

AMERICAN TOWER CORP /MA/

Form 10-Q/A

November 29, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One):

- x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended March 31, 2006.**
- .. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

Commission File Number: 001-14195

AMERICAN TOWER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

65-0723837
(I.R.S. Employer
Identification No.)

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116 Huntington Avenue

Boston, Massachusetts 02116

(Address of principal executive offices)

Telephone Number (617) 375-7500

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

As of May 3, 2006, there were 419,585,266 shares of Class A Common Stock outstanding.

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EXPLANATORY NOTE

American Tower Corporation (the **Company**) is filing this amendment (this **Amendment**) to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the **Original Filing**) to reflect the restatement of its condensed consolidated financial statements as of March 31, 2006 and for the three month periods ended March 31, 2006 and 2005, and certain other changes described below. The restatement of the Original Filing reflected in this Amendment corrects certain errors related to (i) stock-based compensation not previously recorded for certain stock option grants, including the related payroll and income tax effects, (ii) additional charges for stock-based compensation expense related to the modification and repricing of certain stock option grants, primarily associated with options awarded to a former executive officer of the Company, and (iii) changes to income taxes related to the tax effects of foreign currency fluctuations on an intercompany loan with a foreign subsidiary of the Company. These corrections are discussed in **Management's Discussion and Analysis of Financial Condition and Results of Operations** included in Item 2 of this Amendment and in note 2 to the condensed consolidated financial statements included in Item 1 of this Amendment.

The Company's decision to restate its previously issued financial statements was based, in part, on an independent review of its historical stock option granting practices and related accounting. On May 19, 2006, the Company announced that its Board of Directors had established a special committee of independent directors to conduct a review of the Company's stock option granting practices and related accounting with the assistance of independent legal counsel and forensic auditors. The special committee determined that, for certain stock option grants, the legal grant dates when all necessary corporate action had been taken differ from the dates previously recorded by the Company for financial accounting and tax purposes. The findings of the special committee are discussed in **Management's Discussion and Analysis of Financial Condition and Results of Operations** included in Item 2 of this Amendment.

In connection with the review by the special committee, the Company undertook a review of option grant dates recorded by the Company for financial accounting and tax purposes. Based on the Company's facts and circumstances, the Company concluded that it should use the legal grant date, as determined by the special committee, as the accounting measurement date for such awards. Accordingly, based on this conclusion, the Company applied new measurement dates to the affected stock option grants and, as a result, determined that charges for stock-based compensation expense and related payroll and income tax effects were required in instances where the quoted market price of the underlying stock at the new measurement date exceeded the employee's exercise price, in accordance with APB No. 25, **Accounting for Stock Issued to Employees** and SFAS No. 123R **Share-Based Payment**. In addition, the Company recorded charges for penalties and interest related to the failure to properly withhold employee taxes upon exercise of certain stock options that were originally classified as incentive stock options, but were recharacterized as non-qualified stock options as a result of applying a new measurement date to such options.

Changes have been made to the following items in this Amendment as a result of the changes described above:

| | |
|---------|---|
| Part I | Item 1. Unaudited Condensed Consolidated Financial Statements |
| | Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations |
| | Item 4. Controls and Procedures |
| Part II | Item 1. Legal Proceedings |
| | Item 6. Exhibits |

For ease of reference, this Amendment sets forth the Original Filing in its entirety. However, this Amendment does not reflect events that have occurred after May 10, 2006, the filing date of the Original Filing, or modify or update the disclosures presented in the Original Filing, except to reflect the changes described above and to disclose certain related events, which are described in note 12 to the condensed consolidated financial statements included in Item 1 of this Amendment, and to make clarifications to certain disclosures.

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Accordingly, this Amendment should be read in conjunction with the Company's periodic filings made with the Securities and Exchange Commission (SEC) subsequent to the filing date of the Original Filing, including any amendments to those filings, as well as any Current Reports filed on Form 8-K subsequent to the filing date of the Original Filing. Any reference to facts and circumstances at a current date refer to such facts and circumstances as of the filing date of the Original Filing.

Concurrently with the filing of this Amendment, the Company is also filing an amended Annual Report on Form 10-K/A (the Form 10-K/A) for the year ended December 31, 2005, a Quarterly Report on Form 10-Q for the period ended June 30, 2006 and a Quarterly Report on Form 10-Q for the period ended September 30, 2006. Other than this Amendment and the Form 10-K/A, the Company has not amended and does not intend to amend any of its other periodic reports filed prior to the filing date of this Amendment for periods affected by the restatement. For this reason, the consolidated financial statements, auditors' reports and related financial information contained in all such other previously filed reports should not be relied upon.

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QUARTER ENDED MARCH 31, 2006

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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS Unaudited**

(in thousands, except share data)

| | March 31, 2006 | December 31, 2005 |
|---|------------------------------|------------------------------|
| | (as restated, see note 2) | (as restated, see note 2) |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 85,573 | \$ 112,701 |
| Accounts receivable, net of allowances of \$13,029 and \$15,071, respectively | 33,216 | 36,995 |
| Prepaid and other current assets | 77,266 | 44,823 |
| Deferred income taxes | 31,359 | 31,359 |
| Total current assets | 227,414 | 225,878 |
| PROPERTY AND EQUIPMENT, net | 3,386,262 | 3,460,526 |
| GOODWILL | 2,142,504 | 2,142,551 |
| OTHER INTANGIBLE ASSETS, net | 2,026,232 | 2,077,312 |
| DEFERRED INCOME TAXES | 520,649 | 523,293 |
| NOTES RECEIVABLE AND OTHER LONG-TERM ASSETS | 384,991 | 357,294 |
| TOTAL | \$ 8,688,052 | \$ 8,786,854 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 179,184 | \$ 178,951 |
| Accrued interest | 52,652 | 37,850 |
| Current portion of long-term obligations | 277,471 | 162,153 |
| Unearned revenue | 71,090 | 77,655 |
| Total current liabilities | 580,397 | 456,609 |
| LONG-TERM OBLIGATIONS | 3,332,080 | 3,451,276 |
| OTHER LONG-TERM LIABILITIES | 337,578 | 327,354 |
| Total liabilities | 4,250,055 | 4,235,239 |

| | | |
|---|---------------------|---------------------|
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTEREST IN SUBSIDIARIES | 9,922 | 9,794 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred Stock: \$.01 par value; 20,000,000 shares authorized; no shares issued or outstanding | | |
| Class A Common Stock: \$.01 par value; 1,000,000,000 shares authorized; 428,780,174 and 415,636,595 shares issued, and 420,328,652 and 412,654,855 shares outstanding, respectively | | |
| | 4,288 | 4,156 |
| Additional paid-in capital | 7,427,975 | 7,383,320 |
| Accumulated deficit | (2,763,341) | (2,761,404) |
| Unearned compensation | | (2,497) |
| Accumulated other comprehensive income (loss) | 5,624 | (803) |
| Treasury stock (8,451,522 and 2,981,740 shares at cost) | (246,471) | (80,951) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 4,428,075 | 4,541,821 |
| | <hr/> | <hr/> |
| TOTAL | \$ 8,688,052 | \$ 8,786,854 |
| | <hr/> | <hr/> |

See notes to condensed consolidated financial statements.

Table of Contents**AMERICAN TOWER CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS Unaudited****(in thousands, except per share data)**

| | Three Months Ended | |
|--|----------------------------------|----------------------------------|
| | March 31, | |
| | 2006 | 2005 |
| | (as restated, see note 2) | (as restated, see note 2) |
| REVENUES: | | |
| Rental and management | \$ 316,259 | \$ 181,570 |
| Network development services | 4,150 | 2,785 |
| Total operating revenues | 320,409 | 184,355 |
| OPERATING EXPENSES: | | |
| Costs of operations (exclusive of items shown separately below) | | |
| Rental and management | 79,541 | 48,225 |
| Network development services | 2,071 | 1,432 |
| Depreciation, amortization and accretion | 133,261 | 81,971 |
| Selling, general, administrative and development expense (including stock-based compensation expense of \$9,511 and \$761, respectively) | 36,313 | 20,904 |
| Impairments, net loss on sale of long-lived assets, restructuring and merger related expense (including stock-based compensation expense in 2005 of \$205) | 1,514 | 2,777 |
| Total operating expenses | 252,700 | 155,309 |
| OPERATING INCOME FROM CONTINUING OPERATIONS | 67,709 | 29,046 |
| OTHER INCOME (EXPENSE): | | |
| Interest income, TV Azteca, net of interest expense of \$373 and \$373, respectively | 3,498 | 3,498 |
| Interest income | 1,358 | 699 |
| Interest expense | (54,257) | (54,716) |
| Loss on retirement of long-term obligations | (21,577) | (15,042) |
| Other income | 3,729 | 670 |
| Total other expense | (67,249) | (64,891) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND INCOME (LOSS) ON EQUITY METHOD INVESTMENTS | 460 | (35,845) |
| Income tax (provision) benefit | (1,826) | 4,702 |
| Minority interest in net earnings of subsidiaries | (257) | (55) |
| Income (loss) on equity method investments | 4 | (1,098) |

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| | | |
|--|-------------------|-------------------|
| LOSS FROM CONTINUING OPERATIONS | (1,619) | (32,296) |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX | | |
| BENEFIT OF \$171 and \$45, RESPECTIVELY | (318) | (83) |
| | <u> </u> | <u> </u> |
| NET LOSS | \$ (1,937) | \$ (32,379) |
| | <u> </u> | <u> </u> |
| BASIC AND DILUTED LOSS PER COMMON SHARE AMOUNTS: | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.14) |
| Loss from discontinued operations | | |
| | <u> </u> | <u> </u> |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ (0.01) | \$ (0.14) |
| | <u> </u> | <u> </u> |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 417,379 | 230,158 |
| | <u> </u> | <u> </u> |

See notes to condensed consolidated financial statements.

Table of Contents**AMERICAN TOWER CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS Unaudited****(in thousands)**

| | Three Months Ended | |
|--|--------------------------------------|--------------------------------------|
| | March 31, | |
| | 2006 | 2005 |
| | (as restated, see note 2) | (as restated, see note 2) |
| CASH FLOWS PROVIDED BY OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,937) | \$ (32,379) |
| Other non-cash items reflected in statements of operations (primarily depreciation and amortization) | 158,617 | 109,236 |
| Non-cash stock-based compensation expense | 9,511 | 966 |
| (Increase) decrease in assets | (30,762) | 13,606 |
| Increase in liabilities | 16,267 | 1,126 |
| Cash provided by operating activities | 151,696 | 92,555 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES: | | |
| Payments for purchase of property and equipment and construction activities | (28,376) | (15,881) |
| Payments for acquisitions | (724) | (932) |
| Payments for acquisition of Mexico minority interest | | (7,270) |
| Proceeds from sale of businesses and other long-term assets | 1,636 | 910 |
| Deposits, investments and other long-term assets | (50) | (310) |
| Cash used for investing activities | (27,514) | (23,483) |
| CASH FLOWS USED FOR FINANCING ACTIVITIES: | | |
| Borrowings under credit facilities | 179,000 | |
| Repayment of notes payable, credit facilities and capital leases | (182,024) | (169,086) |
| Purchases of Class A common stock | (162,680) | |
| Net proceeds from stock options and warrants | 16,179 | 7,500 |
| Deferred financing costs and other financing activities | (1,785) | (246) |
| Cash used for financing activities | (151,310) | (161,832) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (27,128) | (92,760) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 112,701 | 215,557 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 85,573 | \$ 122,797 |
| CASH PAID FOR INCOME TAXES | \$ 7,333 | \$ 3,911 |
| CASH PAID FOR INTEREST | \$ 34,971 | \$ 37,255 |

| NON-CASH INVESTING AND FINANCING TRANSACTIONS: | | |
|---|-----------|-------|
| Conversion of convertible notes (excluding loss on retirement) | \$ 22,004 | |
| Increase in fair value of cash flow hedges (net of a tax provision of \$3,460) | 6,427 | |
| Assets acquired through capital leases | 544 | |
| Issuance of Class A common stock in connection with the acquisition of Mexico minority interest | | 2,831 |

See notes to condensed consolidated financial statements.

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AMERICAN TOWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited

1. Description of Business, Basis of Presentation and Accounting Policies

American Tower Corporation and subsidiaries (collectively, ATC or the Company) is an independent owner, operator and developer of wireless and broadcast communications sites in the United States, Mexico and Brazil. The Company's primary business, as discussed in note 8, is the leasing of antenna space on multi-tenant communications towers to wireless service providers and radio and television broadcast companies. The Company also operates distributed antenna systems within buildings and provides limited network development services that support its rental and management operations and the addition of new tenants and equipment on its sites.

ATC is a holding company which conducts its operations in the United States, Mexico and Brazil through operating subsidiaries. ATC's principal United States operating subsidiaries are American Towers, Inc. (ATI) and SpectraSite Communications, Inc. (SpectraSite). ATC's principal international operating subsidiary is American Tower International, Inc., which conducts operations in Mexico through its subsidiary ATC Mexico Holding Corp. (ATC Mexico) and in Brazil through its subsidiary ATC South America Holding Corp. (ATC South America).

The Company completed its merger with SpectraSite, Inc. in August 2005, as more fully described in note 4. The merger was approved by the stockholders of the Company and SpectraSite, Inc. on August 3, 2005, and the results of operations of SpectraSite have been included in the Company's accompanying condensed consolidated financial statements as of August 3, 2005.

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial information included herein is unaudited; however, the Company believes such information and the disclosures herein are adequate to make the information presented not misleading and reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of the Company's financial position and results of operations for such periods. Results of interim periods may not be indicative of results for the full year. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005.

Significant Accounting Policies and Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from those estimates, and such differences could be material to the accompanying condensed consolidated financial statements.

Except for the adoption of Statement of Financial Accounting Standards (SFAS) No. 123R Share-Based Payment (SFAS No. 123R) on January 1, 2006, the Company's significant accounting policies and estimates for the three months ended March 31, 2006 have not changed from December 31, 2005, as detailed in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005. (See note 3.)

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Loss Per Common Share Basic and diluted net loss per common share have been computed by dividing the Company's net loss by the weighted average number of common shares outstanding during the period. For the three months ended March 31, 2006 and 2005, potential common shares, including shares issuable upon exercise of options and warrants and upon conversion of the Company's convertible notes, have been excluded from the computation of diluted loss per common share, as their effect is anti-dilutive. Potential common shares excluded from the calculation of net loss per share were approximately 64.0 million and 67.9 million for the three months ended March 31, 2006 and 2005, respectively.

Income Taxes The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year. Cumulative adjustments to the Company's estimate are recorded in the interim period in which a change in the estimated annual effective rate is determined.

Table of Contents**AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

Other Comprehensive Income (Loss) The Company's other comprehensive income (loss) is comprised of unrealized gains/losses on derivative cash flow hedges. During the three months ended March 31, 2006, the Company recorded an unrealized gain of approximately \$6.3 million (net of a tax provision of approximately \$3.4 million) in other comprehensive income (loss) for the change in fair value of cash flow hedges and reclassified \$0.1 million (net of a tax benefit of approximately \$0.1 million) into results of operations.

Reclassifications Certain reclassifications have been made to the accompanying 2005 condensed consolidated financial statements and related notes to conform to the 2006 presentation. The Company changed its classification to aggregate all segment and corporate selling, general, administrative and development expenses previously included in rental and management expense, network development services expense and corporate, general, administrative and development expense into one line item entitled selling, general, administrative and development expense. The change in classification for the three months ended March 31, 2005 resulted in decreases in rental and management expense and network development services expense of \$12.0 million and \$0.8 million, respectively, with a corresponding increase in selling, general, administrative and development expense of \$12.8 million from amounts previously reported. The Company made this change in classification to enable the evaluation of the Company's rental and management segment gross margin, which is calculated based on direct tower-level expenses and does not include selling, general, administrative and development expense related to the rental and management segment. (See note 8.)

2. Restatement of Condensed Consolidated Financial Statements

Subsequent to the issuance of the Company's condensed consolidated financial statements for the quarter ended March 31, 2006, the Company determined that certain of its previously issued financial statements should be restated to correct certain errors related to (i) stock-based compensation not previously recorded for certain stock option grants, including the related payroll and income tax effects, (ii) additional charges for stock-based compensation expense related to the modification and repricing of certain stock option grants, primarily associated with options awarded to a former executive officer of the Company, and (iii) changes to income taxes related to the tax effects of foreign currency fluctuations on an intercompany loan with a foreign subsidiary of the Company. Accordingly, the Company has restated its condensed consolidated financial statements as of March 31, 2006 and December 31, 2005 and for each of the three month periods ended March 31, 2006 and 2005 to reflect these corrections in the proper periods.

The following table reconciles as previously reported to as restated net loss (in thousands):

| | Three Months Ended | |
|----------------------------------|--------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| As Previously Reported | \$ (2,585) | \$ (31,561) |
| (Increase) decrease to net loss: | (492) | (911) |

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| | | |
|---|-------------------|-------------------|
| Stock-Based Compensation Adjustments Related to Revised Accounting Measurement Dates (including related Payroll Tax Effects), net of tax | | |
| Stock-Based Compensation Adjustments Related to Modifications and Repricings, net of tax | (199) | 21 |
| Income Taxes Related to Foreign Currency Denominated Loan | 1,339 | 72 |
| | <u> </u> | <u> </u> |
| Total decrease (increase) in net loss | 648 | (818) |
| | <u> </u> | <u> </u> |
| As Restated | \$ (1,937) | \$ (32,379) |
| | <u> </u> | <u> </u> |

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AMERICAN TOWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The Company's decision to restate its consolidated financial statements was based, in part, on an independent review of the Company's historical stock option granting practices and related accounting. On May 19, 2006, the Company announced that its Board of Directors had established a special committee of independent directors to conduct a review of the Company's stock option granting practices and related accounting with the assistance of independent legal counsel and forensic auditors. The special committee determined that, for certain stock option grants, the legal grant dates when all necessary corporate action had been taken differ from the dates previously recorded by the Company for financial accounting and tax purposes.

Stock-Based Compensation Adjustments Related to Revised Accounting Measurement Dates In connection with the review by the special committee, the Company undertook a review of option grant dates recorded for financial accounting and tax purposes. Based on the Company's facts and circumstances, the Company concluded that it should use the legal grant date, as determined by the special committee, as the accounting measurement date for such awards. Accordingly, based on this conclusion, the Company applied new measurement dates to the affected stock option grants and, as a result, determined that charges for stock-based compensation expense and related payroll and income tax effects were required in instances where the quoted market price of the underlying stock at the new measurement date exceeded the employee's exercise price, in accordance with APB No. 25 Accounting for Stock Issued to Employees and SFAS No. 123R. As a result of the changes in accounting measurement dates discussed above, the Company recorded additional stock-based compensation expense.

In instances where a new measurement date was applied to those stock options that were originally classified as incentive stock options, the new dates also had the effect of disqualifying incentive stock option tax treatment for certain options, causing such options to be recharacterized as non-qualified stock options. The disqualification of incentive stock option classification and the recharacterization to non-qualified stock option status resulted in the Company's recording additional expense in the period of exercise for penalties and interest for failure to withhold employee taxes.

In addition to the tax consequences described in the preceding paragraph, under Section 409A of the Internal Revenue Code (Section 409A), individuals who received options with exercise prices below the quoted market price of the underlying stock at the legal grant date likely will be subject to additional taxes and penalties with respect to options that vest after December 31, 2004. Holders of these options likely will be required to recognize income at vesting, rather than upon exercise, on the amount of the difference between the fair market value of the underlying stock on the date of vesting and the exercise price, plus an additional 20% penalty tax on this amount, plus interest on any tax to be paid. In order to remedy the unfavorable personal tax consequences under Section 409A, the Company intends to provide holders of these options the opportunity to amend their affected options through a tender offer as discussed in note 12.

Stock-Based Compensation Adjustments Related to Modifications and Repricings The Company also determined that it should have recorded stock-based compensation expense associated with the modification and repricing of certain stock option grants. The expense for the three months ended March 31, 2006 and 2005 relates primarily to options awarded to a former executive officer of the Company that should have been accounted for as an indirect repricing.

Income Taxes Related to Foreign Currency Denominated Loan In addition, the restatement of the Company's previously issued financial statements includes changes to the income tax benefit relating to the tax effects of foreign currency fluctuations on a foreign currency denominated intercompany loan between two wholly owned subsidiaries of the Company. The Company determined that the tax effects of

foreign currency gains and losses on the intercompany loan were not properly recorded, as the Company should have treated such gains and losses as taxable at the subsidiary level and the tax effect should not have been eliminated by the Company in consolidation. As a result, the Company recorded a (decrease) increase to the income tax (provision) benefit.

Table of Contents**AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

The following schedules reconcile the amounts as previously reported in the Company's condensed consolidated statements of operations for each of the three month periods ended March 31, 2006 and 2005, and the condensed consolidated balance sheets as of March 31, 2006 and December 31, 2005, to the corresponding restated amounts, which reflect the restatement adjustments described above (in thousands, except per share amounts):

| | Condensed Consolidated Statements of Operations | | |
|---|--|------------------------------------|--------------------|
| | As previously reported | Restatement Adjustments | As restated |
| Three Months Ended March 31, 2006 | | | |
| Selling, general, administrative and development expense | \$ 34,975 | \$ 1,338 | \$ 36,313 |
| Total operating expenses | 251,362 | 1,338 | 252,700 |
| Operating income from continuing operations | 69,047 | (1,338) | 67,709 |
| Income from continuing operations before income taxes, minority interest and income (loss) on equity method investments | 1,798 | (1,338) | 460 |
| Income tax provision | (3,812) | 1,986 | (1,826) |
| Loss from continuing operations | (2,267) | 648 | (1,619) |
| Net loss | (2,585) | 648 | (1,937) |
| Basic and diluted net loss per common share | (0.01) | | (0.01) |
| Three Months Ended March 31, 2005 | | | |
| Selling, general, administrative and development expense | \$ 19,698 | \$ 1,206 | \$ 20,904 |
| Total operating expenses | 154,103 | 1,206 | 155,309 |
| Operating income from continuing operations | 30,252 | (1,206) | 29,046 |
| Loss from continuing operations before income taxes, minority interest and income (loss) on equity method investments | (34,639) | (1,206) | (35,845) |
| Income tax benefit | 4,338 | 364 | 4,702 |
| Loss from continuing operations | (31,454) | (842) | (32,296) |
| Loss from discontinued operations, net | (107) | 24 | (83) |
| Net loss | (31,561) | (818) | (32,379) |
| Basic and diluted net loss per common share | (0.14) | | (0.14) |

Table of Contents**AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

| | Condensed Consolidated Balance Sheet | | |
|--|---|----------------------------|-------------|
| | As previously reported | Restatement Adjustments | As restated |
| March 31, 2006 | | | |
| Deferred income taxes | \$ 500,029 | \$ 20,620 | \$ 520,649 |
| Total assets | 8,667,432 | 20,620 | 8,688,052 |
| Accounts payable and accrued expenses | 175,010 | 4,174 | 179,184 |
| Total current liabilities | 576,223 | 4,174 | 580,397 |
| Total liabilities | 4,245,881 | 4,174 | 4,250,055 |
| Additional paid-in capital | 7,361,766 | 66,209 | 7,427,975 |
| Accumulated deficit | (2,713,578) | (49,763) | (2,763,341) |
| Total stockholders' equity | 4,411,629 | 16,446 | 4,428,075 |
| Total liabilities and stockholders' equity | 8,667,432 | 20,620 | 8,688,052 |
| December 31, 2005 | | | |
| Deferred income taxes | \$ 504,659 | \$ 18,634 | \$ 523,293 |
| Total assets | 8,768,220 | 18,634 | 8,786,854 |
| Accounts payable and accrued expenses | 175,558 | 3,393 | 178,951 |
| Total current liabilities | 453,216 | 3,393 | 456,609 |
| Total liabilities | 4,231,846 | 3,393 | 4,235,239 |
| Additional paid-in capital | 7,317,668 | 65,652 | 7,383,320 |
| Accumulated deficit | (2,710,993) | (50,411) | (2,761,404) |
| Total stockholders' equity | 4,526,580 | 15,241 | 4,541,821 |
| Total liabilities and stockholders' equity | 8,768,220 | 18,634 | 8,786,854 |

3. Stock-Based Compensation

Change in Accounting for Stock-Based Compensation In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, which supersedes APB No. 25 and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under this new standard, companies are no longer permitted to account for share-based compensation transactions using the intrinsic value method in accordance with APB No. 25. Instead, companies are required to account for such transactions using a fair value method and recognize the related expense associated with share-based payments in the statement of operations. The Company adopted SFAS No. 123R as of January 1, 2006 under the modified prospective method, pursuant to which compensation expense for all share-based payments granted or modified after the effective date is recognized based upon the requirements of SFAS No. 123R. Accordingly, prior period amounts have not been restated related to the adoption of SFAS No. 123R. SFAS No. 123R requires companies to recognize stock-based compensation awards granted to employees as compensation expense on a fair value method. Under the fair value recognition provisions of SFAS No. 123R, stock-based compensation cost is measured at the accounting measurement date based on the fair value of the award and is recognized as expense over the service period, which generally represents the vesting period. The fair value of stock options is calculated using the Black-Scholes option pricing model. The expense recognized over the service period is required to include an estimate of the awards that will be forfeited. Under APB No. 25, the Company previously recorded the impact of forfeitures as they occurred.

The adoption of SFAS No. 123R resulted in stock-based compensation expense of \$9.5 million, which is reflected in selling, general, administrative and development expense in the accompanying condensed

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consolidated statement of operations for the three months ended March 31, 2006. For the three months ended March 31, 2006, this stock-based compensation expense caused income (loss) from continuing operations before income taxes, minority interest and income (loss) on equity method investments to decrease by \$9.5 million, net loss to increase by \$6.6 million (net of a tax benefit of \$2.9 million). For the three months ended March 31, 2006, basic and diluted net loss per common share increased by \$0.02, as a result of the adoption of SFAS No. 123R. The Company did not capitalize any stock-based compensation during the three months ended March 31, 2006.

Under the provisions of SFAS No. 123R, the Company is no longer required to recognize unearned compensation, a contra-equity account representing the amount of unrecognized stock-based compensation expense that is reduced as expense is recognized, at the date employee stock-based awards are granted. Accordingly, as of January 1, 2006 the Company reclassified \$2.5 million of unearned compensation related to unvested options assumed in the merger with SpectraSite, Inc. to additional paid-in capital.

Prior to the adoption of SFAS No. 123R, the Company complied with the provisions of APB No. 25 to account for equity grants and awards to employees, officers and directors and the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123. In accordance with APB No. 25, the Company had recognized compensation expense based on the excess, if any, of the quoted stock price at the accounting measurement date of the award over the employee's exercise price.

The following table illustrates the effect on net loss and net loss per common share if the Company had recorded compensation expense for stock-based compensation in the three months ended March 31, 2005 based on the fair value recognition provisions of SFAS No. 123. As set forth in the table below, the pro forma net loss and pro forma net loss per share for the three months ended March 31, 2006, when calculated in accordance with the provisions of SFAS No. 123, is the same as when calculated in accordance with the provisions of SFAS No. 123R. The amounts for the three months ended March 31, 2006 are included below only to provide the detail for comparative presentation to the three months ended March 31, 2005 (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| Net loss as restated | \$ (1,937) | \$ (32,379) |
| Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects | 6,639 | 628 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (6,639) | (4,287) |
| Pro-forma net loss | \$ (1,937) | \$ (36,038) |
| Basic and diluted net loss per share as restated | \$ (0.01) | \$ (0.14) |
| Basic and diluted net loss per share pro forma | \$ (0.01) | \$ (0.16) |

Summary of Stock-Based Compensation Plans The Company maintains a stock option plan for directors, officers and employees (the ATC Plan), which provides for non-qualified and incentive stock options. Exercise prices in the case of incentive stock options are not less than the fair market value of the underlying common stock on the date of grant. Exercise prices in the case of non-qualified stock options are set at the discretion of the compensation committee of the Company's Board of Directors. Option grants generally vest ratably over various periods, typically four years, and generally expire ten years from the date of grant. The Company uses newly issued shares to settle option exercises. In August 2005, in connection with the merger with SpectraSite, Inc., the

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Company assumed stock options granted under the SpectraSite, Inc. 2003 Equity Incentive Plan (the SpectraSite Plan). Upon completion of the merger, the assumed SpectraSite, Inc. stock options were exercisable for an aggregate of 9.9 million shares of the Company's Class A common stock. Of these options, options to purchase approximately 8.3 million shares were fully vested as of the merger date and the remaining unvested options to purchase 1.6 million shares vest monthly through the first quarter of 2008. As of March 31, 2006, options to purchase approximately 1.3 million shares of Class A common stock remained outstanding under the SpectraSite Plan. The Company does not plan to grant any additional options under the SpectraSite Plan. In addition, the Company maintains stock option plans for ATC Mexico (ATC Mexico Plan) and ATC South America (ATC South America Plan), as more fully described in note 15 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005. No options were granted during the three months ended March 31, 2006 and no options were outstanding as of March 31, 2006 under the ATC Mexico Plan or the ATC South America Plan. During the three months ended March 31, 2005, 6,024 unvested options to purchase common stock of ATC South America were outstanding under the ATC South America Plan and no options were outstanding under the ATC Mexico Plan.

Stock Options The following table summarizes the Company's option activity for the three months ended March 31, 2006:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Contractual Term (Years) | Aggregate Intrinsic Value (in millions) |
|-----------------------------------|------------------------------|--|--|--|
| Outstanding as of January 1, 2006 | 20,403,502 | \$ 14.48 | | |
| Granted | 4,567,725 | 31.49 | | |
| Exercised | (1,581,891) | 9.76 | | |
| Cancelled | (302,880) | 14.41 | | |
| Outstanding as of March 31, 2006 | 23,086,456 | \$ 18.19 | 7.45 | \$ 285.6 |
| Exercisable as of March 31, 2006 | 9,639,967 | \$ 13.80 | 5.24 | \$ 159.6 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. The risk-free treasury rate is based on the U.S. Treasury yield in effect at the time of the grant. The expected life (estimated period of time outstanding) was estimated using the vesting term and historical exercise behavior of employees. The expected volatility was based on historical volatility for a period equal to the expected life of the stock options. During the year ended December 31, 2005, the Company reevaluated the assumptions used to estimate the fair value of option grants to employees. As a result, the Company lowered its expected volatility assumption for option grants to approximately 30% and increased the expected life of option grants to 6.25 years using the simplified method permitted by SEC Staff Accounting Bulletin No. 107. Key assumptions used in the pricing model for the three months ended March 31, 2006 and 2005 are as follows:

| | |
|------------------------|------------------------|
| January 1, 2006 | January 1, 2005 |
| March 31, 2006 | March 31, 2005 |

| | | | | |
|--|------------|-------|---------|-------|
| Approximate risk-free interest rate | 4.36% | 4.72% | 3.55% | 4.04% |
| Expected life of option grants | 6.25 years | | 4 years | |
| Expected volatility of underlying stock | 29.6% | | 79.2% | |
| Expected volatility of underlying stock (ATC South America Plan) | | | N/A | |
| Expected dividends | N/A | | N/A | |

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AMERICAN TOWER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The weighted average grant date fair values for the stock options granted during the three months ended March 31, 2006 and 2005 was \$12.50 and \$11.25, respectively. As of March 31, 2006, total unrecognized compensation expense related to unvested share-based compensation awards granted under the option plans was approximately \$110.7 million, and that cost is expected to be recognized over a weighted average period of approximately three years. The total intrinsic value for stock options exercised during the three months ended March 31, 2006 and March 31, 2005 was approximately \$32.3 million and \$8.7 million, respectively. The amount of cash received from the exercise of stock options was approximately \$15.9 million during the three months ended March 31, 2006.

Employee Stock Purchase Plan The Company also maintains an employee stock purchase plan (ESPP) for all eligible employees. Under the ESPP, shares of the Company's Class A common stock may be purchased during bi-annual offering periods at 85% of the lower of the fair market value on the first or the last day of each offering period. Employees may purchase shares having a value not exceeding 15% of their gross compensation during an offering period and may not purchase more than \$25,000 worth of stock in a calendar year (based on market values at the beginning of each offering period). The offering periods run from June 1 through November 30 and December 1 through May 31 of each year, and accordingly, no shares were purchased by employees during the three months ended March 31, 2006 and 2005. The fair value of the ESPP offerings is estimated on the offering period commencement date using a Black-Scholes pricing model with the expense recognized over the expected life, which is the six month offering period over which employees accumulate payroll deductions to purchase the Company's Class A common stock. The fair value for the ESPP shares purchased during the December 2005 and December 2004 offering periods was \$6.37 and \$6.12, respectively.

4. Acquisition

Merger with SpectraSite, Inc As described in note 3 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005, the Company completed its merger with SpectraSite, Inc. in August 2005, which the Company has accounted for under the purchase method of accounting in accordance with SFAS No. 141 Business Combinations (SFAS No. 141). Under this method of accounting, assets acquired and liabilities assumed were recorded on the Company's balance sheet at their estimated fair values as of the date of acquisition. The excess of the purchase price paid by the Company over the estimated fair value of net assets acquired has been recorded as goodwill. During the three months ended March 31, 2006, the total preliminary purchase price of approximately \$3.1 billion and the preliminary allocation included in note 3 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005 did not change significantly.

The Company is in the process of obtaining a third-party valuation of SpectraSite, Inc.'s property, plant and equipment, intangible assets and certain other assets and liabilities and expects to finalize the valuation and the final purchase price allocation in the second quarter of 2006. Given the size of the SpectraSite, Inc. transaction, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained and the third-party valuation is finalized. The primary areas of the purchase price allocation which are not yet finalized relate to the fair values of property and equipment, intangibles, restructuring and merger related liabilities, other assumed liabilities, deferred income taxes and residual goodwill. Changes to the valuation of these items may result in adjustments to depreciation and amortization and associated income taxes.

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Pro Forma Financial Information The following table presents the unaudited pro forma consolidated results of operations of the Company for the three months ended March 31, 2005, as if the merger with SpectraSite, Inc. was completed as of January 1, 2005 (in thousands, except per share data):

| | |
|---|------------|
| Revenues | \$ 283,302 |
| Loss from continuing operations | (28,300) |
| Net loss | (28,133) |
| Basic and diluted net loss per common share | (0.07) |

The pro forma amounts include the historical operating results of the Company and SpectraSite, Inc. with appropriate adjustments that give effect to depreciation, amortization and accretion, interest expense, amortization of unearned compensation relating to unvested stock options assumed, income taxes and certain conforming accounting policies of the Company. The pro forma amounts are not necessarily indicative of the operating results that would have occurred if the acquisition and related transactions had been completed at the beginning of the period presented. In addition, the pro forma amounts are not necessarily indicative of operating results in future periods.

5. Goodwill and Other Intangible Assets

The Company's net carrying amount of goodwill was approximately \$2.1 billion as of March 31, 2006 and December 31, 2005, all of which related to its rental and management segment.

The following table presents summary information about the Company's intangible assets subject to amortization (in thousands):

| | March 31, 2006 | December 31, 2005 |
|---|---------------------------|------------------------------|
| Acquired customer base and network location intangibles | \$ 2,605,239 | \$ 2,606,546 |
| Deferred financing costs | 59,567 | 65,623 |
| Acquired licenses and other intangibles | 51,703 | 51,703 |
| Total | 2,716,509 | 2,723,872 |
| Less accumulated amortization | (690,277) | (646,560) |
| Other intangible assets, net | \$ 2,026,232 | \$ 2,077,312 |

The Company amortizes its intangible assets over periods ranging from three to fifteen years. Amortization of intangible assets for the three months ended March 31, 2006 was approximately \$45.5 million (excluding amortization of deferred financing costs, which is included in interest expense). The Company expects to record estimated amortization expense of approximately \$181.9 million for the year ended December 31, 2006, and \$179.5 million, \$175.3 million, \$173.6 million, \$170.8 million and \$167.1 million, for the years ended December 31, 2007, 2008, 2009, 2010 and 2011, respectively. These amounts are subject to changes in estimates until the p