

LAMAR ADVERTISING CO/NEW
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 September 30, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 1-36756

Lamar Advertising Company

Commission File Number 1-12407

Lamar Media Corp.

(Exact name of registrants as specified in their charters)

Delaware	72-1449411
Delaware	72-1205791
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

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

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

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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 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 No

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

Large accelerated filer

Accelerated filer

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

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

Large accelerated filer

Accelerated filer

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

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

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 November 1, 2016: 82,711,932

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

The number of shares of Lamar Media Corp. common stock outstanding as of November 1, 2016: 100

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors, including but not limited to the following, any of which may cause the actual results, performance or achievements of Lamar Advertising Company (referred to herein as the “Company” or “Lamar Advertising”) or Lamar Media Corp. (referred to herein as “Lamar Media”) to differ materially from those expressed or implied by the forward-looking statements:

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

The forward-looking statements in this report are based on our current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors.

Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising and Lamar Media expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

For a further description of these and other risks and uncertainties, the Company encourages you to read carefully Item 1A to the combined Annual Report on Form 10-K for the year ended December 31, 2015 of the Company and Lamar Media (the “2015 Combined Form 10-K”), filed on February 25, 2016 and as such risk factors may be updated or supplemented, from time to time, in our combined Quarterly Reports on Form 10-Q.

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PART I — FINANCIAL INFORMATION

ITEM 1. — FINANCIAL STATEMENTS

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,479	\$ 22,327
Receivables, net of allowance for doubtful accounts of \$10,668 and \$8,984 in 2016 and 2015, respectively	207,507	174,398
Prepaid lease expenses	70,186	44,437
Deferred income tax assets	1,336	1,352
Other current assets	38,734	39,218
Total current assets	355,242	281,732
Property, plant and equipment	3,273,931	3,139,239
Less accumulated depreciation and amortization	(2,094,330)	(2,044,102)
Net property, plant and equipment	1,179,601	1,095,137
Goodwill	1,726,724	1,546,594
Intangible assets	601,567	402,886
Other assets	39,386	37,395
Total assets	\$ 3,902,520	\$ 3,363,744
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 17,637	\$ 17,452
Current maturities of long-term debt, net of deferred financing costs of \$5,403 and \$4,823 in 2016 and 2015, respectively	28,824	16,509
Accrued expenses	110,145	115,208
Deferred income	102,485	87,661
Total current liabilities	259,091	236,830
Long-term debt, net of deferred financing costs of \$24,829 and \$23,211 in 2016 and 2015, respectively	2,351,198	1,874,941
Deferred income tax liabilities	1,745	2,052
Asset retirement obligation	210,275	206,234

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Other liabilities	23,905	22,628
Total liabilities	2,846,214	2,342,685
Stockholders' equity:		
Series AA preferred stock, par value \$.001, \$63.80 cumulative dividends, 5,720 shares authorized; 5,720 shares issued and outstanding at 2016 and 2015	—	—
Class A common stock, par value \$.001, 362,500,000 shares authorized; 82,928,020 and 82,188,372 shares issued at 2016 and 2015, respectively; 82,711,932 and 82,083,536 issued and outstanding at 2016 and 2015, respectively	83	82
Class B common stock, par value \$.001, 37,500,000 shares authorized, 14,610,365 shares issued and outstanding at 2016 and 2015	15	15
Additional paid-in capital	1,705,910	1,664,038
Accumulated comprehensive loss	(27)	(1,178)
Accumulated deficit	(637,372)	(635,799)
Cost of shares held in treasury, 216,088 and 104,836 shares at 2016 and 2015, respectively	(12,303)	(6,099)
Stockholders' equity	1,056,306	1,021,059
Total liabilities and stockholders' equity	\$ 3,902,520	\$ 3,363,744

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended		Nine months ended	
	September 30, 2016	2015	September 30, 2016	2015
Statements of Income				
Net revenues	\$387,516	\$350,701	\$1,113,577	\$997,427
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	131,778	121,676	393,228	350,859
General and administrative expenses (exclusive of depreciation and amortization)	67,487	59,489	200,734	179,424
Corporate expenses (exclusive of depreciation and amortization)	19,359	16,654	55,432	51,734
Depreciation and amortization	49,307	46,441	152,729	144,396
Gain on disposition of assets	(189)	(5,203)	(12,221)	(7,230)
	267,742	239,057	789,902	719,183
Operating income	119,774	111,644	323,675	278,244
Other expense (income)				
Loss on extinguishment of debt	—	—	3,198	—
Interest income	(2)	(2)	(6)	(28)
Interest expense	31,102	24,709	92,469	73,953
	31,100	24,707	95,661	73,925
Income before income tax expense	88,674	86,937	228,014	204,319
Income tax expense	3,613	972	9,730	18,278
Net income	85,061	85,965	218,284	186,041
Cash dividends declared and paid on preferred stock	91	91	273	273
Net income applicable to common stock	\$84,970	\$85,874	\$218,011	\$185,768
Earnings per share:				
Basic earnings per share	\$0.87	\$0.89	\$2.25	\$1.93
Diluted earnings per share	\$0.87	\$0.89	\$2.23	\$1.93
Cash dividends declared per share of common stock	\$0.76	\$0.69	\$2.26	\$2.06
Weighted average common shares used in computing earnings				

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per share:				
Weighted average common shares outstanding basic	97,254,125	96,541,766	97,056,456	96,220,306
Weighted average common shares outstanding diluted	97,881,878	96,602,429	97,631,606	96,284,482
Statements of Comprehensive Income				
Net income	\$85,061	\$85,965	\$218,284	\$186,041
Other comprehensive (loss) income				
Foreign currency translation adjustments	(328)	(1,713)	1,151	(2,916)
Comprehensive income	\$84,733	\$84,252	\$219,435	\$183,125

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended	
	September 30,	2015
	2016	2015
Cash flows from operating activities:		
Net income	\$218,284	\$186,041
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	152,729	144,396
Stock-based compensation	19,650	17,508
Amortization included in interest expense	3,993	3,498
Gain on disposition of assets and investments	(12,221)	(7,230)
Loss on extinguishment of debt	3,198	—
Deferred tax (benefit) expense	(150)	9,572
Provision for doubtful accounts	5,831	4,845
Changes in operating assets and liabilities		
(Increase) decrease in:		
Receivables	(39,072)	(20,645)
Prepaid lease expenses	(21,700)	(19,758)
Other assets	5,923	(4,494)
Increase (decrease) in:		
Trade accounts payable	(761)	(1,327)
Accrued expenses	(5,623)	(7,457)
Other liabilities	7,745	8,521
Net cash provided by operating activities	337,826	313,470
Cash flows from investing activities:		
Acquisitions	(526,029)	(123,291)
Capital expenditures	(78,825)	(80,764)
Proceeds from disposition of assets and investments	7,753	8,369
Decrease (increase) in notes receivable	16	(28)
Net cash used in investing activities	(597,085)	(195,714)
Cash flows from financing activities:		
Cash used for purchase of treasury stock	(6,204)	(6,099)
Net proceeds from issuance of common stock	18,278	24,633
Principal payments on long-term debt	(15,015)	(11,265)
Payment on revolving credit facility	(302,000)	(155,200)
Proceeds received from revolving credit facility	408,000	235,000
Proceeds received from note offering	400,000	—

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Payment on senior credit facility term A-1 loan	(300,000)	—
Proceeds received from senior credit facility term A-1 loan	300,000	—
Debt issuance costs	(9,391)	—
Distributions to non-controlling interest	(315)	(1,025)
Dividends/distributions	(219,857)	(198,721)
Net cash provided by (used in) financing activities	273,496	(112,677)
Effect of exchange rate changes in cash and cash equivalents	915	(2,036)
Net increase in cash and cash equivalents	15,152	3,043
Cash and cash equivalents at beginning of period	22,327	26,035
Cash and cash equivalents at end of period	\$37,479	\$29,078
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$91,952	\$77,934
Cash paid for foreign, state and federal income taxes	\$11,023	\$9,412

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

1. Significant Accounting Policies

The information included in the foregoing interim condensed consolidated financial statements is unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto included in the 2015 Combined Form 10-K as updated by the Company and Lamar Media's Current Report on Form 8-K, filed on July 11, 2016. Subsequent events, if any, are evaluated through the date on which the financial statements are issued.

2. Acquisitions

During the nine months ended September 30, 2016, the Company completed several acquisitions of outdoor advertising assets for a total purchase price of \$535,029, of which \$526,029 was in cash and \$9,000 in non-cash consideration consisting principally of exchanges of outdoor advertising assets. The purchases included the acquisition of assets in five U.S. markets from Clear Channel Outdoor Holdings, Inc. for an aggregate cash purchase price of approximately \$458,500. As a result of the acquisitions, a gain of \$8,599 was recorded for transactions which involved the exchanges of outdoor advertising assets during the nine months ended September 30, 2016.

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

	Total
Property, plant and equipment	\$94,965
Goodwill	180,001

Site locations	217,301
Non-competition agreements	80
Customer lists and contracts	41,071
Current assets	4,697
Other assets	3,169
Current liabilities	(6,255)
	\$535,029

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(unaudited)			
Net revenues	\$388,074	\$375,939	\$1,117,020	\$1,083,278
Net income applicable to common stock	\$85,090	\$84,867	\$218,698	\$179,690
Net income per common share — basic	\$0.87	\$0.88	\$2.25	\$1.87
Net income per common share — diluted	\$0.87	\$0.88	\$2.24	\$1.87

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

3. Stock-Based Compensation

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

We use a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The Company granted options for an aggregate of 86,000 shares of its Class A common stock during the nine months ended September 30, 2016. At September 30, 2016 a total of 1,466,193 shares were available for future grant.

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

The following is a summary of 2009 ESPP share activity for the nine months ended September 30, 2016:

	Shares
Available for future purchases, January 1, 2016	279,589
Additional shares reserved under 2009 ESPP	82,084
Purchases	(84,979)
Available for future purchases, September 30, 2016	276,694

Performance-based compensation. Unrestricted shares of our Class A common stock may be awarded to key officers, employees and directors under our 1996 Equity Incentive Plan. The number of shares to be issued, if any, will be dependent on the level of achievement of performance measures for key officers and employees, as determined by the Company's Compensation Committee based on our 2016 results. Any shares issued based on the achievement of performance goals will be issued in the first quarter of 2017. The shares subject to these awards can range from a minimum of 0% to a maximum of 100% of the target number of shares depending on the level at which the goals are

attained. For the nine months ended September 30, 2016, the Company has recorded \$11,800 as stock-based compensation expense related to performance-based awards. In addition, each non-employee director automatically receives upon election or re-election a restricted stock award of our Class A common stock. The awards vest 50% on grant date and 50% on the last day of the directors' one year term. The Company recorded a \$301 stock-based compensation expense related to these awards for the nine months ended September 30, 2016.

4. Depreciation and Amortization

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Direct advertising expenses	\$46,163	\$42,764	\$142,228	\$132,655
General and administrative expenses	900	738	2,683	2,294
Corporate expenses	2,244	2,939	7,818	9,447
	\$49,307	\$46,441	\$152,729	\$144,396

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

5. Goodwill and Other Intangible Assets

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

	Estimated Life (Years)	September 30, 2016		December 31, 2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:					
Customer lists and contracts	7—10	\$555,012	\$487,038	\$513,832	\$477,006
Non-competition agreements	3—15	64,598	63,639	64,514	63,453
Site locations	15	1,834,426	1,302,252	1,616,345	1,251,825
Other	5—15	14,008	13,548	14,008	13,529
		\$2,468,044	\$1,866,477	\$2,208,699	\$1,805,813
Unamortizable intangible assets:					
Goodwill		\$1,980,260	\$253,536	\$1,800,130	\$253,536

6. Asset Retirement Obligations

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

Balance at December 31, 2015	\$	206,234
Additions to asset retirement obligations		4,568
Accretion expense		3,216
Liabilities settled		(3,743)

Balance at September 30, 2016	\$	210,275
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7. Distribution Restrictions

Lamar Media's ability to make distributions to Lamar Advertising is restricted under both the terms of the indentures relating to Lamar Media's outstanding notes and by the terms of its senior credit facility. As of September 30, 2016 and December 31, 2015, Lamar Media was permitted under the terms of its outstanding senior subordinated and senior notes to make transfers to Lamar Advertising in the form of cash dividends, loans or advances in amounts up to \$2,639,956 and \$2,487,196, respectively.

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

8. Earnings Per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. There were no dilutive shares excluded from this calculation resulting from their anti-dilutive effect for the three and nine months ended September 30, 2016 or 2015.

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

9. Long-term Debt

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

	September 30, 2016		
		Debt, net of	
		Deferred	deferred
	Debt	financing costs	financing costs
Senior Credit Facility	\$464,750	\$ 5,340	\$459,410
5 7/8% Senior Subordinated Notes	500,000	7,365	492,635
5% Senior Subordinated Notes	535,000	5,898	529,102
5 3/8% Senior Notes	510,000	5,826	504,174
5 3/4% Senior Notes	400,000	5,803	394,197
Other notes with various rates and terms	504	—	504
	2,410,254	30,232	2,380,022
Less current maturities	(34,227)	(5,403)	(28,824)
Long-term debt, excluding current maturities	\$2,376,027	\$ 24,829	\$2,351,198

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

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

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

5 7/8% Senior Subordinated Notes

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

At any time prior to February 1, 2017, Lamar Media may redeem some or all of the 5 7/8% Notes at a price equal to 100% of the aggregate principal amount plus a make-whole premium. On or after February 1, 2017, Lamar Media may redeem the 5 7/8% Notes, in whole or in part, in cash at redemption prices specified in the 5 7/8% Notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder's 5 7/8% Notes at a price equal to 101% of the principal amount of the 5 7/8% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

LAMAR ADVERTISING COMPANY

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

5% Senior Subordinated Notes

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

At any time prior to May 1, 2018, Lamar Media may redeem some or all of the 5% Notes at a price equal to 100% of the aggregate principal amount plus a make-whole premium. On or after May 1, 2018, Lamar Media may redeem the 5% Notes, in whole or in part, in cash at redemption prices specified in the 5% Notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder's 5% Notes at a price equal to 101% of the principal amount of the 5% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

5 3/8% Senior Notes

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

Lamar Media may redeem up to 35% of the aggregate principal amount of the 5 3/8% Notes, at any time and from time to time, at a price equal to 105.375% of the aggregate principal amount so redeemed, plus accrued and unpaid interest thereon, with the net cash proceeds of certain public equity offerings completed before January 15, 2017, provided that following the redemption, at least 65% of the 5 3/8% Notes that were originally issued remain outstanding and any such redemption occurs within 120 days following the closing of any such public equity offering. At any time prior to January 15, 2019, Lamar Media may redeem some or all of the 5 3/8% Notes at a price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest thereon plus a make-whole premium. On or after January 15, 2019, Lamar Media may redeem the 5 3/8% Notes, in whole or in part, in cash at redemption prices specified in the 5 3/8% Notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder's 5 3/8% Notes at a price equal to 101% of the principal amount of the 5 3/8% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

5 3/4% Senior Notes

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

Lamar Media may redeem up to 35% of the aggregate principal amount of the 5 3/4% Notes, at any time and from time to time, at a price equal to 105.750% of the aggregate principal amount so redeemed, plus accrued and unpaid interest thereon, with the net cash proceeds of certain public equity offerings completed before February 1, 2019, provided that following the redemption, at least 65% of the 5 3/4% Notes that were originally issued remain outstanding and any such redemption occurs within 120 days following the closing of any such public equity offering. At any time prior to February 1, 2021, Lamar Media may redeem some or all of the 5 3/4% Notes at a price equal to 100% of the aggregate principal amount, plus accrued and unpaid interest thereon plus a make-whole premium. On or after February 1, 2021, Lamar Media may redeem the 5 3/4% Notes, in whole or in part, in cash at redemption prices specified in the 5 3/4% Notes. In addition, if the Company or Lamar Media undergoes a change of control, Lamar Media may be required to make an offer to purchase each holder's 5 3/4% Notes at a price equal to 101% of the principal amount of the 5 3/4% Notes, plus accrued and unpaid interest, up to but not including the repurchase date.

Senior Credit Facility

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

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(In thousands, except share and per share data)

On February 3, 2014, Lamar Media entered into a Second Restatement Agreement (the “Second Restatement Agreement”) with the Company, certain of Lamar Media’s subsidiaries as Guarantors, JPMorgan Chase Bank, N.A., as Administrative Agent and the Lenders named therein, under which the parties agreed to amend and restate Lamar Media’s existing senior credit facility on the terms set forth in the Second Amended and Restated Credit Agreement attached as Exhibit A to the Second Restatement Agreement (such Second and Amended and Restated Credit Agreement, as subsequently amended, together with the Second Restatement Agreement being herein referred to as the “senior credit facility”). Under the Second Restatement Agreement, the senior credit facility consisted of a \$400,000 revolving credit facility and a \$500,000 incremental facility. Lamar Media is the borrower under the senior credit facility. We may also from time to time designate wholly owned subsidiaries as subsidiary borrowers under the incremental loan facility. Incremental loans may be in the form of additional term loan tranches or increases in the revolving credit facility. Our lenders have no obligation to make additional loans to us, or any designated subsidiary borrower, under the incremental facility, but may enter into such commitments in their sole discretion.

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

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

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

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

As of September 30, 2016, there was \$206,000 outstanding under the revolving credit facility. Availability under the revolving facility is reduced by the amount of any letters of credit outstanding. Lamar Media had \$9,104 in letters of credit outstanding as of September 30, 2016 resulting in \$184,896 of availability under its revolving facility. Revolving credit loans may be requested under the revolving credit facility at any time prior to its maturity on February 2, 2019, and bear interest, at Lamar Media’s option, at the Adjusted LIBO Rate or the Adjusted Base Rate plus applicable margins, such margins are set at an initial rate with the possibility of a step down based on Lamar Media’s ratio of debt to trailing four quarters EBITDA, as defined in the senior credit facility.

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

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

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

Lamar Media's ability to make distributions to Lamar Advertising is also restricted under the terms of these agreements. Under Lamar Media's senior credit facility the Company must maintain a specified senior debt ratio at all times and in addition, must satisfy a total debt ratio in order to incur debt, make distributions or make certain investments.

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

10. Fair Value of Financial Instruments

At September 30, 2016 and December 31, 2015, the Company's financial instruments included cash and cash equivalents, marketable securities, accounts receivable, investments, accounts payable and borrowings. The fair values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings and current portion of long-term debt approximated carrying values because of the short-term nature of these instruments. Investment contracts are reported at fair values. Fair values for investments held at cost are not readily available, but are estimated to approximate fair value. The estimated fair value of the Company's long-term debt (including current maturities) was \$2,517,113 which exceeded the carrying amount of \$2,410,254 as of September 30, 2016. The majority of the fair value is determined using observed prices of publicly traded debt (level 1 in the fair value hierarchy) and the remaining is valued based on quoted prices for similar debt (level 2 in the fair value hierarchy).

11. New Accounting Pronouncements

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

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

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

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. The update clarifies how certain cash receipts and cash payments are presented in the statement of cash flows. The update is effective for annual periods beginning January 1, 2018 with early adoption permitted. The Company does not expect the adoption of this update will have a material impact on its statement of cash flows.

12. Dividends/Distributions

During the three months ended September 30, 2016 and September 30, 2015, the Company declared and paid cash distributions of its REIT taxable income in an aggregate amount of \$73,938 or \$0.76 per share and \$66,634 or \$0.69 per share, respectively. During the nine months ended September 30, 2016 and September 30, 2015, the Company declared and paid cash distributions of its REIT taxable income in an aggregate amount of \$219,584 or \$2.26 per share and \$198,448 or \$2.06 per share, respectively. The amount, timing and frequency of future distributions will be at the sole discretion of the Board of Directors and will be declared based upon various factors, a number of which may be beyond the Company's control, including financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income and excise taxes that the Company otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, the Company's ability to utilize net operating losses to offset, in whole or in part, the Company's distribution requirements, limitations on its ability to fund distributions using cash generated through its taxable REIT subsidiaries (TRSs) and other factors that the Board of Directors may deem relevant. During the three months ended September 30, 2016 and September 30, 2015, the Company paid cash dividend distributions to holders of its Series AA Preferred Stock in an aggregate amount of \$91 or \$15.95 per share. During the nine months ended September 30, 2016 and September 30, 2015, the Company paid cash dividend distributions to holders of its Series AA Preferred Stock in an aggregate amount of \$273 or \$47.85 per share.

13. Information about Geographic Areas

Revenues from external customers attributable to foreign countries totaled \$8,489 and \$8,830 for the three months ended September 30, 2016 and 2015, respectively, and \$24,076 and \$24,089 for the nine months ended September 30, 2016 and 2015, respectively. Net carrying value of long lived assets located in foreign countries totaled \$5,360 and \$5,613 as of September 30, 2016 and December 31, 2015, respectively. All other revenues from external customers and long lived assets relate to domestic operations.

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Condensed Consolidated Balance Sheets

(In thousands, except share data)

	September 30,	December 31,
	2016	2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$36,979	\$21,827
Receivables, net of allowance for doubtful accounts of \$10,668 and \$8,984 in 2016 and 2015, respectively	207,507	174,398
Prepaid lease expenses	70,186	44,437
Deferred income tax assets	1,336	1,352
Other current assets	38,733	39,218
Total current assets	354,741	281,232
Property, plant and equipment	3,273,931	3,139,239
Less accumulated depreciation and amortization	(2,094,330)	(2,044,102)
Net property, plant and equipment	1,179,601	1,095,137
Goodwill	1,716,573	1,536,443
Intangible assets	601,099	402,418
Other assets	34,099	32,110
Total assets	\$3,886,113	\$3,347,340
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Trade accounts payable	\$17,637	\$17,452
Current maturities of long-term debt, net of deferred financing costs of \$5,403 and \$4,823 in 2016 and 2015, respectively	28,824	16,509
Accrued expenses	107,056	110,728
Deferred income	102,485	87,661
Total current liabilities	256,002	232,350
Long-term debt, net of deferred financing costs of \$24,829 and \$21,257 in 2016 and 2015, respectively	2,351,198	1,876,895
Deferred income tax liabilities	1,745	2,052
Asset retirement obligation	210,275	206,234
Other liabilities	23,905	22,628
Total liabilities	2,843,125	2,340,159
Stockholder's equity:		
Common stock, par value \$.01, 3,000 shares authorized, 100 shares issued and outstanding at 2016 and 2015	—	—

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Additional paid-in-capital	2,776,351	2,734,479
Accumulated comprehensive loss	(27)	(1,178)
Accumulated deficit	(1,733,336)	(1,726,120)
Stockholder's equity	1,042,988	1,007,181
Total liabilities and stockholder's equity	\$3,886,113	\$3,347,340

See accompanying notes to condensed consolidated financial statements.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Statements of Income				
Net revenues	\$387,516	\$350,701	\$1,113,577	\$997,427
Operating expenses (income)				
Direct advertising expenses (exclusive of depreciation and amortization)	131,778	121,676	393,228	350,859
General and administrative expenses (exclusive of depreciation and amortization)	67,487	59,489	200,734	179,424
Corporate expenses (exclusive of depreciation and amortization)	19,252	16,576	55,143	51,479
Depreciation and amortization	49,307	46,441	152,729	144,396
Gain on disposition of assets	(189)	(5,203)	(12,221)	(7,230)
	267,635	238,979	789,613	718,928
Operating income	119,881	111,722	323,964	278,499
Other expense (income)				
Loss on extinguishment of debt	—	—	3,198	—
Interest income	(2)	(2)	(6)	(28)
Interest expense	31,102	24,709	92,469	73,953
	31,100	24,707	95,661	73,925
Income before income tax expense	88,781	87,015	228,303	204,574
Income tax expense	3,613	972	9,730	18,278
Net income	\$85,168	\$86,043	\$218,573	\$186,296
Statements of Comprehensive Income				
Net income	\$85,168	\$86,043	\$218,573	\$186,296
Other comprehensive (loss) income				
Foreign currency translation adjustments	(328)	(1,713)	1,151	(2,916)
Comprehensive income	\$84,840	\$84,330	\$219,724	\$183,380

See accompanying notes to condensed consolidated financial statements.

LAMAR MEDIA CORP.

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended	
	September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$218,573	\$186,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	152,729	144,396
Stock-based compensation	19,650	17,508
Amortization included in interest expense	3,993	3,498
Gain on disposition of assets and investments	(12,221)	(7,230)
Loss on extinguishment of debt	3,198	—
Deferred tax (benefit) expense	(150)	9,572
Provision for doubtful accounts	5,831	4,845
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(39,072)	(20,645)
Prepaid lease expenses	(21,700)	(19,758)
Other assets	5,923	(4,494)
Increase (decrease) in:		
Trade accounts payable	(761)	(1,327)
Accrued expenses	(5,623)	(7,457)
Other liabilities	(16,410)	(13,462)
Net cash provided by operating activities	313,960	291,742
Cash flows from investing activities:		
Acquisitions	(526,029)	(123,291)
Capital expenditures	(78,825)	(80,764)
Proceeds from disposition of assets and investments	7,753	8,369
Decrease (increase) in notes receivable	16	(28)
Net cash used in investing activities	(597,085)	(195,714)
Cash flows from financing activities:		
Principal payments on long-term debt	(15,015)	(11,265)
Payment on revolving credit facility	(302,000)	(155,200)
Proceeds received from revolving credit facility	408,000	235,000
Proceeds received from note offering	400,000	—
Payment on senior credit facility term A-1 loan	(300,000)	—
Proceeds received from senior credit facility term A-1 loan	300,000	—

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Debt issuance costs	(9,391)	—
Distributions to non-controlling interest	(315)	(1,025)
Contributions from parent	41,872	46,088
Dividend to parent	(225,789)	(204,547)
Net cash provided by (used in) financing activities	297,362	(90,949)
Effect of exchange rate changes in cash and cash equivalents	915	(2,036)
Net increase in cash and cash equivalents	15,152	3,043
Cash and cash equivalents at beginning of period	21,827	25,535
Cash and cash equivalents at end of period	\$36,979	\$28,578
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$91,952	\$77,934
Cash paid for foreign, state and federal income taxes	\$11,023	\$9,412

See accompanying notes to condensed consolidated financial statements.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes 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 2015 Combined Form 10-K as updated by the Company and Lamar Media's Current Report on Form 8-K, filed on July 11, 2016.

Certain notes are not provided for the accompanying condensed consolidated financial statements as the information in notes 1, 2, 3, 4, 5, 6, 7, 9, 10, 11 and 13 to the condensed consolidated financial statements of Lamar Advertising included elsewhere in this report is substantially equivalent to that required for the condensed consolidated financial statements of Lamar Media. Earnings per share data is not provided for Lamar Media, as it is a wholly owned subsidiary of the Company.

2. Summarized Financial Information of Subsidiaries

In the filing of our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, which was originally filed with the SEC on November 5, 2015, we omitted certain required disclosures under SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. Accordingly, we have revised our financial statement footnotes to correct this immaterial error of omission and include the information presented below. This revision was determined to be immaterial to the financial statements previously presented.

Separate condensed consolidating financial information for Lamar Media, subsidiary guarantors and non-guarantor subsidiaries are presented below. Lamar Media and its subsidiary guarantors have fully and unconditionally guaranteed Lamar Media's obligations with respect to its publicly issued notes. All guarantees are joint and several. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial

information. The following condensed consolidating financial information should be read in conjunction with the accompanying consolidated financial statements and notes. The condensed consolidating financial information is provided as an alternative to providing separate financial statements for guarantor subsidiaries. Separate financial statements of Lamar Media's subsidiary guarantors are not included because the guarantees are full and unconditional and the subsidiary guarantors are 100% owned and jointly and severally liable for Lamar Media's outstanding publicly issued notes. The accounts for all companies reflected herein are presented using the equity method of accounting for investments in subsidiaries.

LAMAR MEDIA CORP.

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(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Balance Sheet as of September 30, 2016

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
ASSETS					
Total current assets	\$ 18,009	\$ 301,488	\$ 35,244	\$—	\$ 354,741
Net property, plant and equipment	—	1,157,657	21,944	—	1,179,601
Intangibles and goodwill, net	—	2,284,767	32,905	—	2,317,672
Other assets	3,453,193	11,343	301	(3,430,738)	34,099
Total assets	\$3,471,202	\$ 3,755,255	\$ 90,394	\$(3,430,738)	\$ 3,886,113
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	\$28,824	\$—	\$ —	\$—	\$ 28,824
Other current liabilities	25,792	175,817	25,569	—	227,178
Total current liabilities	54,616	175,817	25,569	—	256,002
Long-term debt	2,351,198	—	—	—	2,351,198
Other noncurrent liabilities	22,400	213,061	53,993	(53,529)	235,925
Total liabilities	2,428,214	388,878	79,562	(53,529)	2,843,125
Stockholders' equity	1,042,988	3,366,377	10,832	(3,377,209)	1,042,988
Total liabilities and stockholders' equity	\$3,471,202	\$ 3,755,255	\$ 90,394	\$(3,430,738)	\$ 3,886,113

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LAMAR MEDIA CORP.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Balance Sheet as of December 31, 2015

	Lamar Media Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
ASSETS					
Total current assets	\$6,086	\$245,685	\$29,461	\$—	\$281,232
Net property, plant and equipment	—	1,072,595	22,542	—	1,095,137
Intangibles and goodwill, net	—	1,904,096	34,765	—	1,938,861
Other assets	2,943,826	11,451	535	(2,923,702)	32,110
Total assets	\$2,949,912	\$3,233,827	\$87,303	\$(2,923,702)	\$3,347,340
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	\$16,509	\$—	\$—	\$—	\$16,509
Other current liabilities	29,268	163,955	22,618	—	215,841
Total current liabilities	45,777	163,955	22,618	—	232,350
Long-term debt	1,876,895	—	—	—	1,876,895
Other noncurrent liabilities	20,059	210,233	53,659	(53,037)	230,914
Total liabilities	1,942,731	374,188	76,277	(53,037)	2,340,159
Stockholders' equity	1,007,181	2,859,639	11,026	(2,870,665)	1,007,181
Total liabilities and stockholders' equity	\$2,949,912	\$3,233,827	\$87,303	\$(2,923,702)	\$3,347,340

LAMAR MEDIA CORP.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statements of Income and Comprehensive Income for the Three Months Ended September 30, 2016

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Statement of Income					
Net revenues	\$—	\$ 374,909	\$ 13,510	\$ (903)	\$ 387,516
Operating expenses					
Direct advertising expenses ⁽¹⁾	—	124,609	7,793	(624)	131,778
General and administrative expenses ⁽¹⁾	—	64,949	2,538	—	67,487
Corporate expenses ⁽¹⁾	—	18,895	357	—	19,252
Depreciation and amortization	—	47,491	1,816	—	49,307
(Gain) loss on disposition of assets	—	(217)	28	—	(189)
	—	255,727	12,532	(624)	267,635
Operating income (loss)	—	119,182	978	(279)	119,881
Equity in (earnings) loss of subsidiaries	(116,264)	—	—	116,264	—
Other expenses (income)	31,096	(2)	285	(279)	31,100
Income (loss) before income tax expense	85,168	119,184	693	(116,264)	88,781
Income tax expense ⁽²⁾	—	3,014	599	—	3,613
Net income (loss)	\$85,168	\$ 116,170	\$ 94	\$ (116,264)	\$ 85,168
Statement of Comprehensive Income					
Net income (loss)	\$85,168	\$ 116,170	\$ 94	\$ (116,264)	\$ 85,168
Total other comprehensive loss, net of tax	—	—	(328)	—	(328)
Total comprehensive income (loss)	\$85,168	\$ 116,170	\$ (234)	\$ (116,264)	\$ 84,840

(1) Caption is exclusive of depreciation and amortization.

(2) The income tax expense reflected in each column does not include any tax effect of the equity in earnings from subsidiaries.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statements of Income and Comprehensive Income for the Three Months Ended September 30, 2015

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Statement of Income					
Net revenues	\$—	\$ 337,271	\$ 14,275	\$ (845)	\$ 350,701
Operating expenses					
Direct advertising expenses ⁽¹⁾	—	114,325	7,901	(550)	121,676
General and administrative expenses ⁽¹⁾	—	56,803	2,686	—	59,489
Corporate expenses ⁽¹⁾	—	16,155	421	—	16,576
Depreciation and amortization	—	44,558	1,883	—	46,441
Gain on disposition of assets	—	(5,203)	—	—	(5,203)
	—	226,638	12,891	(550)	238,979
Operating income (loss)	—	110,633	1,384	(295)	111,722
Equity in (earnings) loss of subsidiaries	(110,756)	—	—	110,756	—
Other expenses (income)	24,713	(6)	295	(295)	24,707
Income (loss) before income tax expense	86,043	110,639	1,089	(110,756)	87,015
Income tax expense ⁽²⁾	—	80	892	—	972
Net income (loss)	\$86,043	\$ 110,559	\$ 197	\$ (110,756)	\$ 86,043
Statement of Comprehensive Income					
Net income (loss)	\$86,043	\$ 110,559	\$ 197	\$ (110,756)	\$ 86,043
Total other comprehensive loss, net of tax	—	—	(1,713)	—	(1,713)
Total comprehensive income (loss)	\$86,043	\$ 110,559	\$ (1,516)	\$ (110,756)	\$ 84,330

(1) Caption is exclusive of depreciation and amortization.

(2) The income tax expense reflected in each column does not include any tax effect of the equity in earnings from subsidiaries.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statements of Income and Comprehensive Income for the Nine Months Ended September 30, 2016

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Statement of Income					
Net revenues	\$—	\$ 1,077,116	\$ 39,228	\$ (2,767)	\$ 1,113,577
Operating expenses					
Direct advertising expenses ⁽¹⁾	—	371,915	23,139	(1,826)	393,228
General and administrative expenses ⁽¹⁾	—	192,631	8,103	—	200,734
Corporate expenses ⁽¹⁾	—	54,079	1,064	—	55,143
Depreciation and amortization	—	147,158	5,571	—	152,729
(Gain) loss on disposition of assets	—	(12,482)	261	—	(12,221)
	—	753,301	38,138	(1,826)	789,613
Operating income (loss)	—	323,815	1,090	(941)	323,964
Equity in (earnings) loss of subsidiaries	(314,228)	—	—	314,228	—
Other expenses (income)	95,655	(6)	953	(941)	95,661
Income (loss) before income tax expense	218,573	323,821	137	(314,228)	228,303
Income tax expense ⁽²⁾	—	8,248	1,482	—	9,730
Net income (loss)	\$218,573	\$ 315,573	\$ (1,345)	\$ (314,228)	\$ 218,573
Statement of Comprehensive Income					
Net income (loss)	\$218,573	\$ 315,573	\$ (1,345)	\$ (314,228)	\$ 218,573
Total other comprehensive income, net of tax	—	—	1,151	—	1,151
Total comprehensive income (loss)	\$218,573	\$ 315,573	\$ (194)	\$ (314,228)	\$ 219,724

(1) Caption is exclusive of depreciation and amortization.

(2) The income tax expense reflected in each column does not include any tax effect of the equity in earnings from subsidiaries.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statements of Income and Comprehensive Income for the Nine Months Ended September 30, 2015

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Statement of Income					
Net revenues	\$—	\$ 960,377	\$ 39,335	\$ (2,285)	\$ 997,427
Operating expenses					
Direct advertising expenses ⁽¹⁾	—	330,808	21,536	(1,485)	350,859
General and administrative expenses ⁽¹⁾	—	172,378	7,046	—	179,424
Corporate expenses ⁽¹⁾	—	50,260	1,219	—	51,479
Depreciation and amortization	—	138,639	5,757	—	144,396
Gain on disposition of assets	—	(7,230)	—	—	(7,230)
	—	684,855	35,558	(1,485)	718,928
Operating income (loss)	—	275,522	3,777	(800)	278,499
Equity in (earnings) loss of subsidiaries	(260,247)	—	—	260,247	—
Other expenses (income)	73,951	(28)	802	(800)	73,925
Income (loss) before income tax expense	186,296	275,550	2,975	(260,247)	204,574
Income tax expense ⁽²⁾	—	5,016	13,262	—	18,278
Net income (loss)	\$ 186,296	\$ 270,534	\$ (10,287)	\$ (260,247)	\$ 186,296
Statement of Comprehensive Income					
Net income (loss)	\$ 186,296	\$ 270,534	\$ (10,287)	\$ (260,247)	\$ 186,296
Total other comprehensive loss, net of tax	—	—	(2,916)	—	(2,916)
Total comprehensive income (loss)	\$ 186,296	\$ 270,534	\$ (13,203)	\$ (260,247)	\$ 183,380

(1) Caption is exclusive of depreciation and amortization.

(2) The income tax expense reflected in each column does not include any tax effect of the equity in earnings from subsidiaries.

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 2016

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$240,727	\$402,988	\$4,412	\$(334,167)	\$313,960
Cash flows from investing activities:					
Acquisitions	—	(526,029)	—	—	(526,029)
Capital expenditures	—	(76,468)	(2,357)	—	(78,825)
Proceeds from disposition of assets and investments	—	7,753	—	—	7,753
Investment in subsidiaries	(526,029)	—	—	526,029	—
(Increase) decrease in intercompany notes receivable	(462)	—	—	462	—
Decrease in notes receivable	16	—	—	—	16
Net cash (used in) provided by investing activities	(526,475)	(594,744)	(2,357)	526,491	(597,085)
Cash flows from financing activities:					
Principal payments on long-term debt	(15,015)	—	—	—	(15,015)
Payment on revolving credit facility	(302,000)	—	—	—	(302,000)
Proceeds received from revolving credit facility	408,000	—	—	—	408,000
Proceeds received from note offering	400,000	—	—	—	400,000
Payment on senior credit facility	(300,000)	—	—	—	(300,000)
Proceeds received from senior credit facility	300,000	—	—	—	300,000
Debt issuance costs	(9,391)	—	—	—	(9,391)
Intercompany loan proceeds (payments)	—	—	462	(462)	—
Distributions to non-controlling interest	—	—	(315)	—	(315)
Contributions from (to) parent	41,872	526,029	—	(526,029)	41,872
Dividends (to) from parent	(225,789)	(334,167)	—	334,167	(225,789)
Net cash provided by (used in) financing activities	297,677	191,862	147	(192,324)	297,362
	—	—	915	—	915

Effect of exchange rate changes in cash and cash equivalents					
Net increase in cash and cash equivalents	11,929	106	3,117	—	15,152
Cash and cash equivalents at beginning of period	4,955	454	16,418	—	21,827
Cash and cash equivalents at end of period	\$ 16,884	\$ 560	\$ 19,535	\$ —	\$ 36,979

LAMAR MEDIA CORP.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In Thousands, Except for Share Data)

Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 2015

	Lamar Media Corp. (unaudited)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Lamar Media Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$214,162	\$ 362,348	\$ 7,474	\$(292,242)	\$ 291,742
Cash flows from investing activities:					
Acquisitions	—	(115,279)	(8,012)	—	(123,291)
Capital expenditures	—	(78,357)	(2,407)	—	(80,764)
Proceeds from disposition of assets and investments	—	8,369	—	—	8,369
Investment in subsidiaries	(123,291)	—	—	123,291	—
Decrease (increase) in intercompany notes receivable	1,576	—	—	(1,576)	—
Increase in notes receivable	(28)	—	—	—	(28)
Net cash (used in) provided by investing activities	(121,743)	(185,267)	(10,419)	121,715	(195,714)
Cash flows from financing activities:					
Proceeds received from revolving credit facility	235,000	—	—	—	235,000
Payment on revolving credit facility	(155,200)	—	—	—	(155,200)
Principal payments on long-term debt	(11,265)	—	—	—	(11,265)
Intercompany loan (payments) proceeds	—	—	(1,576)	1,576	—
Distributions to non-controlling interest	—	—	(1,025)	—	(1,025)
Dividends (to) from parent	(204,547)	(292,242)	—	292,242	(204,547)
Contributions from (to) parent	46,088	115,279	8,012	(123,291)	46,088
Net cash (used in) provided by financing activities	(89,924)	(176,963)	5,411	170,527	(90,949)
Effect of exchange rate changes in cash and cash equivalents	—	—	(2,036)	—	(2,036)
Net increase in cash and cash equivalents	2,495	118	430	—	3,043
Cash and cash equivalents at beginning of period	10,689	480	14,366	—	25,535

Cash and cash equivalents at end of period	\$13,184	\$ 598	\$ 14,796	\$—	\$ 28,578
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report 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 2015 Combined Form 10-K filed on February 25, 2016, as supplemented by any risk factors contained in our combined Quarterly Reports on Form 10-Q. 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 and nine months ended September 30, 2016 and 2015. This discussion should be read in conjunction with the consolidated financial statements of the Company and the related notes thereto.

Overview

The Company's net revenues are derived primarily from the rental of advertising space on outdoor advertising displays owned and operated by the Company. Revenue growth is based on many factors that include the Company's ability to increase occupancy of its existing advertising displays; raise advertising rates; and acquire new advertising displays 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 that the Company is able to charge for advertising on its displays and its ability to maximize advertising sales or occupancy on its displays.

Historically, the Company has made strategic acquisitions of outdoor advertising assets to increase the number of outdoor advertising displays it operates in existing and new markets. The Company continues to evaluate and pursue strategic acquisition opportunities as they arise. The Company has financed its historical acquisitions and intends to finance any future acquisition activity from available cash, borrowings under its senior credit facility or the issuance of debt or equity securities. See-"Liquidity and Capital Resources-Sources of Cash" for more information. During the nine months ended September 30, 2016, the Company completed 18 acquisitions for a total cash purchase price of approximately \$526.0 million. See-"Uses of Cash-Acquisitions" for more information.

The Company's business requires expenditures for maintenance and capitalized costs associated with the construction of new billboard displays, the entrance into and renewal of 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 and nine months ended September 30, 2016 and 2015:

Three months ended	Nine months ended
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	September 30,		September 30,	
	(in thousands)		(in thousands)	
	2016	2015	2016	2015
Total capital expenditures:				
Billboard — traditional	\$10,950	\$8,939	\$34,322	\$21,628
Billboard — digital	9,283	9,864	24,757	40,002
Logos	2,160	2,112	5,421	7,159
Transit	387	84	603	246
Land and buildings	2,956	1,706	8,504	5,845
Operating equipment	1,576	1,694	5,218	5,884
Total capital expenditures	\$27,312	\$24,399	\$78,825	\$80,764

Non-GAAP Financial Measures

Our management reviews our performance by focusing on several key performance indicators not prepared in conformity with Generally Accepted Accounting Principles in the United States (“GAAP”). We believe these non-GAAP performance indicators are meaningful supplemental measures of our operating performance and should not be considered in isolation of, or as a substitute for their most directly comparable GAAP financial measures.

Included in our analysis of our results of operations are discussions regarding earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”), Funds From Operations (“FFO”), as defined by the National Association of Real Estate Investment Trusts, Adjusted Funds From Operations (“AFFO”) and acquisition-adjusted net revenue.

We define Adjusted EBITDA as net income before income tax expense (benefit), interest expense (income), gain (loss) on extinguishment of debt and investments, stock-based compensation, depreciation and amortization and gain or loss on disposition of assets and investments.

FFO is defined as net income before gains or losses from the sale or disposal of real estate assets and investments and real estate related depreciation and amortization and including adjustments to eliminate non-controlling interest.

We define AFFO as FFO before (i) straight-line revenue and expense; (ii) stock-based compensation expense; (iii) non-cash tax expense (benefit); (iv) non-real estate related depreciation and amortization; (v) amortization of deferred financing and debt issuance costs; (vi) loss on extinguishment of debt; (vii) non-recurring infrequent or unusual losses (gains); (viii) less maintenance capital expenditures; and (ix) an adjustment for non-controlling interest.

Acquisition-adjusted net revenue adjusts our net revenue for the prior period by adding to it the net revenue generated by the acquired assets before our acquisition of these assets for the same time frame that those assets were owned in the current period. In calculating acquisition-adjusted revenue, therefore, we include revenue generated by assets that we did not own in the period but acquired in the current period. We refer to the amount of pre-acquisition revenue generated by the acquired assets during the prior period that corresponds with the current period in which we owned the assets (to the extent within the period to which this report relates) as “acquisition net revenue”. In addition, we also adjust the prior period to subtract revenue generated by the assets that have been divested since the prior period and, therefore, no revenue derived from those assets is reflected in the current period.

Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue are not intended to replace net income or any other performance measures determined in accordance with GAAP. Neither FFO nor AFFO represent cash flows from operating activities in accordance with GAAP and, therefore, these measures should not be considered indicative of cash flows from operating activities as a measure of liquidity or of funds available to fund our cash needs, including our ability to make cash distributions. Rather, Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue are presented as we believe each is a useful indicator of our current operating performance. Specifically, we believe that these metrics are useful to an investor in evaluating our operating performance because (1) each is a key measure used by our management team for purposes of decision making and for evaluating our core operating results; (2) Adjusted EBITDA is widely used in the industry to measure operating performance as it excludes the impact of depreciation and amortization, which may vary significantly among companies, depending upon accounting methods and useful lives, particularly where acquisitions and non-operating factors are involved; (3) Adjusted EBITDA, FFO and AFFO each provides investors with a meaningful measure for evaluating our period-to-period operating performance because they eliminate items that are not operational in nature and reflect the impact on operations from trends in occupancy rates, operating costs, general and administrative expenses, and interest costs; (4) acquisition-adjusted net revenue is a supplement to net revenue to enable investors to compare period over period results on a more consistent basis without the effects of acquisitions and divestitures, which reflects our core

performance and organic growth (if any) during the period in which the assets were owned and managed by us; and (5) each provides investors with a measure for comparing our results of operations to those of other companies.

Our measurement of Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue may not, however, be fully comparable to similarly titled measures used by other companies. Reconciliations of Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue to net income, the most directly comparable GAAP measure, have been included herein.

RESULTS OF OPERATIONS

Nine Months ended September 30, 2016 compared to Nine Months ended September 30, 2015

Net revenues increased \$116.2 million or 11.6% to \$1.1 billion for the nine months ended September 30, 2016 from \$997.4 million for the same period in 2015. This increase was attributable primarily to an increase in billboard net revenues of \$95.8 million, which represents an increase of 10.9% over the same period in 2015, primarily due to the integration of outdoor assets acquired since July 1, 2015, which included five new U.S. markets in January 2016 from Clear Channel Outdoor Holdings, Inc. and the addition of approximately 300 digital displays since October 1, 2015. In addition, logo sign revenue increased \$3.8 million, which represents an increase of 6.9% over the prior period and there was a \$16.5 million increase in transit revenue, which represents an increase of 25.8% over the prior period, primarily due to the acquisition of Alliance Airports in July 2015.

For the nine months ended September 30, 2016, there was a \$35.2 million increase in net revenues as compared to acquisition-adjusted net revenue for the nine months ended September 30, 2015, which represents an increase of 3.3%. See “Reconciliations” below. The \$35.2 million increase in revenue primarily consists of a \$27.3 million increase in billboard revenue, a \$5.2 million increase in transit revenue and a \$2.7 million increase in logo revenue over the acquisition-adjusted net revenue for the comparable period in 2015.

Total operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$67.4 million to \$649.4 million for the nine months ended September 30, 2016 from \$582.0 million in the same period in 2015. The \$67.4 million increase over the prior year is comprised of a \$63.7 million increase in direct and general and administrative operating expenses related to the operations of our outdoor advertising assets and corporate expense increases of \$3.7 million.

Depreciation and amortization expense increased \$8.3 million, or 5.8% for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, primarily due to depreciation and amortization on the assets acquired in the five new U.S. markets purchased in January 2016.

Due to the above factors, operating income increased to \$323.7 million for the nine months ended September 30, 2016 compared to \$278.2 million for the same period in 2015.

During the nine months ended September 30, 2016, the Company recognized a \$3.2 million loss on extinguishment of debt related to the prepayment of Lamar Media’s Term A-1 loan under its senior credit facility.

Interest expense increased \$18.5 million from \$74.0 million for the nine months ended September 30, 2015, to \$92.5 million for the nine months ended September 30, 2016, primarily resulting from the January 2016 issuance of Lamar Media’s \$400 million in aggregate 5 3/4% Senior Notes due in 2026 (the “5 3/4% Senior Notes”).

The increase in operating income offset by the increases in interest expense and loss on debt extinguishment resulted in a \$23.7 million increase in income before income taxes. The Company recognized \$9.7 million in income tax expense for the nine months ended September 30, 2016. The effective tax rate for the nine months ended September 30, 2016 is approximately 4.3%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, the Company recognized net income for the nine months ended September 30, 2016 of \$218.3 million, as compared to net income of \$186.0 million for the same period in 2015.

Reconciliations:

Because acquisitions or dispositions occurring after December 31, 2014 (the “acquired assets”) have contributed to or reduced our net revenue results for the periods presented, we provide 2015 acquisition-adjusted net revenue, which adjusts our 2015 net revenue for the nine months ended September 30, 2015 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the nine months ended September 30, 2016.

Reconciliations of 2015 reported net revenue to 2015 acquisition-adjusted net revenue for the nine months ended September 30, as well as a comparison of 2015 acquisition-adjusted net revenue to 2016 reported net revenue for the nine months ended September 30, are provided below:

Reconciliation and Comparison of Reported Net Revenue to Acquisition-Adjusted Net Revenue

	Nine months ended	
	September 30, 2016	2015
	(in thousands)	
Reported net revenue	\$1,113,577	\$997,427
Acquisition net revenue	—	80,950
Adjusted totals	\$1,113,577	\$1,078,377

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

	Nine Months Ended		Amount of	Percent
	September 30, 2016	2015	Increase (Decrease)	Increase (Decrease)
Net income	\$218,284	\$186,041	\$ 32,243	17.3 %
Income tax expense	9,730	18,278	(8,548)	
Loss on debt extinguishment	3,198	—	3,198	
Interest expense (income), net	92,463	73,925	18,538	
Gain on disposition of assets	(12,221)	(7,230)	(4,991)	
Depreciation and amortization	152,729	144,396	8,333	
Stock-based compensation expense	19,650	17,508	2,142	
Adjusted EBITDA	\$483,833	\$432,918	\$ 50,915	11.8 %

Adjusted EBITDA for the nine months ended September 30, 2016 increased 11.8% to \$483.8 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense) of \$73.8 million, and was partially offset by an increase in general administrative and corporate expense of \$22.9 million, excluding the impact of stock-based compensation expense.

Net Income/FFO/AFFO

(in thousands)

	Nine Months Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)	
	September 30, 2016	2015			
Net income	\$218,284	\$186,041	\$ 32,243	17.3	%
Depreciation and amortization related to real estate	142,394	132,931	9,463		
Gain from sale or disposal of real estate	(12,020)	(6,924)	(5,096)		
Adjustments for unconsolidated affiliates and non-controlling interest	318	446	(128)		
FFO	\$348,976	\$312,494	\$ 36,482	11.7	%
Straight line expense	231	181	50		
Stock-based compensation expense	19,650	17,508	2,142		
Non-cash portion of tax provision	(150)	9,572	(9,722)		
Non-real estate related depreciation and amortization	10,335	11,465	(1,130)		
Amortization of deferred financing costs	3,993	3,498	495		
Loss on extinguishment of debt	3,198	—	3,198		
Capital expenditures – maintenance	(25,942)	(34,746)	8,804		
Adjustments for unconsolidated affiliates and non-controlling interest	(318)	(446)	128		
AFFO	\$359,973	\$319,526	\$ 40,447	12.7	%

FFO for the nine months ended September 30, 2016 was \$349.0 million as compared to FFO of \$312.5 million for the same period in 2015. AFFO for nine months ended September 30, 2016 increased 12.7% to \$360.0 million as compared to \$319.5 million for the same period in 2015. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense), partially offset by increases in general and administrative expense, corporate expense and interest expense over the comparable period in 2015.

RESULTS OF OPERATIONS

Three Months ended September 30, 2016 compared to Three Months ended September 30, 2015

Net revenues increased \$36.8 million or 10.5% to \$387.5 million for the three months ended September 30, 2016 from \$350.7 million for the same period in 2015. This increase was attributable primarily to an increase in billboard net revenues of \$34.1 million, which represents an increase of 11.1% over the same period in 2015, primarily due to the

integration of outdoor assets acquired since July 1, 2015 which included the acquisition of five new U.S. markets in January 2016 from Clear Channel Outdoor Holdings, Inc. and the addition of approximately 300 digital displays since October 1, 2015, as well as an increase in political advertising sales. In addition, logo sign revenue increased \$1.2 million, which represents an increase of 6.7% over the prior period and there was a \$1.5 million increase in transit revenue, which represents an increase of 5.7% over the prior period.

For the three months ended September 30, 2016, there was a \$13.3 million increase in net revenues as compared to acquisition-adjusted net revenue for the three months ended September 30, 2015, which represents an increase of 3.6%. See "Reconciliations" below. The \$13.3 million increase in revenue primarily consists of a \$10.4 million increase in billboard revenue, a \$2.1 million increase in transit revenue and a \$0.9 million increase in logo revenue over the acquisition-adjusted net revenue for the comparable period in 2015.

Total operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$20.8 million to \$218.6 million for the three months ended September 30, 2016 from \$197.8 million in the same period in 2015. The \$20.8 million increase over the prior year is comprised of a \$18.1 million increase in direct and general and administrative operating expenses related to the operations of our outdoor advertising assets and corporate expense increases of \$2.7 million.

Depreciation and amortization expense increased \$2.9 million, or 6.2% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, primarily due to depreciation and amortization on the assets acquired in the five new U.S. markets purchased in January 2016.

Due to the above factors, operating income increased to \$119.8 million for the three months ended September 30, 2016 compared to \$111.6 million for the same period in 2015.

Interest expense increased \$6.4 million from \$24.7 million for the three months ended September 30, 2015, to \$31.1 million for the three months ended September 30, 2016, primarily resulting from the January 2016 issuance of the 5 3/4% Senior Notes.

The increase in operating income offset by the increase in interest expense resulted in a \$1.7 million increase in income before income taxes. The Company recognized income tax expense of \$3.6 million for the three months ended September 30, 2016. The effective tax rate for the three months ended September 30, 2016 was 4.1%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, the Company recognized net income for the three months ended September 30, 2016 of \$85.1 million, as compared to net income of \$86.0 million for the same period in 2015.

Reconciliations:

Because acquisitions or dispositions occurring after December 31, 2014 (the “acquired assets”) have contributed to or reduced our net revenue results for the periods presented, we provide 2015 acquisition-adjusted net revenue, which adjusts our 2015 net revenue for the three months ended September 30, 2015 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the three months ended September 30, 2016.

Reconciliations of 2015 reported net revenue to 2015 acquisition-adjusted net revenue for the three months ended September 30, as well as a comparison of 2015 acquisition-adjusted net revenue to 2016 reported net revenue for the three months ended September 30, are provided below:

Reconciliation and Comparison of Reported Net Revenue to Acquisition-Adjusted Net Revenue

	Three months ended	
	September 30, 2016	2015
	(in thousands)	
Reported net revenue	\$387,516	\$350,701
Acquisition net revenue	—	23,466
Adjusted totals	\$387,516	\$374,167

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

	Three Months Ended		Amount of	Percent
	September 30, 2016	September 30, 2015	Increase (Decrease)	Increase (Decrease)
Net income	\$85,061	\$85,965	\$ (904)	(1.1)%
Income tax expense	3,613	972	2,641	
Interest expense (income), net	31,100	24,707	6,393	
Gain on disposition of assets	(189)	(5,203)	5,014	
Depreciation and amortization	49,307	46,441	2,866	
Stock-based compensation expense	8,358	6,121	2,237	
Adjusted EBITDA	\$177,250	\$159,003	\$ 18,247	11.5 %

Adjusted EBITDA for the three months ended September 30, 2016 increased 11.5% to \$177.3 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense) of \$26.7 million,

and was partially offset by increases in general administrative and corporate expenses of \$8.5 million, excluding the impact of stock-based compensation expense.

Net Income/FFO/AFFO

(in thousands)

	Three Months Ended		Amount of (Decrease)	Percent (Decrease)	
	September 30, 2016	2015			
Net income	\$85,061	\$85,965	\$ (904)	(1.1)	%
Depreciation and amortization related to real estate	46,327	42,554	3,773		
Gain from sale or disposal of real estate	(546)	(5,125)	4,579		
Adjustments for unconsolidated affiliates and non-controlling interest	52	96	(44)		
FFO	\$130,894	\$123,490	\$ 7,404	6.0	%
Straight line income	(46)	(22)	(24)		
Stock-based compensation expense	8,358	6,121	2,237		
Non-cash portion of tax provision	(509)	(1,306)	797		
Non-real estate related depreciation and amortization	2,980	3,887	(907)		
Amortization of deferred financing costs	1,332	1,174	158		
Capital expenditures – maintenance	(9,005)	(10,610)	1,605		
Adjustments for unconsolidated affiliates and non-controlling interest	(52)	(96)	44		
AFFO	\$133,952	\$122,638	\$ 11,314	9.2	%

FFO for the three months ended September 30, 2016 was \$130.9 million as compared to FFO of \$123.5 million for the same period in 2015. AFFO for the three months ended September 30, 2016 increased 9.2% to \$134.0 million as compared to \$122.6 million for the same period in 2015. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense), partially offset by increases in general and administrative expense, corporate expense and interest expense.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company has historically satisfied its working capital requirements with cash from operations and borrowings under the senior credit facility. The Company's wholly owned subsidiary, Lamar Media Corp., is the borrower under the senior credit facility and maintains all corporate operating cash balances. Any cash requirements of the Company, therefore, must be funded by distributions from Lamar Media.

Sources of Cash

Total Liquidity. As of September 30, 2016 we had approximately \$222.4 million of total liquidity, which is comprised of approximately \$37.5 million in cash and cash equivalents and approximately \$184.9 million of availability under the revolving portion of Lamar Media's senior credit facility. We are currently in compliance with the maintenance covenant included in the senior credit facility and we would remain in compliance after giving effect to borrowing the full amount available to us under the revolving portion of the senior credit facility.

Cash Generated by Operations. For the nine months ended September 30, 2016 and 2015 our cash provided by operating activities was \$337.8 million and \$313.5 million, respectively. The increase in cash provided by operating activities for the nine months ended September 30, 2016 over the same period in 2015 primarily relates to an increase in revenues partially offset by an increase in operating expenses, (excluding depreciation and amortization). We expect to generate cash flows from operations during 2016 in excess of our cash needs for operations, capital expenditures and dividends, as described herein.

Note Offerings. On January 28, 2016, Lamar Media completed an institutional private placement of \$400 million aggregate principal amount of its 5 3/4% Senior Notes. The institutional private placement resulted in net proceeds to Lamar Media, after payment of fees and expenses of approximately \$394.5 million. Lamar Media used the proceeds of this offering to repay and retire the \$300 million term A-1 loan, which it borrowed on January 7, 2016 in order to fund the acquisition of certain assets of Clear Channel Outdoor Holdings, Inc.

On September 1, 2016, Lamar Media completed an exchange offer for all of its then outstanding 5 3/4% Senior Notes, which were not registered under the Securities Act of 1933, as amended, for an equal principal amount of newly issued 5 3/4% Senior Notes that were so registered. Lamar Media did not receive any proceeds from the exchange offer.

Credit Facilities. On January 7, 2016, Lamar Media entered into Incremental Amendment No. 1 to the Second Amended and Restated Credit Agreement, dated as of February 3, 2014 with the Company, certain of Lamar Media's subsidiaries as guarantors, JPMorgan Chase Bank, N.A. as administrative agent and the lenders party thereto. The Incremental Amendment established a \$300 million Term A-1 loan as a new class of incremental term loan. Lamar Media borrowed the \$300 million in Term A-1 loans on January 7, 2016. The term A-1 loan was repaid in full and retired with the proceeds of the institutional private placement of 5 3/4% Senior Notes on January 28, 2016. See—"Sources of Cash-Note Offerings" for more information.

Lamar Media's Second Amended and Restated Credit Agreement dated as of February 3, 2014 (as amended, the "senior credit facility") consists of a \$400 million revolving credit facility and a \$300 million Term A loan facility (the "Term A Loans"). The Term A Loans were established on April 18, 2014 under Amendment No. 1 to the Second Amended and Restated Credit Agreement. On March 4, 2016, Lamar Media entered into Amendment No. 2 to the Second Amended and Restated Credit Agreement, which eliminated the previously existing \$500 million cap on incremental loans with the result that Lamar Media may borrow incremental term and revolving loans under its senior credit facility without monetary limits, so long as Lamar Advertising's Senior Debt Ratio does not exceed 3.5 to 1.0. Lamar Media is the borrower under the senior credit facility and may also from time to time designate wholly-owned subsidiaries as subsidiary borrowers under the incremental loan facility. Incremental loans may be in the form of additional term loan tranches or increases in the revolving credit facility. Our lenders have no obligation to make additional loans to us, or any designated subsidiary borrower, under the incremental facility, but may enter into such commitments in their sole discretion.

As of September 30, 2016, Lamar Media had approximately \$184.9 million of availability under the revolving credit facility included in the senior credit facility and approximately \$9.1 million in letters of credit outstanding. As of September 30, 2016, Lamar Media had approximately \$258.8 million outstanding in Term A Loans and \$206.0 million outstanding under the revolving credit facility.

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 Debt Securities. Lamar Media must comply with certain covenants and restrictions related to its outstanding debt securities. Currently Lamar Media has outstanding \$500 million 5 7/8% Senior Subordinated Notes issued in February 2012 (the "5 7/8% Senior Subordinated Notes"), \$535 million 5% Senior Subordinated Notes issued in October 2012 (the "5% Senior Subordinated Notes"), \$510 million 5 3/8% Senior Notes issued in January 2014 (the "5 3/8% Senior Notes") and the \$400 million 5 3/4% Senior Notes issued January 2016.

The indentures relating to Lamar Media's outstanding notes restrict its ability to incur additional indebtedness but permit the incurrence of indebtedness (including indebtedness under the senior credit facility), (i) if no default or event of default would result from such incurrence and (ii) if after giving effect to any such incurrence, the leverage ratio (defined as the sum of (x) total consolidated debt plus (y) the aggregate liquidation preference of any preferred

stock of Lamar Media's restricted subsidiaries to trailing four fiscal quarter EBITDA (as defined in the indentures)) would be less than 7.0 to 1. Currently, Lamar Media is not in default under the indentures of any of its outstanding notes and, therefore, would be permitted to incur additional indebtedness subject to the foregoing provision.

In addition to debt incurred under the provisions described in the preceding paragraph, the indentures relating to Lamar Media's outstanding notes permit Lamar Media to incur indebtedness pursuant to the following baskets:

- Up to \$1.5 billion of indebtedness under the senior credit facility;
- Indebtedness outstanding on the date of the indentures or debt incurred to refinance outstanding debt;
 - Inter-company debt between Lamar Media and its restricted subsidiaries or between restricted 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 \$50 million or 5% of Lamar Media's net tangible assets; and
- Additional debt not to exceed \$75 million.

Restrictions under Senior Credit Facility. Lamar Media is required to comply with certain covenants and restrictions under the senior credit facility. If the Company or Lamar Media fails to comply with these tests, the lenders under the senior credit facility will be entitled to exercise certain remedies, including the termination of the lending commitments and the acceleration of the debt payments under the senior credit facility. At September 30, 2016, and currently, we were in compliance with all such tests under the senior credit facility.

Lamar Media must maintain a senior debt ratio, defined as total consolidated debt (other than subordinated indebtedness) of Lamar Advertising and its restricted subsidiaries, minus the lesser of (x) \$100 million and (y) the aggregate amount of unrestricted cash and cash equivalents of Lamar Advertising and its restricted subsidiaries to EBITDA, as defined below, for the period of four consecutive fiscal quarters then ended, of less than or equal to 3.5 to 1.0.

Lamar Media is also restricted from incurring additional indebtedness under certain circumstances unless, after giving effect to the incurrence of such indebtedness, it is in compliance with the senior debt ratio covenant and its total debt ratio, defined as (a) total consolidated debt of Lamar Advertising and its restricted subsidiaries as of any date minus the lesser of (i) \$100 million and (ii) the aggregate amount of unrestricted cash and cash equivalents of Lamar Advertising and its restricted subsidiaries to (b) EBITDA, as defined below, for the most recent four fiscal quarters then ended is less than 6.0 to 1.0.

Under the senior credit facility “EBITDA” means, for any period, operating income for Lamar Advertising and its restricted subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for such period (calculated before (i) taxes, (ii) interest expense, (iii) depreciation, (iv) amortization, (v) any other non-cash income or charges accrued for such period, (vi) charges and expenses in connection with the credit facility transactions, (vii) costs and expenses of Lamar Advertising associated with the REIT conversion, provided that the aggregate amount of costs and expenses that may be added back pursuant to this clause (vii) shall not exceed \$10 million in the aggregate and (viii) the amount of cost savings, operating expense reductions and other operating improvements or synergies projected by Lamar Media in good faith to be realized as a result of any acquisition, investment, merger, amalgamation or disposition within 12 months of any such acquisition, investment, merger, amalgamation or disposition, net of the amount of actual benefits realized during such period from such action: provided, (a) the aggregate amount for all such cost savings, operating expense reductions and other operating improvements or synergies shall not exceed an amount equal to 15% of EBITDA for the applicable four quarter period and (b) any such adjustment to EBITDA may only take into account cost savings, operating expense reductions and other operating improvements synergies that are (I) directly attributable to such acquisition, investment, merger, amalgamation or disposition, (II) expected to have a continuing impact on Lamar Media and its restricted subsidiaries and (III) factually supportable, in each case all as certified by the chief financial officer of Lamar Media on behalf of Lamar Media, and (ix) any loss or gain relating to amounts paid or earned in cash prior to the stated settlement date of any swap agreement that has been reflected in operating income for such period) and (except to the extent received or paid in cash by Lamar Advertising and 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. For purposes of calculating EBITDA, the effect on such calculation of any adjustments required under Statement of Financial Accounting Standards No. 141R is excluded. If during any period for which EBITDA is being determined, Lamar Media shall have consummated any acquisition or disposition, EBITDA shall be determined on a pro forma basis as if such acquisition or disposition had been made or consummated on the first day of such period.

The Company believes that its current level of cash on hand, availability under the senior credit facility and future cash flows from operations are sufficient to meet its operating needs through fiscal 2016. All debt obligations are reflected on the Company’s balance sheet.

Uses of Cash

Capital Expenditures. Capital expenditures excluding acquisitions were approximately \$78.8 million for the nine months ended September 30, 2016. We anticipate our 2016 total capital expenditures will be approximately \$100 million.

Acquisitions. On January 7, 2016, the Company acquired the assets in five U.S. markets from Clear Channel Outdoor Holdings, Inc. for an aggregate cash purchase price of approximately \$458.5 million. The cash purchase price was funded using borrowings from the Company's revolving credit facility of \$160 million and \$300 million in borrowings under a Term A-1 incremental loan facility funded by JPMorgan Chase Bank, N.A. The Term A-1 loan was subsequently repaid in full and retired on January 28, 2016 using the net proceeds from Lamar Media's issuance of \$400 million in aggregate principal amount 5 3/4% Senior Notes. See—"Sources of Cash-Note Offerings" for more information. A portion of the proceeds of the 5 3/4% Senior Notes were applied to prepay borrowings under the revolving credit facility.

The Company also completed seventeen additional acquisitions in the amount of \$67.5 million during the nine months ended September 30, 2016, which were financed using available cash on hand or borrowings under its revolving credit facility.

Term A Loans. The Term A Loans mature on February 2, 2019 and began amortizing on June 30, 2014. The remaining quarterly installments scheduled to be paid on each June 30, September 30, December 31 and March 31 is as follows:

Principal Payment Date	Principal Amount
December 31, 2016-March 31, 2017	\$ 5,625,000
June 30, 2017-December 31, 2018	\$ 11,250,000
Term A Loan Maturity Date	\$ 168,750,000

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

Dividends. On August 29, 2016, the Company’s Board of Directors declared a quarterly cash dividend of \$0.76 per share payable on September 30, 2016 to its stockholders of record of its Class A common stock and Class B common stock on September 16, 2016. The Company previously paid quarterly cash dividends of \$0.75 per share on each of March 31, 2016 and June 30, 2016. The Company expects aggregate quarterly distributions to stockholders in 2016, including the dividends paid on March 31, 2016, June 30, 2016 and September 30, 2016, will total \$3.02 per common share.

As a REIT, the Company must annually distribute to its stockholders an amount equal to at least 90% of its REIT taxable income (determined before the deduction for distributed earnings and excluding any net capital gain). The amount, timing and frequency of future distributions will be at the sole discretion of the Board of Directors and will be declared based upon various factors, a number of which may be beyond the Company’s control, including financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income and excise taxes that the Company otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, the Company’s ability to utilize net operating losses to offset, in whole or in part, the Company’s distribution requirements, limitations on its ability to fund distributions using cash generated through its Taxable REIT Subsidiaries (“TRSs”) and other factors that the Board of Directors may deem relevant.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements with the exception of operating leases.

Commitments and Contingencies

In our Quarterly Report on Form 10-Q for the three months ended March 31, 2016, Part I, Item 2, Management's Discussion and Analysis of Financial Conditions and Results of Operations, under the heading "Debt Service and Contractual Obligations," we described our commitments and contingencies. There was no material change in our commitments and contingencies during the nine months ended September 30, 2016.

Accounting Standards Update

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

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

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The update is designed to simplify accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The update is effective for annual periods beginning January 1, 2017 with early adoption permitted. The Company does not expect the adoption of this update will have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. The update clarifies how certain cash receipts and cash payments are presented in the statement of cash flows. The update is effective for annual periods beginning January 1, 2018 with early adoption permitted. The Company does not expect the adoption of this update will have a material impact on its statement of cash flows.

LAMAR MEDIA CORP.

The following is a discussion of the consolidated financial condition and results of operations of Lamar Media for the three and nine months ended September 30, 2016 and 2015. This discussion should be read in conjunction with the consolidated financial statements of Lamar Media and the related notes thereto.

RESULTS OF OPERATIONS

Nine Months ended September 30, 2016 compared to Nine Months ended September 30, 2015

Net revenues increased \$116.2 million or 11.6% to \$1.1 billion for the nine months ended September 30, 2016 from \$997.4 million for the same period in 2015. This increase was attributable primarily to an increase in billboard net revenues of \$95.8 million, which represents an increase of 10.9% over the same period in 2015, primarily due to the integration of outdoor assets acquired since July 1, 2015, which included five new U.S. markets in January 2016 from Clear Channel Outdoor Holdings, Inc. and the addition of approximately 300 digital displays since October 1, 2015. In addition, logo sign revenue increased \$3.8 million, which represents an increase of 6.9% over the prior period and there was a \$16.5 million increase in transit revenue, which represents an increase of 25.8% over the prior period, primarily due to the acquisition of Alliance Airports in July 2015.

For the nine months ended September 30, 2016, there was a \$35.2 million increase in net revenues as compared to acquisition-adjusted net revenue for the nine months ended September 30, 2015, which represents an increase of 3.3%. See “Reconciliations” below. The \$35.2 million increase in revenue primarily consists of a \$27.3 million increase in billboard revenue, a \$5.2 million increase in transit revenue and a \$2.7 million increase in logo revenue over the acquisition-adjusted net revenue for the comparable period in 2015.

Total operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$67.3 million to \$649.1 million for the nine months ended September 30, 2016 from \$581.8 million in the same period in 2015. The \$67.3 million increase over the prior year is comprised of a \$63.7 million increase in direct and general and administrative operating expenses related to the operations of our outdoor advertising assets and corporate expense increases of \$3.6 million.

Depreciation and amortization expense increased \$8.3 million, or 5.8% for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, primarily due to depreciation and amortization on the assets acquired in the five new U.S. markets purchased in January 2016.

Due to the above factors, operating income increased to \$324.0 million for the nine months ended September 30, 2016 compared to \$278.5 million for the same period in 2015.

During the nine months ended September 30, 2016, we recognized a \$3.2 million loss on extinguishment of debt related to the prepayment of our Term A-1 loan under its senior credit facility.

Interest expense increased \$18.5 million from \$74.0 million for the nine months ended September 30, 2015, to \$92.5 million for the nine months ended September 30, 2016, primarily resulting from the January 2016 issuance of our 5 3/4% Senior Notes.

The increase in operating income offset by the increases in interest expense and loss on debt extinguishment resulted in a \$23.7 million increase in income before income taxes. The Company recognized \$9.7 million in income tax expense for the nine months ended September 30, 2016. The effective tax rate for the nine months ended September 30, 2016 is approximately 4.3%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, we recognized net income for the nine months ended September 30, 2016 of \$218.6 million, as compared to net income of \$186.3 million for the same period in 2015.

Reconciliations:

Because acquisitions or dispositions occurring after December 31, 2014 (the “acquired assets”) have contributed to or reduced our net revenue results for the periods presented, we provide 2015 acquisition-adjusted net revenue, which adjusts our 2015 net revenue for the nine months ended September 30, 2015 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the nine months ended September 30, 2016.

Reconciliations of 2015 reported net revenue to 2015 acquisition-adjusted net revenue for the nine months ended September 30, as well as a comparison of 2015 acquisition-adjusted net revenue to 2016 reported net revenue for the nine months ended September 30, are provided below:

Reconciliation and Comparison of Reported Net Revenue to Acquisition-Adjusted Net Revenue

	Nine months ended	
	September 30, 2016	2015
	(in thousands)	
Reported net revenue	\$1,113,577	\$997,427
Acquisition net revenue	—	80,950
Adjusted totals	\$1,113,577	\$1,078,377

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

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	Nine Months Ended		Amount of	Percent
	September 30, 2016	2015	Increase (Decrease)	Increase (Decrease)
Net income	\$218,573	\$186,296	\$ 32,277	17.3 %
Income tax expense	9,730	18,278	(8,548)	
Loss on debt extinguishment	3,198	—	3,198	
Interest expense (income), net	92,463	73,925	18,538	
Gain on disposition of assets	(12,221)	(7,230)	(4,991)	
Depreciation and amortization	152,729	144,396	8,333	
Stock-based compensation expense	19,650	17,508	2,142	
Adjusted EBITDA	\$484,122	\$433,173	\$ 50,949	11.8 %

Adjusted EBITDA for the nine months ended September 30, 2016 increased 11.8% to \$484.1 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense) of \$73.8 million, and was partially offset by an increase in general administrative and corporate expense of \$22.8 million, excluding the impact of stock-based compensation expense.

Net Income/FFO/AFFO

(in thousands)

	Nine Months Ended		Amount of	Percent	
	September 30, 2016	September 30, 2015	Increase (Decrease)	Increase (Decrease)	
Net income	\$218,573	\$186,296	\$ 32,277	17.3	%
Depreciation and amortization related to real estate	142,394	132,931	9,463		
Gain from sale or disposal of real estate	(12,020)	(6,924)	(5,096)		
Adjustments for unconsolidated affiliates and non-controlling interest	318	446	(128)		
FFO	\$349,265	\$312,749	\$ 36,516	11.7	%
Straight line expense	231	181	50		
Stock-based compensation expense	19,650	17,508	2,142		
Non-cash portion of tax provision	(150)	9,572	(9,722)		
Non-real estate related depreciation and amortization	10,335	11,465	(1,130)		
Amortization of deferred financing costs	3,993	3,498	495		
Loss on extinguishment of debt	3,198	—	3,198		
Capital expenditures – maintenance	(25,942)	(34,746)	8,804		
Adjustments for unconsolidated affiliates and non-controlling interest	(318)	(446)	128		
AFFO	\$360,262	\$319,781	\$ 40,481	12.7	%

FFO for the nine months ended September 30, 2016 was \$349.3 million as compared to FFO of \$312.7 million for the same period in 2015. AFFO for nine months ended September 30, 2016 increased 12.7% to \$360.3 million as compared to \$319.8 million for the same period in 2015. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense), partially offset by increases in general and administrative expense, corporate expense and interest expense over the comparable period in 2015.

RESULTS OF OPERATIONS

Three Months ended September 30, 2016 compared to Three Months ended September 30, 2015

Net revenues increased \$36.8 million or 10.5% to \$387.5 million for the three months ended September 30, 2016 from \$350.7 million for the same period in 2015. This increase was attributable primarily to an increase in billboard net revenues of \$34.1 million, which represents an increase of 11.1% over the same period in 2015, primarily due to the integration of outdoor assets acquired since July 1, 2015 which included the acquisition of five new U.S. markets in January 2016 from Clear Channel Outdoor Holdings, Inc. and the addition of approximately 300 digital displays since October 1, 2015, as well as an increase in political advertising sales. In addition, logo sign revenue increased \$1.2 million, which represents an increase of 6.7% over the prior period and there was a \$1.5 million increase in transit

revenue, which represents an increase of 5.7% over the prior period.

For the three months ended September 30, 2016, there was a \$13.3 million increase in net revenues as compared to acquisition-adjusted net revenue for the three months ended September 30, 2015, which represents an increase of 3.6%. See "Reconciliations" below. The \$13.3 million increase in revenue primarily consists of a \$10.4 million increase in billboard revenue, a \$2.1 million increase in transit revenue and a \$0.9 million increase in logo revenue over the acquisition-adjusted net revenue for the comparable period in 2015.

Total operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased \$20.8 million to \$218.5 million for the three months ended September 30, 2016 from \$197.7 million in the same period in 2015. The \$20.8 million increase over the prior year is comprised of a \$18.1 million increase in direct and general and administrative operating expenses related to the operations of our outdoor advertising assets and corporate expense increases of \$2.7 million.

Depreciation and amortization expense increased \$2.9 million, or 6.2% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, primarily due to depreciation and amortization on the assets acquired in the five new U.S. markets purchased in January 2016.

Due to the above factors, operating income increased to \$119.9 million for the three months ended September 30, 2016 compared to \$111.7 million for the same period in 2015.

Interest expense increased \$6.4 million from \$24.7 million for the three months ended September 30, 2015, to \$31.1 million for the three months ended September 30, 2016, primarily resulting from the January 2016 issuance of our 5 3/4% Senior Notes.

The increase in operating income offset by the increase in interest expense resulted in a \$1.8 million increase in income before income taxes. We recognized income tax expense of \$3.6 million for the three months ended September 30, 2016. The effective tax rate for the three months ended September 30, 2016 was 4.1%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, we recognized net income for the three months ended September 30, 2016 of \$85.2 million, as compared to net income of \$86.0 million for the same period in 2015.

Reconciliations:

Because acquisitions or dispositions occurring after December 31, 2014 (the “acquired assets”) have contributed to or reduced our net revenue results for the periods presented, we provide 2015 acquisition-adjusted net revenue, which adjusts our 2015 net revenue for the three months ended September 30, 2015 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the three months ended September 30, 2016.

Reconciliations of 2015 reported net revenue to 2015 acquisition-adjusted net revenue for the three months ended September 30, as well as a comparison of 2015 acquisition-adjusted net revenue to 2016 reported net revenue for the three months ended September 30, are provided below:

Reconciliation and Comparison of Reported Net Revenue to Acquisition-Adjusted Net Revenue

	Three months ended	
	September 30, 2016	2015
	(in thousands)	
Reported net revenue	\$387,516	\$350,701
Acquisition net revenue	—	23,466
Adjusted totals	\$387,516	\$374,167

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

	Three Months Ended		Amount of	Percent
	September 30, 2016	September 30, 2015	Increase (Decrease)	Increase (Decrease) %
Net income	\$85,168	\$86,043	\$ (875)	(1.0)%
Income tax expense	3,613	972	2,641	
Interest expense (income), net	31,100	24,707	6,393	
Gain on disposition of assets	(189)	(5,203)	5,014	
Depreciation and amortization	49,307	46,441	2,866	
Stock-based compensation expense	8,358	6,121	2,237	
Adjusted EBITDA	\$177,357	\$159,081	\$ 18,276	11.5 %

Adjusted EBITDA for the three months ended September 30, 2016 increased 11.5% to \$177.4 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense) of \$26.7 million, and was partially offset by increases in general administrative and corporate expenses of \$8.2 million, excluding the impact of stock-based compensation expense.

Net Income/FFO/AFFO

(in thousands)

	Three Months Ended		Amount of	Percent
	September 30, 2016	2015	Increase (Decrease)	Increase (Decrease)
Net income	\$85,168	\$86,043	\$ (875)	(1.0)%
Depreciation and amortization related to real estate	46,327	42,554	3,773	
Gain from sale or disposal of real estate	(546)	(5,125)	4,579	
Adjustments for unconsolidated affiliates and non-controlling interest	52	96	(44)	
FFO	\$131,001	\$123,568	\$ 7,433	6.0 %
Straight line income	(46)	(22)	(24)	
Stock-based compensation expense	8,358	6,121	2,237	
Non-cash portion of tax provision	(509)	(1,306)	797	
Non-real estate related depreciation and amortization	2,980	3,887	(907)	
Amortization of deferred financing costs	1,332	1,174	158	
Capital expenditures – maintenance	(9,005)	(10,610)	1,605	
Adjustments for unconsolidated affiliates and non-controlling interest	(52)	(96)	44	
AFFO	\$134,059	\$122,716	\$ 11,343	9.2 %

FFO for the three months ended September 30, 2016 was \$131.0 million as compared to FFO of \$123.6 million for the same period in 2015. AFFO for the three months ended September 30, 2016 increased 9.2% to \$134.1 million as compared to \$122.7 million for the same period in 2015. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense), partially offset by increases in general and administrative expense, corporate expense and interest expense.

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 September 30, 2016, and should be read in conjunction with Note 9 of the Notes to the Company's Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Loans under Lamar Media's senior credit facility bear interest at variable rates equal to the Adjusted LIBO Rate or Adjusted Base Rate plus the applicable margin. Because the Adjusted LIBO Rate or Adjusted Base Rate 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 senior credit facility. Increases in the interest rates applicable to borrowings under the senior credit facility would result in increased interest expense and a reduction in the Company's net income.

At September 30, 2016, there was approximately \$464.8 million of aggregate indebtedness outstanding under the senior credit facility, or approximately 19.3% of the Company's outstanding long-term debt on that date, bearing interest at variable rates. The aggregate interest expense for the nine months ended September 30, 2016 with respect to borrowings under the senior credit facility was \$10.1 million, and the weighted average interest rate applicable to borrowings under this credit facility during the nine months ended September 30, 2016 was 2.5%. Assuming that the weighted average interest rate was 200-basis points higher (that is 4.5% rather than 2.5%), then the Company's nine months ended September 30, 2016 interest expense would have increased by \$7.8 million.

The Company 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 senior credit facility 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 (in certain cases with the consent of the lenders), 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 (the "Exchange Act")) 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 Exchange Act 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 Exchange Act) 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.

PART II — OTHER INFORMATION

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our combined Annual Report on Form 10-K for the year ended December 31, 2015, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our Class A common stock. There have been no material changes to our risk factors since our combined Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM. 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

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: November 3, 2016 BY: /s/ Keith A. Istre
Chief Financial and Accounting Officer and Treasurer

LAMAR MEDIA CORP.

DATED: November 3, 2016 BY: /s/ Keith A. Istre
Chief Financial and Accounting Officer and Treasurer

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Lamar Advertising Company (the “Company”), as filed with the Secretary of the State of Delaware effective as of November 18, 2014. Previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K (File No. 1-36756) filed on November 19, 2014 and incorporated herein by reference.
3.2	Certificate of Merger, effective as of November 18, 2014. Previously filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K (File No. 1-36756) filed on November 19, 2014 and incorporated herein by reference.
3.3	Amended and Restated Certificate of Incorporation of Lamar Media Corp. (“Lamar Media”) Previously filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 0-30242) filed on May 10, 2007 and incorporated herein by reference.
3.4	Amended and Restated Bylaws of the Company, adopted as of November 18, 2014. Previously filed as Exhibit 3.3 to the Company’s Current Report on Form 8-K (File No. 1-36756) filed on November 19, 2014 and incorporated herein by reference.
3.5	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.
12(a)	Statement regarding computation of earnings to fixed charges for the Company. Filed herewith.
12(b)	Statement regarding computation of earnings to fixed charges for Lamar Media. Filed herewith.
31.1	Certification of the Chief Executive Officer of the 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 the 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.
101	The following materials from the combined Quarterly Report of the Company and Lamar Media on Form 10-Q for the nine months ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015 of the Company and Lamar Media, (ii) Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 of the Company and Lamar Media, (iii) Condensed Consolidated Statements of Cash Flows for the nine months

ended September 30, 2016 and 2015 of the Company and Lamar Media, and (iv) Notes to Condensed Consolidated Financial Statements of the Company and Lamar Media