LAMAR MEDIA CORP/DE
Form 10-K
February 25, 2011

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-30242
Lamar Advertising Company
Commission File Number 1-12407
Lamar Media Corp.
(Exact names of registrants as specified in their charters)

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

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

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

SECURITIES OF LAMAR ADVERTISING COMPANY
REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Class A common stock, $0.001 par value

SECURITIES OF LAMAR ADVERTISING COMPANY
REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

SECURITIES OF LAMAR MEDIA CORP.
REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES OF LAMAR MEDIA CORP.
REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if Lamar Advertising Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if Lamar Advertising Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark if Lamar Media Corp. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if Lamar Media Corp. is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes þ No o

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

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

Indicate by check mark 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 Lamar Advertising Company 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. o

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

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

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

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

Indicate by check mark if either registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ.

As of June 30, 2010, the aggregate market value of the voting stock held by nonaffiliates of Lamar Advertising Company was $1,402,344,358 based on $24.52 per share as reported on the NASDAQ National Market System.

As of June 30, 2010, the aggregate market value of the voting stock held by nonaffiliates of Lamar Media Corp. was $0.

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date.

Class	**Outstanding at February 18, 2011**
Lamar Advertising Company Class A common stock, $0.001 par value per share	77,486,437 shares
Lamar Advertising Company Class B common stock, $0.001 par value per share	15,122,865 shares
Lamar Media Corp. common stock, $0.001 par value per share	100 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on May 26, 2011 (Proxy Statement)	Part III

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

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future financial performance and condition;
- our business plans, objectives, prospects, growth and operating strategies;
- market opportunities and competitive positions;
- estimated risks; and
- stock price.

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

- the current economic environment and its affect on the markets in which we operate;
- the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to our significant indebtedness;
- our need for, and ability to obtain, additional funding for acquisitions and operations;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry;
- our ability to renew expiring contracts at favorable rates;
- the integration of businesses that we acquire and our ability to recognize cost savings and operating efficiencies as a result of these acquisitions;
- our ability to successfully implement its digital deployment strategy; and
- changes in accounting principles, policies or guidelines.

The forward-looking statements in this report are based on our current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors. Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising Company and Lamar Media Corp. expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

INDUSTRY AND MARKET DATA

The industry and market data presented throughout this report are based on the experience and estimates of our management and the data in reports issued by third-parties, including the Outdoor Advertising Association of America (OAAA). In each case, we believe this industry and market data is reasonable. We have not, however, independently verified the industry and market data derived from third-party sources, and no independent source has verified the industry and market data derived from management s experience and estimates.

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PART I
ITEM 1. *BUSINESS*
General

Lamar Advertising Company, referred to in this Annual Report as the Company or Lamar Advertising or we is one of the largest outdoor advertising companies in the United States based on number of displays and has operated under the Lamar name since 1902. We operate in a single operating and reporting segment, advertising. We sell advertising on billboards, buses, shelters, benches and logo plates. As of December 31, 2010, we owned and operated approximately 146,000 billboard advertising displays in 44 states, Canada and Puerto Rico, over 108,000 logo advertising displays in 22 states and the province of Ontario, Canada, and operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico. We offer our customers a fully integrated service, satisfying all aspects of their billboard display requirements from ad copy production to placement and maintenance.

Our Business

We operate three types of outdoor advertising displays: billboards, logo signs and transit advertising displays.

Billboards. We sell most of our advertising space on two types of billboards: bulletins and posters.

Bulletins are generally large, illuminated advertising structures that are located on major highways and target vehicular traffic.

Posters are generally smaller advertising structures that are located on major traffic arteries and city streets and target vehicular and pedestrian traffic.

In addition to these traditional billboards, we also sell digital billboards, which are generally located on major traffic arteries and city streets. As of December 31, 2010, we owned and operated approximately 1,200 digital billboard advertising displays in 39 states, Canada and Puerto Rico.

Logo signs. We sell advertising space on logo signs located near highway exits.

Logo signs generally advertise nearby gas, food, camping, lodging and other attractions.

We are the largest provider of logo signs in the United States, operating 22 of the 28 privatized state logo sign contracts. As of December 31, 2010, we operated over 108,000 logo sign advertising displays in 22 states and Canada.

Transit advertising displays. We also sell advertising space on the exterior and interior of public transportation vehicles, transit shelters and benches in 66 markets. As of December 31, 2010, we operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico.

Corporate History

We have operated under the Lamar name since our founding in 1902 and have been publicly traded on NASDAQ under the symbol LAMR since 1996. We completed a reorganization on July 20, 1999 that created our current holding company structure. At that time, the operating company (then called Lamar Advertising Company) was renamed Lamar Media Corp., and all of the operating company s stockholders became stockholders of a new holding company. The new holding company then took the Lamar Advertising Company name, and Lamar Media Corp. became a wholly owned subsidiary of Lamar Advertising Company.

In this Annual Report, we refer to Lamar Advertising Company and its consolidated subsidiaries, unless the context otherwise requires, as the Company or we and Lamar Advertising s wholly owned subsidiary Lamar Media Corp. as Lamar Media.

Where you can find more information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports available free of charge through our website, www.lamar.com, as soon as reasonably practicable after filing them with, or furnishing them to, the Securities and Exchange Commission. Information contained on the website is not part of this Annual Report.

Operating Strategies

We strive to be a leading provider of outdoor advertising services in each of the markets that we serve, and our operating strategies for achieving that goal include:

Continuing to provide high quality local sales and service. We seek to identify and closely monitor the needs of our customers and to provide them with a full complement of high quality advertising services. Local advertising constituted approximately 78% of our net revenues for the year ended December 31, 2010, which management believes is higher than the industry average. We believe that the experience of our regional and local managers has contributed greatly to our success. For example, our regional managers have been with us for an average of 29 years. In an effort to provide high quality sales and service at the local level, we employed over 760 local account executives as of December 31, 2010. Local account executives are typically supported by additional local staff and have the ability to draw upon the resources of our central office, as well as, our offices in other markets, in the event business opportunities or customers needs support such an allocation of resources.

Continuing a centralized control and decentralized management structure. Our management believes that, for our particular business, centralized control and a decentralized organization provide for greater economies of scale and are more responsive to local market demands. Therefore, we maintain centralized accounting and financial control over our local operations, but our local managers are responsible for the day-to-day operations in each local market and are compensated according to that market s financial performance.

Continuing to focus on internal growth. Within our existing markets, we seek to increase our revenue and improve cash flow by employing highly-targeted local marketing efforts to improve our display occupancy rates and by increasing advertising rates where and when demand can absorb rate increases. Our local offices spearhead this effort and respond to local customer demands quickly.

In addition, we routinely invest in upgrading our existing displays and constructing new displays. From January 1, 2000 to December 31, 2010, we invested approximately $1.25 billion in capitalized expenditures, which include improvements to our existing displays and in constructing new displays. Our regular improvement and expansion of our advertising display inventory allows us to provide high quality service to our current advertisers and to attract new advertisers.

Continuing to pursue other outdoor advertising opportunities. We plan to pursue additional logo sign contracts. 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, we plan to pursue additional tourist oriented directional sign programs in both the United States and Canada and also other motorist information signing programs as opportunities present themselves. In addition, in an effort to maintain market share, we continue to pursue attractive transit advertising opportunities as they become available.

Reinvesting in capital expenditures including digital technology. We have historically invested in capital expenditures, however, during 2009 and 2010, we significantly reduced our capital expenditures to position the Company to manage through the economic recession. As a result of the current economic recovery, the Company intends to reinvest in capital expenditures during 2011. We expect to spend approximately $100 million in total capital expenditures, of which we expect $50 million will be spent on digital technology.

COMPANY OPERATIONS

Billboard Advertising

We sell most of our advertising space on two types of billboard advertising displays: bulletins and posters. As of December 31, 2010, we owned and operated approximately 146,000 billboard advertising displays in 44 states, Canada and Puerto Rico. In 2010, we derived approximately 72% of our billboard advertising net revenues from bulletin sales and 28% from poster sales.

Bulletins are large, advertising structures (the most common size is fourteen feet high by forty-eight feet wide, or 672 square feet) consisting of panels on which advertising copy is displayed. We wrap advertising copy printed with computer-generated graphics on a single sheet of vinyl around the structure. 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 and target vehicular traffic. At December 31, 2010, we operated approximately 67,000 bulletin displays.

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We generally sell individually-selected bulletin space to advertisers for the duration of the contract (usually one to twelve months). We also sell bulletins as part of a rotary plan under which we rotate the advertising copy from one bulletin location to another within a particular market at stated intervals (usually every sixty to ninety days) to achieve greater reach within that market.

Posters are smaller advertising structures (the most common size is eleven feet high by twenty-three feet wide, or 250 square feet; we also operate junior posters, which are five feet high by eleven feet wide, or 55 square feet). Poster panels utilize a single flexible sheet of polyethylene material that inserts into the face of the panel. Posters are concentrated on major traffic arteries and target vehicular traffic, and junior posters are concentrated on city streets and target hard-to-reach pedestrian traffic and nearby residents. At December 31, 2010, we operated approximately 79,000 poster displays.

We generally sell poster space for thirty- and sixty-day periods in packages called showings, which comprise a given number of displays in a specified market area. We place and spread out the displays making up a showing in well-traveled areas to reach a wide audience in the particular market.

In addition to the traditional displays described above, we also sell digital billboards. Digital billboards are large electronic light emitting diode (LED) displays (the most common sizes are fourteen feet high by forty feet wide, or 560 square feet; ten and a half feet high by thirty six feet wide, or 378 square feet; and ten feet high by twenty-one feet wide, or 210 square feet) that are generally located on major traffic arteries and city streets. Digital billboards are capable of generating over one billion colors and vary in brightness based on ambient conditions. They display completely digital advertising copy from various advertisers in a slide show fashion, rotating each advertisement approximately every 6 to 8 seconds. At December 31, 2010, we operated approximately 1,200 digital billboards in various markets, which represents approximately 11.9% of billboard revenue.

We own the physical structures on which the advertising copy is displayed. We build the structures on locations we either own or lease. In each local office one employee typically performs site leasing activities for the markets served by that office. See Item 2. Properties.

In the majority of our markets, our local production staffs perform the full range of activities required to create and install billboard advertising displays. Production work includes creating the advertising copy design and layout, coordinating its printing and installing the designs on the displays. We provide our production services to local advertisers and to advertisers that are not represented by advertising agencies, as most national advertisers represented by advertising agencies use preprinted designs that require only our installation. Our talented design staff uses state-of-the-art technology to prepare creative, eye-catching displays for our customers. We can also help with the strategic placement of advertisements throughout an advertiser s market by using software that allows us to analyze the target audience and its demographics. Our artists also assist in developing marketing presentations, demonstrations and strategies to attract new customers.

In marketing billboard displays to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

Logo Sign Advertising

We entered the logo sign advertising business in 1988 and have become the largest provider of logo sign services in the United States, operating 22 of the 28 privatized state logo contracts. We erect logo signs, which generally advertise nearby gas, food, camping, lodging and other attractions, and directional signs, which direct vehicle traffic to nearby services and tourist attractions, near highway exits. As of December 31, 2010, we operated over 33,000 logo sign structures containing over 108,000 logo advertising displays in the United States and Canada.

We operate the logo sign contracts in the province of Ontario, Canada and in the following states:

Colorado	Kansas	Maine	Mississippi	Nevada	Ohio	South Carolina
Delaware	Kentucky	Michigan	Missouri(1)	New Jersey	Oklahoma	Utah
Florida	Louisiana	Minnesota	Nebraska	New Mexico	Pennsylvania	Virginia
Georgia						

(1) The logo sign contract in Missouri is operated by a 66 2/3% owned partnership.

We also operate the tourist oriented directional signing (TODS) programs for the states of Nevada, Colorado, Nebraska, Missouri, Michigan, Ohio, Kansas, Kentucky, Virginia, Louisiana and New Jersey, and the province of Ontario, Canada.

Our logo and TODS operations are decentralized. Generally, each office is staffed with an experienced local general manager, local sales and office staff and a local signing sub-contractor. This decentralization allows the management staff of Interstate Logos, L.L.C. (the subsidiary that operates all of the logo and directional sign-related businesses) to travel extensively to the various operations and serve in a technical and management advisory capacity and monitor regulatory and contract compliance. We also run a silk screening operation in Baton Rouge, Louisiana and a display construction company in Atlanta, Georgia.

State logo sign contracts represent the exclusive right to erect and operate logo signs within a state for a period of time. The terms of the contracts vary, but generally range from five to ten years, with additional renewal terms. Each logo sign contract generally allows the state to terminate the contract prior to its expiration and, in most cases, with compensation for the termination to be paid to the company. When a logo sign contract expires, we transfer ownership of the advertising structures to the state. Depending on the contract, we may or may not be entitled to compensation at that time. Of our twenty-three logo sign contracts in place, in the United States and Canada, at December 31, 2010, one is subject to renewal in 2011.

States usually award new logo sign contracts and renew expiring logo sign contracts through an open proposal process. In bidding for new and renewal contracts, we compete against three other national logo sign providers, as well as local companies based in the state soliciting proposals.

In marketing logo signs to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

Transit Advertising

We entered into the transit advertising business in 1993 as a way to complement our existing business and maintain market share in certain markets. We provide transit advertising displays on bus shelters, benches and buses in 66 transit markets, and our production staff provides a full range of creative and installation services to our transit advertising customers. As of December 31, 2010, we operated over 30,000 transit advertising displays in 16 states, Canada and Puerto Rico.

Municipalities usually award new transit advertising contracts and renew expiring transit advertising contracts through an open bidding process. In bidding for new and renewal contracts, we compete against national outdoor advertising providers and local, on-premise sign providers and sign construction companies. Transit advertising operators incur significant start-up costs to build and install the advertising structures (such as transit shelters) upon being awarded contracts.

In marketing transit advertising displays to advertisers, we compete with other forms of out-of-home advertising and other media. When selecting the media and provider through which to advertise, advertisers consider a number of factors and advertising providers which are described in the section entitled Competition below.

COMPETITION

Although the outdoor advertising industry has encountered a wave of consolidation, the industry remains fragmented. The industry is comprised of several large outdoor advertising and media companies with operations in multiple markets, as well as smaller, local companies operating a limited number of structures in one or a few local markets.

Although we primarily focus on small to mid-size markets where we can attain a strong market share, in each of our markets, we compete against other providers of outdoor advertising and other types of media, including:

- Larger outdoor advertising providers, such as (i) Clear Channel Outdoor Holdings, Inc., which operates billboards, street furniture displays, transit displays and other out-of-home advertising displays in North America and worldwide and (ii) CBS Outdoor, a division of CBS Corporation, which operates traditional outdoor, street furniture and transit advertising properties in North America and worldwide. Clear Channel Outdoor and CBS Outdoor each have corporate relationships with large media conglomerates and may have greater total resources, product offerings and opportunities for cross-selling than we do.

- Other forms of media, such as broadcast and cable television, radio, print media, direct mail marketing, telephone directories and the Internet.

An increasing variety of out-of-home advertising media, such as advertising displays in shopping centers, malls, airports, stadiums, movie theaters and supermarkets and advertising displays on taxis, trains and buses.

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In selecting the form of media through which to advertise, advertisers evaluate their ability to target audiences having a specific demographic profile, lifestyle, brand or media consumption or purchasing behavior or audiences located in, or traveling through, a particular geography. Advertisers also compare the relative costs of available media, evaluating the number of impressions (potential viewings), exposure (the opportunity for advertising to be seen) and circulation (traffic volume in a market), as well as potential effectiveness, quality of related services (such as advertising copy design and layout) and customer service. In competing with other media, we believe that outdoor advertising is relatively more cost-efficient than other media, allowing advertisers to reach broader audiences and target specific geographic areas or demographics groups within markets.

We believe that our strong emphasis on sales and customer service and our position as a major provider of advertising services in each of our primary markets enables us to compete effectively with the other outdoor advertising companies, as well as with other media, within those markets.

CUSTOMERS

Our customer base is diverse. The table below sets forth the ten industries from which we derived most of our billboard advertising revenues for the year ended December 31, 2010, as well as the percentage of billboard advertising revenues attributable to the advertisers in those industries. The individual advertisers in these industries accounted for approximately 71% of our billboard advertising net revenues in the year ended December 31, 2010. No individual advertiser accounted for more than 2.0% of our billboard advertising net revenues in that period.

Categories	**Percentage of Net Billboard Advertising Revenues**
Restaurants	12%
Retailers	10%
Health Care	9%
Service	8%
Amusement Entertainment/Sports	6%
Gaming	6%
Automotive	6%
Telecommunications	5%
Financial Banks, Credit Unions	5%
Hotels and Motels	4%
	71%

REGULATION

Outdoor advertising is subject to governmental regulation at the federal, state and local levels. Regulations generally restrict the size, spacing, lighting and other aspects of advertising structures and pose a significant barrier to entry and expansion in many markets.

Federal law, principally the Highway Beautification Act of 1965 (the HBA), regulates outdoor advertising on Federal Aid Primary, Interstate and National Highway Systems roads. The HBA requires states to effectively control outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. The HBA requires any state or political subdivision that compels the removal of a lawful billboard along a Federal Aid Primary or Interstate highway to pay just compensation to the billboard owner.

All states have passed billboard control statutes and regulations at least as restrictive as the federal requirements, including laws requiring the removal of illegal signs at the owner s expense (and without compensation from the state). Although we believe that the number of our billboards that may be subject to removal as illegal is immaterial, and no state in which we operate has banned billboards entirely, from time to time governments have required us to remove signs and billboards legally erected in accordance with federal, state and local permit requirements and laws. Municipal and county governments generally also have sign controls as part of their zoning laws and building codes.

We contest laws and regulations that we believe unlawfully restrict our constitutional or other legal rights and may adversely impact the growth of our outdoor advertising business.

Using federal funding for transportation enhancement programs, state governments have purchased and removed billboards for beautification, and may do so again in the future. Under the power of eminent domain, state or municipal governments have laid claim to property and forced the removal of billboards. Under a concept called amortization by which a governmental body asserts that a billboard operator has earned compensation by continued operation over time, local governments have attempted to force removal of

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legal but nonconforming billboards (i.e., billboards that conformed with applicable zoning regulations when built but which do not conform to current zoning regulations). Although the legality of amortization is questionable, it has been upheld in some instances. Often, municipal and county governments also have sign controls as part of their zoning laws, with some local governments prohibiting construction of new billboards or allowing new construction only to replace existing structures. Although we have generally been able to obtain satisfactory compensation for those of our billboards purchased or removed as a result of governmental action, there is no assurance that this will continue to be the case in the future.

We have also introduced and intend to expand the deployment of digital billboards that display static digital advertising copy from various advertisers that change every 6 to 8 seconds. We have encountered some existing regulations that restrict or prohibit these types of digital displays but it has not yet materially impacted our digital deployment. Since digital billboards have only recently been developed and introduced into the market on a large scale, however, existing regulations that currently do not apply to them by their terms could be revised to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

In addition, due to their recent development, relatively few large scale studies have been conducted regarding driver safety issues, if any, related to digital billboards. The U.S. Department of Transportation Federal Highway Administration is currently conducting a study on whether the presence of digital billboards along roadways is associated with a reduction of driver safety for the public. The results of this study are expected to be released in 2011. If the results of this study include adverse findings, it may result in regulations at the federal or state level that impose greater restrictions on digital billboards.

EMPLOYEES

We employed approximately 3,000 people as of December 31, 2010. Approximately 180 employees were engaged in overall management and general administration at our management headquarters in Baton Rouge, Louisiana, and the remainder, including over 760 local account executives, were employed in our operating offices.

Fifteen of our local offices employ billposters and construction personnel who are covered by collective bargaining agreements. We believe that our relationship with our employees, including our 117 unionized employees, is good, and we have never experienced a strike or work stoppage.

INFLATION

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

SEASONALITY

Our revenues and operating results are subject to seasonality. Typically, we experience our strongest financial performance in the summer and fall, and our weakest financial performance in the first quarter of the calendar year, partly because retailers cut back their advertising spending immediately following the holiday shopping season. We expect this trend to continue in the future. Because a significant portion of our expenses is fixed, a reduction in revenues in any quarter is likely to result in a period-to-period decline in operating performance and net earnings.

ITEM 1A. ***RISK FACTORS***

The Company s substantial debt may adversely affect its business, financial condition and financial results.

The Company has borrowed substantially in the past and will continue to borrow in the future. At December 31, 2010, Lamar Advertising Company s wholly owned subsidiary, Lamar Media, had approximately $2.41 billion of total debt outstanding, consisting of approximately $808.9 million in bank debt, $324.9 million of senior notes and $1.27 billion in various series of senior subordinated notes. Despite the level of debt presently outstanding, the terms of the indentures governing Lamar Media s notes and the terms of the senior credit facility allow Lamar Media to incur substantially more debt, including approximately $239.9 million available for borrowing as of December 31, 2010 under the revolving senior credit facility.

The Company s substantial debt and its use of cash flow from operations to make principal and interest payments on its debt may, among other things:

- make it more difficult for the Company to comply with the financial covenants in its senior credit facility, which could result in a default and an acceleration of all amounts outstanding under the facility;

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- limit the cash flow available to fund the Company s working capital, capital expenditures, acquisitions or other general corporate requirements;
- limit the Company s ability to obtain additional financing to fund future working capital, capital expenditures or other general corporate requirements;
- place the Company at a competitive disadvantage relative to those of its competitors that have less debt;
- force the Company to seek and obtain alternate or additional sources of funding, which may be unavailable, or may be on less favorable terms, or may require the Company to obtain the consent of lenders under its senior credit facility or the holders of its other debt;
- limit the Company s flexibility in planning for, or reacting to, changes in its business and industry; and
- increase the Company s vulnerability to general adverse economic and industry conditions.

Any of these problems could adversely affect the Company s business, financial condition and financial results.

Restrictions in the Company s and Lamar Media s debt agreements reduce operating flexibility and contain covenants and restrictions that create the potential for defaults, which could adversely affect the Company s business, financial condition and financial results.

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

- incur or repay debt;
- dispose of assets;
- create liens;
- make investments;
- enter into affiliate transactions; and
- pay dividends and make inter-company distributions.

The terms of Lamar Media s senior credit facility also restrict it from exceeding specified total debt and senior debt ratios and require it to maintain specified fixed charges coverage ratios. Please see *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources* for a description of the specific financial ratio requirements under the senior credit facility.

The Company s ability to comply with the financial covenants in the senior credit facility and indentures (and to comply with similar covenants in future agreements) depends on its operating performance, which in turn depends significantly on prevailing economic, financial and business conditions and other factors that are beyond the Company s control. Therefore, despite its best efforts and execution of its strategic plan, the Company may be unable to comply with these financial covenants in the future.

Although we are currently in compliance with all financial covenants, the Company s operating results have been negatively impacted by the economic downturn, which began in 2008 and there can be no assurance that the current economic environment will not further impact the Company s results and, in turn, its ability to meet these requirements in the future. If Lamar Media fails to comply with its financial covenants, the lenders under the senior credit facility could accelerate all of the debt outstanding, which would create serious financial problems and could lead to a default under the indentures governing Lamar Media s outstanding notes. Any of these events could adversely affect the Company s business, financial condition and financial results.

In addition, these restrictions reduce the Company s operating flexibility and could prevent the Company from exploiting investment, acquisition, marketing, or other time-sensitive business opportunities.

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The Company s revenues are sensitive to general economic conditions and other external events beyond the Company s control.

The Company sells advertising space on outdoor structures to generate revenues. Advertising spending is particularly sensitive to changes in economic conditions and has been adversely affected by the most recent recession, as evidenced by an 11.9% decline in the Company s advertising revenues in the year ended December 31, 2009. Additionally, the occurrence of any of the following external events could further depress the Company s revenues:

- a widespread reallocation of advertising expenditures to other available media by significant users of the Company s displays; and

- a decline in the amount spent on advertising in general or outdoor advertising in particular.

The Company could suffer losses due to asset impairment charges for goodwill and other intangible assets.

The Company tested goodwill for impairment on December 31, 2010. Based on the Company s review at December 31, 2010, no impairment charge was required. The Company continues to assess whether factors or indicators become apparent that would require an interim impairment test between our annual impairment test dates. For instance, if our market capitalization is below our equity book value for a period of time without recovery, we believe there is a strong presumption that would indicate a triggering event has occurred and it is more likely than not that the fair value of one or both of our reporting units are below their carrying amount. This would require us to test the reporting units for impairment of goodwill. If this presumption cannot be overcome a reporting unit could be impaired under ASC 350 Goodwill and Other Intangible Assets and a non-cash charge would be required. Any such charge could have a material adverse effect on the Company s net earnings.

The Company faces competition from larger and more diversified outdoor advertisers and other forms of advertising that could hurt its performance.

While the Company enjoys a significant market share in many of its small and medium-sized markets, the Company faces competition from other outdoor advertisers and other media in all of its markets. Although the Company is one of the largest companies focusing exclusively on outdoor advertising in a relatively fragmented industry, it competes against larger companies with diversified operations, such as television, radio and other broadcast media. These diversified competitors have the advantage of cross-selling complementary advertising products to advertisers.

The Company also competes against an increasing variety of out-of-home advertising media, such as advertising displays in shopping centers, malls, airports, stadiums, movie theaters and supermarkets, and on taxis, trains and buses. To a lesser extent, the Company also faces competition from other forms of media, including radio, newspapers, direct mail advertising, telephone directories and the Internet. The industry competes for advertising revenue along the following dimensions: exposure (the number of impressions an advertisement makes), advertising rates (generally measured in cost-per-thousand impressions), ability to target specific demographic groups or geographies, effectiveness, quality of related services (such as advertising copy design and layout) and customer service. The Company may be unable to compete successfully along these dimensions in the future, and the competitive pressures that the Company faces could adversely affect its profitability or financial performance.

Federal, state and local regulation impact the Company s operations, financial condition and financial results.

Outdoor advertising is subject to governmental regulation at the federal, state and local levels. Regulations generally restrict the size, spacing, lighting and other aspects of advertising structures and pose a significant barrier to entry and expansion in many markets.

Federal law, principally the Highway Beautification Act of 1965 (the HBA), regulates outdoor advertising on Federal Aid Primary, Interstate and National Highway Systems roads. The HBA requires states to effectively control outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. The HBA requires any state or political subdivision that compels the removal of a lawful billboard along a Federal Aid Primary or Interstate highway to pay just compensation to the billboard owner.

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All states have passed billboard control statutes and regulations at least as restrictive as the federal requirements, including laws requiring the removal of illegal signs at the owner s expense (and without compensation from the state). Although we believe that the number of our billboards that may be subject to removal as illegal is immaterial, and no state in which we operate has banned billboards entirely, from time to time governments have required us to remove signs and billboards legally erected in accordance with federal, state and local permit requirements and laws. Municipal and county governments generally also have sign controls as part of their zoning laws and building codes. We contest laws and regulations that we believe unlawfully restrict our constitutional or other legal rights and may adversely impact the growth of our outdoor advertising business.

Using federal funding for transportation enhancement programs, state governments have purchased and removed billboards for beautification, and may do so again in the future. Under the power of eminent domain, state or municipal governments have laid claim to property and forced the removal of billboards. Under a concept called amortization by which a governmental body asserts that a billboard operator has earned compensation by continued operation over time, local governments have attempted to force removal of legal but nonconforming billboards (i.e., billboards that conformed with applicable zoning regulations when built but which do not conform to current zoning regulations). Although the legality of amortization is questionable, it has been upheld in some instances. Often, municipal and county governments also have sign controls as part of their zoning laws, with some local governments prohibiting construction of new billboards or allowing new construction only to replace existing structures. Although we have generally been able to obtain satisfactory compensation for those of our billboards purchased or removed as a result of governmental action, there is no assurance that this will continue to be the case in the future.

We have also introduced and intend to expand the deployment of digital billboards that display static digital advertising copy from various advertisers that change every 6 to 8 seconds. We have encountered some existing regulations that restrict or prohibit these types of digital displays but it has not yet materially impacted our digital deployment. Since digital billboards have only recently been developed and introduced into the market on a large scale existing regulations that currently do not apply to them by their terms could be revised to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

In addition, due to their recent development, relatively few large scale studies have been conducted regarding driver safety issues, if any, related to digital billboards. The U.S. Department of Transportation Federal Highway Administration is currently conducting a study on whether the presence of digital billboards along roadways is associated with a reduction of driver safety for the public. The results of this study are expected to be released in 2011. If the results of this study include adverse findings, it may result in regulations at the federal or state level that impose greater restrictions on digital billboards. Any new restrictions could materially adversely affect both our existing inventory of digital billboards and our plans to expand our digital deployment.

The Company s logo sign contracts are subject to state award and renewal.

In 2010, the Company generated approximately 5% of its revenues from state-awarded logo sign contracts. In bidding for these contracts, the Company competes against three other national logo sign providers, as well as numerous smaller, local logo sign providers. A logo sign provider incurs significant start-up costs upon being awarded a new contract. These contracts generally have a term of five to ten years, with additional renewal periods. Some states reserve the right to terminate a contract early, and most contracts require the state to pay compensation to the logo sign provider for early termination. At the end of the contract term, the logo sign provider transfers ownership of the logo sign structures to the state. Depending on the contract, the logo provider may or may not be entitled to compensation for the structures at the end of the contract term.

Of the Company s 23 logo sign contracts in place at December 31, 2010, one is subject to renewal in 2011. The Company may be unable to renew its expiring contracts. The Company may also lose the bidding on new contracts.

The Company is controlled by significant stockholders who have the power to determine the outcome of all matters submitted to the stockholders for approval and whose interest in the Company may be different than yours.

As of December 31, 2010, members of the Reilly family, including Kevin P. Reilly, Jr., the Company s Chairman and President, and Sean Reilly, the Company s Chief Executive Officer, owned in the aggregate approximately 17% of the Company s outstanding common stock, assuming the conversion of all Class B common stock to Class A common stock. As of that date, their combined holdings represented 66% of the voting power of Lamar Advertising s outstanding capital stock, which would give the Reilly family the power to:

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- elect the Company s entire board of directors;
- control the Company s management and policies; and
- determine the outcome of any corporate transaction or other matter requiring stockholder approval, including charter amendments, mergers, consolidations and asset sales.

The Reilly family may have interests that are different than yours in making these decisions.

If the Company s contingency plans relating to hurricanes fail, the resulting losses could hurt the Company s business.

The Company has determined that it is uneconomical to insure against losses resulting from hurricanes and other natural disasters. Although the Company has developed contingency plans designed to mitigate the threat posed by hurricanes to advertising structures (e.g., removing advertising faces at the onset of a storm, when possible, which better permits the structures to withstand high winds during the storm), these plans could fail and significant losses could result.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our management headquarters is located in Baton Rouge, Louisiana. We also own 122 local operating facilities with front office administration and sales office space connected to back-shop poster and bulletin production space. In addition, the Company leases an additional 129 operating facilities at an aggregate lease expense for 2010 of approximately $7.3 million.

We own approximately 6,800 parcels of property beneath our outdoor advertising structures. As of December 31, 2010, we leased approximately 77,000 active outdoor sites, accounting for a total annual lease expense of approximately $197.1 million. This amount represented approximately 20% of outdoor advertising net revenues for that period. These leases are for varying terms ranging from month-to-month to 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. An important part of our management activity is to manage our 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. *[REMOVED AND RESERVED]*

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PART II

ITEM 5. *MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES*

The Company s Class A common stock has been publicly traded since August 2, 1996 and is currently listed on the NASDAQ Global Select Market under the symbol LAMR. As of December 31, 2010, the Class A common stock was held by 185 shareholders of record. The Company believes, however, that the actual number of beneficial holders of the Class A common stock may be 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:

	High	Low
Year ended December 31, 2009		
First Quarter	$16.76	$ 5.35
Second Quarter	22.98	9.81
Third Quarter	27.97	14.27
Fourth Quarter	32.23	23.89
Year ended December 31, 2010		
First Quarter	$36.01	$26.58
Second Quarter	38.73	24.22
Third Quarter	32.17	23.83
Fourth Quarter	40.04	30.23

The Company s Class B common stock is not publicly traded and is held of record by members of the Reilly family and the Reilly Family Limited Partnership of which, Kevin P. Reilly, Jr., our President, is the managing general partner.

The Company s Series AA preferred stock is entitled to preferential dividends, in an annual aggregate amount of $364,904, before any dividends may be paid on the common stock. All dividends related to the Company s preferred stock are paid on a quarterly basis. In addition, the Company s senior credit facility and other indebtedness have terms restricting the payment of dividends. The Company declared a special cash dividend of $3.25 per share of its common stock in February 2007 to stockholders of record on March 22, 2007, which was paid on March 30, 2007. Any future determination as to the payment of dividends will be subject to the limitations described above, 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.

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ITEM 6. *SELECTED FINANCIAL DATA*

Lamar Advertising Company

The selected consolidated statement of operations, statement of cash flows and balance sheet data presented below are derived from the audited consolidated financial statements of the Company, which are prepared in accordance with accounting principles generally accepted in the United States (GAAP). 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.

	2010	2009	2008	2007	2006
			(Dollars in Thousands)		
Statement of Operations Data:					
Net revenues	$ 1,092,291	$ 1,056,065	$ 1,198,419	$ 1,209,555	$ 1,120,091
Operating expenses:					
Direct advertising expenses	398,467	397,725	437,660	410,762	393,747
General and administrative expenses	246,513	229,423	257,621	270,390	248,937
Depreciation and amortization	312,703	336,725	331,654	306,879	301,685
Gain on disposition of assets	(4,900)	(5,424)	(7,363)	(3,914)	(10,862)
Total operating expenses	952,783	958,449	1,019,572	984,117	933,507
Operating income	139,508	97,616	178,847	225,438	186,584
Other expense (income):					
Loss (gain) on extinguishment of debt	17,398	(3,320)			
Gain on disposition of investment		(1,445)	(1,814)	(15,448)	
Interest income	(367)	(527)	(1,202)	(2,598)	(1,311)
Interest expense	186,048	197,047	170,352	168,601	112,955
Total other expense	203,079	191,755	167,336	150,555	111,644
(Loss) income before income taxes	(63,571)	(94,139)	11,511	74,883	74,940
Income tax (benefit) expense	(23,469)	(36,101)	9,349	33,901	32,994
Net (loss) income	(40,102)	(58,038)	2,162	40,982	41,946
Preferred stock dividends	365	365	365	365	365
Net (loss) income applicable to common stock	$ (40,467)	$ (58,403)	$ 1,797	$ 40,617	$ 41,581
Net (loss) income per share	$ (0.44)	$ (0.64)	$ 0.02	$ 0.42	$ 0.40
Cash dividends declared per common share	$	$	$	$ 3.25	
Statement of Cash Flow Data:					

Cash flows provided by operating activities(1)	$ 322,820	$ 293,743	$ 346,520	$ 354,469	$ 364,517
Cash flows used in investing activities(1)	$ 41,480	$ 29,039	$ 437,419	$ 341,081	$ 438,896
Cash flows (used in) provided by financing activities(1)	$ (302,429)	$ (168,349)	$ 30,002	$ 39,277	$ 66,973
Balance Sheet Data(1) (2)					
Cash and cash equivalents	$ 91,679	$ 112,253	$ 14,139	$ 76,048	$ 11,796
Working capital	155,829	104,229	78,423	149,213	116,605
Total assets	3,648,961	3,943,541	4,117,025	4,081,763	3,924,228
Total debt (including current maturities)	2,409,140	2,674,912	2,814,449	2,692,667	1,990,468
Total long-term obligations	2,676,858	2,848,036	3,063,847	2,970,612	2,273,483
Stockholders equity	818,523	831,798	870,618	947,497	1,536,580

(1) As of the end of the period.

(2) Certain balance sheet reclassifications were made in order to be comparable to the current year presentation.

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

This report contains forward-looking statements. These statements are subject to risks and uncertainties including those described in Item 1A under the heading Risk Factors, and elsewhere in this Annual Report, that could cause actual results to differ materially from those projected in these forward-looking statements. The Company cautions investors not to place undue reliance on the forward-looking statements contained in this document. These statements speak only as of the date of this document, and the Company undertakes no obligation to update or revise the statements, except as may be required by law.

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Lamar Advertising Company

The following is a discussion of the consolidated financial condition and results of operations of the Company for the years ended December 31, 2010, 2009 and 2008. This discussion should be read in conjunction with the consolidated financial statements of the Company and the related notes.

OVERVIEW

The Company s net revenues are derived primarily from the sale of advertising on outdoor advertising displays owned and operated by the Company. The Company relies on sales of advertising space for its revenues, and its operating results are therefore affected by general economic conditions, as well as trends in the advertising industry. Advertising spending is particularly sensitive to changes in general economic conditions, which affect the rates that the Company is able to charge for advertising on its displays and its ability to maximize advertising sales or occupancy on its displays.

Historically, the Company has increased the number of outdoor advertising displays it operates by completing strategic acquisitions of outdoor advertising assets. Since December 31, 2005, the Company completed acquisitions for an aggregate purchase price of approximately $642.4 million. The Company has financed its historical acquisitions and intends to finance any of its future acquisition activity from available cash, borrowings under its senior credit facility and the issuance of Class A common stock. See Liquidity and Capital Resources below. However, during 2009 and 2010, the Company reduced its acquisition activity significantly by completing acquisitions of outdoor advertising assets for a total purchase price of $11.2 million, which was a reduction of approximately $392 million over the comparable two-year period ended 2008 and 2007.

Growth of the Company s business requires expenditures for maintenance and capitalized costs associated with the construction of new billboard displays, the entrance into and renewal of logo sign and transit contracts, and the purchase of real estate and operating equipment. The following table presents a breakdown of capitalized expenditures for the past three years:

	2010	2009	2008
		(In thousands)	
Billboard Traditional	$ 9,506	$ 7,401	$ 58,064
Billboard Digital	13,214	15,178	103,701
Logos	8,483	5,275	7,606
Transit	876	5,488	1,018
Land and buildings	2,531	578	11,240
PP&E	8,842	4,895	16,441
Total capital expenditures	$ 43,452	$ 38,815	$ 198,070

We expect our capital expenditures to be approximately $100 million in 2011.

RESULTS OF OPERATIONS

The following table presents certain items in the Consolidated Statements of Operations as a percentage of net revenues for the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31,		
	2010	2009	2008
Net revenues	100.0%	100.0%	100.0%
Operating expenses:			
Direct advertising expenses	36.5	37.7	36.5
General and administrative expenses	18.2	17.7	17.3
Corporate expenses	4.3	4.0	4.2
Depreciation and amortization	28.6	31.9	27.7
Operating income	12.8	9.2	14.9

Interest expense	17.0	18.7	14.2
Net (loss) income	(3.7)	(5.5)	0.2

Year ended December 31, 2010 compared to Year ended December 31, 2009

Net revenues increased $36.2 million or 3.4% to $1.09 billion for the year ended December 31, 2010 from $1.06 billion for the same period in 2009. This increase was attributable primarily to an increase in billboard net revenues of $26.0 million, or 2.7%, over the prior period, a $7.6 million increase in transit revenue, or 15.0%, over the prior period and a $2.6 million increase in logo revenue, or 5.6%, over the prior period.

The increase in billboard net revenue of $26.0 million was a result of increased rate and occupancy, over the comparable period in 2009. The $7.6 million increase in transit revenue consists of a $2.7 million increase due to new transit contracts and an increase in internal growth of $4.9 million.

Net revenues for the year ended December 31, 2010, as compared to acquisition-adjusted net revenue for the year ended December 31, 2009, increased $32.8 million or 3.1% primarily as a result of increased rate and occupancy, as compared to the same period in 2009. See Reconciliations below.

Operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased $17.8 million, or 2.8%, to $644.9 million for the year ended December 31, 2010 from $627.1 million for the same period in 2009. There was a $5.4 million increase in non-cash compensation expense related to equity based compensation, as well as an $11.0 million increase in operating expenses related to the cost of operating the Company s core assets and a $1.4 million increase in corporate expenses.

Depreciation and amortization expense decreased $24.0 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The decrease is primarily a result of the reduction in number of non performing structures dismantled during 2010 as compared to the same period in 2009.

Due to the above factors, operating income increased $41.9 million to $139.5 million for year ended December 31, 2010 compared to $97.6 million for the same period in 2009.

Interest expense decreased $11.0 million from $197.0 million for the year ended December 31, 2009 to $186.0 million for the year ended December 31, 2010 primarily resulting from debt refinancing efforts during 2010, as well as the reduction in amortized debt issuance fees during 2010 due to the early extinguishment of debt.

During the year ended December 31, 2010, the Company recognized a $17.4 million loss on the early extinguishment of debt resulting from its refinancing transactions. Approximately $12.6 million is a non-cash expense attributable to the write off of unamortized debt issuance fees related to the tender offer to repurchase Lamar Media s 7 1/4% Notes and the refinancing of its senior credit facility. The remaining $4.8 million represents the net cash loss related to the tender offer and extinguishment of the 7 1/4% Notes.

The increase in operating income and decrease in interest expense offset by the increase in the loss on extinguishment of debt resulted in a $30.6 million decrease in loss before income taxes. The decrease in net loss for the period resulted in a decrease in income tax benefit as compared to the same period during 2009. The effective tax rate for the year ended December 31, 2010 was 36.9%, which is higher than the statutory rate due to permanent differences resulting from non-deductible compensation expense related to stock options in accordance with ASC 718 and other non-deductible expenses and amortization.

As a result of the above factors, the Company recognized a net loss for the year ended December 31, 2010 of $40.1 million, as compared to a net loss of $58.0 million for the same period in 2009.

Reconciliations:

Because acquisitions occurring after December 31, 2008 (the acquired assets) have contributed to our net revenue results for the periods presented, we provide 2009 acquisition-adjusted net revenue, which adjusts our 2009 net revenue by adding to it the net revenue generated by the acquired assets prior to our acquisition of them for the same time frame that those assets were owned in 2010. We provide this information as a supplement to net revenues to enable investors to compare periods in 2010 and 2009 on a more consistent basis without the effects of acquisitions. Management uses this comparison to assess how well our core assets are performing.

Acquisition-adjusted net revenue is not determined in accordance with generally accepted accounting principles (GAAP). For this adjustment, we measure the amount of pre-acquisition revenue generated by the acquired assets during the period in 2009 that corresponds with the actual period we have owned the acquired assets in 2010 (to the extent within the period to which this report relates). We refer to this adjustment as acquisition net revenue.

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Reconciliations of 2009 reported net revenue to 2009 acquisition-adjusted net revenue as well as a comparison of 2009 acquisition-adjusted net revenue to 2010 net revenue are provided below:

Comparison of 2010 Net Revenue to 2009 Acquisition-Adjusted Net Revenue

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Reported net revenue	$ 1,092,291	$ 1,056,065
Acquisition net revenue		3,467
Adjusted totals	$ 1,092,291	$ 1,059,532

Year ended December 31, 2009 compared to Year ended December 31, 2008

Net revenues decreased $142.4 million or 11.9% to $1.06 billion for the year ended December 31, 2009 from $1.20 billion for the same period in 2008. This decrease was attributable primarily to a decrease in billboard net revenues of $132.3 million, or 12.1%, over the prior period a $10.6 million decrease in transit revenue, or 17.4%, over the prior period, offset by a $0.5 million increase in logo revenue, or 1.1%, over the prior period.

The decrease in billboard net revenue of $132.3 million was a result of decreased rate and occupancy due to a reduction in advertising spending by our customers resulting from the current economic recession, which began in the fourth quarter of 2008. The $10.6 million decrease in transit revenue consists of a $0.8 million decrease due to lost transit contracts and a decrease of $9.8 million due to the current economic recession.

Net revenues for the year ended December 31, 2009, as compared to acquisition-adjusted net revenue for the year ended December 31, 2008, decreased $155.3 million or 12.8% primarily as a result of the reduction in rate and occupancy due to the current economic recession that began in the fourth quarter of 2008 and continued throughout 2009. See Reconciliations below.

Operating expenses, exclusive of depreciation and amortization and gain on sale of assets, decreased $68.2 million, or 9.8%, to $627.1 million for the year ended December 31, 2009 from $695.3 million for the same period in 2008. There was a $3.5 million increase in non-cash compensation expense related to performance based compensation, offset by a $61.5 million decrease in operating expenses related to the cost of operating the Company s core assets and a $10.2 million decrease in corporate expenses.

Depreciation and amortization expense increased $5.1 million for the year ended December 31, 2009 as compared to the year ended December 31, 2008. The increase is primarily a result of accelerated depreciation on dismantled structures during 2009.

Due to the above factors, operating income decreased $81.2 million to $97.6 million for year ended December 31, 2009 compared to $178.8 million for the same period in 2008.

During 2009, the Company extinguished $284.1 million in principal amount of its 2 7/8% Convertible Notes due 2010 Series B, at an average purchase price of 94.75%, yielding a gain of approximately $15.0 million, which was offset by transaction costs and other non cash charges of $11.7 million related to the notes, resulting in a net gain of $3.3 million.

Interest expense increased $26.6 million from $170.4 million for the year ended December 31, 2008 to $197.0 million for the year ended December 31, 2009 due to issuance of $350 million principal amount 9 3/4% Senior Notes due 2014 and the increase in interest rates resulting from the amendments to our senior credit facility in April 2009.

The decrease in operating income and the increase in interest expense described above resulted in a $105.7 million decrease in income before income taxes. This decrease in income resulted in a decrease in income tax expense of $45.5 million for the year ended December 31, 2009 over the same period in 2008. The effective tax rate for the year ended December 31, 2009 was 38.3%.

As a result of the above factors, the Company recognized a net loss for the year ended December 31, 2009 of $58.0 million, as compared to net income of $2.2 million for the same period in 2008.

Reconciliations:

Because acquisitions occurring after December 31, 2007 (the acquired assets) have contributed to our net revenue results for the periods presented, we provide 2008 acquisition-adjusted net revenue, which adjusts our 2008 net revenue by adding to it the net revenue generated by the acquired assets prior to our acquisition of them for the same time frame that those assets were owned in 2009. We provide this information as a supplement to net revenues to enable investors to compare periods in 2009 and 2008 on a more consistent basis without the effects of acquisitions. Management uses this comparison to assess how well our core assets are performing.

Acquisition-adjusted net revenue is not determined in accordance with generally accepted accounting principles (GAAP). For this adjustment, we measure the amount of pre-acquisition revenue generated by the acquired assets during the period in 2008 that corresponds with the actual period we have owned the acquired assets in 2009 (to the extent within the period to which this report relates). We refer to this adjustment as acquisition net revenue.

Reconciliations of 2008 reported net revenue to 2008 acquisition-adjusted net revenue as well as a comparison of 2008 acquisition-adjusted net revenue to 2009 net revenue are provided below:

Comparison of 2009 Net Revenue to 2008 Acquisition-Adjusted Net Revenue

	Year Ended December 31,	
	2009	**2008**
	(In thousands)	
Reported net revenue	$ 1,056,065	$ 1,198,419
Acquisition net revenue		12,955
Adjusted totals	$ 1,056,065	$ 1,211,374

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Sources of Cash

Total Liquidity at December 31, 2010. As of December 31, 2010 we had approximately $331.6 million of total liquidity, which is comprised of approximately $91.7 million in cash and cash equivalents and the ability to fully access our revolving senior credit facility in the amount of $239.9 million. Currently, we would be able to fully draw our revolving facility and remain in compliance with all covenant restrictions. During 2011 the Company intends to use excess cash on hand primarily for reducing outstanding indebtedness under it senior credit facility. On January 7, 2011 the Company prepaid $50 million of its Series B borrowings under its senior credit facility, which reduced future maturities proportionally to the originally scheduled amounts.

Cash Generated by Operations. For the years ended December 31, 2010, 2009, and 2008 our cash provided by operating activities was $322.8 million, $293.7 million and $346.5 million, respectively. While our net loss was approximately $40.1 million for the year ended December 31, 2010, the Company generated cash from operating activities of $322.8 million during 2010 primarily due to adjustments needed to reconcile net income to cash provided by operating activities, which includes depreciation and amortization of $312.7 million. We generated cash flows from operations during 2010 in excess of our cash needs for operations and capital expenditures as described herein. We used the excess cash generated principally for reducing outstanding indebtedness. See Cash Flows for more information.

Credit Facilities. On April 28, 2010, Lamar Media Corp. refinanced its existing senior credit facility with a new senior credit facility. The new senior credit facility, as amended on June 11, 2010 and November 18, 2010 (the Senior Credit Facility), for which JPMorgan Chase Bank, N.A. serves as administrative agent, consists of a $250 million revolving credit facility, a $270 million term loan A-1 facility, a $30 million term loan A-2 facility, a $575 million term loan B facility and a $300 million incremental facility, which may be increased by up to an additional $200 million, based upon our satisfaction of a senior debt ratio test (as described below), of less than or equal to 3.25 to 1. Lamar Media is the borrower under the Senior Credit Facility, except with respect to the $30 million term loan A-2 facility for which Lamar Media s wholly-owned subsidiary, Lamar Advertising of Puerto Rico, Inc. is the borrower. We may also from time to time designate additional wholly-owned subsidiaries as subsidiary borrowers under the incremental loan facility that can borrow up to $110 million of the incremental facility. Incremental loans may be in the form of additional term loan tranches or increases in the revolving credit facility. Our lenders have no obligation to make additional loans to us, or any designated subsidiary borrower, under the incremental facility, but may enter into such commitments in their sole discretion.

As of December 31, 2010, Lamar Media had approximately $239.9 million of unused capacity under the revolving credit facility included in its Senior Credit Facility and the aggregate balance outstanding under its Senior Credit Facility was $808.9 million.

Note Offerings. On April 22, 2010, Lamar Media completed an institutional private placement of $400 million aggregate principal amount of 7 7/8% Senior Subordinated Notes due 2018 the (7 7/8% Notes). The institutional private placement resulted in net proceeds to Lamar Media of approximately $392 million. The Company used the proceeds of this offering, after the payment of fees and expenses, to repurchase all of its outstanding 7 1/4% Senior Subordinated Notes due 2013 (the 7 1/4% Notes) as described below.

On March 27, 2009, Lamar Media completed an institutional private placement of $350 million in aggregate principal amount (approximately $314.9 million in gross proceeds) of 9 3/4% Senior Notes due 2014 (the 9 3/4% Senior Notes). The 9 3/4% Senior Notes are unsecured obligations that rank senior to all of Lamar Media s existing and future debt that is expressly subordinated in right of payment to the senior notes, including Lamar Media s 7 1/4% Senior Subordinated Notes due 2013 (all of which were repurchased in 2010), its 6 5/8% Senior Subordinated Notes due 2015, its 6 5/8% Senior Subordinated Notes due 2015 Series B, and its 6 5/8% Senior Subordinated Notes due 2015 Series C. The senior notes rank equally with all of Lamar Media s existing and future liabilities that are not so subordinated and are effectively subordinated to all of its secured debt (to the extent of the value of the collateral securing such debt), including our Senior Credit Facility, and structurally subordinated to all of the liabilities of any of Lamar Media s subsidiaries that do not guarantee the senior notes. Lamar Media distributed the proceeds of this offering, after the payment of fees and expenses, to Lamar Advertising to repurchase $284.1 million in principal amount of 2 7/8% Convertible Notes due 2010 Series B and to fund repayment of the remaining convertible notes at maturity on December 31, 2010.

Factors Affecting Sources of Liquidity

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

Credit Facilities and Other Debt Securities. Lamar must comply with certain covenants and restrictions related to its Senior Credit Facility and its outstanding debt securities.

Restrictions Under Debt Securities. Lamar must comply with certain covenants and restrictions related to its outstanding debt securities. Currently Lamar Media has outstanding approximately $400.0 million 6 5/8% Senior Subordinated Notes due 2015 issued August 2005, $216.0 million 6 5/8% Senior Subordinated Notes due 2015 Series B issued in August 2006 and $275.0 million 6 5/8% Senior Subordinated Notes due 2015 Series C issued in October 2007 (collectively, the 6 5/8% Notes), $350 million 9 3/4% Senior Notes due 2014 issued in March 2009 (the 9 3/4% Notes) and $400 million 7 7/8% Senior Subordinated Notes due 2018 (the 7 7/8% Notes). The indentures relating to Lamar Media s outstanding notes restrict its ability to incur additional indebtedness but permit the incurrence of indebtedness (including indebtedness under its Senior Credit Facility), (i) if no default or event of default would result from such incurrence and (ii) if after giving effect to any such incurrence, the leverage ratio (defined as total consolidated debt to trailing four fiscal quarter EBITDA (as defined in the indentures)) would be less than (a) 6.5 to 1, pursuant 9 3/4% Notes indenture, and (b) 7.0 to 1, pursuant to the 6 5/8% Notes and the 7 7/8% Notes indentures.

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

- up to $1.3 billion of indebtedness under its Senior Credit Facility allowable under the 6 5/8% Notes (up to $1.4 billion of indebtedness under its Senior Credit Facility allowable under the 9 3/4% Notes and up to $1.5 billion of indebtedness under its Senior Credit Facility allowable under the 7 7/8% Notes indenture);

- currently outstanding indebtedness or debt incurred to refinance outstanding debt;

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

- certain purchase money indebtedness and capitalized lease obligations to acquire or lease property in the ordinary course of business that cannot exceed the greater of $50 million or 5% of Lamar Media s net tangible assets; and

- additional debt not to exceed $50 million ($75 million under the 7 7/8% Notes indenture).

Restrictions under Senior Credit Facility. Lamar Media is required to comply with certain covenants and restrictions under its Senior Credit Facility. If the Company fails to comply with these tests, the long term debt payments may be accelerated. At December 31, 2010, and currently, Lamar Media was in compliance with all such tests under its Senior Credit Facility. We must be in compliance with the following financial ratios:

a total holdings debt ratio, defined as total consolidated debt of Lamar Advertising Company and its restricted subsidiaries as of any date to EBITDA, as defined below, for the most recent four fiscal quarters then ended as set forth below:

Period	**Ratio**
September 30, 2010 through and including March 30, 2011	7.25 to 1.00
March 31, 2011 through and including December 30, 2011	7.00 to 1.00
December 31, 2011 through and including March 30, 2012	6.75 to 1.00
March 31, 2012 through and including March 30, 2013	6.25 to 1.00
From and after March 31, 2013	6.00 to 1.00

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a senior debt ratio, defined as total consolidated senior debt of Lamar Media and its restricted subsidiaries to EBITDA, as defined below, for the most recent four fiscal quarters then ended as set forth below:

Period	Ratio
September 30, 2010 through and including March 30, 2011	3.75 to 1.00
March 31, 2011 through and including September 29, 2011	3.50 to 1.00
September 30, 2011 through and including March 30, 2012	3.25 to 1.00
March 31, 2012 through and including March 30, 2013	3.00 to 1.00
From and after March 31, 2013	2.75 to 1.00

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

The definition of EBITDA under the senior credit agreement is as follows: EBITDA means, for any period, operating income for the Company and its restricted subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for such period (calculated before taxes, interest expense, depreciation, amortization and any other non-cash income or charges accrued for such period, one-time cash restructuring and cash severance changes in the fiscal year ending December 31, 2009 of up to $2,500,000 aggregate amount, charges and expenses in connection with the credit facility transactions and the repurchase or redemption of our 7 1/4% senior subordinated notes due 2013, and (except to the extent received or paid in cash by us or any of our restricted subsidiaries) income or loss attributable to equity in affiliates for such period) excluding any extraordinary and unusual gains or losses during such period and excluding the proceeds of any casualty events whereby insurance or other proceeds are received and certain dispositions not in the ordinary course. For purposes of calculating EBITDA, the effect on such calculation of any adjustments required under Statement of Accounting Standards No. 141R is excluded.

Excess Cash Flow Payments. Lamar Media may be required to make certain mandatory prepayments on loans outstanding under its Senior Credit Facility that would be applied first to any outstanding term loans, commencing with the year ended December 31, 2010. These payments, if any, will be calculated based on a percentage of Consolidated Excess Cash Flow (as defined in the Senior Credit Facility) at the end of each fiscal year. The percentage of Consolidated Excess Cash Flow that must be applied to repay outstanding loans is set at 50% for the fiscal year ended December 31, 2010. This percentage is subject to reduction as follows for fiscal years ending on or after December 31, 2010: (i) to 25% if the total holdings debt ratio, as described above, is less than or equal to 5.00 to 1.00 but greater than 4.00 to 1.00 as at the last day of such fiscal year and (ii) to 0% if the total holdings debt ratio is less than or equal to 4.00 to 1.00 as at the last day of such fiscal year. At December 31, 2010, the Company was not required to make a mandatory prepayment since there was a consolidated cash flow deficit, in accordance with the calculation as defined in the Senior Credit Facility.

The Company believes that its current level of cash on hand, availability under its Senior Credit Facility and future cash flows from operations are sufficient to meet its operating needs through fiscal 2011. All debt obligations are reflected on the Company s balance sheet.

Uses of Cash

Capital Expenditures. Capital expenditures excluding acquisitions were approximately $43.5 million for the year ended December 31, 2010. We anticipate our 2011 total capital expenditures to be approximately $100 million.

Acquisitions. During the year ended December 31, 2010, the Company financed its acquisition activity of approximately $6.7 million with cash on hand. In light of the current economic environment, the Company plans to continue to limit acquisition activity during 2011 with no material spending currently planned for acquisitions.

Tender Offers. On April 8, 2010, Lamar Media commenced a tender offer to purchase for cash any and all of its outstanding 7 1/4% Notes. In conjunction with the tender offer, Lamar Media also solicited consents from the holders of the 7 1/4% Notes to amend the 7 1/4% Notes to eliminate certain covenants and amend certain provisions of the indenture governing the 7 1/4% Notes. On April 22, 2010 Lamar Media accepted tenders for approximately $365.4 million in aggregate principal amount of the 7 1/4% Notes in connection with the early settlement date of the tender offer. The holders of accepted notes received a total consideration of $1,012.08 per $1,000 principal amount of the notes tendered. The total cash payment to purchase the tendered 7 1/4% Notes, including accrued and unpaid interest up to but excluding April 22, 2010 was approximately $378 million. Tendering holders also delivered the requisite consents authorizing Lamar Media to remove certain covenants in the 7 1/4% Notes. These consents authorized entry into a Supplemental Indenture, which reflects the amendments to the 7 1/4% Notes discussed above. On May 6, 2010, Lamar Media accepted tenders for an additional $169 thousand in aggregate principal amount of 7 1/4% Notes in connection with the final settlement of the tender offer. On June 7, 2010, Lamar Media redeemed the remaining $19.4 million in outstanding 7 1/4% Notes.

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On March 23, 2009, Lamar Advertising commenced a tender offer to purchase for cash any and all of its outstanding 2 7/8% Convertible Notes due 2010 Series B. The tender offer expired on April 17, 2009. As a result of the tender offer, Lamar Advertising accepted for payment $153.6 million principal amount of notes at a purchase price of $142.7 million, which was 92% of the original principal amount of the notes, including all accrued and unpaid interest up to, but not including the payment date of April 20, 2009.

On June 6, 2009, Lamar Advertising commenced a tender offer to purchase for cash any and all of its remaining outstanding 2 7/8% Convertible Notes due 2010 Series B. The tender offer expired on July 14, 2009. As a result of the tender offer, Lamar Advertising accepted for payment $120.4 million in principal amount of notes at a purchase price of $117.8 million, which was 97.75% of the original amount of the notes, including all accrued and unpaid interest up to, but not including the payment date of July 15, 2009. Pursuant to the terms of the tender offer, convertible notes not tendered, or tendered and validly withdrawn, in the tender offer remained outstanding, and the terms and conditions governing the notes, including the covenants and other provisions contained in the indentures governing the notes, remained unchanged.

In addition, on August 18, 2009, the Company accepted for payment $7.1 million in principal amount of 2 7/8% Convertible Notes due 2010 Series B, which was 99.9% of the original amount of the notes and on October 6, 2009, the Company accepted for payment $3.0 million in principal amount of 2 7/8% Convertible Notes due 2010-Series B, which was 99.75% of the original amount of the notes. Both of these prepayments were in privately negotiated transactions. In March 2010, the Company accepted for payment $1,000 in principle amount of 2 7/8% Convertible Notes due 2010 at a purchase price of 100% of the original amount of the notes, through a privately negotiated transaction. The remaining 2 7/8% convertible notes matured and were repaid on December 31, 2010 pursuant to their terms.

Stock Repurchase Program. The Company s Board of Directors adopted a $500 million repurchase plan in February 2007, which expired on February 22, 2009. During the twelve months ended December 31, 2008 and December 31, 2007, the Company purchased approximately 2.6 million shares and 6.7 million shares of its Class A common stock for an aggregate purchase price of approximately $90.5 million and $383.6 million, respectively. During 2009 the Company did not purchase any shares under the plan prior to its expiration. Shares repurchased under the plan were made on the open market or in privately negotiated transactions. The timing and amount of the shares repurchased were determined by Lamar s management based on its evaluation of market conditions and other factors. All repurchased shares are available for future use for general corporate and other purposes.

Debt Service and Contractual Obligations. During the year ended December 31, 2010, the Company reduced its overall indebtedness by $265.8 million. The reduction in total debt outstanding primarily resulted from scheduled principal maturities as well as optional prepayments under its Senior Credit Facility. As of December 31, 2010, we had outstanding debt of approximately $2.41 billion. In the future, Lamar Media has principal reduction obligations and revolver commitment reductions under its Senior credit agreement. In addition, it has fixed commercial commitments. These commitments are detailed as follows:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**After 5 Years**
			(In millions)		
Long-Term Debt	$ 2,409.1	$ 5.7	$ 67.7	$ 1,441.2	$ 894.5
Interest obligations on long term debt[(1)]	787.6	148.7	313.3	229.4	96.2
Billboard site and other operating leases	1,161.0	147.9	240.2	183.3	589.6
Total payments due	$ 4,357.7	$ 302.3	$ 621.2	$ 1,853.9	$ 1,580.3

(1) Interest rates on our variable rate instruments are assuming rates at the December 2010 levels.

		Amount of Expiration Per Period			
Other Commercial Commitments	Total Amount Committed	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
			(In millions)		
Revolving Bank Facility [2]	$250.0	$	$	$250.0	$
Standby Letters of Credit[3]	$ 10.1	$7.1	$ 3.0	$	$

[2] Lamar Media had $0.0 outstanding under the revolving facility at December 31, 2010.

[3] The standby letters of credit are issued under Lamar Media s revolving bank facility and reduce the availability of the facility by the same amount.

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Cash Flows

The Company s cash flows provided by operating activities increased by $29.1 million for the year ended December 31, 2010 resulting from a decrease in net loss of $17.9 million as described in Results of Operations , and increase in changes to operating net assets of $18.0 million, offset by a decrease in adjustments to reconcile net income to cash provided by operating activities of $6.8 million.

Cash flows used in investing activities increased $12.4 million from $29.0 million in 2009 to $41.5 million in 2010 primarily due to slight increases in cash used in acquisition activity of $2.2 million and in capital expenditures of $4.6 million, as compared to the same period in 2009.

Cash flows used in financing activities was $302.4 million for the year ended December 31, 2010 primarily due to the net payments under the Senior Credit Facility of $290.3 million, the $389.6 million of payments on the 7 1/4% notes, offset by the $400 million in proceeds from the note offering in 2010.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those related to long-lived asset recovery, intangible assets, goodwill impairment, deferred taxes, asset retirement obligations and allowance for doubtful accounts. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events and, where applicable, established valuation techniques. These estimates form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

Long-Lived Asset Recovery. Long-lived assets, consisting primarily of property, plant and equipment and intangibles comprise a significant portion of the Company s total assets. Property, plant and equipment of $1.3 billion and intangible assets of $569.7 million are reviewed for impairment whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by that asset before interest expense. These undiscounted cash flow projections are based on management s assumptions surrounding future operating results and the anticipated future economic environment. If actual results differ from management s assumptions, an impairment of these intangible assets may exist and a charge to income would be made in the period such impairment is determined. During the year ended December 31, 2010 there were no indications that an impairment test was necessary.

Intangible Assets. The Company has significant intangible assets recorded on its balance sheet. Intangible assets primarily represent site locations of $541.9 million and customer relationships of $24.8 million associated with the Company s acquisitions. The fair values of intangible assets recorded are determined using discounted cash flow models that require management to make assumptions related to future operating results, including projecting net revenue growth discounted using current cost of capital rates, of each acquisition and the anticipated future economic environment. If actual results differ from management s assumptions, an impairment of these intangibles may exist and a charge to income would be made in the period such impairment is determined. Historically no impairment charge has been required with respect to the Company s intangible assets.

Goodwill Impairment. The Company has a significant amount of goodwill on its balance sheet and must perform an impairment test of goodwill annually or on a more frequent basis if events and circumstances indicate that the asset might be impaired. The first step of the impairment test requires management to determine the implied fair value of its reporting units and compare it to its book value (including goodwill). To the extent the book value of a reporting unit exceeds the fair value of the reporting unit, the Company would be required to perform the second step of the impairment test, as this is an indicator that the reporting unit may be impaired. Impairment testing involves various estimates and assumptions, which could vary, and an analysis of relevant market data and market capitalization.

We have identified two reporting units (Logo operations and Billboard operations) in accordance with ASC 350. No changes have been made to our reporting units from the prior period. The reporting units and their carrying amounts of goodwill as of December 31, 2010 and 2009 are as follows:

	Carrying Value of Goodwill (in thousands)	
	December 31, 2010	December 31, 2009
Billboard operations	1,425,174	1,423,322
Logo operations	961	961

We believe there are numerous facts and circumstances that need to be considered when estimating the reasonableness of the reporting unit s estimated fair value, especially in the current recession. In conducting our impairment test, we assessed the reasonableness of the reporting unit s estimated fair value based on both market capitalization and discounted future cash flows. The discounted cash flow analysis incorporated various growth rate assumptions and discounting based on a present value factor.

Consideration of market capitalization

The Company first considered its market capitalization as of its annual impairment testing date of December 31. The market capitalization of its Class A common stock as of December 31, 2010 was $3.70 billion compared to stockholders equity of $818.5 million as of that date, resulting in an excess of approximately $2.9 billion. The Company considers market capitalization over book value a strong indicator that no impairment of goodwill exists as of the measurement date of December 31, 2010. The following table presents the market capitalization and aggregate book value of the reporting units as of December 31, 2010:

	Equity Book Value	Market Capitalization(1)
	(in thousands)	
Aggregate Values as of December 31, 2010	$818,523	$3,694,666

(1) Market capitalization was calculated using a 10-day average of the closing prices of the Class A common stock beginning 5 trading days prior to the measurement date.

Calculations of Fair Value using Discounted Cash Flow Analysis

We also estimate fair value using a discounted cash flow analysis that compares the estimated future cash flows of each reporting unit to the book value of the reporting unit.

The discount rate and projected revenue and EBITDA (earnings before interest, tax, depreciation and amortization) growth rates are significant assumptions utilized in our calculation of the present value of cash flows used to estimate fair value of the reporting units. These assumptions could be adversely impacted by certain risks including deterioration in industry and economic conditions.

Our discount rate assumption is based on our cost of capital, which we determine annually based on our estimated costs of debt and equity relative to our capital structure. As of December 31, 2010 our weighted average cost of capital (WACC) was approximately 10%. Based on our analysis, our WACC must exceed 15.7% before the second step of the impairment test would be required.

In developing our revenue and EBITDA growth rates, we consider our historical performance and current market trends in the markets in which we operate. The following table describes the growth rates used in our analysis, which indicated no impairment charge was required, compared to our recent historical rates achieved:

Compound Annual Growth Rates (CAGR)

	Revenue	EBITDA

	Historical*	5 year projected rate	Historical*	5 year projected rate
Billboard operations	(0.7%)	6.4%	(1.6%)	9.0%
Logo operations	0.7%	4.9%	(4.1%)	2.9%

* Calculated based on the Company s historical results from 2006 to 2010.

Our December 31, 2010 discounted cash flow analysis does not indicate the need for step two of the impairment test unless the Compound Annual Growth Rate (CAGR), calculated using projections over the next 5 years, for revenue declines to less than (6.6%) for our billboard operations and less than (10.2%) for our logo operations, and the CAGR for EBITDA declines to less than (6.4%) for our billboard operations and less than (12.9%) for our logo operations. Assumptions used in our impairment test, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecast and operating plans. Another recession or changes in our forecasts could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period. In addition, these assumptions could be adversely impacted by certain risks discussed in Risk Factors in Item 1A of this Annual Report. For additional information about goodwill, see Note 5 to the Consolidated Financial Statements. The following table presents the aggregate fair value of our reporting units and aggregate book value of the reporting units as of December 31, 2010:

	Equity Book Value	Fair Value [1]
	(in thousands)	
Aggregate Values as of December 31, 2010	$818,523	$4,503,501

(1) Fair Value is calculated using the discounted cash flow analysis described above.

Based upon the Company s annual review as of December 31, 2010, using both the market capitalization approach and discounted cash flow analysis, there was no indication of a potential impairment and, therefore, the second step of the impairment test was not required and no impairment charge was necessary.

Deferred Taxes. As of December 31, 2010, the Company determined that its deferred tax assets of $245.3 million, a component of which is the Company s operating loss carry forward, net of existing valuation allowances, are fully realizable due to the existence of certain deferred tax liabilities of approximately $323.3 million that are anticipated to reverse during the carry forward period. The Company bases this determination by projecting taxable income over the relevant period. Should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. For a more detailed description, see Note 11 of the Notes to the Consolidated Financial Statements.

Asset Retirement Obligations. The Company had an asset retirement obligation of $173.7 million as of December 31, 2010. This liability relates to the Company s obligation upon the termination or non-renewal of a lease to dismantle and remove its billboard structures from the leased land and to reclaim the site to its original condition. The Company records the present value of obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred. The liability is capitalized as part of the related long-lived asset s carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. In calculating the liability, the Company calculates the present value of the estimated cost to dismantle using an average cost to dismantle, adjusted for inflation and market risk.

This calculation includes 100% of the Company s billboard structures on leased land (which currently consist of approximately 73,000 structures). The Company uses a 15-year retirement period based on historical operating experience in its core markets, including the actual time that billboard structures have been located on leased land in such markets and the actual length of the leases in the core markets, which includes the initial term of the lease, plus any renewal period. Historical third-party cost information is used with respect to the dismantling of the structures and the reclamation of the site. The interest rate used to calculate the present value of such costs over the retirement period is based on the Company s historical credit-adjusted risk free rate.

Stock-based Compensation. Share-based compensation expense is based on the value of the portion of share-based payment awards that is ultimately expected to vest. Share-Based Payment Accounting requires the use of a valuation model to calculate the fair value of share-based awards. The Company has elected to use the Black-Scholes option-pricing model. The Black-Scholes option-pricing model incorporates various assumptions, including volatility, expected life and interest rates. The expected life is based on the observed and expected time to post-vesting exercise and forfeitures of stock options by our employees. Upon the adoption of Share-Based Payment Accounting, we used a combination of historical and implied volatility, or blended volatility, in deriving the expected volatility assumption as allowed under Share-Based Payment Accounting. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our stock options. The dividend yield assumption is based on our history and expectation of dividend payouts. Share-Based Payment Accounting requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on our historical experience. If factors change and we employ different assumptions in the application of Share-Based Payment Accounting in future periods, the compensation expense that we record under Share-Based Payment Accounting may differ significantly from what we have recorded in the current period. During 2010, we recorded $8.5 million as compensation expense related to stock options and employee stock purchases. We evaluate and adjust our assumptions on an annual basis. See Note 14 Stock Compensation Plans of the Notes to Consolidated Financial Statements for further discussion.

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Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts based on the payment patterns of its customers. Management analyzes historical results, the economic environment, changes in the credit worthiness of its customers, and other relevant factors in determining the adequacy of the Company s allowance. Bad debt expense was $8.7 million, $12.7 million and $14.4 million and or approximately 0.8%, 1.2% and 1.2% of net revenue for the years ended December 31, 2010, 2009, and 2008, respectively. If the future economic environment declines, the inability of customers to pay may occur and the allowance for doubtful accounts may need to be increased, which will result in additional bad debt expense in future years.

Lamar Media Corp.

The following is a discussion of the consolidated financial condition and results of operations of Lamar Media for the years ended December 31, 2010, 2009 and 2008. This discussion should be read in conjunction with the consolidated financial statements of Lamar Media and the related notes.

RESULTS OF OPERATIONS

The following table presents certain items in the Consolidated Statements of Operations as a percentage of net revenues for the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31,		
	2010	**2009**	**2008**
Net revenues	100.0%	100.0%	100.0%
Operating expenses:			
Direct advertising expenses	36.5	37.7	36.5
General and administrative expenses	18.2	17.7	17.3
Corporate expenses	4.3	4.0	4.1
Depreciation and amortization	28.6	31.9	27.7
Operating income	12.8	9.3	15.0
Interest expense	17.0	18.2	13.2
Net (loss) income	(3.7)	(5.3)	0.9

Year ended December 31, 2010 compared to Year ended December 31, 2009

Net reven