used in investing activities	(550,913)	(110,077)
Cash flows from financing activities:		
Cash used for purchase of treasury stock	(6,204)	(6,099)
Net proceeds from issuance of common stock	14,882	22,084
Principal payments on long term debt	(9,385)	(7,510)
Payment on revolving credit facility	(233,000)	(107,000)
Proceeds received from revolving credit facility	347,000	155,000
Proceeds received from note offering	400,000	—

Payment on senior credit facility term A-1 loan	(300,000)	—
Proceeds received from senior credit facility term A-1 loan	300,000	—
Debt issuance costs	(9,140)	—
Distributions to non-controlling interest	(210)	(360)
Dividends/distributions	(145,828)	(131,995)
Net cash provided by (used in) financing activities	358,115	(75,880)
Effect of exchange rate changes in cash and cash equivalents	1,183	(840)
Net increase in cash and cash equivalents	19,410	1,420
Cash and cash equivalents at beginning of period	22,327	26,035
Cash and cash equivalents at end of period	$41,737	$27,455
Supplemental disclosures of cash flow information:		
Cash paid for interest	$48,664	$46,906
Cash paid for foreign, state and federal income taxes	$7,906	$7,453

See accompanying notes to condensed consolidated financial statements.

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 2015 Combined Form 10-K as updated by the Company and Lamar Media's Current Report on Form 8-K, filed on July 11, 2016. Subsequent events, if any, are evaluated through the date on which the financial statements are issued.

2. Acquisitions

During the six months ended June 30, 2016, the Company completed several acquisitions of outdoor advertising assets for a total purchase price of $515,147, of which $506,147 was in cash and $9,000 in non-cash consideration consisting principally of exchanges of outdoor advertising assets. The purchases included the acquisition of assets in five U.S. markets from Clear Channel Outdoor Holdings, Inc. for an aggregate cash purchase price of approximately $458,500. As a result of the acquisitions, a gain of $8,599 was recorded for transactions which involved the exchanges of outdoor advertising assets during the six months ended June 30, 2016.

Each of these acquisitions was accounted for under the acquisition method of accounting, and, accordingly, the accompanying consolidated financial statements include the results of operations of each acquired entity from the date of acquisition. The acquisition costs have been allocated to assets acquired and liabilities assumed based on preliminary fair market value estimates at the dates of acquisition. The following is a summary of the allocation of the acquisition costs in the above transactions.

	Total
Property, plant and equipment	$93,814
Goodwill	158,341

Site locations	222,176
Non-competition agreements	40
Customer lists and contracts	39,294
Current assets	4,674
Other assets	2,046
Current liabilities	(5,238)
	$515,147

The following unaudited pro forma financial information for the Company gives effect to the 2016 and 2015 acquisitions as if they had occurred on January 1, 2015. These pro forma results do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred on such date or to project the Company's results of operations for any future period.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(unaudited)			
Net revenues	$387,528	$374,956	$727,744	$706,258
Net income applicable to common stock	$81,812	$57,743	$133,473	$93,923
Net income per common share — basic	$0.84	$0.60	$1.38	$0.98
Net income per common share — diluted	$0.84	$0.60	$1.37	$0.98

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

3. 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 72,000 shares of its Class A common stock during the six months ended June 30, 2016. At June 30, 2016 a total of 1,472,993 shares were available for future grant.

Stock Purchase Plan. Lamar Advertising's 2009 Employee Stock Purchase Plan or 2009 ESPP was approved by our shareholders on May 28, 2009. The number of shares of Class A common stock available under the 2009 ESPP was automatically increased by 82,084 shares on January 1, 2016 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, 2016:

	Shares
Available for future purchases, January 1, 2016	279,589
Additional shares reserved under 2009 ESPP	82,084
Purchases	(59,159)
Available for future purchases, June 30, 2016	302,514

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 2016 results. Any shares issued based on the achievement of performance goals will be issued in the first quarter of 2017. 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, 2016, the Company has recorded $5,960 as stock-based 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 $255 stock-based compensation expense related to these awards for the six months ended June 30, 2016.

4. Depreciation and Amortization

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Direct advertising expenses	$48,267	$44,805	$96,065	$89,890
General and administrative expenses	902	834	1,783	1,557
Corporate expenses	2,764	3,086	5,574	6,508
	$51,933	$48,725	$103,422	$97,955

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LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

5. Goodwill and Other Intangible Assets

The following is a summary of intangible assets at June 30, 2016 and December 31, 2015:

	Estimated Life (Years)	June 30, 2016 Gross Carrying Amount	June 30, 2016 Accumulated Amortization	December 31, 2015 Gross Carrying Amount	December 31, 2015 Accumulated Amortization
Amortizable intangible assets:					
Customer lists and contracts	7—10	$553,265	$ 483,733	$513,832	$ 477,006
Non-competition agreements	3—15	64,558	63,582	64,514	63,453
Site locations	15	1,839,513	1,286,650	1,616,345	1,251,825
Other	5—15	14,008	13,547	14,008	13,529
		$2,471,344	$ 1,847,512	$2,208,699	$ 1,805,813
Unamortizable intangible assets:					
Goodwill		$1,958,635	$ 253,536	$1,800,130	$ 253,536

6. 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, 2015	$	206,234
Additions to asset retirement obligations		4,662
Accretion expense		2,143
Liabilities settled		(2,790)

Balance at June 30, 2016	$	210,249

7. Distribution Restrictions

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, 2016 and December 31, 2015, Lamar Media was permitted under the terms of its outstanding senior subordinated and senior notes to make transfers to Lamar Advertising in the form of cash dividends, loans or advances in amounts up to $2,574,826 and $2,487,196, respectively.

As of June 30, 2016, transfers to Lamar Advertising are permitted under Lamar Media's senior credit facility and as defined therein, unless, after giving effect to such distributions, (i) the total debt ratio is equal to or greater than 6.0 to 1 or (ii) the senior debt ratio is equal to or greater than 3.5 to 1. As of June 30, 2016, the total debt ratio was less than 6.0 to 1 and Lamar Media's senior debt ratio was less than 3.5 to 1; therefore, dividends or distributions to Lamar Advertising were not subject to any additional restrictions under the senior credit facility. In addition, as of June 30, 2016 the senior credit facility allows Lamar Media to conduct its affairs in a manner that would allow Lamar Advertising to qualify and remain qualified for taxation as a REIT, including by allowing Lamar Media to make distributions to Lamar Advertising required for Lamar Advertising to qualify and remain qualified for taxation as a REIT, subject to certain restrictions.

8. 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. There were no dilutive shares excluded from this calculation resulting from their anti-dilutive effect for the three and six months ended June 30, 2016 or 2015.

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

9. Long-term Debt

Long-term debt consists of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016		
	Debt	Deferred financing costs	Debt, net of deferred financing costs
Senior Credit Facility	$478,375	$5,913	$472,462
5 7/8% Senior Subordinated Notes	500,000	7,654	492,346
5% Senior Subordinated Notes	535,000	6,084	528,916
5 3/8% Senior Notes	510,000	5,988	504,012
5 3/4% Senior Notes	400,000	5,674	394,326
Other notes with various rates and terms	615	—	615
	2,423,990	31,313	2,392,677
Less current maturities	(28,713)	(5,344)	(23,369)
Long-term debt, excluding current maturities	$2,395,277	$25,969	$2,369,308

	December 31, 2015		
	Debt	Deferred financing costs	Debt, net of deferred financing costs
Senior Credit Facility	$373,750	$7,058	$366,692
5 7/8% Senior Subordinated Notes	500,000	8,219	491,781
5% Senior Subordinated Notes	535,000	6,451	528,549
5 3/8% Senior Notes	510,000	6,306	503,694
Other notes with various rates and terms	734	—	734
	1,919,484	28,034	1,891,450

Less current maturities	(21,332)	(4,823)	(16,509)
Long-term debt, excluding current maturities	$1,898,152	$23,211	$1,874,941

During the six months ended June 30, 2016, the Company adopted the FASB's Accounting Standards Update No. 2015-03, Interest – Imputation of interest: Simplifying the Presentation of Debt Issuance Costs. The pronouncement requires the Company to present debt issuance costs related to a note as a direct deduction from the face amount of the note presented in the balance sheet. The Company has applied the new guidance on a retrospective basis. The effects of the adoption to the Company's Condensed Consolidated Balance Sheet as of December 31, 2015 were a decrease in total assets, current maturities of long-term debt and long term debt of $28,034, $4,823 and $23,211, respectively.

5 7/8% Senior Subordinated Notes

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

At any time prior to February 1, 2017, Lamar Media may redeem some or all of the 5 7/8% 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 5 7/8% Notes, in whole or in part, in cash at redemption prices specified in the 5 7/8% 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 5 7/8% Notes at a price equal to 101% of the principal amount of the 5 7/8% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

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 "5% Notes"). The institutional private placement resulted in net proceeds to Lamar Media of approximately $527,100.

At any time prior to May 1, 2018, Lamar Media may redeem some or all of the 5% 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 5% Notes, in whole or in part, in cash at redemption prices specified in the 5% 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 5% Notes at a price equal to 101% of the principal amount of the 5% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

5 3/8% Senior Notes

On January 10, 2014, Lamar Media completed an institutional private placement of $510,000 aggregate principal amount of 5 3/8% Senior Notes due 2024 (the "5 3/8% Notes"). The institutional private placement resulted in net proceeds to Lamar Media of approximately $502,300.

Lamar Media may redeem up to 35% of the aggregate principal amount of the 5 3/8% Notes, at any time and from time to time, at a price equal to 105.375% 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 January 15, 2017, provided that following the redemption, at least 65% of the 5 3/8% Notes that were originally issued remain outstanding and any such redemption occurs within 120 days following the closing of any such public equity offering. At any time prior to January 15, 2019, Lamar Media may redeem some or all of the 5 3/8% Notes at a price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest thereon plus a make-whole premium. On or after January 15, 2019, Lamar Media may redeem the 5 3/8% Notes, in whole or in part, in cash at redemption prices specified in the 5 3/8% 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 5 3/8% Notes at a price equal to 101% of the principal amount of the 5 3/8% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

5 3/4% Senior Notes

On January 28, 2016, Lamar Media completed an institutional private placement of $400,000 aggregate principal amount of 5 3/4% Senior Notes due 2026 (the "5 3/4 % Notes"). The institutional private placement resulted in net proceeds to Lamar Media of approximately $394,500.

Lamar Media may redeem up to 35% of the aggregate principal amount of the 5 3/4% Notes, at any time and from time to time, at a price equal to 105.750% 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, 2019, provided that following the redemption, at least 65% of the 5 3/4% Notes that were originally issued remain outstanding and any such redemption occurs within 120 days following the closing of any such public equity offering. At any time prior to February 1, 2021, Lamar Media may redeem some or all of the 5 3/4% Notes at a price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest thereon plus a make-whole premium. On or after February 1, 2021, Lamar Media may redeem the 5 3/4% Notes, in whole or in part, in cash at redemption prices specified in the 5 3/4% 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 5 3/4% Notes at a price equal to 101% of the principal amount of the 5 3/4% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

Senior Credit Facility

On January 7, 2016, Lamar Media entered into a new incremental Term A-1 loan of $300,000 to partially fund the purchase of certain Clear Channel Outdoor Holdings, Inc. assets. The Term A-1 loan was repaid in full on January 28, 2016 by using proceeds received from the issuance of the 5 3/4% Notes. For the six months ended June 30, 2016, the Company incurred a loss of $3,198 related to the repayment of the Term A-1 loan.

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(Unaudited)

(In thousands, except share and per share data)

On February 3, 2014, Lamar Media entered into a Second Restatement Agreement (the "Second Restatement Agreement") with the Company, certain of Lamar Media's subsidiaries as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent and the Lenders named therein, under which the parties agreed to amend and restate Lamar Media's existing senior credit facility on the terms set forth in the Second Amended and Restated Credit Agreement attached as Exhibit A to the Second Restatement Agreement (such Second and Amended and Restated Credit Agreement, as subsequently amended, together with the Second Restatement Agreement being herein referred to as the "senior credit facility"). Under the Second Restatement Agreement, the senior credit facility consisted of a $400,000 revolving credit facility and a $500,000 incremental facility. Lamar Media is the borrower under the senior credit facility. We may also from time to time designate wholly owned subsidiaries as subsidiary borrowers under the incremental loan 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.

On April 18, 2014, Lamar Media entered into Amendment No. 1 to the Second Amended and Restated Credit Agreement (the "First Amendment") under which the parties agreed to amend Lamar Media's existing senior credit agreement on the terms set forth therein. The First Amendment created a new $300,000 Term A Loan facility (the "Term A Loans") and made certain other amendments. Lamar Media borrowed $300,000 in Term A Loans on April 18, 2014. The net loan proceeds of this borrowing, together with borrowings under the revolving portion of the senior credit facility and cash on hand, were used to fund the redemption and retirement of all $400,000 in outstanding principal amount of Lamar Media's 7 7/8% Notes due 2018 on April 21, 2014. On March 4, 2016, Lamar Media entered into Amendment No. 2 to the Second Amended and Restated Credit Agreement (the "Second Amendment") under which the parties agreed to amend Lamar Media's existing senior credit agreement on the terms set forth therein. Among certain other amendments, the Second Amendment eliminated the $500,000 cap on incremental loans with the result that Lamar Media may borrow incremental term and revolving loans without monetary limits, so long as Lamar Advertising's Senior Debt Ratio does not exceed 3.5 to 1.0.

The Term A Loans began amortizing on June 30, 2014 in quarterly installments on each September 30, December 31, March 31, and June 30 thereafter, as follows:

Principal Payment Date	Principal Amount
September 30, 2016- March 31, 2017	$ 5,625
June 30, 2017-December 31, 2018	$ 11,250
Term A Loan Maturity Date	$ 168,750

The Term A Loans bear interest at rates based on the Adjusted LIBO Rate (“Eurodollar loans”) or the Adjusted Base Rate (“Base Rate loans”), at Lamar Media’s option. Eurodollar loans bear interest at a rate per annum equal to the Adjusted LIBO Rate plus 2.0% (or the Adjusted LIBO Rate plus 1.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). Base Rate loans bear interest at a rate per annum equal to the Adjusted Base Rate plus 1.00% (or the Adjusted Base Rate plus 0.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). The revolving credit facility bears interest at rates based on the Adjusted LIBO Rate (“Eurodollar loans”) or the Adjusted Base Rate (“Base Rate loans”), at Lamar Media’s option. Eurodollar loans bear interest at a rate per annum equal to the Adjusted LIBO Rate plus 2.25% (or the Adjusted LIBO Rate plus 2.00% at any time the Total Debt Ratio is less than or equal to 4.25 to 1; or the Adjusted LIBO Rate plus 1.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). Base Rate loans bear interest at a rate per annum equal to the Adjusted Base Rate plus 1.25% (or the Adjusted Base Rate plus 1.0% at any time the total debt ratio is less than or equal to 4.25 to 1; or the Adjusted Base Rate plus 0.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). The guarantees, covenants, events of default and other terms of the senior credit facility apply to the Term A Loans and revolving credit facility.

As of June 30, 2016, there was $214,000 outstanding under the revolving credit facility. Availability under the revolving facility is reduced by the amount of any letters of credit outstanding. Lamar Media had $9,061 in letters of credit outstanding as of June 30, 2016 resulting in $176,939 of availability under its revolving facility. Revolving credit loans may be requested under the revolving credit facility at any time prior to its maturity on February 2, 2019, and bear interest, at Lamar Media’s option, at the Adjusted LIBO Rate or the Adjusted Base Rate plus applicable margins, such margins are set at an initial rate with the possibility of a step down based on Lamar Media’s ratio of debt to trailing four quarters EBITDA, as defined in the senior credit facility.

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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.

The senior credit facility contains provisions that allow Lamar Media to conduct its affairs in a manner that allows Lamar Advertising to qualify and remain qualified as a REIT, including by allowing Lamar Media to make distributions to Lamar Advertising required for the Company to qualify and remain qualified for taxation as a REIT, subject to certain restrictions.

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 a specified senior debt ratio at all times and in addition, must satisfy a total debt ratio in order to incur debt, make distributions or make certain investments.

Lamar Advertising and Lamar Media were in compliance with all of the terms of their indentures and the senior credit facility provisions during the periods presented.

10. Fair Value of Financial Instruments

At June 30, 2016 and December 31, 2015, 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 $2,490,313 which exceeded the carrying amount of $2,423,990 as of June 30, 2016. The majority of the fair value is determined using observed prices of publicly traded debt (level 1 in the fair value hierarchy) and the remaining is valued based on quoted prices for similar debt (level 2 in the fair value hierarchy).

11. New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles ("GAAP") when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The update is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about lease arrangements. The amendments in this update are effective beginning January 1, 2019 with retrospective application. The Company is currently evaluating the impact of this update to determine the effect on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The update is designed to simplify accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The update is

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

effective for annual periods beginning January 1, 2017 with early adoption permitted. The Company does not expect the adoption of this update will have a material impact on the consolidated financial statements.

12. Dividends/Distributions

During the three months ended June 30, 2016 and June 30, 2015, the Company declared and paid cash distributions of its REIT taxable income in an aggregate amount of $72,912 or $0.75 per share and $66,590 or $0.69 per share, respectively. During the six months ended June 30, 2016 and June 30, 2015, the Company declared and paid cash distributions of its REIT taxable income in an aggregate amount of $145,646 or $1.50 per share and $131,813 or $1.37 per share, respectively. The amount, timing and frequency of future distributions will be at the sole discretion of the Board of Directors and will be declared based upon various factors, a number of which may be beyond the Company's control, including financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income and excise taxes that the Company otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, the Company's ability to utilize net operating losses to offset, in whole or in part, the Company's distribution requirements, limitations on its ability to fund distributions using cash generated through its taxable REIT subsidiaries (TRSs) and other factors that the Board of Directors may deem relevant. During the three months ended June 30, 2016 and June 30, 2015, the Company paid cash dividend distributions to holders of its Series AA Preferred Stock in an aggregate amount of $91 or $15.95 per share. During the six months ended June 30, 2016 and June 30, 2015, the Company paid cash dividend distributions to holders of its Series AA Preferred Stock in an aggregate amount of $182 or $31.90 per share.

13. Information about Geographic Areas

Revenues from external customers attributable to foreign countries totaled $15,587 and $15,259 for the six months ended June 30, 2016 and 2015, respectively. Net carrying value of long lived assets located in foreign countries totaled $5,624 and $5,613 as of June 30, 2016 and December 31, 2015, respectively. All other revenues from external customers and long lived assets relate to domestic operations.

LAMAR MEDIA CORP.

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Condensed Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$41,237	$21,827
Receivables, net of allowance for doubtful accounts of $10,209 and $8,984 in 2016 and 2015, respectively	207,435	174,398
Prepaid lease expenses	71,362	44,437
Deferred income tax assets	1,155	1,352
Other current assets	41,964	39,218
Total current assets	363,153	281,232
Property, plant and equipment	3,260,640	3,139,239
Less accumulated depreciation and amortization	(2,079,222)	(2,044,102)
Net property, plant and equipment	1,181,418	1,095,137
Goodwill	1,694,948	