LAMAR MEDIA CORP/DE
Form 10-Q
August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2011

or

o **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.)

5321 Corporate Blvd., Baton Rouge, LA	70808
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

The number of shares of Lamar Advertising Company s Class A common stock outstanding as of August 1, 2011: 94,858,706

The number of shares of the Lamar Advertising Company s Class B common stock outstanding as of August 1, 2011: 15,122,865

The number of shares of Lamar Media Corp. common stock outstanding as of August 1, 2011: 100

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

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Lamar Advertising Company s (the Company or Lamar) future financial performance and condition;
- how the Company expects to fund future acquisition activity;
- cash flows from operations for the fiscal year ending December 31, 2011 exceeding cash needs for operations and capital expenditures;
- the extent of any excess cash flow payments required under our senior credit facility for the fiscal year ending December 31, 2011;
- the sufficiency of cash on hand, cash available under the Company s senior credit facility and future cash flows from operations to meet the Company s operating needs;
- the Company s anticipated capital expenditures and acquisition activity;
- the Company s business plans, objectives, prospects, growth and operating strategies;
- market opportunities and competitive positions;
- estimated risks; and
- stock price.

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

- current economic conditions and their affect on the markets in which the Company operates;
- the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to the Company s significant indebtedness;
- the Company s need for, and ability to obtain, additional funding for acquisitions and operations;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry;
- the Company s ability to renew expiring contracts at favorable rates;
- the Company s ability to successfully implement its digital deployment strategy;
- the integration of any businesses that the Company may acquire and its ability to recognize cost savings and operating efficiencies as a result of any acquisitions; and

changes in accounting principles, policies or guidelines.

The forward-looking statements in this report are based on the Company s current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors. Consequently, the Company cannot guarantee that any of the forward-looking statements will prove to be accurate.

The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising Company and Lamar Media Corp. (Lamar Media) expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

For a further description of these and other risks and uncertainties, the Company encourages you to read carefully Item 1A to the combined Annual Report on Form 10-K for the year ended December 31, 2010 of the Company and Lamar Media (the 2010 Combined Form 10-K), filed on February 25, 2011 and as such risk factors are updated, from time to time, in our combined Quarterly Reports on Form 10-Q.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LAMAR ADVERTISING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 18,663	$ 91,679
Receivables, net of allowance for doubtful accounts of $8,700 and $8,100 in 2011 and 2010, respectively	165,876	141,166
Prepaid expenses	59,063	40,046
Deferred income tax assets	9,539	9,241
Other current assets	26,731	27,277
Total current assets	279,872	309,409
Property, plant and equipment	2,827,552	2,796,935
Less accumulated depreciation and amortization	(1,597,426)	(1,539,484)
Net property, plant and equipment	1,230,126	1,257,451
Goodwill	1,426,826	1,426,135
Intangible assets	521,537	569,723
Deferred financing costs, net of accumulated amortization of $24,418 and $20,221 in 2011 and 2010, respectively	39,020	43,170
Other assets	40,868	43,073
Total assets	$ 3,538,249	$ 3,648,961
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 12,610	$ 13,208
Current maturities of long-term debt	713	5,694
Accrued expenses	89,726	96,542
Deferred income	50,943	38,136
Total current liabilities	153,992	153,580
Long-term debt	2,285,008	2,403,446
Deferred income tax liabilities	86,544	87,234
Asset retirement obligation	177,467	173,673

Other liabilities	14,327	12,505
Total liabilities	2,717,338	2,830,438
Stockholders equity:		
Series AA preferred stock, par value $.001, $63.80 cumulative dividends, authorized 5,720 shares; 5,720 shares issued and outstanding at 2011 and 2010		
Class A preferred stock, par value $638, $63.80 cumulative dividends, 10,000 shares authorized; 0 shares issued and outstanding at 2011 and 2010		
Class A common stock, par value $.001, 175,000,000 shares authorized, 94,858,506 and 94,483,412 shares issued at 2011 and 2010, respectively; 77,775,854 and 77,484,562 issued and outstanding at 2011 and 2010, respectively	95	94
Class B common stock, par value $.001, 37,500,000 shares authorized, 15,122,865 shares issued and outstanding at 2011 and 2010	15	15
Additional paid-in capital	2,396,588	2,389,125
Accumulated comprehensive income	6,511	6,110
Accumulated deficit	(693,780)	(691,784)
Cost of shares held in treasury, 17,082,652 and 16,998,850 shares in 2011 and 2010, respectively	(888,518)	(885,037)
Stockholders equity	820,911	818,523
Total liabilities and stockholders equity	$ 3,538,249	$ 3,648,961

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Net revenues	$ 293,345	$ 286,366	$ 548,547	$ 530,469
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	103,058	99,825	202,609	198,377
General and administrative expenses (exclusive of depreciation and amortization)	48,572	48,275	99,639	95,346
Corporate expenses (exclusive of depreciation and amortization)	10,797	12,276	22,348	22,748
Depreciation and amortization	72,410	78,165	146,283	156,507
Gain on disposition of assets	(911)	(1,446)	(7,358)	(2,619)
	233,926	237,095	463,521	470,359
Operating income	59,419	49,271	85,026	60,110
Other expense (income)				
Loss on extinguishment of debt		17,137		17,398
Interest income	(51)	(87)	(83)	(176)
Interest expense	43,307	46,640	86,927	95,970
	43,256	63,690	86,844	113,192
Income (loss) before income tax expense	16,163	(14,419)	(1,818)	(53,082)
Income tax expense (benefit)	4,737	(5,482)	(4)	(19,318)
Net income (loss)	11,426	(8,937)	(1,814)	(33,764)
Preferred stock dividends	91	91	182	182
Net income (loss) applicable to common stock	$ 11,335	$ (9,028)	$ (1,996)	$ (33,946)
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.12	$ (0.10)	$ (0.02)	$ (0.37)
Diluted earnings (loss) per share	$ 0.12	$ (0.10)	$ (0.02)	$ (0.37)

Weighted average common shares used in computing earnings per share:				
Weighted average common shares outstanding	92,840,263	92,202,404	92,760,807	92,115,868
Incremental common shares from dilutive stock options	356,542			
Incremental common shares from convertible debt				
Weighted average common shares diluted	93,196,805	92,202,404	92,760,807	92,115,868

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (1,814)	$ (33,764)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	146,283	156,507
Non-cash equity based compensation	4,678	7,800
Amortization included in interest expense	9,141	8,042
Gain on disposition of assets	(7,358)	(2,619)
Loss on extinguishment of debt		17,398
Deferred tax benefit	(1,207)	(20,406)
Provision for doubtful accounts	2,716	3,779
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(17,008)	(9,274)
Prepaid expenses	(18,535)	(16,617)
Other assets	306	(385)
Increase (decrease) in:		
Trade accounts payable	(523)	(826)
Accrued expenses	(7,771)	(11,675)
Other liabilities	1,531	(4,790)
Net cash provided by operating activities	110,439	93,170
Cash flows from investing activities:		
Acquisitions	(9,181)	(1,354)
Capital expenditures	(54,653)	(15,688)
Proceeds from disposition of assets	9,293	3,726
Payments received on notes receivable	180	197
Net cash used in investing activities	(54,361)	(13,119)
Cash flows from financing activities:		
Debt issuance costs		(32,274)
Cash used for purchase of treasury stock	(3,481)	(1,629)
Net proceeds from issuance of common stock	2,786	3,971
Net payments under senior credit agreement	(128,441)	(150,198)
Net proceeds from senior credit agreement refinancing		5,360
Payment on convertible notes		(1,000)
Proceeds from note offering		400,000

Net payment on 7 1/4% Senior Subordinated Notes due 2013		(389,647)
Dividends	(182)	(182)
Net cash used in financing activities	(129,318)	(165,599)
Effect of exchange rate changes in cash and cash equivalents	224	171
Net decrease in cash and cash equivalents	(73,016)	(85,377)
Cash and cash equivalents at beginning of period	91,679	112,253
Cash and cash equivalents at end of period	$ 18,663	$ 26,876
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 77,812	$ 95,862
Cash paid for foreign, state and federal income taxes	$ 1,069	$ 2,106

See accompanying notes to condensed consolidated financial statements.

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 2010 Combined Form 10-K. Subsequent events, if any, are evaluated through the date on which the financial statements are issued.

2. Stock-Based Compensation

Equity Incentive Plan. Lamar Advertising s 1996 Equity Incentive Plan has reserved 13 million shares of Class A common stock for issuance to directors and employees, including shares underlying granted options and common stock reserved for issuance under its performance-based incentive program. Options granted under the plan expire ten years from the grant date with vesting terms ranging from three to five years and include 1) options that vest in one-fifth increments beginning on the grant date and continuing on each of the first four anniversaries of the grant date and 2) options that cliff-vest on the fifth anniversary of the grant date. All grants are made at fair market value based on the closing price of our Class A common stock as reported on the NASDAQ Global Select Market on the date of grant.

We use a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The Company granted options for an aggregate of 32,000 shares of its Class A common stock during the six months ended June 30, 2011.

Stock Purchase Plan. The Company s previous plan, the 2000 Employee Stock Purchase Plan or the 2000 ESPP was terminated following the issuance of all shares that were subject to the offer that commenced under the 2000 ESPP on January 1, 2009 and ended June 30, 2009. In 2009 we adopted a new employee stock purchase plan, which reserved 500,000 additional shares of Class A common stock for issuance to employees. Our 2009 Employee Stock Purchase Plan or 2009 ESPP was adopted by our Board of Directors in February 2009 and approved by our shareholders on May 28, 2009. The terms of the 2009 ESPP are substantially the same as the 2000 ESPP. The following is a summary of ESPP share activity for the six months ended June 30, 2011:

	Shares
Available for future purchases, January 1, 2011	331,795
Purchases	70,131
Available for future purchases, June 30, 2011	261,664

Performance-based compensation. Unrestricted shares of our Class A common stock may be awarded to key officers, employees and directors under our 1996 Equity Incentive Plan. The number of shares to be issued, if any, will be dependent on the level of achievement of performance measures for key officers and employees, as determined by the Company s Compensation Committee based on our 2011 results. Any shares issued based on the achievement of performance goals will be issued in the first quarter of 2012. The shares subject to these awards can range from a minimum of 0% to a maximum of 100% of the target number of shares depending on the level at which the goals are attained. For the six months ended June 30, 2011, the Company has recorded $500 as non-cash compensation expense related to performance-based awards. In addition, each non-employee director automatically receives upon election or re-election a restricted stock award of our Class A common stock. The awards vest 50% on grant date and 50% on the last day of each of the directors one year term. The Company recorded a $181 non-cash compensation expense related to these awards for the six months ended June 30, 2011.

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

3. Depreciation and Amortization

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Direct advertising expenses	$ 68,675	$ 74,476	$ 138,246	$ 149,116
General and administrative expenses	1,059	1,250	2,070	2,516
Corporate expenses	2,676	2,439	5,967	4,875
	$ 72,410	$ 78,165	$ 146,283	$ 156,507

4. Goodwill and Other Intangible Assets

The following is a summary of intangible assets at June 30, 2011 and December 31, 2010.

	Estimated	June 30, 2011		December 31, 2010	
	Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists and contracts	7 10	$ 467,151	$ 447,107	$ 466,412	$ 441,641
Non-competition agreements	3 15	63,496	61,414	63,493	60,955
Site locations	15	1,378,544	879,652	1,375,298	833,418
Other	5 15	13,608	13,089	13,608	13,074
		1,922,799	1,401,262	$ 1,918,811	$ 1,349,088
Unamortizable intangible assets:					
Goodwill		$ 1,680,461	$ 253,635	$ 1,679,770	$ 253,635

5. Asset Retirement Obligations

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

Balance at December 31, 2010	$ 173,673
Additions to asset retirement obligations	268
Accretion expense	5,253
Liabilities settled	(1,727)
Balance at June 30, 2011	$ 177,467

6. Summarized Financial Information of Subsidiaries

Separate financial statements of each of the Company s direct or indirect wholly owned subsidiaries that have guaranteed Lamar Media s obligations with respect to its publicly issued notes (collectively, the Guarantors) are not included herein because the Company has no independent assets or operations, the guarantees are full and unconditional and joint and several and the only subsidiaries that are not guarantors are in the aggregate minor. Lamar Media s ability to make distributions to Lamar Advertising is restricted under both the terms of the indentures relating to Lamar Media s outstanding notes and by the terms of its senior credit facility. As of June 30, 2011 and December 31, 2010, Lamar Media was permitted under the terms of its outstanding senior subordinated notes to make transfers to Lamar Advertising in the form of cash dividends, loans or advances in amounts up to $1,492,120 and $1,380,705, respectively. Transfers to Lamar Advertising are subject to additional restrictions if, (i) under Lamar Media s senior credit facility and as defined therein, (x) the total holdings debt ratio is greater than 5.75 to 1 or (y) the senior debt ratio is greater than 3.25 to 1.0, and (ii) if under the indenture for Lamar Media s 9 3/4% senior notes and as defined therein, its senior leverage ratio is greater than or equal to 3.0 to 1. As of June 30, 2011, the total holdings debt ratio was less than 5.75 to 1 and Lamar Media s senior debt ratio was less than 3.25 to 1 and its senior leverage ratio was less than 3.0 to 1; therefore, transfers to Lamar Advertising were not subject to any additional restrictions under the senior credit facility or pursuant to the indenture governing the 9 3/4% senior notes.

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

7. Earnings Per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options and convertible debt, while diluted earnings per share includes the dilutive effect of options and convertible debt. The number of dilutive shares excluded from this calculation resulting from the antidilutive effect of options is 512,466 for the three months ended June 30, 2010 and 419,367 and 511,335 for the six months ended June 30, 2011 and 2010, respectively. 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 49,125 and 57,646 for the three and six months ended June 30, 2010, respectively.

8. Long-term Debt

Long-term debt consists of the