

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997

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 1-12407

LAMAR ADVERTISING COMPANY
(Exact name of registrant as specified in its charter)

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

5551 Corporate Blvd., Baton Rouge, LA 70808
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (504) 926-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: Senior Subordinated Notes due 2006

Name of each Exchange on which registered: New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: Class A Common Stock, \$0.001 par value

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 16, 1998: \$815,088,636

The number of shares of the registrant's Class A Common Stock outstanding as of March 16, 1998: 28,692,247

The number of shares of the registrant's Class B Common Stock outstanding as of March 16, 1998: \$18,762,912

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the Annual Meeting of Stockholders to be held on May 21, 1998 are incorporated by reference into Part III of this Form 10-K.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K of Lamar Advertising Company ("Lamar" or the "Company") contains forward-looking statements concerning, among other things, the Company's expected future revenues, operations and expenditures, competitors or potential competitors, acquisition activity, application for and retention of logo sign franchises and the regulation of the outdoor advertising industry. These forward-looking statements represent the expectations of Lamar's management as of the filing date of this Form 10-K. The Company's actual results could differ materially from those anticipated by the forward-looking statements due to a number of factors, including (i) risks and uncertainties relating to leverage; (ii) the need for additional funds; (iii) the integration of companies acquired by Lamar and the Company's ability to recognize cost savings or operating efficiencies as a result of such acquisitions; (iv) the continued popularity of outdoor advertising as an advertising medium; (v) the regulation of the outdoor advertising industry and (vi) the risks and uncertainties described under the caption "Factors Affecting Future Operating Results" under Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART I

ITEM 1. BUSINESS

GENERAL

Lamar is one of the largest and most experienced owners and operators of outdoor advertising structures in the United States. It conducts a business that has operated under the Lamar name since 1902. As of December 31, 1997, the Company operated approximately 43,000 outdoor advertising displays in 24 states and, after giving effect to the Company's acquisitions of Ragan Outdoor and Derby Outdoor in January 1998 and Pioneer Outdoor in February 1998, the Company operated approximately 47,000 outdoor advertising displays in 26 states. The Company provides a full array of poster and bulletin displays in 59 of the markets in which it currently operates. In its remaining markets, the Company operates high-profile bulletin displays along interstate and other major highways. The Company also operates the largest logo sign business in the United States. Logo signs are erected pursuant to state-awarded franchises on public rights-of-way near highway exits and deliver brand name information on available gas, food, lodging and camping services. The Company currently operates logo sign franchises in 18 of the 22 states that have a privatized logo sign program. As of December 31, 1997, the Company maintained over 22,300 logo sign structures containing over 68,600 logo advertising displays. In addition, the Company operates the tourism signage franchises in four states and the province of Ontario, Canada. The Company has also expanded into the transit advertising business through the operation of displays on bus shelters, bus benches and buses in 13 of its primary markets, three markets in the state of South Carolina, one market in Utah, and one market in the state of Georgia.

The Company's strategy is to be the leading provider of outdoor advertising in each of the markets it serves, with a historical emphasis on providing a full range of outdoor advertising services in middle markets. Important elements of the Company's strategy are its decentralized management structure and its focus on providing high quality local sales and service. In order to be more responsive to local market demands, the Company offers a full complement of outdoor advertising services coupled with local production facilities, management and account executives through its local offices. Local advertising constituted approximately 80% of the Company's outdoor advertising net revenues in 1997, which management believes is higher than the industry average. While maintaining its local focus, the Company seeks to expand its operations within existing and contiguous markets. The Company also pursues expansion opportunities, including acquisitions, in additional markets. In the logo sign business, the Company's strategy is to maintain its position as the largest operator of logo signs

in the U.S. by expanding through the addition of state logo franchises as they are awarded and through possible acquisitions. The Company may also pursue expansion opportunities in transit and other out-of-home media that the Company believes will enable it to leverage its management skills and market position.

MARKETS

As of December 31, 1997, the Company's 64 primary outdoor advertising markets were:

Mobile, Alabama	Hattiesburg, Mississippi
Montgomery, Alabama	Jackson, Mississippi
Phoenix, Arizona	Kansas City, Missouri
Sacramento, California	Osage Beach, Missouri
Colorado Springs, Colorado	Buffalo, New York
Denver, Colorado	Rochester, New York
Daytona Beach, Florida	Syracuse, New York
Fort Myers, Florida	Elizabethtown, North Carolina
Fort Walton, Florida	Dayton, Ohio
Lakeland, Florida	Youngstown, Ohio
Panama City, Florida	Allentown, Pennsylvania
Pensacola, Florida	Altoona, Pennsylvania
Tallahassee, Florida	Erie, Pennsylvania
Albany, Georgia	Reading, Pennsylvania
Atlanta, Georgia	Williamsport, Pennsylvania
Augusta, Georgia	York, Pennsylvania
Savannah, Georgia	Columbia, South Carolina
Valdosta, Georgia	Clarksville, Tennessee
Lexington, Kentucky	Knoxville, Tennessee
Louisville, Kentucky	Nashville, Tennessee
Alexandria, Louisiana	Beaumont, Texas
Baton Rouge, Louisiana	Brownsville, Texas
Hammond, Louisiana	Corpus Christi, Texas
Houma, Louisiana	Houston, Texas
Lafayette, Louisiana	Laredo, Texas
Lake Charles, Louisiana	Wichita Falls, Texas
Monroe, Louisiana	Richmond, Virginia
New Orleans, Louisiana	Roanoke, Virginia
Shreveport, Louisiana	Bluefield, West Virginia
Detroit, Michigan	Bridgeport, West Virginia
Grand Rapids, Michigan	Huntington, West Virginia
Gulfport, Mississippi	Wheeling, West Virginia

In addition, during January 1998 the Company acquired outdoor advertising properties in Rockford, Illinois, Cedar Rapids, Iowa, and Quad Cities, Illinois - Iowa from Ragan Outdoor and in Rapid City, South Dakota from Derby Outdoor. In February 1998, the Company acquired outdoor advertising displays in two markets in Arkansas and Missouri from Pioneer Outdoor.

In March 1998, the Company signed a definitive agreement to purchase the outdoor advertising assets of Northwest Outdoor Advertising, L.L.C., which operates approximately 4,000 displays out of four primary offices located in Spokane, Washington, Boise, Idaho, Casper, Wyoming and Billings, Montana. The acquisition, which the Company expects to complete in April 1998, is subject to regulatory approval and satisfaction of other customary closing conditions.

As of December 31, 1997, the Company operated the logo sign franchises for the following states:

Florida	Nevada
Georgia	New Jersey
Kansas	Ohio
Kentucky	Oklahoma
Michigan	South Carolina
Minnesota	Tennessee
Mississippi	Texas
Missouri	Utah
Nebraska	Virginia

BUSINESS STRATEGY

Outdoor Advertising

The Company's overall business strategy is to be the leading provider of outdoor advertising in the markets it serves, with a historical emphasis on providing a full range of outdoor advertising services in middle markets. This strategy includes the following elements:

Operating Strategy:

High Quality Local Sales and Service. The Company identifies and closely monitors the needs of its customers and seeks to provide them with quality advertising products at a lower cost than competitive media. The Company believes it has a reputation for providing excellent customer service and quality outdoor advertising space and displays.

At December 31, 1997, the Company's 231-person sales force was supported by 53 full-service offices. In markets with such offices, the Company has recruited and trained a skilled sales force, placing an emphasis on market research and use of artistic creativity. Each salesperson is compensated under a performance-based compensation system and supervised by a sales manager executing a coordinated marketing plan. Art departments assist local customers in the development and production of creative, effective advertisements. The Company believes repeat sales are evidence that the Company delivers quality products and services.

Centralized Control/Decentralized Management. Management believes that, in 51 of the 64 markets in which the Company operated at December 31, 1997, the Company is the only outdoor advertising company offering a full complement of outdoor advertising services coupled with local production facilities, management and account executives. Local offices operate in defined geographic areas and function essentially as independent business units, consistent with senior management's philosophy that a decentralized organization is more responsive to particular local market demands.

The Company maintains centralized accounting and financial control over its local operations, but local managers are responsible for the day-to-day operations in each local market and are compensated according to that market's financial performance. Each local manager reports to one of six regional managers who in turn report to the Company's Chief Executive Officer. Management believes empowering local management and sales personnel to respond to market conditions has been a major factor in the Company's success.

Effective Inventory Management. The Company believes that the local presence of sales personnel contributes to the Company's ability to increase occupancy rates by attracting and servicing local customers. Additionally, a national sales office at corporate headquarters allows the Company to package inventory effectively to take advantage of national advertising campaigns in the Company's markets. The Company's inventory is managed by state-of-the-art mapping, charting and accounting software.

Middle Market Focus. The Company's leading position in 54 of the 64 outdoor advertising markets in which the Company operated at December 31, 1997 is a result of a successful operating strategy dedicated to growth and acquisitions primarily within the target range of markets having a population ranking between 50 and 250.

Management believes that operating in these markets provides certain advantages, including the benefits of a diverse and reliable mix of local advertisers, geographic diversification and an ability to package inventory effectively.

Effective Use of Technological Advances. The Company seeks to capitalize on technological advances that enhance its productivity and increase its ability to effectively respond to its customers' needs. The Company's continued investment in equipment and technology provides for greater ongoing benefits in the areas of sales, production and operations.

Growth Strategy:

Internal Growth. Within its existing markets, the Company enhances revenue and cash flow growth by employing highly targeted local marketing efforts to improve display occupancy rates and by selectively increasing advertising rates. This strategy is facilitated through its local sales and service offices, which allow management to respond quickly to the demands of its local customer base. In addition, the Company routinely invests in upgrading its existing structures and constructing new display faces in order to provide quality service to its current customers and to attract new advertisers.

Acquisitions. Aggressive internal growth is enhanced by focused strategic acquisitions, resulting in increased operating efficiencies, greater geographic diversification and increased market penetration. The Company has demonstrated its ability to grow successfully through acquisitions, having completed over 106 acquisitions since 1983, 24 of which were completed in 1997. In addition to acquiring positions in new markets, the Company purchases smaller outdoor advertising properties within existing or contiguous markets. Acquisitions offer opportunities for inter-market cross-selling and the opportunity to centralize and combine accounting and administrative functions, thereby achieving economies of scale. In addition, the Company leverages its reputation for high quality local sales and service by taking advantage of opportunities to acquire high-profile bulletin displays that may become available in larger markets. The Company believes that there will be future opportunities for implementing the Company's acquisition strategy given the industry's fragmentation and current consolidation trends.

During 1997, the Company increased the number of outdoor advertising displays it operates by approximately 47% by completing 24 strategic acquisitions. Certain of the Company's principal acquisitions are described below:

Penn Advertising, Inc.

On April 1, 1997, the Company acquired all of the outstanding capital stock of Penn Advertising, Inc. ("Penn") for a cash purchase price of approximately \$167.0 million. Pursuant to the Penn acquisition, the Company acquired a total of 8,500 outdoor advertising displays throughout the states of Maryland, New York and Pennsylvania. On June 3, 1997, the Company sold approximately 1,450 of these displays in Baltimore, Maryland to Universal Outdoor, Inc. for a cash purchase price of approximately \$46.5 million. The acquisition of Penn expanded the Company's presence in Pennsylvania and gave the Company an entry into New York.

McWhorter Advertising, Inc.

On May 15, 1997, the Company acquired all of the outstanding stock of McWhorter Advertising, Inc. ("McWhorter") for a cash purchase price of \$8.5 million. Pursuant to the McWhorter acquisition, the Company acquired approximately 1,050 displays in West Virginia.

Headrick Outdoor, Inc.

On June 4, 1997, the Company acquired substantially all of the assets of Headrick Outdoor, Inc. for a cash purchase price of \$76.6 million. Simultaneously with the Headrick acquisition, the Company sold approximately 9% of the outdoor advertising displays acquired from Headrick for \$6.0 million in cash. The Headrick acquisition added approximately 3,200 bulletins in ten southeastern and midwestern states.

National Advertising Company

On August 15, 1997, the Company acquired from Outdoor Systems, Inc. ("OSI"), for a cash purchase price of approximately \$116.0 million (excluding approximately \$2.0 million in capitalized costs), certain outdoor advertising assets that OSI had acquired from National Advertising Company, a wholly-owned subsidiary of Minnesota Mining and Manufacturing Company (the "3M Acquisition"). Pursuant to the 3M Acquisition, the Company acquired approximately 1,745 bulletin displays in the following ten markets: Phoenix, Arizona; Sacramento, California; Denver, Colorado; Atlanta, Georgia; Louisville, Kentucky; New Orleans, Louisiana; Detroit and Grand Rapids, Michigan; Kansas City, Missouri; and Houston, Texas. The acquisition marked the Company's entry into the states of Arizona, California and Michigan and its expansion into the 50 largest U.S. markets.

Recent Acquisitions

In January and February of 1998, the Company acquired Ragan Outdoor, Derby Outdoor and Pioneer Outdoor for an aggregate cash purchase price of approximately \$50.2 million. In the Ragan acquisition, the Company acquired approximately 1,492 outdoor advertising displays in Rockford, Illinois, Cedar Rapids, Iowa and Quad Cities, Illinois - Iowa. In the Derby acquisition, the Company acquired approximately 455 displays Rapid City, South Dakota, and in the Pioneer acquisition the Company acquired approximately 2,350 outdoor advertising displays in two additional markets in Missouri. These acquisitions extended the Company's operations into the states of Iowa and South Dakota.

In addition, in March 1998 the Company signed a definitive agreement to purchase the outdoor advertising assets of Northwest Outdoor Advertising, L.L.C. ("Northwest") for a cash purchase price of approximately \$68.5 million. Northwest operates approximately 4,000 displays out of four primary offices located in Spokane, Washington, Boise, Idaho, Casper, Wyoming and Billings, Montana. The acquisition, which the Company expects to complete in April 1998, is subject to receipt of regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and satisfaction of other customary closing conditions. Until such conditions are met, there can be no assurance that the acquisition will be completed as contemplated.

Logo Signs

The Company entered the business of logo sign advertising in 1988. The Company is now the largest provider of logo sign services in the United States, operating 18 of the 22 privatized state logo sign franchises. The Company's strategy is to continue to be the leading logo sign provider in the country. The Company also operates the tourism signing franchises in four states and the province of Ontario, Canada.

Adopting many of the decentralized operational strategies of the outdoor advertising division, the Company's logo sign division maintains contacts and local sales offices in each of the states in which it operates. Relationships with customers are developed and maintained at the state level; accounting, MIS and certain administrative functions are centralized at the Company's headquarters.

As the industry leader, the Company has gained significant operating experience and compiled a database of information it believes is unequalled in this industry. The Company shares its knowledge and database information with state highway departments initiating new logo sign programs, and believes this interaction provides significant advantages when seeking new logo sign franchises.

The Company believes its market-leading position in the logo sign industry will continue to increase as additional states privatize their logo sign programs and recognize the track record and core competency of the Company in building and servicing logo sign programs. The Company plans to pursue additional logo sign franchises, through both new franchise awards and, possibly, the acquisition of other logo sign franchise operators. Logo sign opportunities arise periodically, both from states initiating new logo sign programs and states converting from government owned and operated programs to privately owned and operated programs. Furthermore, the Company plans to pursue additional tourism signing programs in Canada and is seeking to expand into other state-authorized signage programs, such as those involving directional signs providing tourist information.

Transit and Other

The Company has recently expanded into the transit advertising business through the operation of displays on bus shelters, benches and buses in 13 of its outdoor advertising markets, three markets throughout the state of South Carolina, one market in Utah and one market in the state of Georgia. The Company plans to continue pursuing transit advertising opportunities that arise in its primary markets and to expand into other markets.

With the growth in wireless communication, particularly the buildout of personal communications services systems following the recent FCC allocation of radio spectrum, the Company is exploring ways to realize additional revenue by contracting with communications providers for use of the Company's billboard structures to attach transmission and reception devices. The Company has agreements with four of the largest potential wireless communication service providers regarding possible future use of its billboards.

COMPANY OPERATIONS

Outdoor Advertising

Sales and Service:

The Company conducts its outdoor advertising operations through local offices in each of the 64 markets in which the Company operated at December 31, 1997. Local offices operate in defined geographic areas and function essentially as independent business units, consistent with senior management's philosophy that a decentralized organization is more responsive to particular local market demands and provides greater incentives to employees. The Company's management policy is one of centralized accounting and financial control coupled with decentralized sales and production. Local managers in 53 of the Company's markets are responsible for the day-to-day operations of their office and are compensated according to the Company's financial performance in that market. Each local manager reports to one of six regional managers who in turn report to the Company's Chief Executive Officer.

Inventory:

The Company operates the following types of outdoor advertising displays:

Bulletins generally are 14 feet high and 48 feet wide (672 square feet) and consist of panels on which advertising copy is displayed. The advertising copy is either handpainted onto the panels at the Company's facilities in accordance with design specifications supplied by the advertiser and attached to the outdoor advertising structure, or printed with computer-generated graphics on a single sheet of vinyl that is "wrapped" around the structure. On occasion, to attract more attention, some of the panels may extend beyond the linear edges of the display face and may include three-dimensional embellishments. Because of their greater impact and higher cost, bulletins are usually located on major highways.

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Standardized posters generally are 12 feet high by 25 feet wide (300 square feet) and are the most common type of billboard. Advertising copy for these posters consists of lithographed or silk-screened paper sheets supplied by the advertiser that are pasted and applied like wallpaper to the face of the display, or single sheets of vinyl with computer-generated advertising copy that are wrapped around the structure. Standardized posters are concentrated on major traffic arteries.

Junior posters usually are 6 feet high by 12 feet wide (72 square feet). Displays are prepared and mounted in the same manner as standardized posters, except that vinyl sheets are not typically used on junior posters. Most junior posters, because of their smaller size, are concentrated on city streets and target pedestrian traffic.

For the year ended December 31, 1997, approximately 61% of the Company's outdoor advertising net revenues were derived from bulletin sales and 39% from poster sales. The Company regularly donates unoccupied display space for use by charitable and civic organizations.

The physical structures are owned by the Company and are built on locations the Company either owns or leases. In each local office one employee typically performs site leasing activities for the markets served by that office. See Item 2. -- "Properties."

Bulletin space is generally sold as individually selected displays, usually located on an interstate highway or other main road, for the duration of the advertising contract. Bulletins may also be sold as part of a rotary plan where advertising copy is periodically rotated from one location to another within a particular market. Poster space is generally sold in packages called "showings," which comprise a given number of displays in a market area. Posters provide advertisers with access either to a specified percentage of the general population or to a specific targeted audience. Displays making up a showing are placed in well-traveled areas and are distributed so as to reach a wide audience in a particular market. Bulletin space is generally sold for 12 month periods. Poster space averages between 30 and 90 days.

Production:

The Company's local production staffs in 53 of its markets perform the full range of activities required to create and install outdoor advertising. Production work includes creating the advertising copy design and layout, painting the design or coordinating its printing and installing the designs on displays. The Company provides its production services to local advertisers and to advertisers that are not represented by advertising agencies, since national advertisers represented by advertising agencies often use preprinted designs that require only installation. The Company's creative and production personnel typically develop new designs or adopt copy from other media for use on billboards. The Company's artists also often assist in the development of marketing presentations, demonstrations and strategies to attract new advertisers.

With the increased use of vinyl and pre-printed advertising copy furnished to the outdoor advertising company by the advertiser or its agency, outdoor advertising companies require less labor-intensive production work. In addition, increased use of vinyl and preprinted copy is also attracting more customers to the outdoor advertising medium. The Company believes that this trend over time will reduce operating expenses associated with production activities.

Categories of Business:

The following table sets forth the top ten categories of business from which the Company derived its outdoor advertising revenues for 1997 and the respective percentages of such revenue. These business categories accounted for approximately 73% of the Company's total outdoor advertising net revenues in the year ended December 31, 1997. No one advertiser accounted for more than 3.0% of the Company's total outdoor advertising net revenues in that period.

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Categories	Percentage Net Advertising Revenues
Restaurants	13%
Retailers	11%
Hotels and motels	9%
Tobacco products	9%
Automotive	7%
Hospitals and medical care	6%
Service	5%
Miscellaneous	5%
Gaming	4%
Amusement - entertainment and sport	4%
Total	<u>73%</u>

Beginning in 1992, the leading tobacco companies substantially reduced their domestic advertising expenditures in response to societal and governmental pressure and other factors. Because tobacco advertisers tend to occupy displays in highly desirable locations, the Company historically has been able to attract substitute advertising for space which has become unoccupied as a result of reduced tobacco product advertisements, and management believes that the Company will continue to be able to

attract such substitute advertising should tobacco advertisers further reduce their spending in the future. Recent developments in litigation involving the tobacco industry may result in the elimination of tobacco advertising altogether. See "Regulation" below and Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risks Affecting Future Operating Results -- Potential Elimination or Reduction in Tobacco Advertising."

Logo Signs

The Company is the largest provider of logo sign services in the United States and operates over 22,300 logo sign structures containing over 68,600 logo advertising displays. The Company has been awarded exclusive franchises to erect and operate logo signs in the states of Florida, Georgia, Michigan, Minnesota, Mississippi, Nebraska, New Jersey, Ohio, Oklahoma, South Carolina, Texas, Utah and Virginia, and through a 66.7% owned partnership in the state of Missouri. In addition, the Company has acquired the logo sign franchises in Kansas, Kentucky, Nevada and Tennessee. The Company also operates the tourism signing franchises for the states of Kentucky, Michigan, Nebraska and Ohio as well as for the province of Ontario, Canada.

State logo sign franchises represent the exclusive contract right to erect and operate logo signs within a state. The term of the contracts vary, but generally range from ten to twenty years, including renewal terms. The logo sign contracts generally provide for termination by the state prior to the end of the term of the franchise, in most cases with compensation to be paid to the Company. Typically, at the end of the term of the franchise, ownership of the structures is transferred to the state without compensation to the Company. None of the Company's logo sign franchises terminate in the next two years and three are subject to renewal during that period. The Company expects to be able to compete effectively for retention of franchises when their terms expire.

The Company also designs and produces logo sign plates for customers throughout the country, including for use in states which have not yet privatized their logo sign programs.

EMPLOYEES

The Company employed approximately 1,200 persons at December 31, 1997. Of these, 66 were engaged in overall management and general administration at the Company's management headquarters and the remainder were employed in the Company's operating offices. Of these, approximately 231 were direct sales and marketing personnel.

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The Company has five local offices covered by collective bargaining agreements, consisting of painters, billposters and construction personnel. The Company believes that its relations with its employees, including its 53 unionized employees, are good, and the Company has never experienced a strike or other labor dispute.

The Company believes its employee retention record evidences its good employee relations. The Company offers most employees a range of benefits including a profit sharing/401(k) plan and life, health and dental insurance.

COMPETITION

Outdoor Advertising

The Company competes in each of its markets with other outdoor advertisers as well as other media, including broadcast and cable television, radio, print media and direct mail marketers. In addition, the Company also competes with a wide variety of out-of-home media, including advertising in shopping centers, malls, airports, stadiums, movie theaters and supermarkets, as well as on taxis, trains and buses. Advertisers compare relative costs of available media and cost-per-thousand impressions, particularly when delivering a message to customers with distinct demographic characteristics. In competing with other media, outdoor advertising relies on its relative cost efficiency and its ability to reach a broad segment of the population in a specific market or to target a particular geographic area or population with a particular set of demographic characteristics within that market.

The outdoor advertising industry is highly fragmented, consisting of several large outdoor advertising and media companies with operations in multiple markets as well as smaller and local companies operating a limited number of structures in single or a few local markets. Although some consolidation has occurred over the past few years, according to the Outdoor Advertising Association of America ("OAAA") there are approximately 600 companies in the outdoor advertising industry operating approximately 396,000 billboard displays. In several of its markets, the Company encounters direct competition from other major outdoor media companies, including Outdoor Systems, Inc. and Clear Channel Communications, Inc. (formerly Eller Media) both of which have a larger national network and may have greater total resources than the Company. The Company believes that its strong emphasis on sales and customer service and its position as a major provider of advertising services in each of its primary markets enables it to compete effectively with the other outdoor advertising companies, as well as other media, within those markets.

Logo Signs

The Company faces competition in obtaining new logo sign franchises and in bidding for renewals of expiring franchises. The Company faces competition from two other national providers of logo signs in seeking logo franchises. In addition, local companies within each of the states that solicit bids will compete against the Company in the open-bid process. Competition from these sources is also encountered at the end of each contract period. The Company believes its operations model, which includes local sales offices, comprehensive databases of information and strategic alliances and its knowledge of the industry, should provide a competitive advantage in pursuing future franchises.

In marketing logo signs to advertisers, the Company competes with other forms of out-of-home advertising. The Company believes, however, that logo sign advertising offers an effective, low-cost directional advertising service, which makes it attractive to potential advertisers.

REGULATION

Outdoor advertising is subject to governmental regulation at the federal, state and local levels. Federal law, principally the Highway Beautification Act of 1965 (the "HBA") regulates outdoor advertising on federally aided primary and interstate highways. The HBA requires, as a condition to federal highway assistance, states to restrict billboards on such highways to commercial and industrial areas, and requires certain additional size, spacing and other limitations. All states have passed state billboard control statutes and regulations at least as restrictive as the federal requirements, including removal at the owner's expense and without compensation of any illegal signs on such highways. The Company believes that the number of its billboards that may be subject to removal as illegal is immaterial. No state in which the Company operates has banned billboards, but some have adopted standards more restrictive than the federal requirements. Municipal and county governments generally also have sign controls as part of their zoning laws. Some local governments prohibit construction of new billboards and some allow new construction only to replace existing structures, although most allow construction of billboards subject to restrictions on zones, size, spacing and height.

Federal law does not require removal of existing lawful billboards, but does require payment of compensation if a state or political subdivision compels the removal of a lawful billboard along a federally aided primary or interstate highway. State governments have purchased and removed legal billboards for beautification in the past, using federal funding for transportation enhancement programs, and may do so in the future. Governmental authorities from time to time use the power of eminent domain to remove billboards. Thus far, the Company has been able to obtain satisfactory compensation for any of its billboards purchased or removed as a result of governmental action, although there is no assurance that this will continue to be the case in the future. Local governments do not generally purchase billboards for

beautification, but some have attempted to force removal of legal but nonconforming billboards (billboards which conformed with applicable zoning regulations when built but which do not conform to current zoning regulations) after a period of years under a concept called "amortization," by which the governmental body asserts that just compensation is earned by continued operation over time. Although there is some question as to the legality of amortization under federal and many state laws, amortization has been upheld in some instances. The Company generally has been successful in negotiating settlements with applicable localities for billboards required to be removed. Restrictive regulations also limit the Company's ability to rebuild or replace nonconforming billboards.

To date, however, regulations in the Company's markets have not materially adversely affected its operations. However, the outdoor advertising industry is heavily regulated and at various times and in various markets can be expected to be subject to varying degrees of regulatory pressure affecting the operation of advertising displays. Accordingly, although the Company's experience to date is that the regulatory environment can be managed, no assurance can be given that existing or future laws or regulations will not materially and adversely affect the Company.

Approximately 9% of the Company's outdoor advertising net revenues and 8% of consolidated net revenues in 1997 came from the tobacco products industry, compared to 10% of outdoor advertising net revenues for fiscal 1996, 9% for fiscal 1995, 7% for fiscal 1994 and 1993 and 12% for fiscal 1992. Manufacturers of tobacco products, principally cigarettes, were historically major users of outdoor advertising displays. Beginning in 1992, the leading tobacco companies substantially reduced their domestic advertising expenditures in response to societal and governmental pressures and other factors. There can be no assurance that the tobacco industry will not further reduce advertising expenditures in the future either voluntarily or as a result of governmental regulation or as to what effect any such reduction may have on the Company.

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In June 1997 several of the major tobacco companies in the United States and numerous state attorneys general reached agreement on a proposed settlement of litigation between such parties. The terms of this proposed settlement include a ban on all outdoor advertising of tobacco products commencing nine months after finalization of the settlement. The settlement, however, is subject to numerous conditions, the most notable of which is the enactment of legislation by the federal government. Such legislation is still pending before Congress. At this time, it is uncertain when a definitive settlement will be reached, if at all, or what the terms of any such settlement will be. An elimination or reduction in billboard advertising by the tobacco industry could cause an immediate reduction in the Company's outdoor advertising revenues and may simultaneously increase the Company's available inventory. An increase in available inventory could result in the Company reducing its rates or limiting its ability to raise rates for some period of time. If the tobacco litigation settlement were to be finalized in its current form and if the Company were unable to replace revenues from tobacco advertising with revenues from other sources, such settlement could have a material adverse effect on the Company's results of operations. While the Company believes that it would be able to replace a substantial portion of revenues from tobacco advertising that would be eliminated due to such a settlement with revenues from other sources, any replacement of tobacco advertising may take time and require a reduction in advertising rates.

In addition, the states of Florida, Mississippi and Texas have entered into separate settlements of litigation with the tobacco industry. None of these settlements is conditioned on federal government approval. The Florida and Mississippi settlements provided for the elimination of all outdoor advertising of tobacco products by February 1998 in such states and at such time all of the Company's tobacco billboards were removed. The Texas settlement requires the elimination of all outdoor advertising of tobacco products by June 1998. The Company operates 4,253 outdoor advertising displays in seven markets in Florida and approximately \$1.8 million of its approximately \$19.2 million in net revenues in Florida during 1997 were attributable to tobacco advertising. In addition, the Company operates 2,532 outdoor advertising displays in three markets in Mississippi and approximately \$.8 million of its approximately \$10.6 million in net revenues in Mississippi during 1997 were

attributable to tobacco advertising. The Company operates approximately 3,300 outdoor advertising displays in six markets in Texas and approximately \$.8 million of its approximately \$11.0 million in net revenues in Texas during 1997 were attributable to tobacco advertising. Further, the settlement of tobacco-related claims and litigation in other jurisdictions may also adversely affect outdoor advertising revenues.

ITEM 1A. EXECUTIVE OFFICERS OF THE REGISTRANT

<u>Name</u>	<u>Age</u>	<u>Title</u>
Kevin P. Reilly, Jr.	43	Chairman, President and Chief Executive Officer
Keith A. Istre	45	Chief Financial Officer and Treasurer
Charles W. Lamar, III	49	General Counsel and Secretary

Each officer's term of office extends until the meeting of the Board of Directors following the next annual meeting of stockholders and until a successor is elected and qualified or until his or her earlier resignation or removal.

Kevin P. Reilly, Jr. has served as the Company's President and Chief Executive Officer since February 1989 and as a director of the Company since February 1984. Mr. Reilly served as President of the Company's Outdoor Division from 1984 to 1989. Mr. Reilly, an employee of the Company since 1978, has also served as Assistant and General Manager of the Company's Baton Rouge Region and Vice President and General Manager of the Louisiana Region. Mr. Reilly received a B.A. from Harvard University in 1977.

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Keith A. Istre has been Chief Financial Officer of the Company since February 1989 and a director of the Company since February 1991. Mr. Istre joined the Company as Controller in 1978. Prior to joining the Company, Mr. Istre was employed by a public accounting firm in Baton Rouge from 1975 to 1978. Mr. Istre graduated from the University of Southwestern Louisiana in 1974 with a B.S. in accounting.

Charles W. Lamar, III joined the Company in 1982 as General Counsel and has been a director of the Company since 1973. Prior to joining the Company, Mr. Lamar maintained his own law practice and was employed by a law firm in Baton Rouge. Mr. Lamar received a B.A. in Philosophy from Harvard University in 1971, an M.A. in Economics from Tufts University in 1972 and a J.D. from Boston University in 1975.

ITEM 2. PROPERTIES

The Company's 53,500 square foot management headquarters is located in suburban Baton Rouge, Louisiana. The Company occupies approximately 40% of the space in this facility and leases the remaining space. The Company owns 42 local operating facilities with front office administration and sales office space connected to back-shop poster and bulletin production space, and leases an additional 22 operating facilities at an aggregate lease expense for 1997 of approximately \$627,000.

The Company owns approximately 964 parcels of property beneath outdoor structures. As of December 31, 1997, the Company had approximately 23,000 active outdoor site leases accounting for a total annual lease expense of \$25.2 million. This amount represented 14% of total outdoor advertising net revenues for that period, which is consistent with the Company's historical lease expense experience. The Company's leases are for varying terms ranging from month-to-month to in some cases a term of over ten years, and many provide the Company with renewal options. There is no significant concentration of displays under any one lease or subject to negotiation with any one landlord. The Company believes that an important part of its management activity is to manage its lease portfolio and negotiate suitable lease renewals and extensions.

ITEM 3. LEGAL PROCEEDINGS

The Company from time to time is involved in litigation in the ordinary course of business, including disputes involving advertising contracts, site leases, employment claims and construction matters. The Company is also involved in routine

administrative and judicial proceedings regarding billboard permits, fees and compensation for condemnations. The Company is not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since August 2, 1996, the Company's Class A Common Stock has traded on the over-the-counter market and prices have been quoted on the Nasdaq National Market under the symbol "LAMR." Prior to August 2, 1996, the day on which the Class A Common Stock was first publicly traded, there was no public market for the Class A Common Stock. On December 31, 1997, the Company declared a 3-for-2 stock split of shares of Class A Common Stock, which was paid in the form of a 50% stock dividend on February 27, 1998. All share and per share amounts included herein have been restated to reflect this split. As of March 16, 1998, the Class A Common Stock was held by 231 shareholders of record. The Company believes that the actual number of beneficial holders of the Class A Common Stock is substantially greater than the stated number of holders of record because a substantial portion of the Class A Common Stock is held in "street name."

The following table sets forth, for the periods indicated, the high and low sale prices for the Class A Common Stock as reported by Nasdaq.

	<u>High</u>	<u>Low</u>
Fiscal year ended October 31, 1996:		
Fourth Quarter (beginning August 2, 1996)	\$28.33	\$13.42
Transition period ended December 31, 1996:	\$18.67	\$15.00
Fiscal year ended December 31, 1997:		
First Quarter	\$17.08	\$11.83
Second Quarter	19.08	10.67
Third Quarter	21.33	15.83
Fourth Quarter	27.17	17.67

The Company's Class B Common Stock is not publicly traded and is held of record by one person.

The Company does not anticipate paying dividends on either class of its common stock in the foreseeable future. The Company's Class A Preferred Stock is entitled to preferential dividends, in an annual aggregate amount of \$364,903, before any dividends may be paid on the common stock. Any future determination as to the payment

of dividends will be subject to such limitations, will be at the discretion of the Company's Board of Directors and will depend on the Company's results of operations, financial condition, capital requirements and other factors deemed relevant by the Board of Directors.

In September 1997, the Company issued \$200 million in principal amount of 8 5/8% Senior Subordinated Notes due 2007 (the "Initial Notes"). The Company believes the sale of the Initial Notes qualified as a transaction by an issuer not involving a public offering within the meaning of Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), based on the manner of offering (a negotiated sale to a limited number of "qualified institutional buyers" as defined in Rule 501 under the Securities Act) and the purchasers' financial status, investment experience and investment intent, as represented to the Company. In December 1997, the Company completed an offer to exchange \$200 million in principal amount of 8 5/8% Senior Subordinated Notes due 2007 for a like principal amount of the Initial Notes. The exchange offer was registered under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated statement of operations and balance sheet data presented below are derived from the audited consolidated financial statements of the Company. Effective January 1, 1997, the Company changed its fiscal year from a twelve-month period ending October 31 to a twelve-month period ending December 31. The year end change was made to conform to the predominant year ends within the outdoor advertising industry. The results of operations for the two-month transition period ended December 31, 1996 are presented in the audited consolidated financial statements presented herein. The data presented below should be read in conjunction with the audited consolidated financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

Statement of Operations Data:

(Dollars in thousands)	For the Years Ended				December
	October 31,				31,
	1993	1994	1995	1996	1997
Revenues:					
Net advertising revenues	\$65,365	83,627	101,871	119,900	200,508
Other income	1,159	846	537	702	554
Total net revenues	<u>66,524</u>	<u>84,473</u>	<u>102,408</u>	<u>120,602</u>	<u>201,062</u>
Operating Expenses:					
Direct advertising expenses	23,830	28,959	34,386	41,184	63,390
General & administrative expenses	19,504	24,239	27,057	29,466	45,368
Depreciation & amortization	8,924	11,352	14,942	16,470	48,037
Total operating expenses	<u>52,258</u>	<u>64,550</u>	<u>76,385</u>	<u>87,120</u>	<u>156,795</u>
Operating Income	<u>14,266</u>	<u>19,923</u>	<u>26,023</u>	<u>33,482</u>	<u>44,267</u>
Non-operating Expense (Income):					
Interest income	(218)	(194)	(199)	(240)	(1,723)
Interest expense	11,502	13,599	15,783	15,441	38,230
Loss (gain) on disposition of assets	729	675	1,476	91	(15)
Other expense	576	616	655	242	280
Total non-operating expense	<u>12,589</u>	<u>14,696</u>	<u>17,715</u>	<u>15,534</u>	<u>36,772</u>
Earnings before income taxes & extraordinary item	1,677	5,227	8,308	17,948	7,495
Income tax expense (benefit) (1)	<u>476</u>	<u>(2,072)</u>	<u>(2,390)</u>	<u>7,099</u>	<u>4,654</u>
Extraordinary loss on debt extinguishment, net of income tax benefit of \$98	<u>(1,854)</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>

Net earnings (loss)	(653)	7,299	10,698	10,849	2,841
Preferred stock dividends	---	---	---	(365)	(365)
Net earnings (loss) applicable to common stock	<u>(653)</u>	<u>7,299</u>	<u>10,698</u>	<u>10,484</u>	<u>2,476</u>
Earnings per common share before extraordinary item (basic and diluted)(2)	<u>0.02</u>	<u>0.14</u>	<u>0.21</u>	<u>0.25</u>	<u>0.05</u>
Net earnings (loss) per common share (basic and diluted) (2)	<u>(0.01)</u>	<u>0.14</u>	<u>0.21</u>	<u>0.25</u>	<u>0.05</u>
Other Data:					
EBITDA (3)	23,190	31,275	40,965	49,952	92,304
EBITDA margin	35%	37%	40%	41%	46%
Cash flows from operating activities (4)	12,411	15,214	25,065	32,493	45,783
Cash flows from investing activities (4)	(10,064)	(53,569)	(17,817)	(48,124)	(370,228)
Cash flows from financing activities (4)	6,802	37,147	(9,378)	18,175	250,684

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BALANCE SHEET DATA (5):

Cash & cash equivalents	9,224	8,016	5,886	8,430	7,246
Working capital	7,274	1,691	1,737	1,540	18,662
Total assets	92,041	130,008	133,885	173,189	651,336
Total debt (including current maturities)	115,380	153,929	146,051	131,955	539,200
Total long-term obligations	122,774	147,957	143,944	130,211	551,865
Stockholders' equity (deficit)	(43,249)	(37,352)	(28,154)	19,041	68,713

- (1) The benefit of the Company's net operating loss carryforward was fully recognized as of October 31, 1995, resulting in the income tax expense shown for the twelve months ended October 31, 1996 and December 31, 1997 compared to the income tax benefit for the same period in the prior years.
- (2) After giving effect to the three-for-two split of the Company's Class A and Class B common stock effected in February 1998.
- (3) "EBITDA" is defined as operating income before depreciation and amortization. It represents a measure which management believes is customarily used to evaluate the financial performance of companies in the media industry. However, EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to operating income or net earnings as an indicator of the Company's operating performance or to net cash provided by operating activities as a measure of its liquidity.
- (4) Cash flows from operating, investing, and financing activities are obtained from the Company's consolidated statements of cash flows prepared in accordance with generally accepted accounting principles.
- (5) As of the end of the period.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the consolidated financial condition and results of operations of the Company for the two fiscal years ended October 31, 1996, and for the fiscal year ended December 31, 1997. This discussion should be read in conjunction with the consolidated financial statements of the Company and the related notes.

As a result of the change in the Company's fiscal year end from October 31 to December 31, the results of operations set forth in the accompanying financial statements reflect the twelve-month periods ended December 31, 1997 and October 31, 1995 and 1996. As a

result, the results of operations do not reflect consecutive periods. As an aid to understanding and comparing the Company's results, the following table sets forth results of operations for the twelve-month periods ended December 31, 1996 and 1997. The discussion that follows compares these two periods and the years ended October 31, 1996 and December 31, 1997.

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	<u>Twelve-Month Periods Ended</u>	
	<u>December 31, 1996</u>	<u>December 31, 1997</u>
	(unaudited)	
Outdoor advertising, net	\$ 124,540	200,508
Other income	<u>574</u>	<u>554</u>
	125,114	201,062
Direct advertising expenses	41,750	63,390
General and administrative expenses	30,352	45,368
Depreciation and amortization	<u>18,156</u>	<u>48,037</u>
	<u>90,258</u>	<u>156,795</u>
Operating income	<u>34,856</u>	<u>44,267</u>
Other expenses (income):		
Interest income	(447)	(1,723)
Interest expense	16,718	38,230
Other expenses	<u>219</u>	<u>265</u>
	<u>16,490</u>	<u>36,772</u>
Earnings before income taxes	18,366	7,495
Income tax expense	<u>7,371</u>	<u>4,654</u>
Net income before extraordinary item	10,995	2,841
Extraordinary loss on debt extinguishment (net of taxes)	<u>9,514</u>	<u>---</u>
Net earnings	<u><u>1,481</u></u>	<u><u>2,841</u></u>

OVERVIEW

The Company's net revenues, which represent gross revenues less commissions paid to advertising agencies that contract for the use of advertising displays on behalf of advertisers, are derived primarily from the sale of advertising on outdoor advertising displays owned and operated by the Company. In recent years, the Company's logo sign business has expanded rapidly and may in the future have an increasing impact on the Company's revenues and operating income.

The Company has grown significantly during the last three years, primarily as the result of (i) internal growth in its existing outdoor advertising business resulting from construction of additional outdoor advertising displays, general improvements in occupancy and operating efficiency and increases in advertising rates, (ii) acquisitions of outdoor advertising businesses and structures, and (iii) the rapid expansion of the Company's logo sign business. The Company's net advertising revenues increased by \$98.7 million from \$102.4 million for the fiscal year ended October 31, 1995 to \$201.1 million for the fiscal year ended December 31, 1997, representing a compound annual growth rate

of approximately 40%. During the same period, EBITDA increased \$51.3 million from \$41.0 million for the fiscal year ended October 31, 1995 to \$92.3 million for the fiscal year ended December 31, 1997, representing a compound annual growth rate of approximately 50%.

The Company plans to continue a strategy of expanding through both internal growth and acquisitions. As a result of acquisitions, the operating performance of individual markets and of the Company as a whole are not necessarily comparable on a year-to-year basis. All recent acquisitions have been accounted for using the purchase method of accounting and, consequently, operating results from acquired operations are included from the respective dates of those acquisitions.

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Since October 31, 1996, the Company has (i) increased the number of outdoor advertising displays it operates by approximately 75% by completing 27 acquisition transactions for an aggregate cash purchase price of approximately \$428.6 million and (ii) acquired the logo sign franchises in Kentucky and Nevada for an aggregate cash purchase price of \$3.8 million and was awarded the logo sign franchise for Florida and the tourism signing franchise for Ontario, Canada. Subsequent to the end of the Company's fiscal year, the Company acquired Ragan Outdoor, Derby Outdoor and Pioneer Outdoor for an aggregate cash purchase price of approximately \$50.2 million. For the twelve months ended December 31, 1997, Ragan Outdoor, Derby Outdoor and Pioneer Outdoor had approximately \$11.6 million in aggregate net outdoor advertising revenues. In addition, in March 1998 the Company signed a definitive agreement to purchase the outdoor advertising assets of Northwest Outdoor Advertising, L.L.C. for a cash purchase price of approximately \$68.5 million. The acquisition, which the Company expects to complete in April 1998, is subject to receipt of regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and satisfaction of other customary closing conditions. Until such conditions are met, there can be no assurance that the acquisition will be completed as contemplated. The Company has financed its recent acquisitions and intends to finance its acquisition activity from external sources and borrowings under the Senior Credit Facility. See "Liquidity and Capital Resources" below.

The Company relies on sales of advertising space for its revenues, and its operating results are therefore affected by general economic conditions, as well as trends in the advertising industry. The Company believes that in recent years outdoor advertising expenditures have increased more rapidly than total U.S. advertising expenditures, but there can be no assurance that this trend will continue or that in the future outdoor advertising will not grow more slowly than the advertising industry as a whole.

Manufacturers of tobacco products, primarily cigarettes, were historically major users of outdoor advertising displays. Due to societal and governmental pressures and other factors, leading tobacco manufacturers have substantially reduced their domestic advertising expenditures since the early 1990s. The Company's tobacco revenues, as a percentage of billboard advertising net revenues, declined from 17% in fiscal 1991 to 9% in fiscal 1997. During this period, the Company has replaced the reduced tobacco advertising by diversifying its customer base and increasing sales to local advertisers. Recent developments in litigation involving the tobacco industry may result in the elimination of tobacco advertising altogether. See "Factors Affecting Future Operating Results - Potential Elimination or Reduction in Tobacco Advertising" below.

Growth of the Company's business requires capital expenditures for maintenance and capitalized costs associated with new billboard displays and new logo sign franchises. The Company expended \$14.0 million in fiscal 1995, \$25.9 million in fiscal 1996 and \$36.7 million in fiscal 1997 on such expenditures. Of these amounts, \$1.6 million, \$13.1 million and \$10.4 million, respectively, were attributable to the logo sign business. See "Liquidity and Capital Resources."

In the fiscal year ended October 31, 1995, the Company recognized an income tax benefit from a net operating loss carryforward. The benefit of the Company's net operating loss carryforward was fully recognized as of October 31, 1995, resulting in the recognition of income tax expense of \$7.1 million for the year ended October 31, 1996 and \$4.7 million for the year ended December 31, 1997.

The following table presents certain items in the Consolidated Statements of Earnings (Loss) as a percentage of net revenues for the years ended October 31, 1995 and 1996 and for the year ended December 31, 1997:

	<u>Years Ended October 31,</u>		<u>Year Ended December 31,</u>
	<u>1995</u>	<u>1996</u>	<u>1997</u>
Net revenues	100.0%	100.0%	100.0%
Operating expenses:			
Direct advertising expenses	33.6	34.1	31.5
General & administrative expenses	26.4	24.4	22.6
Operating cash flow	40.0	41.4	45.9
Depreciation and amortization	14.6	13.7	23.9
Operating income	25.4	27.8	22.0
Interest expense	15.4	12.8	19.0
Other expense	17.3	12.9	18.3
Net earnings	10.4	9.0	1.4

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Total revenues increased \$75.9 million or 60.7% to \$201.1 million for the year ended December 31, 1997 from \$125.1 million for the same period in 1996. This increase was predominantly attributable to an increase in billboard net revenues of \$68.9 million or 63.6%, of which \$57.6 million is attributable to the Company's acquisitions of FKM Outdoor Advertising Co., Outdoor East L.P., Revere National Corporation, Penn Advertising, Inc. ("Penn"), McWhorter Advertising, Inc., Headrick Outdoor, Inc. ("Headrick") and National Advertising Company, with the remaining \$11.3 million attributable to existing operations. The increase in outdoor advertising revenues attributable to existing operations was principally due to increases in the number of displays, in advertising rates, and in occupancy rates. Logo sign revenue increased \$6.9 million during the year ended December 31, 1997, which represents a 50.0% increase over the prior year. This significant increase was due to the completion of development of the new logo sign franchises awarded and acquired in 1996 and 1997 and the continued expansion of the Company's existing logo sign franchises.

Operating expenses, exclusive of depreciation and amortization, increased \$36.7 million or 50.8% to \$108.8 million for the twelve months ended December 31, 1997 from \$72.1 million for the same period in 1996. This increase was the result of an increase in personnel costs, sign site rent and other costs related to the increase in revenue and additional operating expenses related to the Company's recent acquisitions and the continued development of the logo sign business.

Depreciation and amortization expense increased \$29.9 million or 164.6% from \$18.2 million for the year ended December 31, 1996 to \$48.0 million for the year ended December 31, 1997 as a result of an increase in capital assets resulting from the Company's recent acquisition activity.

Due to the above factors, operating income increased \$9.4 million or 27% from \$34.9 million for the twelve months ended December 31, 1996 to \$44.3 million for the twelve months ended December 31, 1997.

Interest income increased \$1.3 million as a result of earnings on excess cash investments made during the period. Interest expense increased \$21.5 million from \$16.7 million for the year ended December 31, 1996 to \$38.2 million for the year ended December 31, 1997 as a result of interest expense on the Company's 9 5/8% Senior Subordinated Notes due 2006 (the "1996 Notes"), its 8 5/8% Senior Subordinated Notes due 2007 (the "1997 Notes") and borrowings under the Senior Credit Facility.

Due to the decrease in earnings before income taxes, income tax expense for the twelve months ended December 31, 1997 decreased \$2.7 million over the same period in 1996.

An extraordinary loss on debt extinguishment of \$9.5 million net of income tax benefit of \$5.7 million, was incurred during the twelve months ended December 31, 1996 as a result of the extinguishment of the Company's 11% Senior Secured Notes due 2003 (the "1993 Notes") and termination of the Company's then-existing bank credit facility (the "1993 Credit Agreement").

As a result of the foregoing factors, the Company recognized net earnings for the year ended December 31, 1997 of \$2.8 million, as compared to \$1.5 million for the same period in 1996.

Year Ended December 31, 1997 Compared to Year Ended October 31, 1996

Total revenues increased \$80.5 million or 66.7% to \$201.1 million for the twelve months ended December 31, 1997 from \$120.6 million for the twelve months ended October 31, 1996. This increase was predominantly attributable to an increase in billboard net revenues of \$72.2 million or 68.6%, principally due to the Company's acquisitions during 1997. Logo sign revenue increased \$8.1 million, which represents a 64.4% increase over the prior fiscal year. This significant increase was due to the completion of development of the new logo sign franchises awarded and acquired in 1996 and 1997 and the continued expansion of the Company's existing logo sign franchises.

Operating expenses, exclusive of depreciation and amortization, increased \$38.1 million or 53.9% to \$108.8 million for the twelve months ended December 31, 1997 from \$70.7 million for the twelve months ended October 31, 1996. This increase was the result of an increase in personnel costs, sign site rent and other costs related to the increase in revenue and additional operating expenses related to the Company's recent acquisitions and the continued development of the logo sign business.

Depreciation and amortization expense increased \$31.6 million or 191.7% from \$16.5 million for the year ended October 31, 1996 to \$48.0 million for the year ended December 31, 1997. This increase in depreciation and amortization was generated by the assets purchased during fiscal years 1996 and 1997.

Due to the above factors, operating income increased \$10.8 million or 32.2% from \$33.5 million for the twelve months ended October 31, 1996 to \$44.3 million for the twelve months ended December 31, 1997.

Interest income increased \$1.5 million as a result of earnings on excess cash investments made during the period. Interest expense increased \$22.8 million from \$15.4 million for the year ended October 31, 1996 to \$38.2 million for the year ended December 31, 1997 as a result of interest expense on the 1996 Notes, the 1997 Notes and borrowings under the Senior Credit Facility.

Due to the decrease in earnings before income taxes, income tax expense for the twelve months ended December 31, 1997 decreased \$2.4 million over the year ended October 31, 1996.

As a result of the foregoing factors, the Company's net earnings decreased \$8.0 million from \$10.8 million for the year ended October 31, 1996 to \$2.8 million for the year ended December 31, 1997.

Year Ended October 31, 1996 Compared to Year Ended October 31, 1995

Total revenues increased \$18.2 million or 17.8% to \$120.6 million for the twelve months ended October 31, 1996 from \$102.4 million for the same period in 1995. This increase was predominantly attributable to an increase in billboard net revenues of \$11.6 million, or 12.1%, principally due to increases in the number of displays and in advertising rates, with occupancy rates remaining relatively steady. Logo sign revenue increased \$6.5 million, which represents a 100% increase over the prior fiscal year.

This significant increase was due to the build-out of the following logo sign franchises awarded in 1995 and 1996: Georgia, Minnesota, South Carolina, Virginia, New Jersey and Michigan. In addition, during this period the Company also acquired the Kansas and Tennessee franchises and was awarded the right to build out and operate logo signs along additional highways in Texas, where it currently has the logo sign franchise.

Operating expenses, exclusive of depreciation and amortization, increased \$9.2 million or 15.0% to \$70.7 million for the twelve months ended October 31, 1996 from \$61.4 million for the same period in 1995. This increase was the result of an increase in personnel costs, sign site rent, graphics expense, other costs related to the increase in revenue and additional operating expenses related to outdoor asset acquisitions and the continued development of the logo sign business.

Depreciation and amortization expense increased \$1.5 million or 10.2% from \$14.9 million for the year ended October 31, 1995 to \$16.5 million for the year ended October 31, 1996. This increase in depreciation and amortization was generated by the assets purchased during fiscal years 1995 and 1996.

Because the Company's operating expenses declined as a percentage of net revenues to 72.2% for fiscal 1996 from 74.6% for fiscal 1995, operating income increased \$7.5 million or 28.7% from \$26.0 million for the twelve months ended October 31, 1995 to \$33.5 million for the twelve months ended October 31, 1996.

Interest expense remained relatively constant for both periods as did total outstanding debt until August 1996, when proceeds from the Company's initial public equity offering (the "IPO") were used to retire approximately \$43.8 million in outstanding bank debt.

Income tax expense for the twelve months ended October 31, 1996 increased \$9.5 million over the same period in 1995. For the years prior to 1996, the Company has had a significant net operating loss carryforward. The benefit of the Company's net operating loss carryforward was fully recognized as of October 31, 1995.

As a result of the foregoing factors, the Company's net earnings of \$10.8 million for the twelve months ended October 31, 1996 remained relatively constant as compared to the same period in 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically satisfied its working capital requirements with cash from operations and revolving credit borrowings. Its acquisitions have been financed primarily with borrowed funds.

In November and December of 1996, the Company engaged in several transactions which significantly changed its capital structure and positioned it to expand operations through acquisitions. These transactions were: (i) a public offering of 3,795,000 shares of Class A Common Stock at \$15.33 per share, (ii) a tender offer that retired approximately \$98.8 million of the 1993 Notes, (iii) the offering of \$255 million in principal amount of the 1996 Notes, and (iv) entering into the Senior Credit Facility, which consists of a committed \$225 million revolving credit facility (the "Revolving Facility") and a \$75 million incremental facility funded at the discretion of the lenders (the "Incremental Facility"). The Senior Credit Facility replaced the 1993 Credit Agreement.

Net proceeds to the Company, after underwriting discounts, from the equity and 1996 Note offerings were \$55.4 million and \$248.0 million, respectively. These proceeds were used to extinguish outstanding bank debt of approximately \$47 million, fund the tender offer for the 1993 Notes, purchase substantially all of the assets of Outdoor East for \$60.5 million and pay investment banking fees as well as other related costs of approximately \$12 million related to the above transactions. The balance of approximately \$85 million was used for acquisitions and to fund operations.

The Company has primarily used the Senior Credit Facility to finance its acquisition activity. In this regard, the Company borrowed approximately \$48 million and \$66 million under the Senior Credit Facility to finance the Penn acquisition and Headrick

acquisition, respectively, in each case after giving effect to proceeds received by the Company from the disposition of certain assets acquired in these acquisitions, which were applied to reduce the amount outstanding under the Senior Credit Facility. In addition, the Company completed the 3M Acquisition in August 1997, which was financed with \$74 million in borrowings under the Revolving Facility and \$40 million of borrowing under the Incremental Facility.

In September 1997, the Company completed the offering of \$200 million in principal amount of the 1997 Notes, and the Company used the net proceeds of \$193.4 million to repay amounts then outstanding under the Senior Credit Facility. In connection with the 1997 Note offering, the Company amended certain financial and other covenants in the Senior Credit Facility, including an increase in permitted capital expenditures from 20% of the Company's EBITDA to 35% of the Company's EBITDA and an increase in the size of permitted acquisitions from \$50 million to \$100 million. In December 1997, the Company amended additional covenants in the Senior Credit Facility, including an increase in the total debt ratio from 5.25 to 5.50 and a decrease in the interest coverage ratio from 2.10 to 2.00.

In January 1998, the Company financed the Ragan Outdoor and Derby Outdoor acquisitions with a \$26.0 million draw under the Revolving Facility, and in February 1998 the Company financed the acquisition of Pioneer Outdoor with a \$19.0 million draw under the Revolving Facility. Following these acquisitions, the Company currently has \$115 million available under the Revolving Facility and \$75 million available but not committed under the Incremental Facility. The Company also currently intends to finance the \$68.5 million purchase price of the Northwest Outdoor acquisition with a draw under the Revolving Facility. The Company expects to pursue a policy of continued growth through acquisitions. As a result, the Company will be required to raise additional funds to finance additional acquisition activity.

The Company's net cash provided by operating activities increased to \$45.8 million in fiscal 1997 due primarily to an increase in noncash items of \$27.8 million, which includes an increase in depreciation and amortization of \$31.6 million offset by a decrease in deferred tax expense of \$5.1 million. There was also an increase in accrued expenses of \$4.8 million offset by a decrease in net earnings of \$8.0 million, an increase in receivables of \$5.0 million, a decrease in trade accounts payable of \$2.8 million and a decrease in deferred income of \$3.1 million. Net cash used in investing activities increased \$322.1 million from \$48.1 million in fiscal 1996 to \$370.2 million in fiscal 1997. This increase was due to a \$361.7 million increase in purchase of outdoor advertising assets and a \$10.7 million increase in capital expenditures primarily due to the build-out of the Company's new logo sign franchises offset by an increase in proceeds from the sale of property and equipment of \$52.4 million, which is primarily cash proceeds received from subsequent sales of certain outdoor displays acquired from Penn and Headrick. Net cash provided by financing activities increased \$232.5 million in fiscal 1997 due to a \$188.9 million increase in proceeds from issuance of long-term debt due to the proceeds from the 1997 Note offering of \$193.9 million, and a \$95.9 million increase in principal borrowings under credit agreements.

The Company's net cash used in operating activities was \$.8 million for the two months ended December 31, 1996 due to the Company's net loss of \$8.1 million attributable to debt extinguishment, noncash items of \$14.8 million, an increase in receivables of \$4.5 million, and a decrease in accrued expenses of \$3.1 million. Net cash used in investing activities was \$113.4 million for the two months ended December 31, 1996 due to the acquisitions of \$104.4 million in outdoor advertising assets from FKM and Outdoor East, capital expenditures of \$4.9 million, and purchases of intangible assets of \$4.3 million. Net cash provided by financing activities was \$186.8 million for the two months ending December 31, 1996 due to the proceeds from the 1996 Note offering of \$247.8 million and proceeds from the

issuance of common stock of \$54.9 million, offset by principal payments on long-term debt of \$110.1 million resulting from the tender offer for the 1993 Notes. The items described above yield a net increase in cash and cash equivalents of \$72.6 million for the two months ended December 31, 1996.

The Company's net cash provided by operating activities increased to \$32.5 million in fiscal 1996 due primarily to an increase in non-cash items of \$5.8 million, which includes an increase in deferred tax expense of \$5.6 million due to the extinguishment

of the Company's net operating loss carryforward. There was also an increase in deferred income of \$1.7 million, and an increase in accrued expenses of \$1.2 million offset by an increase in receivables of \$1.3 million. Net cash used in investing activities increased \$30.3 million from \$17.8 million in fiscal 1995 to \$48.1 million in fiscal 1996. This increase was due to an \$18.3 million increase in purchase of new markets and an \$11.9 million increase in capital expenditures primarily due to the build-out of the Company's new logo sign franchises. Net cash provided by financing activities increased \$27.6 million in fiscal 1996 due to a \$63.1 million increase in proceeds from the issuance of common stock in the IPO, a \$5.0 million increase in proceeds from issuance of long-term debt, primarily used to finance the new logo sign franchise build-out, offset by a \$33.3 million increase in principal payments under credit agreements consisting primarily of the payout of loan obligations under the 1993 Credit Agreement, a \$7.0 million increase in redemption of common stock due to the March 1996 stock redemption and additional consideration paid from the proceeds of the IPO to selling stockholders of the December 1995 and March 1996 redemptions, and a \$0.2 million increase in dividends.

The Company believes that internally generated funds and funds remaining available for borrowing under the Senior Credit Facility will be sufficient for the foreseeable future to satisfy all debt service obligations and to finance its current operations.

FACTORS AFFECTING FUTURE OPERATING RESULTS

Substantial Indebtedness of the Company

The Company presently has substantial indebtedness. As of December 31, 1997 the Company's indebtedness was approximately \$541.5 million and the Company had approximately \$165.0 million available for borrowing under the Senior Credit Facility (excluding the \$75 million available under the Incremental Facility). Additionally, as of December 31, 1997, the Company had \$3.6 million of Class A Preferred Stock, \$638 par value per share, outstanding which is entitled to a cumulative preferential dividend of \$364,903 annually. A substantial part of the Company's cash flow from operations will be dedicated to debt service and will not be available for other purposes. Further, if the Company's net cash provided by operating activities were to decrease from present levels, the Company could experience difficulty in meeting its debt service obligations without additional financing. There can be no assurance that, in the event the Company were to require additional financing, such additional financing would be available or, if available, would be available on favorable terms. In addition, any such additional financing may require the consent of lenders under the Senior Credit Facility or holders of other debt of the Company. Certain of the Company's competitors operate on a less leveraged basis and may have greater operating and financial flexibility than the Company.

Restrictive Covenants in Debt Instruments

The Senior Credit Facility and the Company's indentures relating to the 1996 Notes and 1997 Notes contain covenants that restrict, among other things, the ability of the Company to dispose of assets, incur or repay debt, create liens, and make certain investments. In addition, the Senior Credit Facility requires the Company to maintain specified financial ratios and levels including cash interest coverage, fixed charge coverage, senior debt and total debt ratios. The ability of the Company to comply with the foregoing restrictive covenants will depend on its future performance, which is subject to prevailing economic, financial and business conditions and other factors beyond the Company's control.

Fluctuations in Economic and Advertising Trends

The Company relies on sales of advertising space for its revenues, and its operating results are therefore affected by general economic conditions, as well as trends in the advertising industry. A reduction in advertising expenditures available for the Company's displays could result from a general decline in economic conditions, a decline in economic conditions in particular markets where the Company conducts business or a reallocation of advertising expenditures to other available media by significant users of the Company's displays. Although the Company believes that in recent years outdoor advertising expenditures have increased more rapidly than total U.S. advertising expenditures, there can be no assurance that this trend will continue or that in the future outdoor advertising expenditures will not grow more slowly than

the advertising industry as a whole.

Potential Elimination or Reduction of Tobacco Advertising

Approximately 9% of the Company's outdoor advertising net revenues and 8% of consolidated net revenues in fiscal 1997 came from the tobacco products industry, compared to 10% of outdoor advertising net revenues for fiscal 1996, 9% for fiscal 1995, 7% for fiscal 1994 and 1993, and 12% for fiscal 1992. Manufacturers of tobacco products, principally cigarettes, were historically major users of outdoor advertising displays. Beginning in 1992, the leading tobacco companies substantially reduced their domestic advertising expenditures in response to societal and governmental pressures and other factors. There can be no assurance that the tobacco industry will not further reduce advertising expenditures in the future either voluntarily or as a result of governmental regulation or as to what affect any such reduction may have on the Company.

In June 1997 several of the major tobacco companies in the United States and numerous state attorneys general reached agreement on a proposed settlement of litigation between such parties. The terms of this proposed settlement include a ban on all outdoor advertising of tobacco products commencing nine months after finalization of the settlement. The settlement, however, is subject to numerous conditions, the most notable of which is the enactment of legislation by the federal government. Such legislation is still pending before Congress. At this time, it is uncertain when a definitive settlement will be reached, if at all, or what the terms of any such settlement will be. An elimination or reduction in billboard advertising by the tobacco industry could cause an immediate reduction in the Company's outdoor advertising revenues and may simultaneously increase the Company's available inventory. An increase in available inventory could result in the Company reducing its rates or limiting its ability to raise rates for some period of time. If the tobacco litigation settlement were to be finalized in its current form and if the Company were unable to replace revenues from tobacco advertising with revenues from other sources, such settlement could have a material adverse effect on the Company's results of operations. While the Company believes that it would be able to replace a substantial portion of revenues from tobacco advertising that would be eliminated due to such a settlement with revenues from other sources, any replacement of tobacco advertising may take time and require a reduction in advertising rates.

In addition, the states of Florida, Mississippi and Texas have entered into separate settlements of litigation with the tobacco industry. None of these settlements is conditioned on federal government approval. The Florida and Mississippi settlements provided for the elimination of all outdoor advertising of tobacco products by February 1998 in such states and at such time all of the Company's tobacco billboards were removed. The Texas settlement requires the elimination of all outdoor advertising of tobacco products by June 1998. The Company operates 4,253 outdoor advertising displays in seven markets in Florida and approximately \$1.8 million of its approximately \$19.2 million in net revenues in Florida during 1997 were attributable to tobacco advertising. The Company operates 2,532 outdoor advertising displays in three markets in Mississippi and approximately \$0.8 million of its approximately \$10.6 million in net revenues in Mississippi during 1997 were attributable to tobacco

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advertising. The Company operates 3,300 outdoor advertising displays in six markets in Texas and approximately \$.8 million of its approximately \$11.0 million in net revenues in Texas during 1997 were attributable to tobacco advertising. Further, the settlement of tobacco-related claims and litigation in other jurisdictions may also adversely affect outdoor advertising revenues.

Regulation of Outdoor Advertising

The outdoor advertising business is subject to regulation by federal, state and local governments. Federal law requires states, as a condition to federal highway assistance, to restrict billboards on federally-aided primary and interstate highways to commercial and industrial areas and imposes certain additional size, spacing and other limitations on billboards. Some states have adopted standards more restrictive than the federal requirements. Local governments generally control billboards as part of their zoning regulations, and some local governments prohibit construction of new billboards and reconstruction of substantially damaged billboards or allow new

construction only to replace existing structures. In addition, some jurisdictions (including certain of those within the Company's markets) have adopted amortization ordinances under which owners and operators of outdoor advertising displays are required to remove existing structures at some future date, often without condemnation proceeds being available. Federal and corresponding state outdoor advertising statutes require payment of compensation for removal by governmental order in some circumstances. Ordinances requiring the removal of a billboard without compensation, whether through amortization or otherwise, have been challenged in various state and federal courts on both statutory and constitutional grounds, with conflicting results. Although the Company has been successful in the past in negotiating acceptable arrangements in circumstances in which its displays have been subject to removal or amortization, there can be no assurance that the Company will be successful in the future and what effect, if any, such regulations may have on the Company's operations. In addition, the Company is unable to predict what additional regulation may be imposed on outdoor advertising in the future. Legislation regulating the content of billboard advertisements has been introduced in Congress from time to time in the past, although no laws which, in the opinion of management, would materially and adversely affect the Company's business have been enacted to date. Changes in laws and regulations affecting outdoor advertising at any level of government may have a material adverse effect on the Company's results of operations. See "- Potential Elimination or Reduction of Tobacco Advertising" for a discussion of recent developments concerning tobacco advertising.

Acquisition and Growth Strategy Risks

The Company's growth has been enhanced materially by strategic acquisitions that have substantially increased the Company's inventory of advertising displays. One element of the Company's operating strategy is to make strategic acquisitions in markets in which it currently competes as well as in new markets. While the Company believes that the outdoor advertising industry is highly fragmented and that significant acquisition opportunities are available, there can be no assurance that suitable acquisition candidates can continue to be found, and the Company is likely to face increased competition from other outdoor advertising companies for available acquisition opportunities. In addition, if the prices sought by sellers of outdoor advertising displays continue to rise, as management believes may happen, the Company may find fewer acceptable acquisition opportunities. There can be no assurance that the Company will have sufficient capital resources to complete acquisitions or be able to obtain any required consents of its bank lenders or that acquisitions can be completed on terms acceptable to the Company. In addition, the Company recently has entered into the transit advertising business and, while the Company believes that it will be able to utilize its expertise in outdoor advertising to operate this business, it has had limited experience in transit advertising and there is no assurance that it will be successful.

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Since October 31, 1996, the Company has completed the acquisition of 27 complementary businesses. The process of integrating these businesses into the Company's operations may result in unforeseen operating difficulties and could require significant management attention that would otherwise be available for the development of the Company's existing business. Moreover, there can be no assurance that the Company will realize anticipated benefits and cost savings or that any future acquisitions will be consummated.

Competition

In addition to competition from other forms of media, including television, radio, newspapers and direct mail advertising, the Company faces competition in its markets from other outdoor advertising companies, some of which may be larger and better capitalized than the Company. The Company also competes with a wide variety of other out-of-home advertising media, the range and diversity of which have increased substantially over the past several years to include advertising displays in shopping centers, malls, airports, stadiums, movie theaters and supermarkets, and on taxis, trains and buses. The Company believes that its local orientation, including the maintenance of local offices, has enabled it to compete successfully in its markets to date. However, there can be no assurance that the Company will be able to continue to

compete successfully against current and future sources of outdoor advertising competition and competition from other media or that the competitive pressures faced by the Company will not adversely affect its profitability or financial performance. In its logo sign business, the Company currently faces competition for state franchises from two other logo sign providers as well as local companies. Competition from these sources is encountered both when a franchise is first privatized and upon renewal thereafter.

Potential Losses from Hurricanes

A significant portion of the Company's structures are located in the mid-Atlantic and Gulf Coast regions of the United States. These areas are highly susceptible to hurricanes during the late summer and early fall. In the past, severe storms have caused the Company to incur material losses resulting from structural damage, overtime compensation, loss of billboards that could not legally be replaced and reduced occupancy because billboards are out of service. The Company has determined that it is not economical to obtain insurance against losses from hurricanes and other storms. The Company has developed contingency plans to deal with the threat of hurricanes, including plans for early removal of advertising faces to permit the structures to better withstand high winds and the replacement of such faces after storms have passed. As a result of these contingency plans, the Company has experienced lower levels of losses from recent storms and hurricanes. Structural damage attributable to Hurricane Andrew in 1992 was less than \$500,000, and the Company suffered no significant structural damage due to hurricanes in 1996 or 1997. There can be no assurance, however, that the Company's contingency plans will continue to be effective.

Risks in Obtaining and Retaining Logo Sign Franchises

Logo sign franchises represent a growing portion of the Company's revenues and operating income. The Company cannot predict the number of remaining states, if any, that will initiate logo sign programs or convert state-run logo sign programs to privately operated programs. Competition for new state logo sign franchises is intense and, even after a favorable award, franchises may be subject to challenge under state contract bidding requirements, resulting in delays and litigation costs. In addition, state logo sign franchises are generally, with renewal options, ten to twenty-year franchises subject to earlier termination by the state, in most cases upon payment of compensation. Typically, at the end of the term of the franchise, ownership of the structures is transferred to the state without compensation to the Company. Although none of the Company's logo sign franchises is due to terminate in the next two years, three are subject to renewal during that period. There can be no assurance that the

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Company will be successful in obtaining new logo sign franchises or renewing existing franchises. Furthermore, following the receipt by the Company of a new state logo sign franchise, the Company generally incurs significant start-up capital expenditures and there can be no assurance that the Company will continue to have access to capital to fund such expenditures.

Reliance on Key Executives

The Company's success depends to a significant extent upon the continued services of its executive officers and other key management and sales personnel, in particular Kevin P. Reilly, Jr., the Company's Chief Executive Officer, the Company's six regional managers and the manager of its logo sign business. Although the Company believes it has incentive and compensation programs designed to retain key employees, the Company has no employment contracts with any of its employees, and none of its executive officers are bound by non-compete agreements. The Company does not maintain key man insurance on its executives. The unavailability of the continuing services of any of its executive officers and other key management and sales personnel could have an adverse effect on the Company's business.

INFLATION

In the last three years, inflation has not had a significant impact on the Company.

Independent Auditors' Report

Board of Directors
Lamar Advertising Company:

We have audited the accompanying consolidated balance sheets of Lamar Advertising Company and subsidiaries as of October 31, 1996 and December 31, 1997, and the related consolidated statements of earnings, stockholders' equity (deficit) and cash flows for the years ended October 31, 1995 and 1996, the two months ended December 31, 1996, and the year ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lamar Advertising Company and subsidiaries as of October 31, 1996 and December 31, 1997, and the results of their operations and their cash flows for the years ended October 31, 1995 and 1996, the two months ended December 31, 1996, and the year ended December 31, 1997, in conformity with generally accepted accounting principles.

New Orleans, Louisiana
 February 6, 1998, except as to Note 18,
 which is as of February 27, 1998

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LAMAR ADVERTISING COMPANY
 AND SUBSIDIARIES

Consolidated Balance Sheets
 (In thousands, except share and per share data)

October 31, 1996 and December 31, 1997

<u>Assets</u>	October 31, <u>1996</u>	December 31, <u>1997</u>
Current assets:		
Cash and cash equivalents	\$ 8,430	7,246
Receivables:		
Trade accounts, less allowance for doubtful accounts of \$551 in 1996 and \$1,311 in 1997	12,855	29,854
Affiliates, related parties and employees	348	788
Other	327	1,284
	<u>13,530</u>	<u>31,926</u>
Prepaid expenses	1,973	9,112
Other current assets	1,544	1,136
Total current assets	<u>25,477</u>	<u>49,420</u>
Property, plant and equipment (note 5)	207,071	429,615
Less accumulated depreciation and amortization	<u>(87,343)</u>	<u>(113,477)</u>
	<u>119,728</u>	<u>316,138</u>
Investment securities (note 1)	4,414	679
Intangible assets (note 6)	18,223	278,923
Receivables-noncurrent	737	1,625
Deferred income taxes (note 10)	2,463	--

Other assets	<u>2,147</u>	<u>4,551</u>
Total assets	<u>\$ 173,189</u>	<u>651,336</u>

(Continued)

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LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued
(In thousands, except share and per share data)

<u>Liabilities and Stockholders' Equity</u>	October 31, <u>1996</u>	December 31, <u>1997</u>
Current liabilities:		
Trade accounts payable	\$ 3,263	3,308
Current maturities of long-term debt (note 9)	3,815	5,109
Accrued expenses (note 8)	11,066	14,804
Deferred income	<u>5,793</u>	<u>7,537</u>
Total current liabilities	23,937	30,758
Long-term debt (note 9)	128,140	534,091
Deferred income taxes (note 10)	--	14,687
Deferred income	811	837
Other liabilities	<u>1,260</u>	<u>2,250</u>
	<u>154,148</u>	<u>582,623</u>
Stockholders' equity (notes 12 and 18):		
Class A preferred stock, par value \$638, \$63.80 cumulative dividends, 10,000 shares authorized, 5,719 shares issued and outstanding	3,649	3,649
Class A common stock, par value \$.001, 75,000,000 shares authorized, 22,506,510 and 28,453,805 shares issued and outstanding at 1996 and 1997, respectively	15	28
Class B common stock, par value \$.001, 37,500,000 shares authorized, 20,687,080 and 18,762,909 shares issued and outstanding at 1996 and 1997, respectively	14	19
Additional paid-in capital	38,060	95,691

Accumulated deficit	(24,681)	(30,320)
Unrealized gain (loss) on investment securities	<u>1,984</u>	<u>(354)</u>
Stockholders' equity	<u>19,041</u>	<u>68,713</u>
 Total liabilities and stockholders' equity	 <u>\$ 173,189</u>	 <u>651,336</u>

See accompanying notes to consolidated financial statements.

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Consolidated Statements of Earnings
(In thousands, except per share data)

Years ended October 31, 1995 and 1996,
the two months ended December 31, 1996
and the year ended December 31, 1997

	Years Ended October 31,		Two Months Ended December 31,	Year Ended December 31,
	1995	1996	1996	1997
Revenues:				
Outdoor advertising, net	\$ 101,871	119,900	23,212	200,508
Other income	537	702	50	554
	102,408	120,602	23,262	201,062
Operating expenses:				
Direct advertising expenses	34,386	41,184	7,975	63,390
General and administrative expenses	27,057	29,466	5,034	45,368
Depreciation and amortization	14,942	16,470	3,928	48,037
	76,385	87,120	16,937	156,795
Operating income	26,023	33,482	6,325	44,267
Other expense (income):				
Interest income	(199)	(240)	(243)	(1,723)
Interest expense	15,783	15,441	3,803	38,230
Loss (gain) on disposition of assets	1,476	91	76	(15)
Other expenses	655	242	30	280
	17,715	15,534	3,666	36,772
Earnings before income taxes and extraordinary item	8,308	17,948	2,659	7,495
Income tax expense (benefit) - (note 10)	(2,390)	7,099	1,199	4,654
Earnings before extraordinary item	10,698	10,849	1,460	2,841
Extraordinary item-Loss on debt extinguishment net of income tax benefit of \$5,660	--	--	9,514	--
Net earnings (loss)	10,698	10,849	(8,054)	2,841
Preferred stock dividends	--	(365)	(61)	(365)
Net earnings (loss) applicable to common stock	\$ 10,698	10,484	(8,115)	2,476
Earnings before extraordinary item per common share (basic and diluted)	.21	.25	.03	.05
Extraordinary item	--	--	(.21)	--
Net earnings (loss) per common share (basic)	\$.21	.25	(.18)	.05
Net earnings (loss) per common share (diluted)	\$.21	.25	(.18)	.05
Weighted average common shares outstanding	50,658,161	41,134,476	45,520,784	47,037,497
Incremental common shares from dilutive stock options	--	114,057	--	363,483
Weighted average common shares assuming dilution	50,658,161	41,248,533	45,520,784	47,400,980

See accompanying notes to consolidated financial statements.

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except share and per share data)

Years ended October 31, 1995 and 1996,
the two months ended December 31, 1996
and the year ended December 31, 1997

	Class A Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Deficit	Unrealized Gain (Loss) On Investment Securities	Total
Balance, October 31, 1994	\$ --	17	17	--	(37,386)	--	(37,352)
Redemption of 1,830,750 shares of common stock	--	(1)	--	--	(999)	--	(1,000)
Net earnings	--	--	--	--	10,698	--	10,698
Dividends (\$.0067 per share)	--	--	--	--	(500)	--	(500)
Balance, October 31, 1995	--	16	17	--	(28,187)	--	(28,154)
Conversion of 6,682,169 shares of common stock to 5,719.49 shares of preferred stock	3,649	(2)	(2)	--	(3,645)	--	--
Redemption of 5,427,305 shares of common stock	--	(4)	--	--	(2,958)	--	(2,962)
Issuance of 6,441,062 shares of common stock	--	4	--	62,745	--	--	62,749
Conversion of 765,225 shares of Class B common stock to Class A common stock	--	1	(1)	--	--	--	--
Additional consideration for redemption of common stock	--	--	--	(25,000)	--	--	(25,000)
Exercise of stock options	--	--	--	315	--	--	315
Unrealized gain on investment securities, net of deferred taxes of \$1,180	--	--	--	--	--	1,984	1,984
Net earnings	--	--	--	--	10,849	--	10,849
Dividends (\$.006 per common share and \$63.80 per preferred share)	--	--	--	--	(740)	--	(740)
Balance, October 31, 1996	3,649	15	14	38,060	(24,681)	1,984	19,041
Issuance of 3,795,000 shares of common stock	--	3	--	54,168	--	--	54,171
Exercise of stock options	--	--	--	30	--	--	30
Net loss	--	--	--	--	(8,054)	--	(8,054)
Dividends (10.63 per preferred share)	--	--	--	--	(61)	--	(61)
Unrealized loss on investment securities, net of deferred taxes of \$801	--	--	--	--	--	(1,364)	(1,364)
Balance, December 31, 1996	3,649	18	14	92,258	(32,796)	620	63,763
Exercise of stock options	--	--	--	3,448	--	--	3,448
Conversion of 1,811,552 shares of Class B common stock to to Class A common stock	--	1	(1)	--	--	--	--
Net earnings	--	--	--	--	2,841	--	2,841
Dividends (\$63.80 per preferred share)	--	--	--	--	(365)	--	(365)
Unrealized loss on investment securities, net of deferred taxes of \$596	--	--	--	--	--	(974)	(974)
Three-for-two stock split (Note 18)	--	9	6	(15)	--	--	--
Balance, December 31, 1997	<u>\$ 3,649</u>	<u>28</u>	<u>19</u>	<u>95,691</u>	<u>(30,320)</u>	<u>(354)</u>	<u>68,713</u>

See accompanying notes to consolidated financial statements.

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

Years ended October 31, 1995 and 1996,
the two months ended December 31, 1996
and the year ended December 31, 1997

	Years Ended October 31,		Two Months Ended December 31,	Year Ended December 31,
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
Cash flows from operating activities:				
Net earnings (loss)	\$ 10,698	10,849	(8,054)	2,841
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Depreciation and amortization	14,942	16,470	3,928	48,037
Loss (gain) on disposition of assets	1,476	91	76	(15)
Loss on debt extinguishment, net of tax	--	--	9,514	--
Deferred tax expense (benefit)	(3,301)	2,308	1,055	(2,839)
Provision for doubtful accounts	502	580	256	2,098
Changes in operating assets and liabilities:				
(Increase)decrease in:				
Receivables	(1,344)	(2,677)	(4,524)	(7,646)
Prepaid expenses	(47)	9	(28)	(367)
Other assets	(418)	(594)	(180)	29
Increase (decrease) in:				
Trade accounts payable	1,312	828	249	(1,951)
Accrued expenses	86	1,302	(3,121)	6,063
Deferred income	950	2,690	(38)	(425)
Other liabilities	209	637	18	(42)
Net cash provided by (used in) operating activities	<u>25,065</u>	<u>32,493</u>	<u>(849)</u>	<u>45,783</u>
Cash flows from investing activities:				
Capital expenditures	(14,046)	(25,944)	(4,877)	(36,654)
Purchase of new markets	(2,885)	(21,200)	(104,426)	(382,930)
Proceeds from sale of property and equipment	717	849	225	53,268
Purchase of intangible assets	(1,603)	(1,829)	(4,320)	(3,912)
Net cash used in investing activities	<u>(17,817)</u>	<u>(48,124)</u>	<u>(113,398)</u>	<u>(370,228)</u>
Cash flows from financing activities:				
Net proceeds from issuance of common stock	--	63,064	54,927	2,403
Proceeds from issuance of long-term debt	--	5,000	247,813	193,926
Principal payments on long-term debt	--	--	(110,143)	--
Net borrowing (payments) under credit agreements	(7,878)	(41,187)	(5,773)	54,720
Redemption of common stock	(1,000)	(7,962)	--	--
Dividends	(500)	(740)	--	(365)
Net cash provided by (used in) financing activities	<u>(9,378)</u>	<u>18,175</u>	<u>186,824</u>	<u>250,684</u>
Net increase (decrease) in cash and cash equivalents	(2,130)	2,544	72,577	(73,761)
Cash and cash equivalents at beginning of period	<u>8,016</u>	<u>5,886</u>	<u>8,430</u>	<u>81,007</u>
Cash and cash equivalents at end of period	<u>\$ 5,886</u>	<u>8,430</u>	<u>81,007</u>	<u>7,246</u>
Supplemental disclosures of cash flow information:				
Cash paid for interest	<u>\$ 15,825</u>	<u>15,659</u>	<u>6,573</u>	<u>33,284</u>
Cash paid for income taxes	<u>\$ 1,028</u>	<u>3,756</u>	<u>15</u>	<u>8,792</u>

See accompanying notes to consolidated financial statements.

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)
October 31, 1995 and 1996 and December 31, 1997

(1) Significant Accounting Policies

(a) Nature of Business

Lamar Advertising Company ("LAC" or the "Company") is engaged in the outdoor advertising business operating approximately 43,000 outdoor advertising displays in 24 states. The Company's operating strategy is to be the leading provider of outdoor advertising services in each of the markets it serves, with a historical emphasis on providing a full range of outdoor advertising services in middle markets with a population ranking between 50 and 250 in the United States.

In addition, the Company operates a logo sign business in 18 states throughout the United States and in 1 province of Canada. Logo signs are erected pursuant to state-awarded franchises on public rights-of-way near highway exits and deliver brand name information on available gas, food, lodging and camping services. Included in the Company's logo sign business are the tourism signing franchises. Revenues of the logo sign business contributed approximately 6%, 10% and 10% of the Company's net revenues for the years ended October 31, 1995 and 1996 and December 31, 1997, respectively.

(b) Principles of Consolidation

The accompanying consolidated financial statements include Lamar Advertising Company, its wholly-owned subsidiary, The Lamar Corporation (TLC), and their majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using accelerated and straight-line methods over the estimated useful lives of the assets.

In November 1996, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(Continued)

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

(d) Intangible Assets

Intangible assets, consisting primarily of goodwill, customer lists and contracts, and non-competition agreements are amortized using the straight-line method over the assets estimated useful lives, generally from 5 to 15 years. Debt issuance costs are deferred and amortized over the terms of the related credit facilities using the interest method.

(e) Investment Securities

Investment securities consist of the Company's investment in approximately 340,000 shares of common stock of Wireless One, Inc., a publicly-held company in the wireless cable business. The former Chief Executive Officer of Wireless One, Inc. is an employee and principal shareholder of the Company.

The Wireless One, Inc. shares are classified as available-for-sale at October 31, 1996 and December 31, 1997 and are carried at fair value with the unrealized gain or loss, net of the related tax effect, reported as a separate component of stockholders' equity. The cost of the Wireless One, Inc. shares owned by the Company is \$1,250, and the market value was \$679 and \$4,414 at December 31, 1997 and October 31, 1996, respectively.

(f) Deferred Income

Deferred income consists principally of advertising revenue received in advance and gains resulting from the sale of certain assets to related parties. Deferred advertising revenue is recognized in income as services are provided over the term of the contract. Deferred gains are recognized in income in the consolidated financial statements at the time the assets are sold to an unrelated party or otherwise disposed of.

(g) Revenue Recognition

The Company recognizes revenue from outdoor and logo sign advertising contracts, net of agency commissions, on an accrual basis ratably over the term of the contracts, as advertising services are provided.

(h) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

(i) Earnings Per Share

Earnings per share are computed in accordance with SFAS No. 128, "Earnings Per Share." SFAS No. 128 requires the replacement of previously reported primary and fully diluted earnings per share required by Accounting Principles Board Opinion No. 15 with earnings per share and diluted earnings per share. The calculation of earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. Per share amounts for all periods presented have been restated to conform to the requirements of SFAS No. 128.

(j) Stock Option Plan

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 has been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(k) Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

(l) Reclassification of Prior Year Amounts

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net earnings.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

(2) Change in Fiscal Year End

Effective January 1, 1997, the Company changed its fiscal year from a twelve-month period ending October 31 to a twelve-month period ending December 31. The year end change was made to conform to the predominant year ends within the outdoor advertising industry. The consolidated Statements of Earnings, Stockholders' Equity (Deficit) and Cash Flows are presented for the twelve months ended December 31, 1997, the two months ended December 31, 1996 and for the twelve-month periods ended October 31, 1995 and 1996.

(3) Acquisitions

During the year ended October 31, 1996, the Company completed twelve acquisitions of outdoor advertising businesses, none of which were individually significant, for an aggregate purchase price of \$24,010. Each purchase was accounted for under the purchase method of accounting, and, accordingly, the accompanying financial statements include the results of operations of each acquired entity from the date of acquisition. The Company recorded an aggregate of approximately \$6,100 of intangible assets as a result of these acquisitions. Proforma net revenues, assuming these acquisitions had occurred on November 1, 1995, would have been approximately \$123,000. The effect on net earnings and net earnings per share would not have been material.

Effective November 1, 1996, the Company acquired all of the outstanding capital stock of FKM Advertising, Co., Inc. for a cash purchase price of approximately \$40,000, and on December 10, 1996, the Company purchased substantially all of the assets of Outdoor East, L.P. for a total cash purchase price of approximately \$60,500.

Effective April 1, 1997, the Company acquired all of the outstanding capital stock of Penn Advertising, Inc. for a cash purchase price of approximately \$167,000. The Company subsequently sold approximately 16% of the outdoor displays acquired to Universal Outdoor, Inc. for a cash purchase price of \$46,500.

On June 3, 1997, the Company purchased substantially all of the assets of Headrick Outdoor, Inc. for a cash purchase price of approximately \$76,600. Simultaneous with the acquisition, the Company sold approximately 9% of the outdoor displays acquired for a total purchase price of \$6,000.

On August 15, 1997, the Company purchased from Outdoor Systems, Inc. ("OSI") for a cash purchase price of approximately \$116,000 (excluding approximately \$2,000 in capitalized costs), certain outdoor advertising assets that OSI had acquired from National Advertising Company, a division of Minnesota Mining and Manufacturing Company.

During the year ended December 31, 1997, the Company completed 22 additional acquisitions of outdoor advertising assets, none of which were individually significant, for an aggregate cash purchase price of approximately \$21,000.

(Continued)

Each of these acquisitions were accounted for under the purchase method of accounting, and, accordingly, the accompanying financial statements include the results of operations of each acquired entity from the date of acquisition. The acquisition costs have been allocated to assets acquired and liabilities assumed based on fair market value at the dates of acquisition. The following

is a summary of the allocation of the acquisition costs in the above transactions.

Current assets	\$ 14,394
Property, plant and equipment	186,462
Customer lists and contracts	67,156
Goodwill	182,139
Other intangible assets	14,831
Current liabilities	(4,152)
Deferred tax liabilities	(25,991)
Other long-term liabilities	(3,155)

The following unaudited pro forma financial information for the Company gives effect to the above acquisitions as if they had occurred at the beginning of fiscal years 1996 and 1997. 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.

	Year ended October 31, <u>1996</u>	Year ended December 31, <u>1997</u>
Revenues, net	<u>\$ 207,023</u>	<u>225,903</u>
Net loss applicable to common stock	<u>(8,977)</u>	<u>(3,520)</u>
Net loss per common share (basic and diluted)	<u>(.22)</u>	<u>(.07)</u>

(4) Noncash Financing and Investing Activities

A summary of significant noncash financing and investing activities for the years ended October 31, 1995 and 1996 and December 31, 1997 follows:

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Disposition of assets	\$ 3,788	--	1,300
Acquisitions of assets	4,341	2,104	--
Issuance of preferred stock			
in exchange for common stock	--	3,649	--
Redemption of common stock for debt	--	20,000	--
Conversion of note receivable			
to equity investment	--	--	500
Debt issuance costs	--	--	4,750

Significant noncash financing activities during the two months ended December 31, 1996 include approximately \$7,000 of debt issuance costs.

(Continued)

(5) Property, Plant and Equipment

Major categories of property, plant and equipment at October 31, 1996 and December 31, 1997 are as follows:

Estimated life

1999	19,207
2000	16,345
2001	13,588
2002	11,207

Rental expense related to the Company's operating leases were \$17,053, \$19,387, and \$31,411 for the years ended October 31, 1995 and 1996 and December 31, 1997, respectively.

(8) Accrued Expenses

The following is a summary of accrued expenses at October 31, 1996 and December 31, 1997:

	<u>1996</u>	<u>1997</u>
Payroll	\$ 2,261	4,390
Interest	5,182	7,357
Insurance benefits	1,510	2,613
Income taxes	1,748	--
Other	365	444
	<u>\$ 11,066</u>	<u>14,804</u>

(Continued)

(9) Long-term Debt

Long-term debt consist of the following at October 31, 1996 and December 31, 1997:

	<u>1996</u>	<u>1997</u>
9-5/8% Senior subordinated notes	\$ --	255,000
8-5/8% Senior subordinated notes	--	198,696
11% Senior secured notes	100,000	1,173
Bank Credit Agreement	--	59,000
8% unsecured subordinated notes (see Note 12)	19,667	17,319
8% Series A unsecured subordinated discount debentures, maturing through		

2001 (11.5% effective yield)	2,309	1,834
Other notes with various rates and terms	9,979	6,178
	<hr/>	<hr/>
	131,955	539,200
Less current maturities	(3,815)	(5,109)
	<hr/>	<hr/>
Long-term debt, excluding current maturities	<u>\$ 128,140</u>	<u>534,091</u>

Long-term debt matures as follows:

1998	\$ 5,109
1999	3,784
2000	3,049
2001	3,129
2002	5,141
Later years	518,988

In November 1996, the Company commenced a tender offer for all of its \$100,000 outstanding principal amount of 11% Senior Secured Notes due 2003 (the "1993 Notes"). As of December 31, 1997, approximately \$98,827 of the 1993 Notes were tendered to the Company and retired. As a result of this tender offer and the extinguishment of other credit facilities, the Company recorded a loss on debt extinguishment of \$9,514, net of income tax benefit of \$5,660, during the two-months ended December 31, 1996 (see Note 2).

(Continued)

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

Also in November 1996, the Company issued \$255,000 in principal amount of 9 5/8% Senior Subordinated Notes due 2006 (the "1996 Notes"), with interest payable semi-annually on June 1 and December 1 of each year. The 1996 Notes are senior subordinated unsecured obligations of the Company and are subordinated in right of payment to all senior indebtedness of the Company, pari passu with the 1997 Notes (as defined below), and are senior to all existing and future subordinated indebtedness of the Company.

The 1996 Notes are redeemable at the Company's option at any time on or after December 31, 2001 at redemption prices specified by the indenture covering the 1996 Notes, and are required to be repurchased earlier in the event of a change of control of the Company. The indenture covering the 1996 Notes includes certain restrictive covenants which limit the Company's ability to incur additional debt, pay dividends and make other restricted payments, consummate certain transactions and other matters.

In December 1996, the Company entered into a credit facility (the "Bank Credit Agreement") with a syndicate of financial institutions, which replaced the Company's then existing bank credit facilities. The Bank Credit Agreement provides the Company with a committed \$225,000 revolving credit facility and a \$75,000 incremental term facility to be funded at the discretion of the lenders. Availability of the line under the revolving credit facility is reduced quarterly beginning with the quarter ending March 31, 1999 in the following amounts:

March 31, 1999 to December 31, 2000	\$ 8,437
March 31, 2001 to December 31, 2001	11,250
March 31, 2002 to December 31, 2003	14,062

The revolving credit facility bears interest at a variable rate of interest based upon an applicable margin over LIBOR or the prime rate. The weighted average interest rate outstanding under the facility at December 31, 1997 is 7.93%. The term loan will begin to amortize quarterly beginning March 31, 1999 or March 31, 2000 dependent on the outstanding balance. For the quarters beginning March 31, 1999 to December 31, 2003, the loans will begin quarterly principal reductions of between 1% to 2% of the outstanding balance at the date the loans begin to amortize. For the quarters beginning March 31, 2004 to December 31, 2004, the loans will have quarterly principal reductions of between 18% and 18.75%.

(Continued)

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

The Bank Credit Agreement is guaranteed by the Company's subsidiaries and secured by the capital stock of the Company's subsidiaries. The Bank Credit Agreement contains various restrictive covenants, which require that the Company meet certain minimum leverage, and coverage ratios, restrict additional indebtedness, limit dividends and other restricted payments, limit capital expenditures and disposition of assets, and other restrictions. In September 1997, the Company amended certain financial and other covenants in the Bank Credit Facility, including increases in permitted capital expenditures and permitted acquisitions. As of December 31, 1997, there was \$59,000 outstanding under the revolving credit facility and there were no borrowings under the incremental term facility.

In September 1997, the Company issued \$200,000 in principal amount of 8 5/8% Senior Subordinated Notes due 2007 (the "1997 Notes") with interest payable semi-annually on March 15 and September 15 of each year, commencing March 15, 1998. The 1997 Notes were issued at a discount for \$198,676. The Company is using the effective interest method to recognize the discount over the life of the 1997 Notes. The 1997 Notes are senior subordinated unsecured obligations of the Company, subordinated in right of payment to all senior indebtedness of

the Company, pari passu with the 1996 Notes and are senior to all existing and future subordinated indebtedness of the Company.

The 1997 Notes are redeemable at the Company's option at any time on or after September 15, 2002, at redemption prices specified by the indenture covering the 1997 Notes and are required to be purchased earlier in the event of a change of control of the Company. The restrictive covenants contained in the indenture covering the 1997 Notes are identical to those contained in the indenture covering the 1996 Notes.

(Continued)

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

(10) Income Taxes

Income tax expense for the years ended October 31, 1995 and 1996, the two months ended December 31, 1996 and the year ended December 31, 1997 consists of:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended October 31, 1995:			
U.S. federal	\$ 290	(3,301)	(3,011)
State and local	621	--	621
	<u>\$ 911</u>	<u>(3,301)</u>	<u>(2,390)</u>
Year ended October 31, 1996:			
U.S. federal	\$ 3,991	2,683	6,674
State and local	800	(375)	425
	<u>4,791</u>	<u>2,308</u>	<u>7,099</u>
Change in deferred tax attributable to unrealized gains on investment securities, included in stockholders' equity	--	1,180	1,180
	<u>\$ 4,791</u>	<u>3,488</u>	<u>8,279</u>
Two months ended December 31, 1996:			
U.S. Federal	\$ --	1,028	1,028
State and local	144	27	171
	<u>144</u>	<u>1,055</u>	<u>1,199</u>
Change in deferred tax attributable to unrealized losses on investment securities, included in stockholders' equity	--	(379)	(379)
	<u>\$ 144</u>	<u>676</u>	<u>820</u>
Year ended December 31, 1997:			
U.S. federal	\$ 6,108	(2,475)	3,633
State and local	1,385	(364)	1,021
	<u>7,493</u>	<u>(2,839)</u>	<u>4,654</u>
Change in deferred tax attributable to unrealized losses on investment securities, included in stockholders' equity	--	(596)	(596)
	<u>\$ 7,493</u>	<u>(3,435)</u>	<u>4,058</u>

(Continued)

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

Income tax expense (benefit) for the years ended October 31, 1995 and 1996, the two months ended December 31, 1996 and the year ended December 31, 1997 differs from the amounts computed by applying the U.S. federal income tax rate of 34 percent to earnings before income taxes as follows:

	Years Ended October 31,		Two Months Ended December 31,	Year Ended December 31,
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
Computed "expected" tax expense	\$ 2,825	6,102	904	2,548
Increase (reduction) in income taxes resulting from:				
Change in beginning of the year balance of the valuation allowance for deferred tax assets	(5,939)	-	--	--
Amortization of non deductible goodwill	--	-	--	1,730
State and local income taxes, net of federal income tax benefit	410	281	113	674
Other differences, net	<u>314</u>	<u>716</u>	<u>182</u>	<u>(298)</u>
	<u>\$ (2,390)</u>	<u>7,099</u>	<u>1,199</u>	<u>4,654</u>

Income taxes in 1995 include an adjustment to the beginning-of-the-year valuation allowance in the Company's deferred tax assets in the amount of \$5,939. The improved business conditions and resulting profitability resulted in a change in management's judgement regarding the realizability of the Company's deferred tax assets.

(Continued)

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at October 31, 1996 and December 31, 1997 are presented below:

	<u>1996</u>	<u>1997</u>
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	\$ (4,002)	(3,125)
Plant and equipment, due to basis differences on acquisitions	--	(15,582)
Intangibles, due to differences in amortizable lives	--	(5,646)
Unrealized gains on investment securities	(1,180)	--
Deferred tax liabilities	(5,182)	(24,353)
Deferred tax assets:		
Receivables, principally due to allowance for doubtful accounts	205	511
Plant and equipment, due to basis differences on acquisitions and costs capitalized for tax purposes	4,850	4,823
Investment in affiliates and plant and equipment, due to gains recognized for tax purposes and deferred for financial reporting purposes	900	941
Net operating loss carryforward	--	1,673
Minimum tax credit carryforwards	849	--
Unrealized losses on investment securities	--	217
Other, net	841	1,501
Deferred tax assets	7,645	9,666
Net deferred tax asset (liability)	\$ 2,463	(14,687)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods, which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(Continued)

LAMAR ADVERTISING COMPANY
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

(11) Related Party Transactions

Affiliates, as used within these statements, are persons or entities that are affiliated with Lamar Advertising Company or its subsidiaries through common ownership and directorate control.

The Company was a party to a consulting agreement with Kevin P. Reilly, Sr., a shareholder and former Chairman of the Company, which expired in January 1996. The agreement provided for annual consulting fees of \$120, and an annual bonus of up to \$100. The Company continued to pay the consulting fee on a month-to-month basis until July 1, 1996. Effective July 1, 1996, a subsidiary of the Company entered into a replacement consulting agreement with Reilly Consulting Company, LLC., of which Mr. Reilly, Sr. is the manager and, with his wife, are the sole members. The agreement has a ten-year term and provides for annual consulting fees of \$120. Consulting fees and bonuses paid under the above agreements during the years ended October 31, 1995 and 1996 and December 31, 1997 were \$230, \$195 and \$120, respectively.

As of October 31, 1996 and December 31, 1997, debentures totaling \$2,375 and \$1,834, respectively, are owned by shareholders, directors and employees, excluding the ten-year subordinated notes discussed in note 12. Interest expense under the debentures and ten year subordinated notes during the years ended October 31, 1995 and 1996 and December 31, 1997 was \$296, \$494, and \$1,719, respectively.

(12) Stockholders' Equity

During 1995 and 1996, the Company repurchased 3.6% and 12.9%, respectively, of its then outstanding common stock (1,830,750 and 5,427,305 shares, respectively) from certain of its existing stockholders for an aggregate purchase price of approximately \$4 million. The terms of such repurchases entitled the selling stockholders to receive additional consideration from the Company in the event that the Company consummated a public offering of its common stock at a higher price within 24 months of the repurchase. In satisfaction of that obligation, upon completion of the Company's initial public equity offering in August 1996, the Company paid the selling stockholders an aggregate of \$5.0 million in cash and issued to them ten-year subordinated notes in the aggregate principal amount of \$20,000. The notes bear interest at 8% (1% above the ten-year treasury note rate when issued) and are payable in monthly installments of \$167, plus interest. The balance outstanding under these notes at October 31, 1996 and December 31, 1997 was \$19,667 and \$17,319, respectively.

(Continued)

Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

The rights of the Class A and Class B common stock are equal in all respects, except holders of Class B common stock have ten votes per share on all matters in which the holders of common stock are entitled to vote and holders of Class A common stock have one vote per share on such matters. The Class B common stock will convert automatically into Class A common stock upon the sale or transfer to persons other than permitted transferees (as defined in the Company's certificate of incorporation, as amended).

(13) Stock Option Plan

In 1996, the Company adopted the 1996 Equity Incentive Plan (the "1996 Plan"). The purpose of the 1996 Plan is to attract and retain key employees and consultants of the Company. The 1996 Plan authorizes the grant of stock options, stock appreciation rights and restricted stock to employees and consultants of the Company capable of contributing to the Company's performance. The Company has reserved an aggregate of 3,000,000 shares of Class A Common Stock for awards under the 1996 Plan.

Options granted under the 1996 Plan generally become exercisable over a five-year period and expire 10 years from the date of grant.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option grants. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 1996 and 1997 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year Ended October 31, <u>1996</u>	Two Months Ended December 31, <u>1996</u>	Year Ended December 31, <u>1997</u>
Net earnings (loss) applicable to common stock - as reported	\$ <u>10,484</u>	<u>(8,115)</u>	<u>2,476</u>
Net earnings (loss) applicable to common stock - pro forma	\$ <u>8,891</u>	<u>(8,666)</u>	<u>(603)</u>
Earnings (loss) per common share - as reported (basic and diluted)	\$ <u>.25</u>	<u>(.18)</u>	<u>.05</u>
Earnings (loss) per common share - pro forma (basic and diluted)	\$ <u>.22</u>	<u>(.19)</u>	<u>(.01)</u>

(Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997: dividend yield of 0.0%; expected volatility of 40%; risk-free interest rate of 6.0% and expected lives of 6 years.

For grants in 1996, the following weighted average assumptions were used: Dividend yield 0.0%; expected volatility of 53%; risk-free interest rate of 6.0% and expected lives of 3 years.

Information regarding the 1996 Plan for the years ended October 31, 1996 and December 31, 1997 is as follows:

	<u>October 31, 1996</u>		<u>December 31, 1997</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	--	\$ --	1,774,890	\$ 10.85
Granted	1,772,250	10.67	372,000	15.20
Exercised	(29,497)	10.67	(225,273)	10.67
Cancelled	--	--	(41,212)	10.67
Outstanding, end of year	<u>1,742,753</u>	<u>\$ 10.67</u>	<u>1,880,405</u>	<u>\$ 11.74</u>
Price for exercised shares	\$ 10.67		\$ 10.67	
Shares available for grant, end of year	1,227,750		853,725	
Weighted average fair value of options, granted during the year	\$ 4.14		\$ 7.18	

The following table summarizes information about fixed-price stock options outstanding at December 31, 1997:

<u>Range Of Exercise Prices</u>	<u>Number Outstanding At December 31, 1997</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable At December 31, 1997</u>	<u>Weighted Average Exercise Price</u>
\$ 10.67	1,463,405	8.63	\$ 10.67	469,354	\$ 10.67
11.17-13.83	190,500	8.67	13.26	13,875	13.17
16.17-20.25	226,500	9.01	17.38	--	--

No stock appreciation rights or restricted stock authorized by the 1996 Plan have been granted.

(Continued)

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LAMAR ADVERTISING COMPANY
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Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

(14) Commitments and Other Contingencies

The Company sponsors a partially self-insured group health insurance program. The Company is obligated to pay all claims under the program, which are in

excess of premiums, up to program limits of \$150 per employee, per claim, per year. The Company is also self-insured with respect to its income disability benefits and against casualty losses on advertising structures. Amounts for expected losses, including a provision for losses incurred but not reported, is included in accrued expenses in the accompanying consolidated financial statements. The Company maintains a \$1,000 letter of credit with a bank to meet requirements of the Company's worker's compensation insurance carrier.

The Company sponsors The Lamar Corporation Savings and Profit Sharing Plan covering employees who have completed one year of service and are at least 21 years of age. The Company matches 50% of employees' contributions up to 5% of related compensation. Employees can contribute up to 15% of compensation. Full vesting on the Company's matched contributions occurs after five years. The Company contributed \$512, \$564, and \$644 for the years ended October 31, 1995 and 1996 and December 31, 1997, respectively.

In 1993, LAC established a Deferred Compensation Plan for the benefit of certain of its senior management who meet specific age and years of service criteria. Employees who have attained the age of 30 and have a minimum of 10 years of service are eligible for annual contributions to the Plan generally ranging from \$3 to \$8, depending on the employee's length of service. LAC's contributions to the Plan are maintained in a "rabbi" trust and, accordingly, the assets and liabilities of the Plan are reflected in the balance sheet of LAC. Upon termination, death or disability, participating employees are eligible to receive an amount equal to the fair market value of the assets in the employee's deferred compensation account. The Company has contributed \$210, \$182 and \$190 to the Plan during the years ended October 31, 1995 and 1996 and December 31, 1997, respectively. Contributions to the Deferred Compensation Plan are discretionary and are determined by the Board of Directors.

The Company is the subject of litigation arising during the normal course of business. In the opinion of management and the general counsel of the Company, those claims will not have a material impact on the financial position, results of operations or liquidity of the Company.

(Continued)

(15) Summarized Financial Information of Subsidiaries

Except as set forth below, separate financial statements of each of the Company's direct or indirect subsidiaries that have guaranteed the Company's obligations under the 1996 Notes and the 1997 Notes (collectively, the "Guarantors") are not included herein because the Guarantors are jointly and

severally liable under the guarantees, and the aggregate assets, liabilities, earnings and equity of the Guarantors are substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis.

Summarized financial information for Missouri Logos, a Partnership, a 66-2/3% owned subsidiary of the Company and the only subsidiary of the Company that is not a Guarantor, is set forth below:

Balance Sheet Information:		<u>1996</u>	<u>1997</u>	
Current assets		\$ 242	237	
Total assets		292	290	
Current liabilities		--	7	
Total liabilities		225	7	
Venturers' equity		67	283	
Income Statement Information:		<u>1995</u>	<u>1996</u>	<u>1997</u>
Revenues	\$ 804	931	991	
Net income	540	545	540	

(16) Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1997. The fair value of the financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

	At December 31, 1997	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Marketable investment securities	\$ 679	679
Long-term debt	534,091	575,198

(Continued)

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LAMAR ADVERTISING COMPANY
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Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share data)

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies as follows:

- The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, trade accounts payable, accrued expenses, and deferred income approximate fair value because of the short term nature of these items.

- The fair value of the Company's marketable investment securities are based on quoted market prices.
- The fair value of long-term debt is based upon market quotes obtained from dealers where available and by discounting future cash flows at rates currently available to the Company for similar instruments when quoted market rates are not available.

Fair value estimates are subject to inherent limitations. Estimates of fair values are made at a specific point in time, based on relevant market information and information about the financial instrument. The estimated fair values of financial instruments presented above are not necessarily indicative of amounts the Company might realize in actual market transactions. Estimates of fair value are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(17) Quarterly Financial Data (Unaudited)

	Fiscal Year 1996 Quarters			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Revenues	\$ 27,613	29,033	31,520	32,436
Gross profit	16,045	18,894	21,444	23,035
Income applicable to common stock	910	2,169	3,125	4,280
Net earnings per common share (basic)	.02	.06	.09	.10
Net earnings per common share (diluted)	.02	.06	.09	.10
	Fiscal Year 1997 Quarters			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
Revenues	\$ 37,847	50,108	55,485	57,622
Gross profit	24,380	34,625	38,974	39,693
Income (loss) applicable to common stock	1,205	1,402	916	(1,047)
Net earnings (loss) per common share (basic)	.03	.03	.02	(.02)
Net earnings (loss) per common share (diluted)	.03	.03	.02	(.02)

(Continued)

(18) Subsequent Events

Subsequent to December 31, 1997, the Company purchased substantially all of the assets of three outdoor advertising companies for a total purchase price of \$50,200 in cash. The acquisitions will be accounted for under the purchase method of accounting.

On December 31, 1997, the Board of Directors approved a three-for-two split of its Class A and Class B common stock subject to the approval by the shareholders of an increase in the authorized number of shares of Class A and Class B common stock. On February 26, 1998, the shareholders approved an increase in the authorized number of shares of Class A common stock to

75,000,000 and Class B common stock to 37,500,000. The stock split, which was effected by means of a 50% stock dividend, was paid to shareholders on February 27, 1998. Par value of the common stock will remain unchanged at \$.001. Common stock and additional paid in capital have been adjusted to reflect the split as of December 31, 1997. All references to share and per share information in the consolidated financial statements and related footnotes have been restated to reflect the effect of the split for all periods presented.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained in part under the caption "Executive Officers of the Registrant" in Part I, Item 1A hereof and the remainder is incorporated herein by reference from the discussion responsive thereto under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement relating to the 1998 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is incorporated herein by reference from the discussion responsive thereto under the following captions in the Company's Proxy Statement relating to the 1998 Annual Meeting of Stockholders: "Election of Directors - Director Compensation," "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption "Share Ownership" in the Company's Proxy Statement relating to the 1998 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement relating to the 1998 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) 1. FINANCIAL STATEMENTS

The financial statements are listed under Part II, Item 8 of this Report.

2. FINANCIAL STATEMENT SCHEDULES

The financial statement schedules are included under Part II, Item 8 of this Report.

3. EXHIBITS

The exhibits are listed below under Part IV, Item 14(c) of this Report.

(B) REPORTS ON FORM 8-K

Reports on Form 8-K were filed with the Commission during the fourth quarter of 1997 to report the following items as of the dates indicated:

On October 27, 1997, the Company amended its report on Form 8-K originally filed on August 27, 1997 to present under Item 7 a statement of assets acquired and liabilities assumed, a related statement of revenues and expenses, and *pro forma* financial information relating to the Company's acquisition from Outdoor Systems, Inc. ("OSI") of certain outdoor advertising assets that OSI had acquired from National Advertising Company, previously a wholly-owned subsidiary of Minnesota Mining and Manufacturing Company.

(C) EXHIBITS

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Company. Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company. Filed herewith.
3.3	By-laws of the Company, as amended. Previously filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.
4.1	Specimen certificate for the shares of Class A Common Stock of the Company. Previously filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.
4.2	Senior Secured Note dated May 19, 1993. Previously filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-59624), and incorporated herein by reference.
4.3	Indenture dated May 15, 1993 relating to the Company's 11% Senior Secured Notes due May 15, 2003. Previously filed as Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 33-59624), and incorporated herein by reference.
4.4	First Supplemental Indenture dated July 30, 1996 relating to the Company's 11% Senior Secured Notes due May 15, 2003. Previously filed

as Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.

- 4.5 Form of Second Supplemental Indenture in the form of an Amended and Restated Indenture dated November 8, 1996 relating to the Company's 11% Senior Secured Notes due May 15, 2003. Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 15, 1996 (File No. 1-12407), and incorporated herein by reference.
- 4.6 Notice of Trustee dated November 8, 1996 with respect to the release of the security interest in the Trustee on behalf of the holders of the Company's 11% Senior Secured Notes due May 15, 2003. Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 15, 1996 (File No. 1-12407), and incorporated herein by reference.
- 4.7 Form of Subordinated Note. Previously filed as Exhibit 4.8 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.
- 4.8 Indenture dated as of November 15, 1996 between the Company, certain of its subsidiaries and State Street Bank and Trust Company, as trustee, relating to the Company's 9 5/8% Senior Subordinated Notes due 2006. Previously filed as Exhibit 4.11 to the Company's Registration Statement on Form S-3 (File No. 333-14789), and incorporated herein by reference.
- 4.9 Form of 9 5/8% Senior Subordinated Note due 2006. Previously filed as Exhibit 4.12 to the Company's Registration Statement on Form S-3 (File No. 333-14789), and incorporated herein by reference.
- 4.10 Form of 8 5/8% Senior Subordinated Note due 2007. Filed herewith.
- 4.11 Indenture dated as of September 25, 1997 between the Company, certain of its subsidiaries, and State Street Bank and Trust Company, as trustee, relating to the Company's 8 5/8% Senior Subordinated Notes due 2007. Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on September 30, 1997 (File No. 1-12407), and incorporated herein by reference.
- 10.1 Consulting Agreement dated July 1, 1996 between the Lamar Texas Limited Partnership and the Reilly Consulting Company, L.L.C., of which Kevin P. Reilly, Sr. is the manager. Previously filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 33-05479), and incorporated herein by reference.

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- 10.2 Indenture dated as of September 24, 1986 relating to the Company's 8% Unsecured Subordinated Debentures. Previously filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 33-59624), and incorporated herein by reference.
- 10.3* The Lamar Savings and Profit Sharing Plan Trust. Previously filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (File No. 33-59624), and incorporated herein by reference.
- 10.4 Trust under The Lamar Corporation, its Affiliates and Subsidiaries Deferred Compensation Plan dated October 3, 1993. Previously filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the

fiscal year ended October 31, 1995 (File No. 33-59624), and incorporated herein by reference.

- 10.5* 1996 Equity Incentive Plan. Previously filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-05479), and incorporated herein by reference.
 - 10.6 Bank Credit Agreement dated December 18, 1996 between the Company, certain of its subsidiaries, the lenders party thereto and The Chase Manhattan Bank, as administrative agent. Previously filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996 (File No. 1-12407), and incorporated herein by reference.
 - 10.7 Amendment No. 1 to the Bank Credit Agreement dated as of March 31, 1997 between the Company, the Subsidiary Guarantors party thereto, the Lenders party thereto and the Chase Manhattan Bank, as administrative agent. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 1-12407), and incorporated herein by reference.
 - 10.8 Amendment No. 2 to the Bank Credit Agreement dated as of September 12, 1997 between the Company, certain of its subsidiaries, the lenders party thereto and The Chase Manhattan Bank, as administrative agent. Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 30, 1997 (File No. 1-12407), and incorporated herein by reference.
 - 10.9 Amendment No. 3 to the Bank Credit Agreement dated as of December 31, 1997 between the Company, certain of its subsidiaries, the lenders party thereto and The Chase Manhattan Bank, as administrative agent. Filed herewith.
 - 10.10 Contract to Sell and Purchase, dated as of October 9, 1996, between the Company and Outdoor East L.P. Previously filed as Exhibit 10.16 to the Company's Registration Statement on Form S-3 (File No. 333-14677), and incorporated herein by reference.
 - 10.11 Stock Purchase Agreement, dated as of September 25, 1996, between the Company and the shareholders of FKM Advertising, Co., Inc. Previously filed as Exhibit 10.17 to the Company's Registration Statement on Form S-3 (File No. 333-14677), and incorporated herein by reference.
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- 10.12 Stock Purchase Agreement dated as of February 7, 1997 between the Company and the stockholders of Penn Advertising, Inc. named therein. Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 14, 1997 (File No. 1-12407), and incorporated herein by reference.
 - 10.13 Asset Purchase Agreement dated as of August 15, 1997 between The Lamar Corporation and Outdoor Systems, Inc. Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 27, 1997 (File No. 1-12407), and incorporated herein by reference.
 - 11.1 Statement regarding computation of per share earnings. Filed herewith.
 - 21.1 Subsidiaries of the Company. Filed herewith.

23.1 Consent of KPMG Peat Marwick LLP. Filed herewith.

27.1 Financial Data Schedule. Filed herewith.

* Management contract or compensatory plan or arrangement in which the executive officers or directors of the Company participate.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAMAR ADVERTISING COMPANY

By: /s/Kevin P. Reilly, Jr.
Kevin P. Reilly, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Kevin P. Reilly, Jr.</u> Kevin P. Reilly, Jr.	Chief Executive Officer and Director	3/23/98

<u>/s/Keith A. Istre</u> Keith A. Istre	Chief Financial and Accounting Officer and Director	3/23/98
<u>/s/Charles W. Lamar, III</u> Charles W. Lamar, III	Director	3/23/98
<u>/s/Gerald H. Marchand</u> Gerald W. Marchand	Director	3/23/98
<u>/s/Jack S. Rome, Jr.</u> Jack S. Rome, Jr.	Director	3/23/98
<u>/s/William R. Schmidt</u> William R. Schmidt	Director	3/23/98
<u>/s/T. Everett Stewart, Jr.</u> T. Everett Stewart, Jr.	Director	3/23/98