LAMAR ADVERTISING CO/NEW
Form 10-K/A
February 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-36756

Lamar Advertising Company

Commission File Number 1-12407

Lamar Media Corp.

(Exact 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:

Title of each class	Name of exchange on which registered
Class A common stock, $0.001 par value	The NASDAQ Stock Market, LLC

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 No

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 No

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

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 No

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

Indicate by check mark whether each registrant has submitted electronically every Interactive Date File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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.

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

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

If an emerging growth company, indicate by check mark if Lamar Advertising Company has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

If an emerging growth company, indicate by check mark if Lamar Media Corp. has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by nonaffiliates of Lamar Advertising Company was $5,734,846,576 based on $68.31 per share as reported at the close of trading on the NASDAQ Global Select Market on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter.

As of June 29, 2018, 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 1, 2019
Lamar Advertising Company Class A common stock, $0.001 par value per share	85,163,142 shares
Lamar Advertising Company Class B common stock, $0.001 par value per share	14,420,085 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 30, 2019 (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.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which was filed on February 25, 2019 (the "Original Form 10-K"), to correct certain clerical errors pertaining to incorrect dates in the "Management's Report on Internal Control Over Financial Reporting" of Lamar Media Corp. on page 82 of the Original Form 10-K.

Except as stated above, this Amendment does not amend any other information set forth in the Original Form 10-K.

TABLE OF CONTENTS

PART III

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this report is forward-looking in nature within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This report uses terminology such as “anticipates,” “believes,” “plans,” “expects,” “future,” “intends,” “may,” “will,” “should,” “estimates,” “predicts,” “potential,” similar expressions to identify forward-looking statements. Examples of forward-looking statements in this report include statements about: (i) our future financial performance and condition; (ii) our business plans, objectives, prospects, growth and operating strategies; (iii) our future capital expenditures and level of acquisition activity; (iv) our ability to integrate acquired assets and realize operating efficiency from acquisitions; (v) market opportunities and competitive positions; (vi) our future cash flows and expected cash requirements; (vii) expected timing and amount of distributions to our stockholders; (viii) estimated risks; (ix) our ability to maintain compliance with applicable covenants and restrictions included in Lamar Media Corp’s (“Lamar Media”) senior credit facility and the indentures relating to its outstanding notes; (x) stock price; and (xi) our ability to remain qualified as a real estate investment trust (“REIT”).

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors, including but not limited to the following, any of which may cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements: (i) the state of the economy and financial markets generally and their effects on the markets in which we operate and the broader demand for advertising; (ii) the levels of expenditures on advertising in general and outdoor advertising in particular; (iii) risks and uncertainties relating to our significant indebtedness; (iv) the demand for outdoor advertising and its continued popularity as an advertising medium; (v) our need for, and ability to obtain, additional funding for acquisitions, operations and debt refinancing; (vi) increased competition within the outdoor advertising industry; (vii) the regulation of the outdoor advertising industry by federal, state and local governments; (viii) our ability to renew expiring contracts at favorable rates; (ix) the integration of businesses that we acquire and our ability to recognize cost savings and operating efficiencies as a result of these acquisitions; (x) our ability to successfully implement our digital deployment strategy; (xi) the market for our Class A common stock; (xii) changes in accounting principles, policies or guidelines; (xiii) our ability to effectively mitigate the threat of and damages caused by hurricanes and other kinds of severe weather; (xiv) our ability to maintain our status as a REIT; and (xv) changes in tax laws applicable to REITs or in the interpretation of those laws.

The forward-looking statements in this report are based on our current good faith beliefs; however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors. Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising 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.

PART I

ITEM 1. BUSINESS
GENERAL

Lamar Advertising Company 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 lease space for advertising on billboards, buses, shelters, benches, logo plates and in airport terminals. We offer our customers a fully integrated service, satisfying all aspects of their billboard display requirements from ad copy production to placement and maintenance.

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

Billboards. As of December 31, 2018, we owned and operated approximately 156,900 billboard advertising displays in 45 states and Canada. We lease 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 traditional billboards, we also lease space on digital billboards, which are generally located on major traffic arteries and city streets. As of December 31, 2018, we owned and operated over 3,100 digital billboard advertising displays in 43 states and Canada.

Logo signs. We lease 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 23 of the 25 privatized state logo sign contracts. As of December 31, 2018, we operated approximately 149,000 logo sign advertising displays in 23 states and Canada.

Transit advertising displays. We also lease advertising space on the exterior and interior of public transportation vehicles, in airport terminals, and on transit shelters and benches in over 80 markets. As of December 31, 2018, we operated over 53,300 transit advertising displays in 22 states and Canada.

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 a 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.

During 2014, we completed a reorganization in order to qualify as a real estate investment trust (a "REIT") for federal income tax purposes. As part of the plan to reorganize our business operations so that we could elect to qualify as a REIT for the taxable year ended December 31, 2014, we completed a merger with our predecessor that was approved by our stockholders on November 17, 2014. At the time of the merger each outstanding share of our predecessor's Class A common stock, Class B common stock and Series AA preferred stock was converted into the right to receive an equal number of shares of Class A common stock, Class B common stock and Series AA preferred stock of the surviving corporation, respectively. Accordingly, references herein to our Class A common stock, Class B common stock and Series AA preferred stock refer to our capital stock and the capital stock of our predecessor, as applicable. We hold and operate certain assets through one or more taxable REIT subsidiaries ("TRSs"). The non-REIT qualified businesses that we hold through TRSs include most of our transit and foreign operations.

We may, from time to time, change the election of previously designated TRSs to be treated as qualified REIT subsidiaries or other disregarded entities ("QRSs"), and may reorganize and transfer certain assets or operations from our TRSs to other subsidiaries, including QRSs.

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

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 tenants and to provide them with a full complement of high quality advertising services. Local advertising constituted approximately 76% of our net revenues for the year ended December 31, 2018, which management believes is higher than the industry average. We believe that the experience of our regional, territory and local managers has contributed greatly to our success. For example, our regional managers have been with us for an average of 33 years. In an effort to provide high quality sales and service at the local level, we employed over 1,050 local account executives as of December 31, 2018. 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. Since January 1, 2008, we invested approximately $1.2 billion in capitalized expenditures, which include improvements to our existing real estate portfolio and the construction of new locations. Our regular improvement and expansion of our advertising display inventory allows us to provide high quality service to our current tenants and to attract new tenants.

Continuing to pursue other outdoor advertising opportunities. We plan to renew existing logo sign contracts and 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 a history of investing in capital expenditures, particularly in our digital platform. We spent approximately $117.6 million in total capital expenditures in fiscal 2018, of which approximately $45.9 million was spent on digital technology. We expect our 2019 capitalized expenditures to closely approximate our spending in 2018.

CAPITAL ALLOCATION STRATEGY

The objective of our capital allocation strategy is to simultaneously increase adjusted funds from operations and our return on invested capital. To maintain our REIT status we are required to distribute to our stockholders annually an amount equal to at least 90% of our REIT taxable income, excluding net capital gains. After complying with our REIT distribution requirements, we plan to continue to allocate our available capital among investment alternatives that meet our return on investment criteria. During 2018, we generated $564.8 million of cash from operating activities, which was used to fund capital expenditures, dividends to our shareholders and partially fund acquisitions.

- Capital expenditures program. We will continue to reinvest in our existing assets and expand our outdoor advertising display portfolio through new construction. This includes maintenance and growth capital expenditures 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.
- Acquisitions. We will seek to pursue strategic acquisitions of outdoor advertising businesses and assets. This includes acquisitions in our existing markets and in new markets where we can meet our return on investment

criteria. When evaluating investments in new markets, our return on investment criteria reflects the additional risks inherent to the particular geographic area.

COMPANY OPERATIONS

Billboard Advertising

We lease most of our advertising space on two types of billboard advertising displays: bulletins and posters. As of December 31, 2018, we owned and operated approximately 156,900 billboard advertising displays in 45 states and Canada. In 2018, we derived approximately 75% of our billboard advertising net revenues from bulletin rentals and 25% from poster rentals.

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, 2018, we operated approximately 75,180 bulletin displays.

We generally lease individually-selected bulletin space to advertisers for the duration of the contract (ranging from 4 to 52 weeks). We also lease 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 onto 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, 2018, we operated approximately 81,720 poster displays.

We generally lease poster space for 4 to 26 weeks; determined by the advertiser’s campaign needs. Posters are sold in packages of Target Rating Point (“TRP”) levels, which determine the percentage of a target audience an advertiser needs to reach. A package may include a combination of poster locations in order to meet reach and frequency campaign goals.

In addition to the traditional static displays, we also rent digital billboards. Digital billboards are large electronic light emitting diode (“LED”) displays (the most common sizes are fourteen feet high by forty-eight feet wide, or 672 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, 2018, our inventory included over 3,100 digital display billboards in various markets. These 3,100 digital billboards generated approximately 24% of billboard advertising net 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. Our talented design staff uses state-of-the-art technology to prepare creative, eye-catching displays for our tenants. 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 tenant advertisers.

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 23 of the 25 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, 2018, we operated approximately 45,360 logo sign structures containing approximately 149,000 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	Georgia	Louisiana	Mississippi	Nebraska	Ohio	Utah
Delaware	Kansas	Michigan	Missouri[1]	Nevada	Oklahoma	Virginia
Florida	Kentucky	Minnesota	Montana	New Jersey	South Carolina	Wisconsin
				New Mexico	Tennessee	

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

7

We also operate the tourist oriented directional signing ("TODS") programs for the states of Colorado, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, Nevada, New Jersey, Ohio, South Carolina, Utah, Virginia 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 24 logo sign contracts in place, in the United States and Canada, at December 31, 2018, six are subject to renewal or expiration in 2019.

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 other 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. Transit contracts are generally with the local municipalities and airport authorities and allow us the exclusive right to rent advertising space to customers, in airports and on buses, benches or shelters. The terms of the contracts vary but generally range between 3-15 years, many with renewable options for contract extension. We rent transit advertising displays in airport terminals and on bus shelters, benches and buses in over 80 transit markets, and our production staff provides a full range of creative and installation services to our transit advertising tenants. As of December 31, 2018, we operated over 53,300 transit advertising displays in 22 states and Canada.

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 and (ii) Outfront Media, Inc. (formerly CBS Outdoor), which operates traditional outdoor, street furniture and transit advertising properties. Clear Channel Outdoor and Outfront Media each have corporate relationships with large media conglomerates and may have greater total resources, product offerings and opportunities for cross-selling than we do.

- Broadcast and cable television, radio, print media, direct mail marketing, the internet, social media and applications used in conjunction with wireless devices.
- An increasing variety of out-of-home advertising media, such as advertising displays in shopping centers, malls, airports, stadiums, movie theaters, supermarkets and advertising displays on taxis, trains and buses.

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 demographic 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.

GEOGRAPHIC DIVERSIFICATION

Our advertising displays are geographically diversified across the United States and Canada. The following table sets forth information regarding the geographic diversification of our advertising displays, which are listed in order of contributions to total revenue. Markets with less than 1% of total displays are grouped in the category “all other United States and Puerto Rico”.

	Percentage of Revenues for the year ended, December 31, 2018					Number of Displays for the year ended, December 31, 2018					
Market	Static Billboard Displays	Digital Billboard Displays	Transit Displays	Logo Displays	Total Displays	Static Billboard Displays	Digital Billboard Displays	Transit Displays	Logo Displays	Total Displays	Percentage of Total Displays
Las Vegas, NV	1.6 %	2.5 %	13.4 %	—	2.7 %	851	61	1,558	—	2,470	0.7 %
New York, NY	3.4 %	1.6 %	—	—	2.5 %	1,088	33	—	—	1,121	0.3 %
Pittsburgh, PA	2.3 %	3.9 %	1.1 %	—	2.4 %	3,038	56	745	—	3,839	1.1 %
Seattle, WA	2.3 %	1.3 %	2.1 %	—	1.9 %	1,776	18	2,194	—	3,988	1.1 %
Cleveland, OH	1.7 %	2.9 %	1.9 %	—	1.9 %	2,412	58	2,643	—	5,113	1.4 %
Gary, IN	1.7 %	2.8 %	—	—	1.7 %	1,705	112	—	—	1,817	0.5 %
San Bernardino, CA	1.7 %	2.0 %	1.3 %	—	1.6 %	806	27	1,264	—	2,097	0.6 %
Dallas, TX	1.9 %	0.8 %	1.7 %	—	1.6 %	1,403	21	459	—	1,883	0.5 %
Vancouver, Canada	—	—	17.0 %	—	1.5 %	—	—	6,109	—	6,109	1.7 %
Nashville, TN	1.4 %	2.2 %	—	—	1.4 %	1,771	57	—	—	1,828	0.5 %
Atlanta, GA	1.2 %	2.5 %	—	—	1.3 %	782	56	—	—	838	0.2 %
Hartford, CT	1.2 %	2.4 %	0.1 %	—	1.3 %	935	49	100	—	1,084	0.3 %
Richmond, VA	1.4 %	1.8 %	—	—	1.3 %	1,330	37	—	—	1,367	0.4 %
Oklahoma City, OK	1.5 %	1.4 %	—	—	1.2 %	2,249	30	—	—	2,279	0.6 %
Knoxville, TN	1.6 %	0.6 %	—	—	1.2 %	2,244	30	—	—	2,274	0.6 %
Phoenix, AZ	0.2 %	2.6 %	5.3 %	—	1.2 %	138	45	3,481	—	3,664	1.0 %
Birmingham, AL	1.3 %	1.2 %	0.3 %	—	1.2 %	1,610	28	318	—	1,956	0.6 %
Cincinnati, OH	1.1 %	2.0 %	—	—	1.1 %	1,190	32	—	—	1,222	0.4 %

Reading, PA	1.1 %	1.9 %	—	—	1.1 %	1,231	99	—	—	1,330	0.4 %
Austin, TX	1.5 %	0.4 %	—	—	1.1 %	969	5	—	—	974	0.3 %
Baton Rouge, LA	1.3 %	1.2 %	—	—	1.1 %	1,490	37	—	—	1,527	0.4 %
Providence, RI	1.0 %	1.8 %	—	—	1.1 %	593	31	—	—	624	0.2 %
Columbus, OH	1.1 %	1.6 %	—	—	1.0 %	1,794	53	—	—	1,847	0.5 %
Buffalo, NY	0.9 %	1.2 %	2.7 %		1.0 %	947	27	1,594	—	2,568	0.7 %
Albany, NY	0.9 %	0.9 %	2.2 %	—	1.0 %	1,090	18	1,297	—	2,405	0.7 %
All US Logo Programs	—	—	—	92.6 %	5.2 %	—	—	—	144,116	144,116	40.1 %
All Other United States and Puerto Rico[1]	64.6 %	56.5 %	41.3 %	—	57.2 %	120,130	2,169	27,163	—	149,462	41.6 %
All Other Canada	0.1 %	—	9.6 %	7.4 %	1.2 %	136	2	4,405	4,793	9,336	2.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	153,708	3,191	53,330	148,909	359,138	100.0 %
Total Revenue (in millions)	$1,076.3	$336.7	$129.8	$84.4	$1,627.2						

(1) Includes Puerto Rico advertising revenue recognized prior to the displays being sold on April 16, 2018.

TAXABLE REIT SUBSIDIARIES

We hold and operate certain of our assets that cannot be held and operated directly by a REIT through taxable REIT subsidiaries, or TRSs. A TRS is a subsidiary of a REIT that pays corporate taxes on its taxable income. The assets held in our TRSs primarily consist of our transit advertising business, advertising services business and our foreign operations. Our TRS assets and operations will continue to be subject, as applicable, to U.S. federal and state corporate income taxes. Furthermore, our assets and operations outside the United States will continue to be subject to foreign taxes in the jurisdictions in which those assets and operations are located. Net income from our TRSs will either be retained by our TRSs and used to fund their operations, or distributed to us, where it will be reinvested in our business or be available for distribution to Lamar Advertising's stockholders. As of December 31, 2018, the annual revenue generated by our TRSs in the aggregate was approximately $288 million.

ADVERTISING TENANTS

Our tenant 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, 2018, 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 75% of our billboard advertising net revenues in the year ended December 31, 2018. No individual tenant accounted for more than 2.0% of our billboard advertising net revenues in that period.

Categories	Percentage of Net Billboard Advertising Revenues	
Service	13	%
Restaurants	11	%
Health Care	10	%
Retailers	10	%
Amusement — Entertainment/Sports	7	%
Automotive	5	%
Gaming	5	%
Education	4	%
Financial — Banks, Credit Unions	4	%
Insurance	3	%
Real Estate	3	%
	75	%

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, through the adoption of individual Federal/State agreements, to “effectively control” outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. These state standards, or their local and municipal equivalents, may be modified over time in response to legal challenges or otherwise, which may have an adverse effect on our business. 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 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 continue 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 been developed and introduced relatively recently into the market on a large scale, existing regulations that currently do not apply to them by their terms could be revised or new regulations could be enacted to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

Relatively few large scale studies have been conducted to date regarding driver safety issues, if any, related to digital billboards. On December 30, 2013, the results of a study conducted by U.S. Department of Transportation and the Federal Highway Administration that looked at the effect of digital billboards and conventional billboards on driver visual behavior were issued. The conclusions of the report indicated that the presence of digital billboards did not appear to be related to a decrease in looking toward the road ahead and were generally within acceptable thresholds. The report cautioned, however, that it adds to the knowledge base but does not present definitive answers to the research questions investigated. Accordingly, the results of this or other studies may result in regulations at the federal or state level that impose greater restrictions on digital billboards. Any new restrictions on digital billboards could have a material adverse effect on both our existing inventory of digital billboards and our plans to expand our digital deployment, which could have a material adverse effect on our business, results of operations and financial condition.

LEGAL PROCEEDINGS

From time to time, we are involved in litigation in the ordinary course of business, including disputes involving advertising contracts, site leases, employment claims and construction matters. We are also involved in routine administrative and judicial proceedings regarding billboard permits, fees and compensation for condemnations. We are not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on us.

REAL ESTATE PORTFOLIO

Our management headquarters is located in Baton Rouge, Louisiana. We also own 128 local operating facilities with front office administration and sales office space connected to back-shop poster and bulletin production space. In addition, we lease an additional 134 operating facilities at an aggregate lease expense for 2018 of approximately $7.7 million.

We own over 7,600 parcels of property beneath our advertising displays. As of December 31, 2018, we leased over 73,300 outdoor sites, accounting for an annualized lease expense of approximately $267.4 million. This amount represented approximately 19% of billboard 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 us with renewal options. Our lease agreements generally permit us to use the land for the construction, repair and relocation of outdoor advertising displays, including all rights necessary to access and maintain the site. Approximately 67% of our leases will expire or be subject to renewal in the next 5 years, 20% will expire or be subject to renewal in 6 to 10 years and 13% thereafter. 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.

The following table illustrates the number of leased and owned sites by state as of December 31, 2018, which is sorted from greatest to least in number and percentage of leased sites. States in which we lease less than 2% of our portfolio are grouped in the category “All Other States”.

State	# of billboard leased sites	% of total	# of owned billboard sites	% of total
Texas	5,925	8.1 %	642	8.5 %
Pennsylvania	5,096	6.9 %	1,511	19.8 %
Ohio	4,549	6.2 %	370	4.8 %
California	4,530	6.2 %	132	1.7 %
North Carolina	4,278	5.8 %	142	1.9 %
Tennessee	3,319	4.5 %	265	3.5 %
Louisiana	3,111	4.2 %	461	6.0 %
Alabama	3,018	4.1 %	407	5.3 %
Georgia	2,775	3.8 %	197	2.6 %
Wisconsin	2,774	3.8 %	278	3.7 %
Florida	2,600	3.5 %	351	4.6 %
South Carolina	2,552	3.5 %	70	0.9 %
New York	2,295	3.1 %	185	2.4 %
Missouri	2,180	3.0 %	237	3.1 %
Michigan	2,030	2.8 %	216	2.8 %
Mississippi	1,952	2.7 %	330	4.3 %
Indiana	1,869	2.5 %	248	3.2 %
Oklahoma	1,738	2.4 %	117	1.5 %
Virginia	1,660	2.3 %	166	2.2 %
All Other States	15,096	20.6 %	1,312	17.2 %
	73,347	100.0 %	7,637	100.0 %

CONTRACT EXPIRATIONS

We derive revenues primarily from renting advertising space to customers on our advertising displays. Our contracts with customers generally cover periods ranging from one week to one year and are generally billed every four weeks. Since contract terms are short-term in nature, we do not consider revenues by year of contract expiration to be meaningful.

EMPLOYEES

We employed approximately 3,600 people as of December 31, 2018. Approximately 260 employees were engaged in overall management and general administration at our management headquarters in Baton Rouge, Louisiana, and the remainder, including over 1,050 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 115 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.

AVAILABLE 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.

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, 2018, Lamar Advertising Company's wholly owned subsidiary, Lamar Media, had approximately $2.889 billion of total debt outstanding, net of deferred financing costs, consisting of approximately $1.280 billion in bank debt outstanding under Lamar Media's senior credit facility, $531.0 million in senior subordinated notes, $901.0 million in various series of senior notes, $173.8 million under the Accounts Receivable Securitization Program and $3.5 million in other seller 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 $156.8 million available for borrowing as of December 31, 2018 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 and in its Accounts Receivable Securitization Program, which could result in a default and an acceleration of all amounts outstanding under the facility or under the Accounts Receivable Securitization Program;
- 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 dividend distributions, 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 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.

At December 31, 2018, the terms of Lamar Media's senior credit facility and of our Accounts Receivable Securitization Program also restrict the Company from exceeding a specified secured debt ratio. Lamar Media is also subject to certain other financial covenants relating to the incurrence of additional debt. 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, Accounts Receivable Securitization Program and the indentures governing Lamar Media's outstanding notes (and to comply with similar covenants in any 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.

The Company is currently in compliance with all financial covenants. However, if in the future there are economic declines the Company can make no assurance that these declines will not negatively impact the Company's financial results and, in turn, its ability to meet these financial covenant requirements. If Lamar Media fails to comply with its financial covenants, the lenders under the senior credit facility and the Accounts Receivable Securitization Program 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.

The Company's revenues are sensitive to the state of the economy and the financial markets generally and other external events beyond the Company's control.

The Company rents advertising space on outdoor structures to generate revenues. Advertising spending is particularly sensitive to changes in economic conditions.

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 renters of the Company's displays; and
- a decline in the amount spent on advertising in general or outdoor advertising in particular.

The Company's growth through acquisitions may be difficult, which could adversely affect our future financial performance. In addition, if we are unable to successfully integrate any completed acquisitions, our financial performance would also be adversely affected.

The Company has historically grown through acquisitions. During the year ended December 31, 2018, we completed acquisitions for a total cash purchase price of approximately $477.4 million. We intend to continue to evaluate strategic acquisition opportunities as they arise.

The future success of our acquisition strategy could be adversely affected by many factors, including the following:

- the pool of suitable acquisition candidates is dwindling, and we may have a more difficult time negotiating acquisitions on favorable terms;
- we may face increased competition for acquisition candidates from other outdoor advertising companies, some of which have greater financial resources than we do, which may result in higher prices for those businesses and assets;

- we may not have access to the capital needed to finance potential acquisitions and may be unable to obtain any required consents from our current lenders to obtain alternate financing;
- compliance with REIT requirements may hinder our ability to make certain investments and may limit our acquisition opportunities;
- we may be unable to integrate acquired businesses and assets effectively with our existing operations and systems as a result of unforeseen difficulties that could divert significant time, attention and effort from management that could otherwise be directed at developing existing business;
- we may be unable to retain key personnel of acquired businesses;

- we may not realize the benefits and cost savings anticipated in our acquisitions; and
- as the industry consolidates further, larger mergers and acquisitions may face substantial scrutiny under antitrust laws.

These obstacles to our opportunistic acquisition strategy may have an adverse effect on our future financial results.

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, 2018. Based on the Company's review at December 31, 2018, 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, or the HBA, regulates outdoor advertising on Federal — Aid Primary, Interstate and National Highway Systems roads. The HBA requires states, through the adoption of individual Federal/State Agreements, to "effectively control" outdoor advertising along these roads, and mandates a state compliance program and state standards regarding size, spacing and lighting. These state standards, or their local and municipal equivalents, may be modified over time in response to legal challenges or otherwise, which may have an adverse effect on our business. 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 the Company believes 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 to 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 been developed and introduced relatively recently into the market on a large scale, however, existing regulations that currently do not apply to them by their terms could be revised or new regulations could be enacted to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

Relatively few large scale studies have been conducted to date regarding driver safety issues, if any, related to digital billboards. On December 30, 2013, the results of a study conducted by the U.S. Department of Transportation and the Federal Highway Administration that looked at the effect of digital billboards and conventional billboards on driver visual behavior were issued. The conclusions of the report indicated that the presence of digital billboards did not appear to be related to a decrease in looking toward the road ahead and were generally within acceptable thresholds. The report cautioned, however, that it adds to the knowledge base but does not present definitive answers to the research questions investigated. Accordingly, the results of this or other studies may result in regulations at the federal or state level that impose greater restrictions on digital billboards. Any new restrictions on digital billboards could have a material adverse effect on both our existing inventory of digital billboards and our plans to expand our digital deployment, which could have a material adverse effect on our business, results of operations and financial condition.

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

In 2018, the Company generated approximately 5% of its revenues from state-awarded logo sign contracts. In bidding for these contracts, the Company competes against 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 24 logo sign contracts in place at December 31, 2018, six are subject to renewal or expiration in 2019. 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, 2018, 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, and their affiliates, owned in the aggregate approximately 15% 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 approximately 63% of the voting power of Lamar Advertising's outstanding capital stock, which would give the Reilly family and their affiliates the power to:

- 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, financings 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 and other natural disasters 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 and other forms of inclement weather to its real estate portfolio (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.

If Lamar Advertising fails to remain qualified as a REIT, both Lamar Advertising and Lamar Media would be taxed as regular C corporations and would not be able to deduct distributions to the stockholders of Lamar Advertising when computing their taxable income.

Lamar Advertising elected to qualify as a REIT for U.S. federal income tax purposes starting with its taxable year ended December 31, 2014 and for each subsequent taxable year thereafter. REIT qualification involves the application of highly technical and complex provisions of the U. S. Internal Revenue Code of 1986, as amended, (the "Code") to Lamar Advertising's assets and operations as well as various factual determinations concerning matters and circumstances not entirely within our control. There are limited judicial or administrative interpretations of these provisions. Although Lamar Advertising plans to operate in a manner consistent with the REIT qualification rules, the Company cannot assure you that it will so qualify or remain so qualified. Lamar Media is treated as a qualified REIT subsidiary of Lamar Advertising that is disregarded as separate from its parent REIT for U.S. federal income tax purposes.

If, in any taxable year, Lamar Advertising fails to qualify for taxation as a REIT, and is not entitled to relief under the Code:

- it will not be allowed a deduction for distributions to its stockholders in computing its taxable income;
- it and its subsidiaries, including Lamar Media, will be subject to applicable federal and state income tax, including any applicable state-level alternative minimum tax, on its taxable income at regular corporate rates; and
- it would be disqualified from REIT tax treatment for the four taxable years following the year during which it was so disqualified.

Any such corporate tax liability could be substantial and would reduce the amount of cash available for required distributions to Lamar Advertising's stockholders, may require it to borrow funds (under Lamar Media's senior credit facility or otherwise) or liquidate some investments to pay any such additional tax liability. This adverse impact could last for five or more years because, unless it is entitled to relief under certain statutory provisions, it will be taxable as a corporation, beginning in the year in which the failure occurs, and it will not be allowed to re-elect to be taxed as a REIT for the following four years.

Even if it qualifies as a REIT, certain of Lamar Advertising's and its subsidiaries' business activities will be subject to U.S. and foreign taxes which will continue to reduce its cash flows, and it will have potential deferred and contingent tax liabilities.

Even if it qualifies as a REIT, Lamar Advertising may be subject to certain U.S. federal, state and local taxes and foreign taxes on its income and assets, including any applicable state-level alternative minimum taxes, taxes on any undistributed income, and state, local or foreign income, franchise, property and transfer taxes. In addition, the Company could in certain circumstances be required to pay an excise or penalty tax, which could be significant in amount, in order to utilize one or more relief provisions under the Code to maintain qualification for taxation as a REIT.

In order to maintain its qualification as a REIT, the Company holds certain of its non-qualifying REIT assets and receives certain non-qualifying items of income through one or more TRSs. These non-qualifying REIT assets consist principally of the Company's advertising services business and its transit advertising business. Those TRS assets and operations will continue to be subject, as applicable, to U.S. federal and state corporate income taxes. Furthermore, the Company's assets and operations outside the United States are subject to foreign taxes in the jurisdictions in which those assets and operations are located. In addition, the Company may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm's-length basis. Any of these taxes would decrease the Company's earnings and its cash available for distributions to stockholders.

The Company was subject to a U.S. federal income tax at the highest regular corporate rate (currently 21%) on all or a portion of the gain recognized from a sale of assets occurring within five years after the effective date of our REIT conversion, to the extent of the built-in gain based on the fair market value of those assets held by the Company on the effective date of REIT conversion in excess of the Company's then tax basis in those assets. Such five-year period has expired with respect to the Company but certain tax years for which this rule applied remain open such that additional taxes could be assessed with respect to sales in those tax years. The same rules apply to any assets we acquire from a "C" corporation in a carry-over basis transaction with built-in gain at the time of the acquisition by us. Gain from a sale of an asset occurring after the specified period ends will not be subject to this corporate level tax.

In addition, the Internal Revenue Service ("IRS") and any state or local tax authority may successfully assert liabilities against the Company for corporate income taxes for taxable years of Lamar Advertising prior to the effective time of the REIT election, in which case the Company will owe these taxes (the federal corporate tax rate for tax years beginning prior to January 1, 2018 was 35%)

plus applicable interest and penalties, if any. Moreover, any increase in taxable income for these pre-REIT periods will likely result in an increase in non-REIT accumulated earnings and profits which could cause the Company to pay taxable distributions to its stockholders after the relevant determination.

Failure to make sufficient distributions would jeopardize Lamar Advertising's qualification as a REIT and/or would subject it to U.S. federal income and excise taxes.

As a REIT, Lamar Advertising is required to distribute to its stockholders with respect to each taxable year at least 90% of its REIT taxable income (excluding capital gains and net of any available net operating loss carry forwards) in order to qualify as a REIT, and 100% of its REIT taxable income (excluding capital gains and net of any available net operating loss carry forwards) in order to avoid U.S. federal income and excise taxes. For these purposes, Lamar Advertising's subsidiaries that are not TRSs, including Lamar Media, will be treated as part of the REIT and therefore Lamar Advertising also will be required to distribute out their taxable income.

Because the REIT distribution requirements will prevent us from retaining earnings, we may be required to refinance debt at maturity with additional debt or equity, which may not be available on acceptable terms, or at all.

Covenants specified in our existing and future debt instruments may limit Lamar Advertising's ability to make required REIT distributions.

Lamar Media's senior credit facility and the indentures relating to Lamar Media's outstanding notes contain certain covenants that could limit Lamar Advertising's distributions to its stockholders. If these limits prevent Lamar Advertising from satisfying its REIT distribution requirements, it could fail to qualify for taxation as a REIT. If these limits do not jeopardize its qualification for taxation as a REIT but do nevertheless prevent it from distributing 100% of its REIT taxable income, it will be subject to U.S. federal corporate income tax, and potentially a nondeductible excise tax, on the retained amounts.

Lamar Advertising and its subsidiaries may be required to borrow funds, sell assets, or raise equity to satisfy its REIT distribution requirements or maintain the asset tests.

In order to meet the REIT distribution requirements and maintain its qualification and taxation as a REIT and avoid corporate income taxes, Lamar Advertising and/or its subsidiaries, including Lamar Media, may need to borrow funds, sell assets or raise equity, even if the then-prevailing market conditions are not favorable for these borrowings, sales or offerings. Any insufficiency of its cash flows to cover Lamar Advertising's REIT distribution requirements could adversely impact its ability to raise short- and long-term debt, to sell assets, or to offer equity securities in order to fund distributions required to maintain its qualification and taxation as a REIT and avoid corporate income taxes. Furthermore, the REIT distribution requirements may increase the financing Lamar Advertising needs to fund capital expenditures, future growth and expansion initiatives. This would increase its total leverage.

In addition, if Lamar Advertising fails to comply with certain asset tests at the end of any calendar quarter, it must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing its REIT qualification. As a result, it may be required to liquidate otherwise attractive investments. These actions may reduce its income and amounts available for distribution to its stockholders.

Our cash distributions are not guaranteed and may fluctuate.

A REIT generally is required to distribute at least 90% of its REIT taxable income to its stockholders. The Company may have available NOLs that could reduce or substantially eliminate its REIT taxable income, and thus it may not be required to distribute material amounts of cash to qualify for taxation as a REIT. The Company expects that, for the foreseeable future, it may utilize available NOLs to reduce its REIT taxable income.

The board of directors of the Company, in its sole discretion, will determine on a quarterly basis the amount of cash to be distributed to its stockholders based on a number of factors including, but not limited to, the Company’s results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, any stock repurchase program, and general market demand for its advertising space available for lease. Consequently, the Company’s distribution levels may fluctuate.

Complying with REIT requirements may cause Lamar Advertising, its subsidiaries (other than TRSs) to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, Lamar Advertising must continually satisfy tests concerning, among other things, the sources of its income, the nature and diversification of its assets, the amounts it distributes to its stockholders and the ownership of Lamar Advertising common stock. For these purposes, Lamar Advertising is treated as owning the assets of and receiving or accruing the income of its subsidiaries (other than TRSs). Thus, compliance with these tests will require Lamar Advertising and its subsidiaries to refrain from certain activities and may hinder their ability to make certain attractive investments, including investments in the businesses to be conducted by TRSs, and to that extent limit their opportunities. Furthermore, acquisition opportunities in domestic and international markets may be adversely affected if Lamar Advertising needs or requires the target company to comply with some REIT requirements prior to closing.

Ownership limitations contained in the Lamar Advertising charter may restrict stockholders from acquiring or transferring certain amounts of shares.

In order for Lamar Advertising to remain qualified as a REIT, no more than 50% of the value of the outstanding shares of its stock may be owned, directly or indirectly or through application of certain attribution rules, by five or fewer "individuals" (as defined in the Code) at any time during the last half of a taxable year (other than the first taxable year for which an election to be a REIT has been made). To preserve its REIT qualification, the Lamar Advertising charter generally prohibits any person or entity from owning actually and by virtue of the applicable constructive ownership provisions more than 5% of the outstanding shares of Lamar Advertising common stock. These ownership limitations could restrict stockholders from acquiring or transferring certain amounts of shares of its stock. The Lamar Advertising charter also provides a separate share ownership limitation for certain members of the Reilly family and their affiliates that allows them to own actually and by virtue of the applicable constructive ownership provisions no more than 19% of the outstanding shares of Lamar Advertising common stock and, during the second half of any taxable year other than its first taxable year as a REIT, no more than 33% in value of the aggregate of the outstanding shares of all classes and series of its stock, in each case excluding any shares of its stock that are not treated as outstanding for federal income tax purposes.

The Lamar Advertising charter, the Lamar Advertising bylaws and Delaware law may inhibit a takeover that stockholders consider favorable and could also limit the market price of Lamar Advertising stock.

Provisions of the Lamar Advertising charter, the Lamar Advertising bylaws and applicable provisions of Delaware law may make it more difficult for or prevent a third party from acquiring control of Lamar Advertising without the approval of the board of directors. These provisions:

- impose restrictions on ownership and transfer of Lamar Advertising common stock that are intended to facilitate the Company's compliance with certain REIT rules relating to share ownership;
- limit who may call a special meeting of stockholders;
- establish advance notice and informational requirements and time limitations on any director nomination or proposal that a stockholder wishes to make at a meeting of stockholders;
- do not permit cumulative voting in the election of its directors, which would otherwise permit less than a majority of stockholders to elect directors; and
- provide the board of directors the ability to issue additional classes and shares of preferred stock and to set voting rights, preferences and other terms of the preferred stock without stockholder approval.

In addition, Section 203 of the DGCL generally limits the Company's ability to engage in any business combination with certain persons who own 15% or more of its outstanding voting stock or any of its associates or affiliates who at any time in the past three years have owned 15% or more of its outstanding voting stock.

These provisions may have the effect of entrenching the Company's management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of Lamar Advertising common stock.

Changes to the Code, such as the Tax Cuts and Jobs Act, could have a negative effect on Lamar Advertising and its subsidiaries including Lamar's ability to deduct the full amount of its significant interest expense.

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes). The TCJA also imposes new limitations on the deduction of net operating losses, which may result in Lamar Advertising having to make additional distributions in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us, Lamar Advertising and its subsidiaries and shareholders.

Additionally, the TCJA may potentially limit Lamar Advertising's ability to deduct the full amount of its interest expense. For taxable years beginning after December 31, 2017, interest deductions for businesses with average annual gross receipts of over $25 million are capped at 30% of the business' "adjusted taxable income" plus business interest income pursuant to the TCJA. In calculating "adjusted taxable income" for these purposes, for taxable years beginning after December 31, 2017 and before January 1, 2022, this is computed without regard to deductions allowable for depreciation, amortization, or depletion (EBITDA). For taxable years beginning after December 31, 2021, "adjusted taxable income" is calculated by taking deductions allowable for depreciation, amortization, or depletion into account (EBIT). This limitation, however, does not apply to an "electing real property trade or business." As a REIT, Lamar Advertising would generally constitute a real property trade or businesses, and thus would retain the ability to fully deduct interest expenses if it makes such an election. However, an entity making such an election must use a longer depreciation cost recovery period for its property. Lamar Advertising has not made such an election at this time but may do so in the future.

Further legislative changes or other actions affecting REITs could have a negative effect on Lamar Advertising and its subsidiaries.

At any time, the U.S. federal income tax laws governing REITs or the administrative and judicial interpretations of those laws may be amended or interpreted in a different manner. Federal and state tax laws are constantly under review by persons involved in the legislative process, the IRS, the U.S. Department of the Treasury, and state taxing authorities. Additional changes to the tax laws, regulations and administrative and judicial interpretations, which may have retroactive application, could adversely affect Lamar Advertising and its subsidiaries. The Company cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws, regulations and administrative and judicial interpretations applicable to Lamar Advertising may be changed. Accordingly, the Company cannot assure you that any such change will not significantly affect Lamar Advertising's ability to qualify for taxation as a REIT or the federal income tax consequences to it of such qualification.

The ability of the board of directors of Lamar Advertising to revoke its REIT election, without stockholder approval, may cause adverse consequences to its stockholders.

The Lamar Advertising charter provides that the board of directors may revoke or otherwise terminate the REIT election, without the approval of its stockholders, if the board determines that it is no longer in the Company's best interest to continue to qualify as a REIT. If the Company ceases to be a REIT, it will be subject to U.S. federal income tax at regular corporate rates and state and local corporate taxes, which may have adverse consequences on its total return to its stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our management headquarters is located in Baton Rouge, Louisiana. We also own 128 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 134 operating facilities at an aggregate lease expense for 2018 of approximately $7.7 million.

We own over 7,600 parcels of property beneath our outdoor advertising structures. As of December 31, 2018, we leased over 73,300 active outdoor sites, accounting for a total annual lease expense of approximately $267.4 million. This amount represented approximately 19% of billboard 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. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY 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, 2018, the Class A common stock was held by 101 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 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 (the "RFLP"). Kevin P. Reilly, Jr., our President and Chairman of the Board, is the managing general partner of the RFLP and Sean E. Reilly, our Chief Executive Officer, and Wendell Reilly and Anna Reilly, each of whom is a member of our board of directors are also general partners in the RFLP.

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.

Dividends

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

ITEM 6. SELECTED FINANCIAL DATA
Lamar Advertising Company

The selected consolidated statement of income, statement of cash flows and balance sheet data presented below are derived from the year ended December 31 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.

	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Statement of Income Data:					
Net revenues	$1,627,222	$1,541,260	$1,500,294	$1,353,396	$1,287,060
Operating expenses:					
Direct advertising expenses	561,848	540,880	525,597	473,760	453,269
General and administrative expenses	372,324	338,573	345,789	313,941	299,878
Depreciation and amortization	225,261	211,104	204,958	191,433	258,435
Loss (gain) on disposition of assets	7,233	(4,664)	(15,095)	(8,765)	(3,192)
Total operating expenses	1,166,666	1,085,893	1,061,249	970,369	1,008,390
Operating income	460,556	455,367	439,045	383,027	278,670
Other expense (income):					
Loss on extinguishment of debt	15,429	71	3,198	—	26,023
Other-than-temporary impairment of investment	—	—	—	—	4,069
Interest income	(534)	(6)	(6)	(34)	(102)
Interest expense	129,732	128,396	123,688	98,433	105,254
Total other expense	144,627	128,461	126,880	98,399	135,244
Income before income taxes	315,929	326,906	312,165	284,628	143,426
Income tax expense (benefit)	10,697	9,230	13,356	22,058	(110,092)
Net income	305,232	317,676	298,809	262,570	253,518
Preferred stock dividends	365	365	365	365	365
Net income applicable to common stock	$304,867	$317,311	$298,444	$262,205	$253,153
Net income per share basic	$3.09	$3.24	$3.07	$2.72	$2.66
Net income per share diluted	$3.08	$3.23	$3.05	$2.72	$2.66
Cash dividends declared per common share	$3.65	$3.32	$3.02	$2.75	$2.50
Statement of Cash Flow Data:					
Cash flows provided by operating activities	$564,846	$507,016	$521,823	$477,650	$452,529
Cash flows used in investing activities	$584,148	$400,066	$680,983	$253,880	$163,997
Cash flows (used in) provided by financing activities	$(73,563)	$(28,641)	$171,908	$(224,808)	$(294,315)
Balance Sheet Data[(1)]					
Cash and cash equivalents	$21,494	$115,471	$35,530	$22,327	$26,035
Working capital	(91,366)	94,525	36,929	44,902	47,803
Total assets	4,544,641	4,214,345	3,898,884	3,363,744	3,318,818
Total debt (including current maturities)	2,888,688	2,556,690	2,349,183	1,891,450	1,899,895
Total long-term obligations	2,957,822	2,784,858	2,552,032	2,105,855	2,112,011
Stockholders' equity	1,131,784	1,103,493	1,069,528	1,021,059	981,466

(1) 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.

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, 2018, 2017 and 2016. 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 rental of advertising space on outdoor advertising displays owned and operated by the Company. Revenue growth is based on many factors that include the Company's ability to increase occupancy of its existing advertising displays; raise advertising rates; and acquire new advertising displays and its operating results are therefore affected by general economic conditions, as well as trends in the advertising industry. Advertising spending is particularly sensitive to changes in general economic conditions, which affect the rates the Company is able to charge for advertising on its displays and its ability to maximize advertising sales or occupancy on its displays.

Historically, the Company has made strategic acquisitions of outdoor advertising assets to increase the number of outdoor advertising displays it operates in existing and new markets. The Company continues to evaluate and pursue strategic acquisition opportunities as they arise. The Company has financed its historical acquisitions and intends to finance any future acquisition activity from available cash, borrowings under its senior credit facility or the issuance of debt or equity securities. See "Liquidity and Capital Resources-Sources of Cash," for more information. During the year ended December 31, 2018, the Company completed acquisitions for a total cash purchase price of approximately $477.4 million. See "Uses of Cash-Acquisitions," for more information.

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

	2018	2017	2016
	(In thousands)		
Billboard — Traditional	$37,905	$36,015	$48,009
Billboard — Digital	45,938	40,218	33,181
Logos	11,438	9,614	7,781
Transit	5,364	2,863	700
Land and buildings	8,420	13,690	10,295
PP&E	8,573	6,929	7,646
Total capital expenditures	$117,638	$109,329	$107,612

We expect our 2019 capital expenditures to approximate our 2018 spending.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue are not intended to replace net income or any other performance measures determined in accordance with GAAP. Neither FFO nor AFFO represent cash flows from operating activities in accordance with GAAP and, therefore, these measures should not be considered indicative of cash flows from operating activities as a measure of liquidity or of funds available to fund our cash needs, including our ability to make cash distributions. Rather, Adjusted EBITDA, FFO, AFFO and acquisition-adjusted net revenue are presented as we believe each is a useful indicator of our current operating performance. We believe that these metrics are useful to an investor in evaluating our operating performance because (1) each is a key measure used by our management team for purposes of decision making and for evaluating our core operating results; (2) Adjusted EBITDA is widely used in the industry to measure operating performance as depreciation and amortization may vary significantly among companies depending upon accounting methods and useful lives, particularly where acquisitions and non-operating factors are involved; (3) acquisition-adjusted net revenue is a supplement to net revenue to enable investors to compare period over period results on a more consistent basis without the effects of acquisitions and divestures, which reflects our core performance and organic growth (if any) during the period in which the assets were owned and managed by us; (4) Adjusted EBITDA, FFO and AFFO each provides investors with a meaningful measure for evaluating our period-to-period operating performance by eliminating items that are not operational in nature; and (5) each provides investors with a measure for comparing our results of operations to those of other companies.

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

RESULTS OF OPERATIONS

The following table presents certain items in the Consolidated Statements of Income as a percentage of net revenues for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Net revenues	100.0 %	100.0 %	100.0 %
Operating expenses:			
Direct advertising expenses	34.5 %	35.1 %	35.0 %
General and administrative expenses	17.8 %	17.9 %	18.0 %
Corporate expenses	5.1 %	4.0 %	5.1 %
Depreciation and amortization	13.8 %	13.7 %	13.7 %
Operating income	28.3 %	29.5 %	29.3 %
Loss on extinguishment of debt	0.9 %	0.0 %	0.2 %
Interest expense	8.0 %	8.3 %	8.2 %
Income tax expense	0.7 %	0.6 %	0.9 %
Net income	18.8 %	20.6 %	19.9 %

Year ended December 31, 2018 compared to Year ended December 31, 2017

Net revenues increased $86.0 million or 5.6% to $1.627 billion for the year ended December 31, 2018 from $1.541 billion for the same period in 2017. This increase was attributable primarily to an increase in billboard net revenues of $72.6 million or 5.4% over the prior period, which is primarily related to the integration of outdoor assets acquired during 2017 and 2018, and the addition of over 250 digital displays during the year ended December 31, 2018. In addition, logo sign revenue increased $1.5 million, which represents an increase of 1.8% over the prior period. Transit revenue increased $11.9 million, which represents an increase of 10.1% over the prior period, primarily due to several new transit and airport markets acquired in 2017 and 2018.

Net revenues for the year ended December 31, 2018, as compared to acquisition-adjusted net revenues for the comparable period in 2017, increased $53.1 million, or 3.4%. The $53.1 million increase in revenue primarily consisted of a $45.1 million increase in billboard revenue primarily due to increases in digital and political revenue, a $1.1 million increase in logo revenue and a $6.8 million increase in transit revenue over the acquisition-adjusted net revenue for the comparable period in 2017. See "Reconciliations" below.

Total operating expenses, exclusive of depreciation and amortization and loss (gain) on disposition of assets, increased $54.7 million, or 6.2% to $934.2 million for the year ended December 31, 2018 from $879.5 million in the same period in 2017. The $54.7 million increase over the prior year is comprised of a $19.8 million increase in stock-based compensation expense and a $34.9 million increase in total direct, general and administrative and corporate expenses (excluding stock-based compensation) primarily related to the operations of our outdoor advertising assets.

Depreciation and amortization expense increased $14.2 million to $225.3 million for the year ended December 31, 2018 as compared to $211.1 million for the same period in 2017, primarily related to the addition of approximately $774.7 million of assets acquired through acquisitions during fiscal years 2017 and 2018.

For the year ended December 31, 2018, the Company recognized a loss on disposition of assets of $7.2 million primarily related to the $7.8 million loss recognized on the sale of our Puerto Rico assets which closed on April 16, 2018.

Due primarily to the above factors, operating income increased $5.2 million to $460.6 million for the year ended December 31, 2018 compared to $455.4 million for the same period in 2017.

During the year ended December 31, 2018, the Company recorded a $15.4 million loss on debt extinguishment related to Lamar Media's prepayment of its 5 7/8% Senior Subordinated Notes due 2022. The $15.4 million loss is comprised of a cash redemption premium of $9.8 million and a non-cash write off of unamortized deferred financing costs of approximately $5.6 million. See "Uses of Cash" for more information.

Interest expense increased $1.3 million for the year ended December 31, 2018 to $129.7 million as compared to $128.4 million for the year ended December 31, 2017. The increase in interest expense is primarily related to the increased debt outstanding as compared to the same period in 2017.

The increase in operating income offset by the increases in loss on extinguishment of debt and interest expense over the comparable period in 2017, resulted in a $11.0 million decrease in net income before income taxes. The Company recognized $10.7 million in income tax expense for the year ended December 31, 2018. The effective tax rate for the year ended December 31, 2018 is approximately 3.4%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, the Company recognized net income for the year ended December 31, 2018 of $305.2 million, as compared to net income of $317.7 million for the same period in 2017.

Reconciliations:

Because acquisitions occurring after December 31, 2016 have contributed to our net revenue results for the periods presented, we provide 2017 acquisition-adjusted net revenue, which adjusts our 2017 net revenue for the year ended December 31, 2017 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the year ended December 31, 2018.

Reconciliations of 2017 reported net revenue to 2017 acquisition-adjusted net revenue for the year ended December 31, 2017 as well as a comparison of 2017 acquisition-adjusted net revenue to 2018 reported net revenue for the year ended December 31, 2018, are provided below:

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

	Year ended December 31, 2018	2017
	(in thousands)	
Reported net revenue	$1,627,222	$1,541,260
Acquisition net revenue	—	32,898
Adjusted totals	$1,627,222	$1,574,158

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

	Year Ended December 31, 2018	2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Net income	$305,232	$317,676	$(12,444)	(3.9)%
Income tax expense	10,697	9,230	1,467	
Loss on extinguishment of debt	15,429	71	15,358	
Interest expense (income), net	129,198	128,390	808	
Loss (gain) on disposition of assets	7,233	(4,664)	11,897	
Depreciation and amortization	225,261	211,104	14,157	
Stock-based compensation expense	29,443	9,599	19,844	
Adjusted EBITDA	$722,493	$671,406	$51,087	7.6%

Adjusted EBITDA for the year ended December 31, 2018 increased 7.6% to $722.5 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense, exclusive of depreciation and amortization) of $65.0 million, and was partially offset by an increase in general and administrative and corporate expenses of $13.9 million, excluding the impact of stock-based compensation expense.

Net Income/FFO/AFFO

(in thousands)

	Year Ended December 31, 2018	2017	Amount of Increase (Decrease)	Percent Increase (Decrease)

Net income	$305,232	$317,676	$(12,444)	(3.9)%
Depreciation and amortization related to real estate	212,457	198,630	13,827	
Loss (gain) from disposition of real estate assets and investments	8,689	(4,185)	12,874	
Adjustments for unconsolidated affiliates and non-controlling interest	648	839	(191)	
FFO	$527,026	$512,960	$14,066	2.7%
Straight-line income	(2,036)	(754)	(1,282)	
Stock-based compensation expense	29,443	9,599	19,844	
Non-cash portion of tax provision	660	804	(144)	
Non-real estate related depreciation and amortization	12,804	12,474	330	
Amortization of deferred financing costs	4,920	5,120	(200)	
Loss on extinguishment of debt	15,429	71	15,358	
Capital expenditures – maintenance	(43,108)	(43,119)	11	
Adjustments for unconsolidated affiliates and non-controlling interest	(648)	(839)	191	
AFFO	$544,490	$496,316	$48,174	9.7%

FFO for the year ended December 31, 2018 was $527.0 million as compared to FFO of $513.0 million for the same period in 2017. AFFO for the year ended December 31, 2018 increased 9.7% to $544.5 million as compared to $496.3 million for the same period in 2017. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense, exclusive of depreciation and amortization), offset by increases in general and administrative and corporate expenses (excluding the effect of stock based compensation expense).

Year ended December 31, 2017 compared to Year ended December 31, 2016

Net revenues increased $41.0 million or 2.7% to $1.541 billion for the year ended December 31, 2017 from $1.500 billion for the same period in 2016. This increase was attributable primarily to an increase in billboard net revenues of $28.6 million or 2.2% over the prior period, which is primarily related to the integration of outdoor assets acquired during 2016 and 2017, and the addition of approximately 275 digital displays during the year ended December 31, 2017. In addition, logo sign revenue increased $2.4 million, which represents an increase of 3.0% over the prior period. Transit revenue increased $10.0 million, which represents an increase of 9.3% over the prior period, primarily due to several new transit and airport markets acquired in 2017.

Net revenues for the year ended December 31, 2017, as compared to acquisition-adjusted net revenues for the comparable period in 2016, increased $15.5 million, or 1.0%. The $15.5 million increase in revenue primarily consisted of an $8.3 million increase in billboard revenue, a $3.1 million increase in logo revenue and a $4.1 million increase in transit revenue over the acquisition-adjusted net revenue for the comparable period in 2016. See "Reconciliations" below.

Total operating expenses, exclusive of depreciation and amortization and gain on sale of assets, increased $8.1 million or 0.9% to $879.5 million for the year ended December 31, 2017. The $8.1 million increase over the prior year is comprised of a $22.1 million increase in operating expenses related to the operations of our outdoor advertising assets, partially offset by a decrease in corporate expenses of $14.0 million primarily due to a reduction in stock-based compensation of $15.1 million over the same period in 2016.

Depreciation and amortization expense increased $6.1 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to depreciation and amortization on the assets acquired during 2016 and 2017.

Gain on disposition of assets for the year ended December 31, 2017 decreased $10.4 million over the same period in 2016. The $10.4 million decrease is comprised of a $6.2 million decrease in non-cash gains recognized for acquisition swap transactions in 2017 as compared to the same period in 2016, approximately $1.0 million of losses in Puerto Rico related to hurricane Maria in the fourth quarter of 2017 and a $2.8 million decrease in gains related to various transactions of inventory sold during the year ended December 31, 2017 as compared to the same period in 2016.

Due primarily to the above factors, operating income increased $16.3 million to $455.4 million for the year ended December 31, 2017 compared to $439.0 million for the same period in 2016.

During the year ended December 31, 2017, the Company recognized a $0.1 million loss on extinguishment of debt related to the amendment of Lamar Media's senior credit facility as compared to a $3.2 million loss on debt extinguishment recognized in 2016 related to the prepayment of Lamar Media's Term A-1 loan under its senior credit facility.

Interest expense increased approximately $4.7 million from $123.7 million for the year ended December 31, 2016 to $128.4 million for the year ended December 31, 2017, primarily as a result of increased debt outstanding due to the refinancing of Lamar Media's senior credit facility in 2017. See —"Uses of Cash "for more information.

The increase in operating income and decrease in loss on extinguishment of debt, offset by the increase in interest expense over the comparable period in 2016, resulted in a $14.7 million increase in net income before income taxes. The Company recognized $9.2 million in income tax expense for the year ended December 31, 2017. The effective tax rate for the year ended December 31, 2017 is approximately 2.8%, which differs from the federal statutory rate primarily due to our qualification for taxation as a REIT and adjustments for foreign items.

As a result of the above factors, the Company recognized net income for the year ended December 31, 2017 of $317.7 million, as compared to net income of $298.8 million for the same period in 2016.

Reconciliations:

Because acquisitions occurring after December 31, 2015 have contributed to our net revenue results for the periods presented, we provide 2016 acquisition-adjusted net revenue, which adjusts our 2016 net revenue for the year ended December 31, 2016 by adding to or subtracting from it the net revenue generated by the acquired or divested assets prior to our acquisition or divestiture of these assets for the same time frame that those assets were owned in the year ended December 31, 2017.

Reconciliations of 2016 reported net revenue to 2016 acquisition-adjusted net revenue for the year ended December 31, 2016 as well as a comparison of 2016 acquisition-adjusted net revenue to 2017 reported net revenue for the year ended December 31, 2017, are provided below:

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

	Year ended December 31,	
	2017	2016
	(in thousands)	
Reported net revenue	$1,541,260	$1,500,294
Acquisition net revenue	—	25,424
Adjusted totals	$1,541,260	$1,525,718

Key Performance Indicators

Net Income/Adjusted EBITDA

(in thousands)

	Year Ended December 31,		Amount of Increase	Percent Increase
	2017	2016	(Decrease)	(Decrease)
Net income	$317,676	$298,809	$ 18,867	6.3 %
Income tax expense	9,230	13,356	(4,126)	
Loss on extinguishment of debt	71	3,198	(3,127)	
Interest expense (income), net	128,390	123,682	4,708	
Gain on disposition of assets	(4,664)	(15,095)	10,431	
Depreciation and amortization	211,104	204,958	6,146	
Stock-based compensation expense	9,599	28,560	(18,961)	
Adjusted EBITDA	$671,406	$657,468	$ 13,938	2.1 %

Adjusted EBITDA for the year ended December 31, 2017 increased 2.1% to $671.4 million. The increase in Adjusted EBITDA was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense, exclusive of depreciation and amortization) of $25.7 million, and was partially offset by an increase in general and administrative and corporate expenses of $11.7 million, excluding the impact of stock-based compensation expense.

30

Net Income/FFO/AFFO

(in thousands)

	Year Ended December 31, 2017	2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Net income	$317,676	$298,809	$ 18,867	6.3 %
Depreciation and amortization related to real estate	198,630	190,964	7,666	
Gain from disposition of real estate assets and investments	(4,185)	(14,789)	10,604	
Adjustments for unconsolidated affiliates and non-controlling interest	839	605	234	
FFO	$512,960	$475,589	$ 37,371	7.9 %
Straight-line (income) expense	(754)	255	(1,009)	
Stock-based compensation expense	9,599	28,560	(18,961)	
Non-cash portion of tax provision	804	(343)	1,147	
Non-real estate related depreciation and amortization	12,474	13,994	(1,520)	
Amortization of deferred financing costs	5,120	5,333	(213)	
Loss on extinguishment of debt	71	3,198	(3,127)	
Capital expenditures – maintenance	(43,119)	(37,090)	(6,029)	
Adjustments for unconsolidated affiliates and non-controlling interest	(839)	(605)	(234)	
AFFO	$496,316	$488,891	$ 7,425	1.5 %

FFO for the year ended December 31, 2017 was $513.0 million as compared to FFO of $475.6 million for the same period in 2016. AFFO for the year ended December 31, 2017 increased 1.5% to $496.3 million as compared to $488.9 million for the same period in 2016. AFFO growth was primarily attributable to the increase in our gross margin (net revenue less direct advertising expense, exclusive of depreciation and amortization), offset by increases in general and administrative and corporate expenses (excluding the effect of stock based compensation expense) and maintenance capitalized expenditures.

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 cash requirements of the Company, therefore, must be funded by distributions from Lamar Media.

Sources of Cash

Total Liquidity at December 31, 2018. As of December 31, 2018 we had approximately $178.3 million of total liquidity, which is comprised of approximately $21.5 million in cash and cash equivalents and approximately $156.8 million of availability under the revolving portion of Lamar Media's senior credit facility. We are currently in compliance with the maintenance covenant included in the senior credit facility, and we would remain in compliance after giving effect to borrowing the full amount available to us under the revolving portion of the senior credit facility.

Cash Generated by Operations. For the years ended December 31, 2018, 2017 and 2016 our cash provided by operating activities was $ 564.8 million, $507.0 million and $521.8 million, respectively. The increase in cash provided by operating activities for the year ended December 31, 2018 over the same period in 2017 relates to an increase in revenues offset by increases in operating expenses (excluding depreciation and amortization) and a net decrease in operating assets and liabilities. We generated cash flows from operations during 2018 in excess of our cash needs for operations and capital expenditures as described herein. We used the excess cash generated principally to pay dividends and fund our acquisitions. See — "Cash Flows" for more information.

Accounts Receivable Securitization Program. On December 18, 2018, we entered into the Accounts Receivable Securitization Program. The Accounts Receivable Securitization Program provides up to $175.0 million in borrowing capacity, plus an accordion

feature that would permit the borrowing capacity to be increased by up to $125.0 million. Borrowing capacity under the Accounts Receivable Securitization Program is limited to the availability of eligible accounts receivable collateralizing the borrowings under the agreements governing the Accounts Receivable Securitization Program. In connection with the Accounts Receivable Securitization Program, Lamar Media and certain of its subsidiaries (such subsidiaries, the “Subsidiary Originators”) sell and/ or contribute their existing and future accounts receivable and certain related assets to one of two special purpose subsidiaries, Lamar QRS Receivables, LLC (the “QRS SPV”) and Lamar TRS Receivables, LLC (the “TRS SPV” and together with the QRS SPV the “Special Purpose Subsidiaries”), each of which is a wholly-owned subsidiary of Lamar Media. Existing and future accounts receivable relating to Lamar Media and its qualified REIT subsidiaries will be sold and/ or contributed to the QRS SPV and existing and future accounts receivable relating to Lamar Media’s taxable REIT subsidiaries will be sold and/ or contributed to the TRS SPV. Each of the Special Purpose Subsidiaries has granted the lenders party to the Accounts Receivable Securitization Program a security interest in all of its assets, which consist of the accounts receivable and related assets sold or contributed to them, as described above, in order to secure the obligations of the Special Purpose Subsidiaries under the agreements governing the Accounts Receivable Securitization Program. Pursuant to the Accounts Receivable Securitization Program, Lamar Media has agreed to service the accounts receivable on behalf of the two Special Purpose Subsidiaries for a fee. Lamar Media has also agreed to guaranty its performance in its capacity as servicer and originator, as well as the performance of the Subsidiary Originators, of their obligations under the agreements governing the Account Receivable Securitization Program. None of Lamar Media, the Subsidiary Originators or the Special Purpose Subsidiaries guarantees the collectability of the receivables under the Accounts Receivable Securitization Program. In addition, each of the Special Purpose Subsidiaries is a separate legal entity with its own separate creditors who will be entitled to access the assets of such Special Purpose Subsidiary before the assets become available to Lamar Media. Accordingly, the assets of the Special Purpose Subsidiaries are not available to pay creditors of Lamar Media or any of its subsidiaries, although collections from receivables in excess of the amounts required to repay the lenders and the other creditors of the Special Purpose Subsidiaries may be remitted to Lamar Media.

As of December 31, 2018, there were $175.0 million of outstanding aggregate borrowings under the Accounts Receivable Securitization Program at a borrowing rate of approximately 3.4%.

“At-the-Market” Offering Program. On May 1, 2018, the Company entered into an equity distribution agreement (the “Sales Agreement”) with J.P. Morgan Securities LLC, Wells Fargo Securities LLC and SunTrust Robinson Humphrey, Inc. as our sales agents (each a “Sales Agent”, and collectively, the “Sales Agents”). Under the terms of the Sales Agreement, the Company may, from time to time, issue and sell shares of its Class A common stock, par value $.001 per share (the “Class A Common Stock”), having an aggregate offering price of up to $400.0 million through the Sales Agents as either agents or principals. Sales of the Class A Common Stock, if any, may be made in negotiated transactions or transactions that are deemed to be “at-the-market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on or through the Nasdaq Global Select Market and any other existing trading market for the Class A Common Stock, or sales made to or through a market maker other than on an exchange. The Company has no obligation to sell any of the Class A Common Stock under the Sales Agreement and may at any time suspend solicitations and offers under the Sales Agreement. The Company intends to use the net proceeds, if any, from the sale of the Class A Common Stock pursuant to the Sales Agreement for general corporate purposes, which may include the repayment, refinancing, redemption or repurchase of existing indebtedness, working capital, capital expenditures, acquisition of outdoor advertising assets and businesses and other related investments. During the quarter and year ended December 31, 2018, the Company received gross proceeds of approximately $27.5 million and $42.8 million, resulting in net proceeds of approximately $27.0 million and $42.1 million, in exchange for issuing 362,726 and 576,002 shares of its Class A common stock under this program, respectively. During the quarter and year ended December 31, 2018, the aggregate commissions paid to the sales agent was approximately $0.4 and $0.6 million, respectively.

Shelf Registration Statement. On August 6, 2018, we filed an automatically effective shelf registration statement (No. 333-226614) that registered the offer and sale of an indeterminate amount of additional shares of our Class A common stock. On August 23, 2018, we filed a prospectus supplement to the shelf registration statement relating to the offer and resale of 163,137 shares of Class A common stock previously issued in connection with an acquisition. We may issue additional shares under the shelf registration statement in the future in connection with future acquisitions or for other general corporate purposes.

Sale of Puerto Rico Operations. On April 16, 2018, the Company sold substantially all of its operating assets in Puerto Rico to B-Billboard BB LLC and B-Billboard BG LLC which resulted in a loss on disposition of assets of approximately $7.8 million.

Credit Facilities. On May 15, 2017, Lamar Media entered into a Third Restatement Agreement (“Restatement Agreement”) with the Company, certain of Lamar Media’s subsidiaries as guarantors, JPMorgan Chase Bank, N.A. as administrative agent and the lenders party thereto, under which the parties agreed to amend and restate Lamar Media’s existing senior credit facility. The Restatement Agreement amended and restated the Second Amended and Restated Credit Agreement dated as of February 3, 2014, as amended, which consisted of a $400.0 million revolving credit facility and a $300.0 million Term A loan facility.

Lamar Media’s Third Amended and Restated Credit Agreement dated as of May 15, 2017 (as amended, the “senior credit facility”) originally consisted of (i) a new $450.0 million senior secured revolving credit facility which will mature on May 15, 2022 (the “revolving credit facility”), (ii) a new $450.0 million Term A loan facility (the “Term A loans”) which will mature on May 15, 2022, and (iii) an incremental facility (the “Incremental Facility”) pursuant to which Lamar Media may incur additional term loan tranches or increase its revolving credit facility subject to pro forma compliance with the secured debt ratio financial maintenance covenant described under “Restrictions under Senior Credit Facility.” Lamar Media borrowed all $450.0 million in Term A loans on May 15, 2017. The Term A loans began amortizing on September 30, 2017 in quarterly installments, as set forth therein, with the remainder payable at maturity. The net proceeds from the Term A loans, together with borrowing under the revolving portion of senior credit facility and cash on hand, were used to repay all outstanding amounts under the Second Amended and Restated Credit Agreement, and all revolving commitments under that facility were terminated.

On March 16, 2018, Lamar Media entered into Amendment No. 1 to the Third Amended and Restated Credit Agreement dated May 15, 2017, with Lamar Advertising, certain of Lamar Media’s subsidiaries as Guarantors, JPMorgan Chase Bank, N.A. as administrative agent and the lenders named therein, under which the parties agreed to amend the existing senior credit facility to establish a new $600.0 million Term B Loan Facility, which will mature on March 16, 2025. The Term B loan began amortizing on June 30, 2018 in equal quarterly installments of $1.5 million with the remainder payable at maturity. Lamar Media borrowed the full amount of the Term B loan on March 16, 2018. The proceeds from the Term B loan, together with available cash on hand were used to redeem in full Lamar Media’s 5 7/8% Senior Subordinated Notes due 2022. See Uses of Cash for more information.

As of December 31, 2018, the senior credit facility consisted of (i) the revolving credit facility, (ii) the Term A loans, (iii) the Term B loans and (iv) the Incremental Facility. As of December 31, 2018, the aggregate balance outstanding under the senior credit facility was $1.28 billion, consisting of $413.7 million outstanding in Term A loans, $589.2 million in Term B loans and $276.7 million of revolving credit loans under the revolving credit facility. In addition, at December 31, 2018, Lamar Media had approximately $156.8 million of unused capacity under the revolving credit facility.

On January 17, 2019, Lamar Media entered into an incremental amendment to the senior credit facility to include $100.0 million in additional revolving commitments, thereby increasing the total borrowing capacity under the revolving credit facility to $550.0 million.

Note Offerings. On February 1, 2019, Lamar Media issued $250 million in aggregate principle amount of 5 3/4% Senior Notes due 2026 through an institutional private placement (the “New Notes”). The New Notes were issued as additional notes to the existing $400 million aggregate principal amount of 5 3/4% Senior Notes due 2026 that Lamar issued on January 28, 2016 (the “Existing Notes”). Other than with respect to the date of issuance, issue price and CUSIP number, the New Notes have the same terms as the Existing Notes. Once the New Notes are registered under the Securities Act and exchanged for exchange notes or become freely tradable under Rule 144, Lamar Media expects that the New Notes and the Existing Notes will share a single CUSIP number and thereafter be fungible. The net proceeds after underwriting fees and expenses, was approximately $251.5 million and were used to repay a portion of the borrowings outstanding under the revolving credit facility.

On January 28, 2016, Lamar Media completed an institutional private placement of $400 million aggregate principal amount of its 5 3/4% Senior Notes due 2026. The institutional private placement resulted in net proceeds to Lamar Media, after payment of fees and expenses of approximately $394.5 million. Lamar Media used the proceeds of this offering to repay the $300.0 million Term A-1 loan, which it borrowed on January 7, 2016 in order to fund the acquisition of certain assets of Clear Channel Outdoor Holdings, Inc., and a portion of the borrowing outstanding under its revolving credit facility. On September 1, 2016, Lamar Media completed an exchange offer for all of its then outstanding 5 3/4% Senior Notes, which were not registered under the Securities Act of 1933, as amended, for an equal principal amount of newly issued 5 3/4% Senior Notes that were so registered. Lamar Media did not receive any proceeds from the exchange offer.

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. The Company and Lamar Media must comply with certain covenants and restrictions related to the senior credit facility, its outstanding debt securities and its Accounts Receivable Securitization Program.

Restrictions under Debt Securities. The Company and Lamar Media must comply with certain covenants and restrictions related to its outstanding debt securities. As of December 31, 2018, Lamar Media had outstanding $535 million 5% Senior Subordinated Notes issued in October 2012 (the “5% Senior Subordinated Notes”), $510 million 5 3/8% Senior Notes issued in January 2014 (the “5 3/8% Senior Notes”) and the $400 million 5 3/4% Senior Notes issued in January 2016 (the “5 3/4% Senior Notes”). Lamar Media issued an additional $250 million of 5 3/4% Senior Notes on February 1, 2019.

The indentures relating to Lamar Media's outstanding notes restrict its ability to incur additional indebtedness but permit the incurrence of indebtedness (including indebtedness under the senior credit facility), (i) if no default or event of default would result from such incurrence and (ii) if after giving effect to any such incurrence, the leverage ratio (defined as the sum of (x) total consolidated debt plus (y) the aggregate liquidation preference of any preferred stock of Lamar Media's restricted subsidiaries to trailing four fiscal quarter EBITDA (as defined in the indentures)) would be less than 7.0 to 1. Currently, Lamar Media is not in default under the indentures of any of its outstanding notes and, therefore, would be permitted to incur additional indebtedness subject to the foregoing provision.

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

- up to $1.5 billion of indebtedness under the senior credit facility;
- indebtedness outstanding on the date of the indentures or debt incurred to refinance outstanding debt;
- inter-company debt between Lamar Media and its restricted subsidiaries or between restricted subsidiaries;
- certain purchase money indebtedness and capitalized lease obligations to acquire or lease property in the ordinary course of business that cannot exceed the greater of $50 million or 5% of Lamar Media's net tangible assets; and
- additional debt not to exceed $75 million.

Restrictions under Senior Credit Facility. Lamar Media is required to comply with certain covenants and restrictions under the senior credit facility. If the Company or Lamar Media fails to comply with these tests, the lenders under the senior credit facility will be entitled to exercise certain remedies, including the termination of the lending commitments and the acceleration of the debt payments under the senior credit facility. At December 31, 2018, and currently, we were in compliance with all such tests under the senior credit facility.

Lamar Media must maintain a secured debt ratio, defined as total consolidated secured debt of Lamar Advertising, Lamar Media and its restricted subsidiaries, minus the lesser of (x) $150 million and (y) the aggregate amount of unrestricted cash and cash equivalents of Lamar Advertising, Lamar Media and its restricted subsidiaries (other than the Special Purpose Subsidiaries (as defined above under "Sources of Cash-Accounts Receivable Securitization Program)) to EBITDA, as defined below, for the period of four consecutive fiscal quarters then ended, of less than or equal to 3.5 to 1.0.

Lamar Media is restricted from incurring additional indebtedness subject to exceptions, one of which is that it may incur additional indebtedness not exceeding the greater of $250.0 million and 6% of its total assets.

Lamar Media is also restricted from incurring additional unsecured senior indebtedness under certain circumstances unless, after giving effect to the incurrence of such indebtedness, it is in compliance with the secured debt ratio covenant and its senior debt ratio, defined as (a) total consolidated debt (excluding subordinated debt) of Lamar Advertising, Lamar Media and its restricted subsidiaries as of any date minus the lesser of (i) $150 million and (ii) the aggregate amount of unrestricted cash and cash equivalents of Lamar Advertising, Lamar Media and its restricted subsidiaries (other than the Special Purpose Subsidiaries (as defined above under "Sources of Cash-Accounts Receivable Securitization Program)) to (b) EBITDA, as defined below, for the most recent four fiscal quarters then ended is less than 4.5 to 1.0.

Lamar Media is also restricted from incurring additional subordinated indebtedness under certain circumstances unless, after giving effect to the incurrence of such indebtedness, it is in compliance with the secured debt ratio covenant and its total debt ratio, defined as (a) total consolidated debt (including subordinated debt) of Lamar Advertising, Lamar Media and its restricted subsidiaries as of any date minus the lesser of (i) $150 million and (ii) the aggregate amount of unrestricted cash and cash equivalents of Lamar Advertising, Lamar Media and its restricted subsidiaries (other than the Special Purpose Subsidiaries) to (b) EBITDA, as defined below, for the most recent four fiscal quarters then ended, is less than 6.5 to 1.0.

Under the senior credit facility, “EBITDA” means, for any period, operating income for Lamar Advertising, Lamar Media and its restricted subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for such period (calculated (A) before (i) taxes, (ii) interest expense, (iii) depreciation, (iv) amortization, (v) any other non-cash income or charges accrued for such period, (vi) charges and expenses in connection with the senior credit facility, any actual or proposed acquisition, disposition or investment (excluding, in each case, purchases and sales of advertising space and operating assets in the ordinary course of business) and any actual or proposed offering of securities, incurrence or repayment of indebtedness (or amendment to any agreement relating to indebtedness), including any refinancing thereof, or recapitalization and (vii) any loss or gain relating to amounts paid or earned in cash prior to the stated settlement date of any swap agreement that has been reflected in operating income for such period) and (B) after giving effect to the amount of cost savings, operating expense reductions and other operating improvements or synergies projected by Lamar Media in good faith to be realized as a result of any acquisition, investment, merger, amalgamation or disposition within 18 months of any such acquisition, investment, merger, amalgamation or disposition, net of the amount of actual benefits realized during such period from such action; provided, (a) the aggregate amount for all such cost savings, operating expense reductions and other operating improvements or synergies will not exceed an amount equal to 15% of EBITDA for the applicable four quarter period and (b) any such adjustment to EBITDA may only take into account cost savings, operating expense reductions and other operating improvements or synergies that are (I) directly attributable to such acquisition, investment, merger, amalgamation or disposition, (II) expected to have a continuing impact on Lamar Media and its restricted subsidiaries and (III) factually supportable, in each case all as certified by the chief financial officer of Lamar Media) on behalf of Lamar Media, and excluding (except to the extent received or paid in cash by Lamar Advertising, Lamar Media or any of its restricted subsidiaries income or loss attributable to equity in affiliates for such period), excluding any extraordinary and unusual gains or losses during such period, and excluding the proceeds of any casualty events and dispositions. For purposes hereof, the effect thereon of any adjustments required under Statement of Financial Accounting Standards No. 141R shall be excluded. If during any period for which EBITDA is being determined, Lamar Media has consummated any acquisition or disposition, EBITDA will be determined on a pro forma basis as if such acquisition or disposition had been made or consummated on the first day of such period.

The Company believes that its current level of cash on hand, availability under the senior credit facility and future cash flows from operations are sufficient to meet its operating needs through fiscal 2019. All debt obligations are reflected on the Company's balance sheet.

Restrictions under Accounts Receivable Securitization Program. The agreements governing the Account Receivable Securitization Program contain customary representations and warranties, affirmative and negative covenants, and termination event provisions, including but not limited to those providing for the acceleration of amounts owed under the Accounts Receivable Securitization Program if, among other things, the Special Purpose Subsidiaries fail to make payments when due, Lamar Media, the Subsidiary Originators or the Special Purpose Subsidiaries become insolvent or subject to bankruptcy proceedings or certain judicial judgments, breach certain representations and warranties or covenants or default under other material indebtedness, a change of control occurs, or if Lamar Media fails to maintain the maximum secured debt ratio of 3.50 to 1.00 required under Lamar Media's senior credit facility.

Uses of Cash

Capital Expenditures. Capital expenditures excluding acquisitions were approximately $117.6 million for the year ended December 31, 2018. We anticipate our 2019 total capital expenditures will closely approximate our 2018 spending.

Acquisitions. During the year ended December 31, 2018, the Company completed over 30 acquisitions for a total purchase price of approximately $489.7 million, which included the acquisition of more than 9,300 billboard displays across various markets. The acquisitions occurring during the year ended December 31, 2018 were financed using available cash on hand, borrowings under its revolving credit facility, borrowings under its Accounts Receivable Securitization Program and the issuance of 163,137 share of Class A Common Stock.

Note Redemption. On March 19, 2018, the Company used proceeds from the Term B loan, together with cash on hand, to redeem in full all $500.0 million in aggregate principal amount of Lamar Media's 5 7/8% Senior Subordinated Notes due 2022 and repay a portion of the borrowings outstanding under Lamar Media's revolving credit facility. The notes were redeemed at a redemption price equal to 101.958% of the aggregate principal amount of the outstanding notes, plus accrued and unpaid interest up to the redemption date. The Company recorded a loss on debt extinguishment of $15.4 million related to this redemption which is comprised of a $9.8 million prepayment penalty and a $5.6 million non-cash write off of unamortized deferred financing costs. See Sources of Cash-Credit Facility for more information.

Term Loans. The Term A loans mature on May 15, 2022 and the Term B loans mature on March 16, 2025. The remaining quarterly installments scheduled to be paid on each March 31, June 30, September 30 and December 31 are as follows:

Principal Payment Date	Term A	Term B
March 31, 2019-June 30, 2019	$5,625	$1,500
September 30, 2019-June 30, 2020	$8,438	$1,500
September 30, 2020-March 31, 2022	$16,875	$1,500
Term A Loan Maturity May 15, 2022	$253,125	$—
June 30, 2022-December 31, 2024	$—	$1,500
Term B Loan Maturity March 16, 2025	$—	$559,500

35

The Term Loans bear interest at rates based on the Adjusted LIBO Rate ("Eurodollar term loans") or the Adjusted Base Rate ("Base Rate term loans"), at Lamar Media's option. Eurodollar term loans bear interest at a rate per annum equal to the Adjusted LIBO Rate plus 1.75%; (or the Adjusted LIBO Rate plus 1.50% at any time the Total Debt Ratio is less than or equal to 3.25 to 1 for Term A loans only). Base Rate term loans bear interest at a rate per annum equal to the Adjusted Base Rate plus 0.75% (or the Adjusted Base Rate plus 0.50% at any time the Total Debt Ratio is less than or equal to 3.25 to 1 for Term A loans only). The revolving credit facility bears interest at rates based on the Adjusted LIBO Rate ("Eurodollar revolving loans") or the Adjusted Base Rate ("Base Rate revolving loans"), at Lamar Media's option. Eurodollar revolving loans bear interest at a rate per annum equal to the Adjusted LIBO Rate plus 2.25% (or the Adjusted LIBO Rate plus 2.00% at any time the Total Debt Ratio is less than or equal to 4.25 to 1; or the Adjusted LIBO Rate plus 1.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). Base Rate revolving loans bear interest at a rate per annum equal to the Adjusted Base Rate plus 1.25% (or the Adjusted Base Rate plus 1.0% at any time the total debt ratio is less than or equal to 4.25 to 1, or the Adjusted Base Rate plus 0.75% at any time the Total Debt Ratio is less than or equal to 3.00 to 1). The guarantees, covenants, events of default and other terms of the senior credit facility apply to the Term A and B loans and revolving credit facility.

Dividends. During the year ended December 31, 2018, the Company declared distributions of $361.1 million or $3.65 per share of common stock. The Company paid distributions of $442.6 million during the year ended December 31, 2018, which includes the January 2, 2018 distribution declared in November 2017.

During the year ended December 31, 2017, the Company declared distributions of $325.5 million or $3.32 per share of common stock, including paid distributions of $243.9 million or $2.49 per share of common stock. On January 2, 2018, the Company paid its quarterly distribution declared on November 28, 2017 of $0.83 per share to its stockholders of record of its Class A common stock and Class B common stock on December 18, 2017, for approximately $81.5 million.

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

Debt Service and Contractual Obligations. As of December 31, 2018, we had outstanding debt of approximately $2.889 billion. In the future, Lamar Media has principal reduction obligations and revolver commitment reductions under the senior credit facility. In addition, it has fixed commercial commitments. These commitments are detailed on a contractual basis 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	$2,888.7	$29.1	$294.8	$1,090.6	$1,474.2
Interest obligations on long term debt[1]	720.3	146.5	286.6	205.1	82.1
Billboard site and other operating leases	1,711.8	260.4	361.8	270.6	819.0
Total payments due	$5,320.8	$436.0	$943.2	$1,566.3	$2,375.3

(1) Interest rates on our variable rate instruments are assuming rates at the December 2018 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]	$450.0	$—	$ —	$450.0	$ —
Standby Letters of Credit[3]	$13.2	$12.7	$ 0.5	$—	$ —

(2) Lamar Media had $280.0 million outstanding under the revolving facility at December 31, 2018.
(3) The standby letters of credit are issued under Lamar Media's revolving credit facility and reduce the availability of the facility by the same amount.

Cash Flows

The Company's cash flows provided by operating activities increased by $57.8 million for the year ended December 31, 2018, primarily resulting from an increase in revenues of approximately $86.0 million and a decrease in operating net assets of $7.3 million, offset by increases in operating expenses (excluding stock-based compensation) of approximately $34.9 million, as compared to the comparable period in 2017.

Cash flows used in investing activities increased $184.0 million from $400.1 million in 2017 to $584.1 million in 2018 primarily due to an increase in acquisition activity of $180.1 million, as compared to the same period in 2017.

The Company's cash flows used in financing activities was $73.6 million for the year ended December 31, 2018 as compared $28.6 million in 2017. This increase in cash used in financing activities of $45.0 million for the year ended December 31, 2018 is primarily due to increases in proceeds from financing transactions during the year, offset by increases in cash paid for dividends and distributions over the comparable period in 2017.

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 intangible assets, goodwill impairment and asset retirement obligations. 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.

Intangible Assets. The Company has significant intangible assets recorded on its balance sheet. Intangible assets primarily represent site locations of $806.0 million and customer relationships of $95.4 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 consolidated 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. We have identified two reporting units (Logo operations and Billboard operations) in accordance with Accounting Standards Codification ("ASC") 350 and no changes have been made to our reporting units from the prior period.

In our annual or interim measurement for impairment of goodwill, the Company conducts a qualitative assessment by examining relevant events and circumstances that could have a negative impact on the Company's goodwill, which include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, reporting unit dispositions and acquisitions, the market capitalization of the Company and other relevant events specific to the Company. If, after assessing the totality of events or circumstances described above, the Company determines that it is more likely than not that the fair value of either of the Company's reporting units is less than its carrying amount, the Company will perform a quantitative impairment test. If impairment is indicated as a result of the quantitative impairment test, a goodwill impairment charge would be recorded to write the goodwill down to its implied fair value. Based on the goodwill impairment analysis performed on December 31, 2018, we determined that the fair value of each reporting unit exceeded the carrying value and no impairment charge was recorded.

Asset Retirement Obligations. The Company had an asset retirement obligation of $223.0 million as of December 31, 2018. 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 74,500 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 consideration of any renewal period. Historical third-party cost information is used to estimate the cost of 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.

Acquisitions. The Company accounts for transactions that meet the definition of a business and group asset purchases as acquisitions. For transactions that meet the definition of a business combination, the Company allocates the purchase price, including any contingent consideration, to the assets acquired and the liabilities assumed at their estimated fair values as of the date of the acquisition with any excess of the purchase price paid over the estimated fair value of net assets acquired recorded as goodwill. For transactions that meet the definition of asset group purchases, the Company allocates the purchase price to the assets acquired and the liabilities assumed at their estimated fair values as of the date of the acquisition. If a transaction is determined to be a group of assets, any direct acquisition costs are capitalized. Transaction costs for transactions determined to be a business combination are expensed as incurred.

The fair value of the assets acquired and liabilities assumed is typically determined by using either estimates of replacement costs or discounted cash flow valuation methods. When determining the fair value of tangible assets acquired, the Company must estimate the cost to replace the asset with a new asset, adjusted for an estimated reduction in fair value due to age of the asset, and the economic useful life. When determining the fair value of intangible assets acquired, the Company must estimate the applicable discount rate and the timing and amount of future cash flows. The determination of the final purchase price and the acquisition-date fair value of identifiable assets acquired and liabilities assumed may extend over more than one period and result in adjustments to the preliminary estimate recognized in the prior period financial statements.

ACCOUNTING STANDARDS AND REGULATORY UPDATE

Revenue. In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 (Codified as ASC 606), Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company adopted the provisions of ASC 606 on January 1, 2018 using the cumulative effect transition method. The Company did not have an adjustment to its opening balance of retained earnings for the adoption of this update.

Leases. In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard was effective for us on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. We adopted the new standard on January 1, 2019 and used the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We also expect to elect the use of hindsight and the practical expedient pertaining to land easements. We expect to elect all of the new standard's available transition practical expedients.

We expect that this standard will have a material effect on our financial statements. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our billboard, logo, building and vehicle operating leases; (2) reclassification within our balance sheet of current asset prepaid operating lease balances to be a reduction of our lease liabilities and; (3) providing significant new disclosures about our leasing activities.

On adoption, we currently expect to recognize additional operating liabilities exceeding $1.1 billion, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for our existing operating leases.

The new standard also provides practical expedients for a company's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for our vehicle leases. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities. This includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

Other recently released pronouncements. In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The update is designed to simplify accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The update is effective for annual periods beginning January 1, 2017 with early adoption permitted. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. The update clarifies how certain cash receipts and cash payments are presented in the statement of cash flows. The update is effective for annual periods beginning January 1, 2018 with early adoption permitted. The Company adopted the update for the period ended December 31, 2016. The update did not have a material impact on the Company's consolidated statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the definition of a business. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is allowed for transactions in which the acquisition date occurs before the issuance date or effective date of the amendment, but only when the transaction has not been reported in financial statements that have been issued or made available for issuance. The Company adopted the update for transactions that occurred on or after October 1, 2016. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and other (Topic 350): Simplifying the test for goodwill impairment. The update simplifies how a company completes its goodwill impairment test by eliminating the two-step process, which requires determining the fair value of assets acquired or liabilities assumed in a business combination. The update requires completing the goodwill impairment test by comparing the difference between the reporting unit's carrying value and fair value. Goodwill charges, if any, would be determined by reducing the goodwill balance by the excess of the reporting unit's carrying value over its fair value. The update is effective for annual and interim fiscal periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on or after January 1, 2017. The Company adopted this update beginning with its December 31, 2017 goodwill impairment test.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808). The update is to clarify when certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 and when the collaborative arrangement participant is a customer in the context of a unit of account. The update also adds unit-of-account guidance in Topic 808 and requires that a collaborative arrangement participant that is not directly related to sales to a third party, and is presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer. The update is effective for annual and interim fiscal periods beginning after December 15, 2019 with early adoption permitted. The Company does not believe this update will have a material effect on the Company's consolidated financial statements.

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, 2018, 2017 and 2016. 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 Income as a percentage of net revenues for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Net revenues	100.0 %	100.0 %	100.0 %
Operating expenses:			
Direct advertising expenses	34.5 %	35.1 %	35.0 %
General and administrative expenses	17.8 %	17.9 %	18.0 %
Corporate expenses	5.1 %	4.0 %	5.1 %
Depreciation and amortization	13.8 %	13.7 %	13.7 %
Operating income	28.3 %	29.6 %	29.3 %
Loss on extinguishment of debt	0.9 %	0.0 %	0.2 %
Interest expense	8.0 %	8.3 %	8.2 %
Income tax expense	0.7 %	0.6 %	0.9 %
Net income	18.8 %	20.6 %	19.9