

LAMAR MEDIA CORP/DE  
Form 10-Q  
May 10, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2007**

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 incorporation or organization) | (I.R.S Employer Identification No.) |
| 5551 Corporate Blvd., Baton Rouge, LA                          | 70808                               |
| (Address of principle 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  No   
Indicate by check mark whether Lamar Advertising Company is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether Lamar Media Corp. is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

The number of shares of Lamar Advertising Company's Class A common stock outstanding as of May 4, 2007: 82,701,402

The number of shares of the Lamar Advertising Company's Class B common stock outstanding as of May 4, 2007: 15,397,865

The number of shares of Lamar Media Corp. common stock outstanding as of May 4, 2007: 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.**



**Table of Contents**

**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This combined Quarterly Report on Form 10-Q of Lamar Advertising Company ( Lamar Advertising or the Company ) and Lamar Media Corp. ( Lamar Media ) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements that relate to future periods and include statements about the Company s and Lamar Media s:

expected operating results;

market opportunities;

acquisition opportunities;

stock repurchase program;

ability to compete; and

stock price.

Generally, the words anticipates, believes, expects, intends, estimates, projects, plans and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Company s and Lamar Media s actual results, performance or achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others:

risks and uncertainties relating to the Company s significant indebtedness;

the demand for outdoor advertising;

the performance of the U.S. economy generally and the level of expenditures on outdoor advertising particularly;

the Company s ability to renew expiring contracts at favorable rates;

the integration of companies that the Company acquires and its ability to recognize cost savings or operating efficiencies as a result of these acquisitions;

the Company s need for and ability to obtain additional funding for acquisitions or operations;

the market price of the Company s Class A common stock;

the existence and nature of investment and digital deployment opportunities available to the Company from time to time; and

the regulation of the outdoor advertising industry by federal, state and local governments.

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, 2006 of the Company and Lamar Media (the 2006 Combined Form 10-K ).

The forward-looking statements contained in this combined Quarterly Report on Form 10-Q speak only as of the date of this combined report. Lamar Advertising Company and Lamar Media Corp. expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this combined Quarterly Report to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.



**CONTENTS**

|   | Page    |
|---|---------|
| <u>PART I FINANCIAL INFORMATION</u>   |         |
| <u>ITEM 1. FINANCIAL STATEMENTS</u>   |         |
| Lamar Advertising Company   |         |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>                   | 4       |
| <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006</u> | 5       |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006</u> | 6       |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 7 - 12  |
| Lamar Media Corp.   |         |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>                   | 13      |
| <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006</u> | 14      |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006</u> | 15      |
| <u>Note to Condensed Consolidated Financial Statements</u>  | 16      |
| <u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>      | 17 - 22 |
| <u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risks</u>                                | 23      |
| <u>ITEM 4. Controls and Procedures</u>  | 23      |
| <u>PART II OTHER INFORMATION</u>  |         |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                | 24      |
| <u>ITEM 5 Other Information</u>   | 24      |
| <u>ITEM 6. Exhibits</u>   | 24      |
| <u>Amended and Restated Certificate of Incorporation</u>  |         |
| <u>Series D Incremental Loan Agreement</u>  |         |
| <u>Statement Regarding Computation of Earnings to Fixed Charges</u>                                       |         |
| <u>Statement Regarding Computation of Earnings to Fixed Charges</u>                                       |         |
| <u>Certification of CEO Pursuant to Section 302</u>   |         |
| <u>Certification of CFO Pursuant to Section 302</u>   |         |

Certification Pursuant to Section 906

3

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**Table of Contents****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)

|   | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$ 279                           | \$ 11,796            |
| Receivables, net of allowance for doubtful accounts of \$6,609 and \$6,400 in 2007 and 2006, respectively         | 125,365                          | 127,552              |
| Prepaid expenses  | 57,146                           | 38,215               |
| Deferred income tax assets  | 19,918                           | 34,224               |
| Other current assets  | 17,581                           | 18,983               |
| Total current assets  | 220,289                          | 230,770              |
| Property, plant and equipment   | 2,501,719                        | 2,432,977            |
| Less accumulated depreciation and amortization  | (1,062,075)                      | (1,027,029)          |
| Net property, plant and equipment   | 1,439,644                        | 1,405,948            |
| Goodwill  | 1,358,562                        | 1,357,706            |
| Intangible assets   | 861,104                          | 860,850              |
| Deferred financing costs, net of accumulated amortization of \$28,235 and \$27,143 in 2007 and 2006, respectively | 26,990                           | 25,990               |
| Other assets  | 35,800                           | 42,964               |
| Total assets  | \$ 3,942,389                     | \$ 3,924,228         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |                      |
| Current liabilities:  |                                  |                      |
| Trade accounts payable  | \$ 18,409                        | \$ 14,567            |
| Current maturities of long-term debt  | 16,475                           | 8,648                |
| Accrued expenses  | 44,744                           | 69,940               |
| Deferred income   | 14,042                           | 17,824               |
| Total current liabilities   | 93,670                           | 110,979              |
| Long-term debt  | 2,455,965                        | 1,981,820            |
| Deferred income tax liabilities   | 129,693                          | 140,019              |
| Asset retirement obligation   | 143,487                          | 141,503              |



|  |              |              |
|--|--------------|--------------|
| Other liabilities  | 12,492       | 11,374       |
| Total liabilities  | 2,835,307    | 2,385,695    |
| Stockholders' equity:  |              |              |
| Series AA preferred stock, par value \$.001, \$63.80 cumulative dividends, authorized 5,720 shares; 5,720 shares issued and outstanding at 2007 and 2006   |              |              |
| Class A preferred stock, par value \$638, \$63.80 cumulative dividends, 10,000 shares authorized; 0 shares issued and outstanding at 2007 and 2006   |              |              |
| Class A common stock, par value \$.001, 175,000,000 shares authorized; 92,284,051 and 91,796,429 shares issued at 2007 and 2006, respectively; 82,687,402 and 84,335,679 outstanding at 2007 and 2006 respectively | 92           | 92           |
| Class B common stock, par value \$.001, 37,500,000 shares authorized, 15,397,865 shares issued and outstanding at 2007 and 2006  | 15           | 15           |
| Additional paid-in capital   | 2,266,311    | 2,250,716    |
| Accumulated comprehensive income   | 1,600        | 2,253        |
| Accumulated deficit  | (624,627)    | (315,072)    |
| Cost of shares held in treasury, 9,596,649 and 7,460,750 shares in 2007 and 2006,  | (536,309)    | (399,471)    |
| Total Stockholders' equity   | 1,107,082    | 1,538,533    |
| Total liabilities and stockholders' equity   | \$ 3,942,389 | \$ 3,924,228 |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
| Net revenues   | \$ 275,185                      | \$ 253,333 |
| Operating expenses (income)  |                                 |            |
| Direct advertising expenses (exclusive of depreciation and amortization)         | 100,783                         | 95,209     |
| General and administrative expenses (exclusive of depreciation and amortization) | 55,302                          | 47,811     |
| Corporate expenses (exclusive of depreciation and amortization)                  | 14,572                          | 11,480     |
| Depreciation and amortization  | 73,318                          | 73,178     |
| Gain on disposition of assets  | (312)                           | (1,678)    |
|  | 243,663                         | 226,000    |
| Operating income   | 31,522                          | 27,333     |
| Other expense (income)   |                                 |            |
| Gain on disposition of investment  | (15,448)                        |            |
| Interest income  | (493)                           | (227)      |
| Interest expense   | 31,845                          | 24,843     |
|  | 15,904                          | 24,616     |
| Income before income tax expense   | 15,618                          | 2,717      |
| Income tax expense   | 6,779                           | 1,177      |
| Net income   | 8,839                           | 1,540      |
| Dividends to preferred share holders   | 91                              | 91         |
| Net income applicable to common stock  | \$ 8,748                        | \$ 1,449   |
| Earnings per share:  |                                 |            |
| Basic earnings per share   | \$ 0.09                         | \$ 0.01    |
| Diluted earnings per share   | \$ 0.09                         | \$ 0.01    |
| Cash dividends declared per share of common stock (Note 11)                      | \$ 3.25                         | \$         |

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|  |             |             |
|--|-------------|-------------|
| Weighted average common shares used in computing earnings per share: |             |             |
| Weighted average common shares outstanding                           | 99,222,644  | 105,009,487 |
| Incremental common shares from dilutive stock options                | 842,221     | 847,519     |
| Incremental common shares from convertible debt                      |             |             |
| Weighted average common shares diluted                               | 100,064,865 | 105,857,006 |

See accompanying notes to condensed consolidated financial statements.

5

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**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
| Cash flows from operating activities:   |                                 |           |
| Net income  | \$ 8,839                        | \$ 1,540  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation and amortization   | 73,318                          | 73,178    |
| Non-cash equity-based compensation  | 9,447                           | 2,998     |
| Amortization included in interest expense   | 1,090                           | 1,213     |
| Gain on disposition of assets   | (15,760)                        | (1,678)   |
| Deferred tax expense (benefit)  | 3,981                           | (5,708)   |
| Provision for doubtful accounts   | 1,148                           | 1,161     |
| Changes in operating assets and liabilities:                                      |                                 |           |
| (Increase) decrease in:   |                                 |           |
| Receivables   | 1,033                           | (131)     |
| Prepaid expenses  | (18,858)                        | (18,104)  |
| Other assets  | (4,391)                         | 3,465     |
| Increase (decrease) in:   |                                 |           |
| Trade accounts payable  | 4,327                           | (138)     |
| Accrued expenses  | (27,062)                        | (22,679)  |
| Other liabilities   | (3,760)                         | (196)     |
| Net cash provided by operating activities   | 33,352                          | 34,921    |
| Cash flows used in investing activities:  |                                 |           |
| Acquisitions  | (60,067)                        | (66,601)  |
| Capital expenditures  | (50,064)                        | (46,558)  |
| Proceeds from disposition of assets   | 19,857                          | 1,388     |
| Payments received on Notes Receivable   | 9,056                           |           |
| Net cash used in investing activities   | (81,218)                        | (111,771) |
| Cash flows from financing activities:   |                                 |           |
| Cash used for purchase of treasury shares   | (130,106)                       | (114,214) |
| Net proceeds from issuance of common stock  | 4,967                           | 22,670    |
| Principal payments on long-term debt  | (27)                            | (795)     |
| Net borrowings under credit agreements  | 482,000                         | 157,000   |
| Debt issuance costs   | (2,107)                         |           |
| Dividends   | (318,394)                       | (91)      |
| Net cash provided by financing activities   | 36,333                          | 64,570    |

|  |           |           |
|--|-----------|-----------|
| Effect of exchange rate changes in cash and cash equivalents | 16        |           |
| Net decrease in cash and cash equivalents                    | (11,517)  | (12,280)  |
| Cash and cash equivalents at beginning of period             | 11,796    | 19,419    |
| Cash and cash equivalents at end of period                   | \$ 279    | \$ 7,139  |
| Supplemental disclosures of cash flow information:           |           |           |
| Cash paid for interest                                       | \$ 50,262 | \$ 36,689 |
| Cash paid for state and federal income taxes                 | \$ 1,627  | \$ 3,316  |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR 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 2006 Combined Form 10-K.

**2. Stock-Based Compensation**

*Equity Incentive Plan.* Lamar's 1996 Equity Incentive Plan has reserved 10 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 which primarily includes 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 under SFAS 123(R). The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The Company had no option grants during the three months ended March 31, 2007.

*Stock Purchase Plan.* Lamar's 2000 Employee Stock Purchase Plan has reserved 924,000 shares of common stock for issuance to employees. The following is a summary of ESPP share activity for the three months ended March 31, 2007:

|   | Shares    |
|---|-----------|
| Available for future purchases, January 1, 2007 | 469,646   |
| Purchases                                       | ( 21,012) |
| Available for future purchases, March 31, 2007  | 448,634   |

*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 based on the achievement of certain Company performance measures for fiscal 2007. The number of shares to be issued; if any, will be dependent on the level of achievement of these performance measures as determined by the Company's Compensation Committee based on our 2007 results and will be issued in the first quarter of 2008. 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. Based on the Company's performance through March 31, 2007, the Company has accrued \$699 as compensation expense related to these agreements.

*Stock grants to option holders.* On March 30, 2007, the Company issued Class A common stock in respect of all shares underlying vested, unexercised options held as of March 22, 2007 (the vested option shares) by an active employee, consultant or director of the Company. Holders of vested options shares received a stock award with a fair market value of \$3.25 multiplied by the number of vested options shares held by such holder. The Company determined the number of shares issuable based on a fair market value of \$63.77 per share, which was the average of the closing prices of the Class A common stock during the period from March 1, 2007 through and including March 21, 2007. The Company recorded \$6,961 as compensation expense related to this grant.



**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

The table below summarizes the impact on our results of operations for the three months ended March 31, 2007 of outstanding stock options and stock grants and stock grants under our 1996 Plan and issuances under our ESPP recognized under the provisions of SFAS 123(R):

|  | Three months<br>ended<br>March 31,<br>2007 | Three months<br>ended<br>March 31,<br>2006 |
|--|--|--|
| Stock-based compensation expense:            |  |  |
| Issuances under employee stock purchase plan | \$ 200                                     | \$ 360                                     |
| Employee stock options                       | 1,587                                      | 1,476                                      |
| Reserved for performance-based stock awards  | 699  | 1,162                                      |
| Issuance to options holders                  | 6,961                                      |  |
| Income tax benefit                           | (3,332)                                    | ( 503)                                     |
| Net decrease in net income                   | \$ 6,115                                   | \$ 2,495                                   |
| Decrease in earnings per common share:       |  |  |
| Basic  | \$ 0.06                                    | \$ 0.02                                    |
| Diluted                                      | \$ 0.06                                    | \$ 0.02                                    |

**3. Acquisitions**

During the three months ended March 31, 2007, the Company completed several acquisitions of outdoor advertising assets for a total cash purchase price of approximately \$60,067.

Each of these acquisitions was accounted for under the purchase 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 fair value at the dates of acquisition. The following is a summary of the preliminary allocation of the acquisition costs in the above transactions.

|                               |                   |
|-------------------------------|-------------------|
| Current assets                | Total<br>\$ 1,011 |
| Property, plant and equipment | 29,956            |
| Goodwill                      | 453               |
| Site locations                | 24,316            |
| Non-competition agreements    | 153               |
| Customer lists and contracts  | 4,401             |
| Other liabilities             | (223)             |
|                               | \$ 60,067         |



**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

**3. Acquisitions (cont. d)**

Summarized below are certain unaudited pro forma statements of operations data for the three months ended March 31, 2007 and March 31, 2006 as if each of the above acquisitions and the acquisitions occurring in 2006, which were fully described in the 2006 Combined Form 10-K, had been consummated as of January 1, 2006. This pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions occurred on the date specified or to project the Company's results of operations for any future periods.

|   | Three months ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2007                            | 2006       |
| Pro forma net revenues                          | \$ 275,956                      | \$ 256,938 |
| Pro forma net income applicable to common stock | \$ 8,538                        | \$ 210     |
| Pro forma net income per common share - basic   | \$ 0.09                         | \$         |
| Pro forma net income per common share - diluted | \$ 0.08                         | \$         |

**4. Depreciation and Amortization**

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

|                                     | Three months ended<br>March 31, |           |
|-------------------------------------|---------------------------------|-----------|
|                                     | 2007                            | 2006      |
| Direct advertising expenses         | \$ 69,128                       | \$ 70,005 |
| General and administrative expenses | 1,691                           | 1,614     |
| Corporate expenses                  | 2,499                           | 1,559     |
|                                     | \$ 73,318                       | \$ 73,178 |

**5. Goodwill and Other Intangible Assets**

The following is a summary of intangible assets at March 31, 2007 and December 31, 2006.

|                                | Estimated<br>Life<br>(Years) | March 31, 2007           |                             | December 31, 2006        |                             |
|--------------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                                |                              | Gross Carrying<br>Amount | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| Amortizable Intangible Assets: |                              |                          |                             |                          |                             |
| Customer lists and contracts   | 7 - 10                       | \$ 448,458               | \$ 386,017                  | \$ 444,167               | \$ 380,374                  |
| Non-competition agreements     | 3 - 15                       | 60,419                   | 55,966                      | 60,279                   | 55,466                      |
| Site locations                 | 15                           | 1,285,903                | 495,315                     | 1,262,525                | 474,151                     |
| Other                          | 5 - 15                       | 13,600                   | 9,978                       | 13,537                   | 9,667                       |

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1,808,380      947,276      1,780,508      919,658

Unamortizable Intangible

Assets:

Goodwill      \$ 1,612,197      \$ 253,635      \$ 1,611,341      \$253,635

9

---

**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

**5. Goodwill and Other Intangible Assets (continued)**

The changes in the gross carrying amount of goodwill for the three months ended March 31, 2007 are as follows:

|  |              |
|--|--------------|
| Balance as of December 31, 2006                                | \$ 1,611,341 |
| Goodwill acquired during the three months ended March 31, 2007 | 856          |
| Balance as of March 31, 2007                                   | \$ 1,612,197 |

**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, 2006              | \$ 141,503 |
| Additions to asset retirement obligations | 383        |
| Accretion expense                         | 2,292      |
| Liabilities settled                       | ( 691)     |
| Balance at March 31, 2007                 | \$ 143,487 |

**7. Long Term Debt**

On March 28, 2007, Lamar Media Corp., a wholly-owned subsidiary of Lamar Advertising Company entered into a Series E Incremental Loan Agreement with its lenders, in the aggregate amount of \$250,000 which was funded on March 28, 2007. The Series E Incremental Loans will begin amortizing in quarterly installments paid on each June 30, September 30, December 31 and March 31 as follows:

| Principal Payment Date          | Principal Amount |
|---------------------------------|------------------|
| June 30, 2009    March 31, 2010 | \$ 3,125         |
| June 30, 2010    March 31, 2011 | \$ 6,250         |
| June 30, 2011    March 31, 2012 | \$ 9,375         |
| June 30, 2012    March 31, 2013 | \$ 43,750        |

The Series E Incremental Loans will mature March 31, 2013.

Also, on March 28, 2007, Lamar Media Corp. entered into a Series F Incremental Loan Agreement in the aggregate amount of \$325,000 which was funded on March 28, 2007. The Series F Incremental Loans will begin amortizing in quarterly installments paid on each June 30, September 30, December 31, and March 31 as follows:

| Principal Payment Date             | Principal Amount |
|------------------------------------|------------------|
| June 30, 2009    December 31, 2013 | \$ 812.5         |
| March 31, 2014                     | \$ 309,562.5     |

The Series F Incremental Loans will mature on March 31, 2014.

In conjunction with the Series E and F Term loans described above, the Company's credit agreement dated as of September 30, 2005, was further amended by Amendment No. 3 dated March 28, 2007, to (i) permit the Series E and

Series F Incremental Loans to be borrowed up to an aggregate of \$575.0 million and restore the amount available for additional incremental loans to \$500.0 million and (ii) delete the Interest Coverage Ratio, the Senior Coverage Ratio financial covenants and the step-down to 5.75x in the Total Debt Ratio financial covenant.

**Table of Contents**

LAMAR ADVERTISING COMPANY AND  
SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

8. 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 a guarantors are in the aggregate minor. Lamar Media's ability to make distributions to Lamar Advertising is restricted under the terms of its bank credit facility and the indentures relating to Lamar Media's outstanding notes. As of March 31, 2007 and December 31, 2006, the net assets restricted as to transfers from Lamar Media Corp. to Lamar Advertising Company in the form of cash dividends, loans or advances were \$327,630 and \$407,894, respectively.

9. Earnings Per Share

Earnings per share are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if the Company's options and warrants were converted to common stock. The number of dilutive shares resulting from this calculation is 842,221 and 847,519 for the three months ended March 31, 2007 and 2006. Diluted earnings per share should also reflect the potential dilution that could occur if the Company's convertible debt was converted to common stock. The number of potentially dilutive shares related to the Company's convertible debt excluded from the calculation because of their antidilutive effect is 5,611,569 and 5,581,755 for the three months ended March 31, 2007 and March 31, 2006, respectively.

10. Income Taxes

Effective January 1, 2007, the Company adopted FIN 48. Upon the adoption of FIN 48, the Company commenced a review of all open tax years in all jurisdictions. The adoption of FIN 48 did not have a material effect on our consolidated financial position or results of operations. As a result of the adoption, the Company's total balance for unrecognized tax benefits is \$0.3 million as of March 31, 2007. If the benefits were recognized in future periods they would have an impact on the Company's future effective tax rate.

In addition, management has accrued in the consolidated financial statements any penalties and interest, to the extent they would be assessed, on any underpayment of income tax. Such accruals have been and will continue to be the Company's accounting policy into the future. As of March 31, 2007, management had accrued \$0.1 million of interest and penalties relating to unrecognized income tax benefits, which was included in our accrued current tax liability in the accompanying consolidated balance sheet.

As of March 31, 2007, management does not anticipate any significant changes in the balance of unrecognized tax benefits during the next twelve months.

The Company files federal and state income tax returns in the U. S. as well as in Canada. The Company also files income tax returns in the Commonwealth of Puerto Rico. With few exceptions, the Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2002. Due to net operating loss carryovers, the Company is subject to examination adjustments to its net operating loss carryovers by tax authorities going back to 1997.

The Internal Revenue Service ("IRS") completed an examination of our federal income tax return for 2003 with no changes to taxable income. The State of New York has commenced an audit of our 2003 New York income tax return. However, the audit has not been finalized. We currently do not expect any changes in taxable income to result from this audit.

11. Dividend to Common Shareholders

The Company's board of directors declared a special dividend of \$3.25 per share of Common Stock in February 2007. The dividend was paid on March 30, 2007 to stockholders of record on March 22, 2007 in the aggregate amount of

\$318,303.

**Table of Contents**

12. New Accounting Pronouncements

In February 2007, the (FASB) issued Statement of Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (Statement 159)*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. Statement 159 is effective as of January 1, 2008. The Company does not expect any material financial statement implications relating to the adoption of this Statement.

In September 2006, the FASB issued Statement of Accounting Standards No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. Statement 157 applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, Statement 157 does not require any new fair value measurements. However, for some entities, the application of Statement 157 will change current practice. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within these fiscal years. We are assessing the impact of Statement 157, which we do not expect to have an impact on our financial position, results or operations or cash flows.

**Table of Contents**

LAMAR MEDIA CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)

|  | March 31,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 279                           | \$ 11,796            |
| Receivables, net of allowance for doubtful accounts of \$6,609 and \$6,400 in 2007 and 2006, respectively        | 125,365                          | 127,552              |
| Prepaid expenses   | 57,146                           | 38,215               |
| Deferred income tax assets   | 25,463                           | 26,884               |
| Other current assets   | 16,403                           | 18,095               |
| Total current assets   | 224,656                          | 222,542              |
| Property, plant and equipment  | 2,501,719                        | 2,432,977            |
| Less accumulated depreciation and amortization   | (1,062,075)                      | (1,027,029)          |
| Net property, plant and equipment  | 1,439,644                        | 1,405,948            |
| Goodwill   | 1,348,537                        | 1,347,775            |
| Intangible assets  | 860,507                          | 860,237              |
| Deferred financing costs net of accumulated amortization of \$16,546 and \$15,744 in 2007 and 2006, respectively | 19,754                           | 20,186               |
| Other assets   | 32,764                           | 39,299               |
| Total assets   | \$ 3,925,862                     | \$ 3,895,987         |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>  |                                  |                      |
| Current liabilities:   |                                  |                      |
| Trade accounts payable   | \$ 18,409                        | \$ 14,567            |
| Current maturities of long-term debt   | 16,475                           | 8,648                |
| Accrued expenses   | 52,476                           | 77,612               |
| Deferred income  | 14,042                           | 17,824               |
| Total current liabilities  | 101,402                          | 118,651              |
| Long-term debt   | 2,455,965                        | 1,981,820            |
| Deferred income tax liabilities  | 150,638                          | 148,310              |
| Asset retirement obligation  | 143,487                          | 141,503              |
| Other liabilities  | 28,838                           | 13,236               |



|  |              |              |
|--|--------------|--------------|
| Total liabilities  | 2,880,330    | 2,403,520    |
| Stockholder's equity:  |              |              |
| Common stock, par value \$.01, 3,000 shares authorized, 100 shares issued and outstanding at 2007 and 2006 |              |              |
| Additional paid-in-capital   | 2,444,485    | 2,444,485    |
| Accumulated comprehensive income   | 1,600        | 2,253        |
| Accumulated deficit  | (1,400,553)  | (954,271)    |
| Total Stockholder's equity   | 1,045,532    | 1,492,467    |
| Total liabilities and stockholder's equity   | \$ 3,925,862 | \$ 3,895,987 |

See accompanying note to condensed consolidated financial statements.

**Table of Contents**

LAMAR MEDIA CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS)

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
| Net revenues   | \$ 275,185                      | \$ 253,333 |
| Operating expenses (income)  |                                 |            |
| Direct advertising expenses (exclusive of depreciation and amortization)         | 100,783                         | 95,209     |
| General and administrative expenses (exclusive of depreciation and amortization) | 55,302                          | 47,811     |
| Corporate expenses (exclusive of depreciation and amortization)                  | 14,457                          | 11,350     |
| Depreciation and amortization  | 73,318                          | 73,178     |
| Gain on disposition of assets  | (312)                           | (1,678)    |
|  | 243,548                         | 225,870    |
| Operating income   | 31,637                          | 27,463     |
| Other expense (income)   |                                 |            |
| Gain on disposition of investment  | (15,448)                        |            |
| Interest income  | (493)                           | (227)      |
| Interest expense   | 31,554                          | 24,327     |
|  | 15,613                          | 24,100     |
| Income before income tax expense   | 16,024                          | 3,363      |
| Income tax expense   | 7,164                           | 1,458      |
| Net income   | \$ 8,860                        | \$ 1,905   |

See accompanying note to condensed consolidated financial statements.

**Table of Contents**

LAMAR MEDIA CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
| Cash flows from operating activities:   |                                 |           |
| Net income  | \$ 8,860                        | \$ 1,905  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation and amortization   | 73,318                          | 73,178    |
| Non cash equity-based compensation  | 9,447                           | 2,998     |
| Amortization included in interest expense   | 799                             | 698       |
| Gain on disposition of assets   | (15,760)                        | (1,678)   |
| Deferred tax expense (benefit)  | 3,749                           | (1,144)   |
| Provision for doubtful accounts   | 1,148                           | 1,161     |
| Changes in operating assets and liabilities:                                      |                                 |           |
| (Increase) decrease in:   |                                 |           |
| Receivables   | 1,033                           | (131)     |
| Prepaid expenses  | (18,858)                        | (18,104)  |
| Other assets  | (5,910)                         | (404)     |
| Increase (decrease) in:   |                                 |           |
| Trade accounts payable  | 4,327                           | (138)     |
| Accrued expenses  | (26,710)                        | (23,153)  |
| Other liabilities   | 9,609                           | 22,279    |
| Net cash provided by operating activities   | 45,052                          | 57,467    |
| Cash flows from investing activities:   |                                 |           |
| Acquisitions  | (60,067)                        | (66,601)  |
| Capital expenditures  | (50,064)                        | (46,525)  |
| Payments received on notes receivable   | 9,056                           |           |
| Proceeds from disposition of assets   | 19,857                          | 1,388     |
| Net cash used in investing activities   | (81,218)                        | (111,738) |
| Cash flows from financing activities:   |                                 |           |
| Principal payments on long-term debt  | (27)                            | (795)     |
| Net borrowings under credit agreement   | 482,000                         | 157,000   |
| Dividend to parent  | (455,233)                       | (114,214) |
| Debt issuance costs   | (2,107)                         |           |
| Net cash provided by financing activities   | 24,633                          | 41,991    |

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|  |           |           |
|--|-----------|-----------|
| Effect of exchange rate changes in cash and cash equivalents | 16        |           |
| Net decrease in cash and cash equivalents                    | (11,517)  | (12,280)  |
| Cash and cash equivalents at beginning of period             | 11,796    | 19,419    |
| Cash and cash equivalents at end of period                   | \$ 279    | \$ 7,139  |
| Supplemental disclosures of cash flow information:           |           |           |
| Cash paid for interest                                       | \$ 50,262 | \$ 36,689 |
| Cash paid for state and federal income taxes                 | \$ 1,627  | \$ 3,316  |
| Parent company stock issued related to acquisitions          | \$        | \$        |

See accompanying note to condensed consolidated financial statements.

**Table of Contents**

LAMAR MEDIA CORP.  
AND SUBSIDIARIES  
NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT FOR 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 Lamar Media'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 Lamar Media's consolidated financial statements and the notes thereto included in the 2006 Combined Form 10-K. Certain notes are not provided for the accompanying condensed consolidated financial statements as the information in notes 1, 2, 3, 4, 5, 6, 7, 8, 10, 11 and 12 to the condensed consolidated financial statements of Lamar Advertising Company included elsewhere in this report is substantially equivalent to that required for the condensed consolidated financial statements of Lamar Media Corp. Earnings per share data is not provided for Lamar Media Corp., as it is a wholly owned subsidiary of Lamar Advertising Company.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This discussion contains forward-looking statements. Actual results could differ materially from those anticipated by the forward-looking statements due to risks and uncertainties described in the section of this combined report on Form 10-Q entitled "Note Regarding Forward Looking Statements" and in Item 1A to the 2006 Combined Form 10-K. You should carefully consider each of these risks and uncertainties in evaluating the Company's and Lamar Media's financial conditions and results of operations. Investors are cautioned not to place undue reliance on the forward-looking statements contained in this document. These statements speak only as of the date of this document, and the Company undertakes no obligation to update or revise the statements, except as may be required by law.*

**Lamar Advertising Company**

The following is a discussion of the consolidated financial condition and results of operations of the Company for the three months ended March 31, 2007 and 2006. This discussion should be read in conjunction with the consolidated financial statements of the Company and the related notes.

**OVERVIEW**

The Company's net revenues, which represent gross revenues less commissions paid to advertising agencies that contract for the use of advertising displays on behalf of advertisers, are derived primarily from the sale of advertising on outdoor advertising displays owned and operated by the Company. The Company relies on sales of advertising space for its revenues, and its operating results are therefore affected by general economic conditions, as well as trends in the advertising industry. Advertising spending is particularly sensitive to changes in general economic conditions which affect the rates we are able to charge for advertising on our displays and our ability to maximize occupancy on our displays.

Since December 31, 2001, the Company has increased the number of outdoor advertising displays it operates by approximately 5% by completing strategic acquisitions of outdoor advertising and transit assets for an aggregate purchase price of approximately \$994 million, which included the issuance of 4,050,958 shares of Lamar Advertising Company Class A common stock valued at the time of issuance at approximately \$153 million and warrants valued at the time of issuance of approximately \$2 million. The Company has financed its recent acquisitions and intends to finance its future acquisition activity from available cash, borrowings under its bank credit agreement and the issuance of Class A common stock. See "Liquidity and Capital Resources" below. As a result of acquisitions, the operating performances of individual markets and of the Company as a whole are not necessarily comparable on a year-to-year basis. The Company expects to continue to pursue acquisitions that complement the Company's business.

Growth of the Company's business requires expenditures for maintenance and capitalized costs associated with new billboard displays, replacement of damaged billboard displays, logo sign and transit contracts, and the purchase of real estate and operating equipment. The following table presents a breakdown of capitalized expenditures for the three months ended March 31, 2007 and 2006:

|                             | Three months ended<br>March 31,<br>(in thousands) |           |
|-----------------------------|---|-----------|
|                             | 2007  | 2006      |
| Total Capital Expenditures: |   |           |
| Billboard - traditional     | \$ 20,525   | \$ 17,261 |
| Billboard - digital         | 15,786  | 18,027    |
| Logos                       | 1,774   | 1,605     |
| Transit                     | 439   | 214       |
| Land and buildings          | 9,100   | 7,273     |
| Operating equipment         | 2,440   | 2,178     |
| Total capital expenditures  | \$ 50,064   | \$ 46,558 |



**Table of Contents****RESULTS OF OPERATIONS****Three Months ended March 31, 2007 compared to Three Months ended March 31, 2006**

Net revenues increased \$21.9 million or 8.6% to \$275.2 million for the three months ended March 31, 2007 from \$253.3 million for the same period in 2006. This increase was attributable primarily to an increase in billboard net revenues of \$22.5 million or 9.9% over the prior period, a \$.4 million increase in logo sign revenue, which represents an increase of 3.4% over the prior period, and a \$1.0 million decrease in transit revenue over the prior period, which represents a decrease of 7.8%

The increase in billboard net revenue of \$22.5 million was generated by acquisition activity of approximately \$4.6 million and internal growth of approximately \$17.9 million, while the increase in logo sign revenue of \$.4 million was generated by internal growth across various markets within the logo sign programs of approximately \$1.4 million, which was offset by the loss of \$1.0 million of revenue due to the loss of the Company's Texas logo contract. The decrease in transit revenue of approximately \$1.0 million was primarily due to the loss of various transit contracts.

Net revenues for the three months ended March 31, 2007, as compared to acquisition-adjusted net revenue for the three months ended March 31, 2006, increased \$19.0 million or 7.4% as a result of net revenue internal growth. See **Reconciliations** below.

Operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$16.2 million or 10.5% to \$170.7 million for the three months ended March 31, 2007 from \$154.5 million for the same period in 2006. There was a \$13.1 million increase as a result of additional operating expenses related to the operations of acquired outdoor advertising assets and increases in costs in operating the Company's core assets and a \$3.1 million increase in corporate expenses.

Depreciation and amortization expense remained relatively constant for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 due to consistent levels of capital expenditures between the two periods presented.

Due to the above factors, operating income increased \$4.2 million to \$31.5 million for three months ended March 31, 2007, compared to \$27.3 million for the same period in 2006.

During the first quarter of 2007, the Company recognized a \$15.4 million gain as a result of the sale of a private company in which the Company had an ownership interest.

Interest expense increased \$7.0 million from \$24.8 million for the three months ended March 31, 2006 to \$31.8 million for the three months ended March 31, 2007 due to increased debt balances as well as an increase in interest rates on variable rate debt.

The increase in operating income and the gain on disposition of investment, offset by the increase in interest expense described above resulted in a \$12.9 million increase in income before income taxes. This increase in income resulted in an increase in the income tax expense of \$5.6 million for the three months ended March 31, 2007 over the same period in 2006. The effective tax rate for the three months ended March 31, 2007 was 43.4%, which is greater than the statutory rates due to permanent differences resulting from non-deductible compensation expense related to stock options in accordance with SFAS 123R, *Share Based Payment*, and other non-deductible expenses such as meals and entertainment and amortization. In addition, our effective tax rate is higher due to limitations on our ability to utilize foreign tax credits on our foreign source income.

As a result of the above factors, the Company recognized net income for the three months ended March 31, 2007 of \$8.8 million, as compared to net income of \$1.5 million for the same period in 2006.

In February 2007, the Company's board of directors declared a special cash dividend of \$3.25 per share of Common Stock. The aggregate dividend of \$318.3 million was paid on March 30, 2007 to stockholders of record on March 22, 2007. Lamar had approximately 82.5 million shares of Class A Common Stock and 15.4 million shares of Class B Common Stock, which is convertible into Class A Common Stock on a one-for-one basis at the option of its holder, outstanding on the record date.

**Reconciliations:**

Because acquisitions occurring after December 31, 2005 (the acquired assets) have contributed to our net revenue results for the periods presented, we provide 2006 acquisition-adjusted net revenue, which adjusts our 2006 net



revenue for the three months ended March 31, 2006 by adding to it the net revenue generated by the acquired assets prior to our acquisition of them for the same time frame that those assets were owned in the three months ended March 31, 2007. We provide this information as a supplement to net revenues to enable investors to compare periods in 2007 and 2006 on a more consistent basis without the effects of acquisitions. Management uses this comparison to assess how well we are performing within our existing assets.

Acquisition-adjusted net revenue is not determined in accordance with generally accepted accounting principles (GAAP). For this adjustment, we measure the amount of pre-acquisition revenue generated by the assets during the period in 2006 that corresponds with the actual period we have owned the assets in 2007 (to the extent within the period to which this report relates). We refer to this adjustment as acquisition net revenue.

Reconciliations of 2006 reported net revenue to 2006 acquisition-adjusted net revenue as well as a comparison of 2006 acquisition adjusted net revenue to 2007 net revenue for each of the three month periods ended March 31, are provided below:

**Table of Contents***Comparison of 2007 Net Revenue to 2006 Acquisition-Adjusted Net Revenue*

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
|  | (in thousands)                  |            |
| Reported net revenue                         | \$ 275,185                      | \$ 253,333 |
| Acquisition net revenue, net of divestitures |                                 | 2,803      |
| Adjusted totals                              | \$ 275,185                      | \$ 256,136 |

**LIQUIDITY AND CAPITAL RESOURCES***Overview*

The Company has historically satisfied its working capital requirements with cash from operations and borrowings under its bank credit facility. The Company's wholly owned subsidiary, Lamar Media Corp., is the borrower under the bank credit facility and maintains all corporate cash balances. Any cash requirements of the Company, therefore, must be funded by distributions from Lamar Media. The Company's acquisitions have been financed primarily with funds borrowed under the bank credit facility and issuance of its Class A common stock and debt securities. If an acquisition is made by one of the Company's subsidiaries using the Company's Class A common stock, a permanent contribution of additional paid-in-capital of Class A common stock is distributed to that subsidiary.

*Sources of Cash*

*Total Liquidity at March 31, 2007.* As of March 31, 2007 we had approximately \$385.3 million of total liquidity, which is comprised of approximately \$.3 million in cash and cash equivalents and the ability to draw approximately \$385.0 million under our revolving bank credit facility.

*Cash Generated by Operations.* For the three months ended March 31, 2007 and 2006 our cash provided by operating activities was \$33.4 million and \$34.9 million, respectively. While our net income was approximately \$8.8 million for the three months ended March 31, 2007, we generated cash from operating activities of \$33.4 million during that same period, primarily due to adjustments needed to reconcile net income to cash provided by operating activities, which primarily consisted of depreciation and amortization of \$73.3 million. This was offset by an increase in working capital of \$48.7 million. We expect to generate cash flows from operations during 2007 in excess of our cash needs for operations and capital expenditures as described herein. We expect to use the excess cash generated principally for acquisitions and to fund repurchases under our stock repurchase program. See *Cash Flows* for more information.

*Credit Facilities.* As of March 31, 2007, Lamar Media had approximately \$385.0 million of unused capacity under the revolving credit facility included in its bank credit facility. The bank credit facility was refinanced on September 30, 2005 and is comprised of a \$400.0 million revolving bank credit facility and a \$400.0 million term facility. The bank credit facility also includes a \$500.0 million incremental facility, which permits Lamar Media to request that its lenders enter into commitments to make additional term loans, up to a maximum aggregate amount of \$500.0 million. On January 17, 2007, Lamar Media entered into a Series D Incremental Loan Agreement and obtained commitments from its lenders for a term loan of \$7.0 million, which was funded on January 17, 2007. On March 28, 2007, Lamar Media entered into Series E and Series F Incremental Loan Agreements and obtained commitments from their lenders for term loans of \$250 million and \$325 million, respectively, which were both funded on March 28, 2007. In addition, the \$500 million incremental facility, which had previously been reduced by the aggregate amount of the Series C and Series D Incremental Loans and would have been reduced by the Series E and Series F Incremental Loans, was restored to \$500 million. The lenders have no obligation to make additional term loans to Lamar Media under the incremental facility, but may enter into such commitments in their sole discretion.

*Factors Affecting Sources of Liquidity*

*Internally Generated Funds.* The key factors affecting internally generated cash flow are general economic conditions, specific economic conditions in the markets where the Company conducts its business and overall spending on advertising by advertisers.

*Restrictions Under Credit Facilities and Other Debt Securities.* Currently Lamar Media has outstanding approximately \$385.0 million 7<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due 2013 issued in December 2002 and June 2003 and \$400.0 million 6<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 2015 issued in August 2005 and \$216 million 6<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 2015 Series B issued in August, 2006. The indentures relating to Lamar Media's outstanding notes restrict its ability to incur indebtedness other than:

up to \$1.3 billion of indebtedness under its bank credit facility;

currently outstanding indebtedness or debt incurred to refinance outstanding debt;

inter-company debt between Lamar Media and its subsidiaries or between subsidiaries;

certain purchase money indebtedness and capitalized lease obligations to acquire or lease property in the ordinary course of business that cannot exceed the greater of \$20 million or 5% of Lamar Media's net tangible assets; and

additional debt not to exceed \$40 million.

**Table of Contents**

Lamar Media is required to comply with certain covenants and restrictions under its bank credit agreement. If Lamar Media fails to comply with these tests, its obligations under the bank credit agreement may be accelerated. At March 31, 2007 and currently, Lamar Media is in compliance with all such tests.

Lamar Media cannot exceed the following financial ratios under its bank credit facility:

a total debt ratio, defined as total consolidated debt to EBITDA, as defined below, for the most recent four fiscal quarters, of 6.00 to 1.

In addition, the bank credit facility requires that Lamar Media must maintain the following financial ratios:

a fixed charges coverage ratio, defined as EBITDA, as defined below, for the most recent four fiscal quarters to the sum of (1) the total payments of principal and interest on debt for such period, plus (2) capital expenditures made during such period, plus (3) income and franchise tax payments made during such period, plus (4) dividends, of greater than 1.05 to 1.

As defined under Lamar Media's bank credit facility, EBITDA is, for any period, operating income for Lamar Media and its restricted subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for such period (calculated before taxes, interest expense, interest in respect of mirror loan indebtedness, depreciation, amortization and any other non-cash income or charges accrued for such period and (except to the extent received or paid in cash by Lamar Media or any of its restricted subsidiaries) income or loss attributable to equity in affiliates for such period) excluding any extraordinary and unusual gains or losses during such period and excluding the proceeds of any casualty events whereby insurance or other proceeds are received and certain dispositions not in the ordinary course. Any restricted payment made by Lamar Media or any of its restricted subsidiaries to the Company during any period to enable the Company to pay certain qualified expenses on behalf of Lamar Media and its subsidiaries shall be treated as operating expenses of Lamar Media for the purposes of calculating EBITDA for such period. EBITDA under the bank credit agreement is also adjusted to reflect certain acquisitions or dispositions as if such acquisitions or dispositions were made on the first day of such period if and to the extent such operating expenses would be deducted in the calculation of EBITDA if funded directly by Lamar Media or any restricted subsidiary.

The Company believes that its current level of cash on hand, availability under its bank credit agreement and future cash flows from operations are sufficient to meet its operating needs through the year 2007. All debt obligations are reflected on the Company's balance sheet.

*Uses of Cash*

*Capital Expenditures.* Capital expenditures excluding acquisitions were approximately \$50.1 million for the three months ended March 31, 2007 which is relatively constant as compared to the prior period. We anticipate our 2007 total capital expenditures to be approximately \$105.0 million before digital capital expenditures.

*Acquisitions.* During the three months ended March 31, 2007, the Company financed its acquisition activity of approximately \$60.1 million with borrowings under Lamar Media's revolving credit facility and cash on hand. In 2007, we expect to spend between \$125 million and \$150 million on acquisitions, which we may finance through borrowings, cash on hand, the issuance of Class A common stock, or some combination of the foregoing, depending on market conditions. We plan on continuing to invest in both capital expenditures and acquisitions that can provide high returns in light of existing market conditions.

*Stock Repurchase Program.* At January 1, 2007, the Company had approximately \$100.7 million of repurchase capacity remaining under a repurchase plan adopted in August 2006. In addition to that plan, the Company's board of directors approved a new stock repurchase program in February 2007, of up to \$500.0 million of the Company's Class A common stock over a period not to exceed 24 months. During the three months ended March 31, 2007, the Company purchased approximately 2,033,947 shares for an aggregate purchase price of approximately \$130.1 million. The Share repurchases under the plan may be made on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased is determined by Lamar's management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. Any repurchased shares will be available for future use for general corporate and other purposes.

*Special Cash Dividend.* In February 2007, the Company's board of directors declared a special cash dividend of \$3.25 per share of Common Stock that was paid on March 30, 2007 to stockholders of record on March 22, 2007. Lamar had approximately 82.5 million shares of Class A Common Stock and 15.4 million shares of Class B Common Stock,

which is convertible into Class A Common Stock on a one-for-one basis at the option of its holder, outstanding as of the record date resulting in an aggregate dividend payment of \$318.3 million.

*Debt Service and Contractual Obligations.* As of March 31, 2007, we had outstanding debt of approximately \$2.47 billion. Lamar Media had principal reduction obligations and revolver commitment reductions under its bank credit agreement prior to its replacement on September 30, 2005 that are detailed in Note 8 to the Company's Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2006. The following table details Lamar Media's principal reduction obligations and related interest obligations on long term debt under its bank credit agreement as of March 31, 2007, which updates those obligations to reflect material changes in Lamar Media's outstanding long-term debt since December 31, 2006 as detailed above under the heading *Credit Facilities*.

| <b>Contractual Obligations</b>            | <b>Total</b> | <b>Less Than</b> | <b>Payments Due by Period</b> |                    |                      |
|---|--------------|------------------|-------------------------------|--------------------|----------------------|
|   |              |                  | <b>1 - 3 Years</b>            | <b>4 - 5 Years</b> | <b>After 5 Years</b> |
|   |              |                  | <b>(In millions)</b>          |                    |                      |
| Long-Term Debt                            | \$ 2,472.4   | \$ 16.5          | \$ 109.6                      | \$ 680.1           | \$ 1,666.2           |
| Interest obligations on long term debt(1) | 1,021.2      | 162.8            | 327.0                         | 285.8              | 245.6                |
| Total payments due                        | \$ 3,493.6   | \$ 179.3         | \$ 436.6                      | \$ 965.9           | \$ 1,911.8           |

(1) Interest rates on our variable rate instruments are assuming rates at the March 2007 levels.

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

The Company's cash flows provided by operating activities decreased by \$1.6 million for the three months ended March 31, 2007 due to an increase in net income of \$7.3 million as described in Results of Operations an increase in adjustments to reconcile net income (loss) to cash provided by operating activities of \$2.1 million primarily an increase in non-cash compensation of \$6.4 million, an increase in deferred income tax expense of \$9.7 million offset by an increase in gain on dispositions of assets of \$14.1 million. In addition, as compared to the same period in 2006, there were increases in other assets of \$7.9 million, decreases in accrued expenses of \$4.4 million and in other liabilities of \$3.6 million.

Cash flows used in investing activities decreased \$30.6 million from \$111.8 million for the three months ended March 31, 2006 to \$81.2 million for the three months ended March 31, 2007, primarily due to a decrease in acquisitions of \$6.5 million and an increase in proceeds from disposition of assets of \$18.5 million and an increase in payments received on notes to receivables of \$9.1 million.

Cash flows provided by financing activities was \$36.3 million for the three months ended March 31, 2007 primarily due to \$482.0 million in net borrowings under credit agreements, offset by \$130.1 million in cash used for purchase of shares of the Company's Class A common stock and \$318.4 million in cash used for dividends.

***Lamar Media Corp.***

The following is a discussion of the consolidated financial condition and results of operations of Lamar Media for the three months ended March 31, 2007 and 2006. This discussion should be read in conjunction with the consolidated financial statements of Lamar Media and the related notes.

**RESULTS OF OPERATIONS****Three Months ended March 31, 2007 compared to Three Months ended March 31, 2006**

Net revenues increased \$21.9 million or 8.6% to \$275.2 million for the three months ended March 31, 2007 from \$253.3 million for the same period in 2006. This increase was attributable primarily to an increase in billboard net revenues of \$22.5 million or 9.9% over the prior period, a \$.4 million increase in logo sign revenue, which represents an increase of 3.4% over the prior period, and a \$1.0 million decrease in transit revenue over the prior period, which represents a decrease of 7.8%

The increase in billboard net revenue of \$22.5 million was generated by acquisition activity of approximately \$4.6 million and internal growth of approximately \$17.9 million, while the increase in logo sign revenue of \$.4 million was generated by internal growth across various markets within the logo sign programs of approximately \$1.4 million, which was offset by the loss of \$1.0 million of revenue due to the loss of the Company's Texas logo contract. The decrease in transit revenue of approximately \$1.0 million was primarily due to the loss of various transit contracts.

Net revenues for the three months ended March 31, 2007, as compared to acquisition-adjusted net revenue for the three months ended March 31, 2006, increased \$19.0 million or 7.4% as a result of net revenue internal growth. See Reconciliations below.

Operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$16.1 million or 10.4% to \$170.5 million for the three months ended March 31, 2007 from \$154.4 million for the same period in 2006. There was a \$13.0 million increase as a result of additional operating expenses related to the operations of acquired outdoor advertising assets and increases in costs in operating Lamar Media's core assets and a \$3.1 million increase in corporate expenses.

Depreciation and amortization expense remained relatively constant for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 due to consistent levels of capital expenditures between the two periods presented.

Due to the above factors, operating income increased \$4.1 million to \$31.6 million for three months ended March 31, 2007 compared to \$27.5 million for the same period in 2006.

During the first quarter of 2007, the Company recognized a \$15.4 million gain as a result of the sale of a private company in which the Company had an ownership interest.

Interest expense increased \$7.3 million from \$24.3 million for the three months ended March 31, 2006 to \$31.6 million for the three months ended March 31, 2007 due to increased debt balances as well as an increase in

interest rates on variable rate debt.

The increase in operating income, and the gain on disposition of investment, offset by the increase in interest expense described above resulted in a \$12.7 million increase in income before income taxes. This increase in income resulted in an increase in the income tax expense of \$5.7 million for the three months ended March 31, 2007 over the same period in 2006. The effective tax rate for the three months ended March 31, 2007 was 44.7%, which is greater than the statutory rates due to permanent differences resulting from non-deductible compensation expense related to stock options in accordance with SFAS 123R, *Share Based Payment*, and other non-deductible expenses such as meals and entertainment and amortization. In addition, our effective tax rate is higher due to limitations on our ability to utilize foreign tax credits on our foreign source income.

As a result of the above factors, Lamar Media recognized net income for the three months ended March 31, 2007 of \$8.9 million, as compared to net income of \$1.9 million for the same period in 2006.

**Table of Contents****Reconciliations:**

Because acquisitions occurring after December 31, 2005 (the acquired assets ) have contributed to our net revenue results for the periods presented, we provide 2006 acquisition-adjusted net revenue, which adjusts our 2006 net revenue for the three months ended March 31, 2006 by adding to it the net revenue generated by the acquired assets prior to our acquisition of them for the same time frame that those assets were owned in the three months ended March 31, 2007. We provide this information as a supplement to net revenues to enable investors to compare periods in 2007 and 2006 on a more consistent basis without the effects of acquisitions. Management uses this comparison to assess how well we are performing within our existing assets.

Acquisition-adjusted net revenue is not determined in accordance with generally accepted accounting principles (GAAP). For this adjustment, we measure the amount of pre-acquisition revenue generated by the assets during the period in 2006 that corresponds with the actual period we have owned the assets in 2007 (to the extent within the period to which this report relates). We refer to this adjustment as acquisition net revenue.

Reconciliations of 2006 reported net revenue to 2006 acquisition-adjusted net revenue as well as a comparison of 2006 acquisition adjusted net revenue to 2007 net revenue for each of the three month periods ended March 31, are provided below:

*Comparison of 2007 Net Revenue to 2006 Acquisition-Adjusted Net Revenue*

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
|  | (in thousands)                  |            |
| Reported net revenue                         | \$ 275,185                      | \$ 253,333 |
| Acquisition net revenue, net of divestitures |                                 | 2,803      |
| Adjusted totals                              | \$ 275,185                      | \$ 256,136 |



**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Lamar Advertising Company and Lamar Media Corp.***

The Company is exposed to interest rate risk in connection with variable rate debt instruments issued by its wholly owned subsidiary Lamar Media. The information below summarizes the Company's interest rate risk associated with its principal variable rate debt instruments outstanding at March 31, 2007 and should be read in conjunction with Note 8 of the Notes to the Company's Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

Loans under Lamar Media's bank credit agreement bear interest at variable rates equal to the JPMorgan Chase Prime Rate or LIBOR plus the applicable margin. Because the JPMorgan Chase Prime Rate or LIBOR may increase or decrease at any time, the Company is exposed to market risk as a result of the impact that changes in these base rates may have on the interest rate applicable to borrowings under the bank credit agreement. Increases in the interest rates applicable to borrowings under the bank credit agreement would result in increased interest expense and a reduction in the Company's net income.

At March 31, 2007, there was approximately \$1.2 billion of aggregate indebtedness outstanding under the bank credit agreement, or approximately 48.4% of the Company's outstanding long-term debt on that date, bearing interest at variable rates. The aggregate interest expense for the three months ended March 31, 2007 with respect to borrowings under the bank credit agreement was \$12.4 million, and the weighted average interest rate applicable to borrowings under this credit facility during the three months ended March 31, 2007 was 6.4%. Assuming that the weighted average interest rate was 200-basis points higher (that is 8.4% rather than 6.4%), then the Company's three months ended March 31, 2007 interest expense would have been approximately \$3.6 million higher resulting in a \$2.0 million decrease in the Company's three months ended March 31, 2007 net income.

The Company has attempted to mitigate the interest rate risk resulting from its variable interest rate long-term debt instruments by issuing fixed rate, long-term debt instruments and maintaining a balance over time between the amount of the Company's variable rate and fixed rate indebtedness. In addition, the Company has the capability under the bank credit agreement to fix the interest rates applicable to its borrowings at an amount equal to LIBOR plus the applicable margin for periods of up to twelve months, which would allow the Company to mitigate the impact of short-term fluctuations in market interest rates. In the event of an increase in interest rates, the Company may take further actions to mitigate its exposure. The Company cannot guarantee, however, that the actions that it may take to mitigate this risk will be feasible or if these actions are taken, that they will be effective.

**ITEM 4. CONTROLS AND PROCEDURES*****a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.***

The Company's and Lamar Media's management, with the participation of the principal executive officer and principal financial officer of the Company and Lamar Media, have evaluated the effectiveness of the design and operation of the Company's and Lamar Media's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on this evaluation, the principal executive officer and principal financial officer of the Company and Lamar Media concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in the Company's and Lamar Media's reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

***b) Changes in Internal Control Over Financial Reporting.***

There was no change in the internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) of the Company and Lamar Media identified in connection with the evaluation of the Company's and Lamar Media's internal control performed during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's and Lamar Media's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Issuer Purchases of Equity Securities*

On August 25, 2006, the Company announced that its Board of Directors had approved the repurchase of \$250 million of the Company's Class A Common Stock. On February 22, 2007 the Board of Directors approved a new stock repurchase program of up to \$500.0 million of the Company's Class A common stock over a period not to exceed 24 months. The Company's management determines the timing and amount of stock repurchases based on market conditions and other factors, and may terminate the program at any time before it expires.

The following table describes the Company's repurchases of its registered Class A Common Stock during the quarter ended March 31, 2007, all of which occurred pursuant to the stock repurchase programs described above, except as otherwise noted:

| <b>Period</b>                                       | <b>Total No.<br/>of Shares<br/>Purchased</b> | <b>Avg.<br/>Price<br/>Paid<br/>per Share</b> | <b>Total No.<br/>of Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Approximate<br/>Dollar Value of<br/>Shares that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|---|--|--|--|---|
| February 1 through February 28, 2007 <sup>(1)</sup> | 392,211                                      | \$64.19                                      | 392,211  | \$ 575,498,635  |
| March 1 through March 31, 2007 <sup>(2)(3)</sup>    | 1,743,688                                    | \$64.04                                      | 1,743,688  | \$ 463,835,715  |

(1) On December 29, 2006, the Company entered into a written repurchase plan with its broker under Rule 10b5-1 of the Exchange Act. This plan allowed the Company to repurchase shares (as set forth in the plan) under the repurchase program during the Company's self-imposed blackout period.

(2) Includes 66,586 shares of Class A common stock withheld to satisfy tax withholding obligations in respect of shares issued pursuant to performance based stock awards.

(3) Includes 35,366 shares of Class A common stock withheld to satisfy tax withholding obligations in respect of shares issued pursuant to special stock awards made to holders of vested options as of March 22, 2007.

**ITEM 5. OTHER INFORMATION**

On May 9, 2007, Lamar Media Corp. amended and restated its certificate of incorporation to incorporate certain statutory language relating to Section 251(g) of the Delaware General Corporation Law. A copy of Lamar Media Corp. s Amended and Restated Certificate of Incorporation is attached in its entirety as Exhibit 3.2 and is incorporated herein by reference.

**ITEM 6. EXHIBITS**

The Exhibits filed as part of this report are listed on the Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LAMAR ADVERTISING  
COMPANY**

DATED: May 9, 2007 BY: /s/ Keith A. Istre

Chief Financial and  
Accounting Officer and  
Treasurer

**LAMAR MEDIA CORP.**

DATED: May 9, 2007 BY: /s/ Keith A. Istre

Chief Financial and  
Accounting Officer and  
Treasurer

24

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**Table of Contents**

**INDEX TO EXHIBITS**

| EXHIBIT<br>NUMBER | DESCRIPTION   |
|-------------------|---|
| 3.1               | Restated Certificate of Incorporation of the Company. Previously filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 0-30242) filed on February 22, 2006 and incorporated herein by reference.   |
| 3.2               | Amended and Restated Certificate of Incorporation of Lamar Media. Filed herewith.   |
| 3.3               | Amended and Restated Bylaws of the Company. Previously filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999 (File No. 0-20833) filed on August 16, 1999, and incorporated herein by reference.  |
| 3.4               | Amended and Restated Bylaws of Lamar Media. Previously filed as Exhibit 3.1 to Lamar Media's Quarterly Report on Form 10-Q for the period ended September 30, 1999 (File No. 1-12407) filed on November 12, 1999 and incorporated herein by reference.  |
| 10.1              | Series D Incremental Loan Agreement dated as of January 17, 2007 between Lamar Advertising of Puerto Rico., Lamar Media, the Subsidiary Guarantors named therein, the Series D Incremental Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. Filed herewith.  |
| 10.2              | Series E Incremental Loan Agreement dated as of March 28, 2007 between Lamar Media, the Subsidiary Guarantors named therein, the Series E Incremental Lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 0-30242) filed on March 29, 2007 and incorporated herein by reference.                           |
| 10.3              | Series F Incremental Loan Agreement dated as of March 28, 2007 between Lamar Media, the Subsidiary Guarantors named therein, the Series F Incremental Lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent. Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 0-30242) filed on March 29, 2007 and incorporated herein by reference.                           |
| 10.4              | Amendment No. 3 dated as of March 28, 2007 to the Credit Agreement dated as of September 30, 2005 between Lamar Media, the Subsidiary Borrower named therein, the Subsidiary Guarantors named therein and JPMorgan Chase Bank, N.A., as Administrative Agent. Previously filed as Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 0-30242) filed on March 29, 2007 and incorporated herein by reference. |
| 10.5              | Summary of Compensatory Arrangements. Previously filed on the Company's Current Report on Form 8-K (File No. 0-30242) filed on March 19, 2007 and incorporated herein by reference.   |
| 12.1              | Statement regarding computation of earnings to fixed charges for the Company. Filed herewith.   |
| 12.2              | Statement regarding computation of earnings to fixed charges for Lamar Media. Filed herewith.   |
| 31.1              | Certification of the Chief Executive Officer of Lamar Advertising Company and Lamar Media pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.   |

- 31.2 Certification of the Chief Financial Officer of Lamar Advertising Company and Lamar Media pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

25