

LAMAR ADVERTISING CO/NEW

Form 10-Q

August 08, 2008

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**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 June 30, 2008**

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 the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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 August 1, 2008: 75,977,891

The number of shares of the Lamar Advertising Company's Class B common stock outstanding as of August 1, 2008: 15,372,865

The number of shares of Lamar Media Corp. common stock outstanding as of August 1, 2008: 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

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, 2007 of the Company and Lamar Media (the 2007 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.

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

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,059	\$ 76,048
Receivables, net of allowance for doubtful accounts of \$8,655 and \$6,740 in 2008 and 2007, respectively	178,745	147,301
Prepaid expenses	64,720	40,657
Deferred income tax assets	8,422	19,857
Other current assets	20,153	29,004
Total current assets	284,099	312,867
Property, plant and equipment	2,851,951	2,686,116
Less accumulated depreciation and amortization	(1,236,010)	(1,169,152)
Net property, plant and equipment	1,615,941	1,516,964
Goodwill	1,399,838	1,376,240
Intangible assets	813,227	802,953
Deferred financing costs, net of accumulated amortization of \$34,216 and \$31,731 in 2008 and 2007, respectively	26,844	29,164
Other assets	49,352	43,575
Total assets	\$ 4,189,301	\$ 4,081,763
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	\$ 15,202	\$ 19,569
Current maturities of long-term debt	35,927	31,742
Accrued expenses	73,740	75,670
Deferred income	27,662	30,657
Total current liabilities	152,531	157,638
Long-term debt	2,875,293	2,694,028
Deferred income tax liabilities	125,555	136,118

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Asset retirement obligation	159,182	150,046
Other liabilities	15,161	12,926
Total liabilities	3,327,722	3,150,756
Stockholders' equity:		
Series AA preferred stock, par value \$.001, \$63.80 cumulative dividends, authorized 5,720 shares; 5,720 shares issued and outstanding at 2008 and 2007		
Class A preferred stock, par value \$638, \$63.80 cumulative dividends, 10,000 shares authorized; 0 shares issued and outstanding at 2008 and 2007		
Class A common stock, par value \$.001, 175,000,000 shares authorized, 92,916,194 and 92,525,349 shares issued at 2008 and 2007, respectively; 75,977,891 and 78,216,053 outstanding at 2008 and 2007, respectively		
	93	93
Class B common stock, par value \$.001, 37,500,000 shares authorized, 15,372,865 shares issued and outstanding at 2008 and 2007		
	15	15
Additional paid-in capital	2,312,000	2,299,110
Accumulated comprehensive income	7,730	9,286
Accumulated deficit	(574,895)	(587,523)
Cost of shares held in treasury, 16,938,303 and 14,309,296 shares in 2008 and 2007, respectively	(883,364)	(789,974)
Stockholders' equity	861,579	931,007
Total liabilities and stockholders' equity	\$ 4,189,301	\$ 4,081,763

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		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net revenues	\$ 323,819	\$ 315,225	\$ 606,595	\$ 590,410
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	110,105	102,769	214,892	203,552
General and administrative expenses (exclusive of depreciation and amortization)	54,242	51,375	106,229	106,677
Corporate expenses (exclusive of depreciation and amortization)	15,633	14,863	28,830	29,435
Depreciation and amortization	79,303	73,150	156,996	146,468
Gain on disposition of assets	(2,069)	(1,519)	(3,012)	(1,831)
	257,214	240,638	503,935	484,301
Operating income	66,605	74,587	102,660	106,109
Other expense (income)				
Gain on disposition of investment			(1,533)	(15,448)
Interest income	(231)	(251)	(680)	(744)
Interest expense	39,165	43,292	79,933	75,137
	38,934	43,041	77,720	58,945
Income before income tax expense	27,671	31,546	24,940	47,164
Income tax expense	13,327	13,166	12,130	19,945
Net income	14,344	18,380	12,810	27,219
Preferred stock dividends	91	91	182	182
Net income applicable to common stock	\$ 14,253	\$ 18,289	\$ 12,628	\$ 27,037
Earnings per share:				
Basic earnings per share	\$ 0.15	\$ 0.19	\$ 0.14	\$ 0.27
Diluted earnings per share	\$ 0.15	\$ 0.19	\$ 0.14	\$ 0.27
Cash dividends declared per share of common stock	\$	\$	\$	\$ 3.25

Weighted average common shares used in computing earnings per share:

Weighted average common shares outstanding	92,172,492	97,647,094	92,801,232	98,430,517
Incremental common shares from dilutive stock options and warrants	236,594	840,163	223,182	785,458
Incremental common shares from convertible debt				
Weighted average common shares diluted	92,409,086	98,487,257	93,024,414	99,215,975

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended	
	June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 12,810	\$ 27,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	156,996	146,468
Non-cash equity based compensation	7,369	15,592
Amortization included in interest expense	2,486	2,207
Gain on disposition of assets	(4,545)	(17,279)
Deferred tax expense	9,683	4,953
Provision for doubtful accounts	5,593	2,798
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(25,445)	(14,770)
Prepaid expenses	(19,972)	(20,514)
Other assets	2,051	(4,401)
Increase (decrease) in:		
Trade accounts payable	(4,367)	5,918
Accrued expenses	(5,362)	(822)
Other liabilities	(5,979)	(3,868)
Net cash provided by operating activities	131,318	143,501
Cash flows from investing activities:		
Acquisitions	(193,027)	(85,937)
Capital expenditures	(107,613)	(110,005)
Proceeds from disposition of assets	8,095	21,273
Payments received on notes receivable	128	9,112
Net cash used in investing activities	(292,417)	(165,557)
Cash flows from financing activities:		
Debt issuance costs	(168)	(2,580)
Cash used for purchase of treasury stock	(93,390)	(193,751)
Net proceeds from issuance of common stock	5,522	10,795
Net increase in notes payable	185,450	527,029
Dividends	(182)	(318,485)
Net cash provided by financing activities	97,232	23,008

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Effect of exchange rate changes in cash and cash equivalents	(122)	(588)
Net increase (decrease) in cash and cash equivalents	(63,989)	364
Cash and cash equivalents at beginning of period	76,048	11,796
Cash and cash equivalents at end of period	\$ 12,059	\$ 12,160
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 73,091	\$ 73,313
Cash paid for foreign, state and federal income taxes	\$ 2,623	\$ 9,910

See accompanying notes to condensed consolidated financial statements.

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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)

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 2007 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 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 under Statement of Financial Accounting Standard No. 123(R), *Shared-based Payment*, (SFAS 123(R)). 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 971,500 shares of its Class A common stock during the six months ended June 30, 2008.

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 six months ended June 30, 2008:

	Shares
Available for future purchases, January 1, 2008	392,998
Purchases	(63,711)
Available for future purchases, June 30, 2008	329,287

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 these performance measures for key officers and employees, as determined by the Company's Compensation Committee based on our 2008 results. Any shares issued based on the achievement of performance goals will be issued in the first quarter of 2009. 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. Through June 30, 2008, the Company has recorded \$2,106 as compensation expense related to these agreements.

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(UNAUDITED)
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

3. Acquisitions

During the six months ended June 30, 2008, the Company completed several acquisitions of outdoor advertising assets for a total cash purchase price of approximately \$193,027, which includes the acquisition of Vista Media Group, Inc. in May 2008, for a cash purchase price of approximately \$104,752.

Each of these acquisitions was accounted for under the purchase method of accounting, and, accordingly, the accompanying condensed 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.

	Total
Assets	\$ 16,190
Property, plant and equipment	92,733
Goodwill	23,499
Site locations	51,135
Non-competition agreements	2,690
Customer lists and contracts	10,788
Other assets	19,073
Current liabilities	7,330
Long term liabilities	15,751
	\$ 193,027

Summarized below are certain unaudited pro forma statements of operations data for the six months ended June 30, 2008 and June 30, 2007 as if each of the above acquisitions and the acquisitions occurring in 2007, which were fully described in the 2007 Combined Form 10-K, had been consummated as of January 1, 2007. 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		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Pro forma net revenues	\$ 328,173	\$ 325,487	\$ 618,812	\$ 608,817
Pro forma net income applicable to common stock	\$ 13,546	\$ 17,141	\$ 9,674	\$ 22,831
Pro forma net income per common share basic	\$ 0.15	\$ 0.18	\$ 0.10	\$ 0.23
Pro forma net income per common share diluted	\$ 0.15	\$ 0.17	\$ 0.10	\$ 0.23

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4. 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		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Direct advertising expenses	\$ 74,526	\$ 68,487	\$ 147,790	\$ 137,615
General and administrative expenses	1,854	1,870	3,489	3,561
Corporate expenses	2,923	2,793	5,717	5,292
	\$ 79,303	\$ 73,150	\$ 156,996	\$ 146,468

5. Goodwill and Other Intangible Assets

The following is a summary of intangible assets at June 30, 2008 and December 31, 2007.

	Estimated	June 30, 2008		December 31, 2007	
		Life	Gross	Accumulated	Gross
	(Years)	Carrying	Amortization	Carrying	Amortization
		Amount	Amount	Amount	Amount
Customer lists and contracts					