

AMERICAN TOWER CORP /MA/

Form 10-Q/A

March 30, 2005

Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q/A**  
**(Amendment No. 1)**

---

(Mark One):

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended September 30, 2004.

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.)

116 Huntington Avenue

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

**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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of November 4, 2004, there were 228,321,493 shares of Class A Common Stock outstanding.

---

**Table of Contents**

**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 September 30, 2004 (the Original Filing) to reflect the restatement of its condensed consolidated financial statements as of September 30, 2004 and for each of the three and nine month periods ended September 30, 2004 and 2003, and certain corresponding changes described below.

As previously disclosed in a Current Report on Form 8-K dated February 22, 2005, the Company undertook a review of its lease accounting practices as a result of changes in lease accounting announced by other public companies in January and February of 2005 and guidance provided by the Securities and Exchange Commission in its February 7, 2005 letter to the accounting industry. As a result of this review, the Company determined that it should change the periods used to calculate depreciation and amortization expense and straight-line rent expense relating to certain of its tower assets and underlying ground leases. The primary effect of this accounting correction is to accelerate to earlier periods non-cash rent expense and depreciation and amortization expense with respect to certain of the Company's tower sites, resulting in an increase in non-cash expenses compared to what has previously been reported. A discussion of the restatement is set forth in note 2 to the condensed consolidated financial statements included in this Amendment.

Changes also have been made to the following items in this Amendment as a result of the restatement:

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 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 the November 9, 2004 filing date of the Original Filing or modify or update the disclosures presented in the Original Filing, except to reflect the corrections described above. Information with respect to those events has been or will be set forth, as appropriate, in the Company's subsequent periodic filings. 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 Quarterly Report on Form 10-Q/A, the Company is also filing a Quarterly Report on Form 10-Q/A for the quarterly periods ended March 31, 2004 and June 30, 2004 and an Annual Report on Form 10-K/A for the year ended December 31, 2003 to restate its consolidated financial statements included therein.

---

**Table of Contents**

**AMERICAN TOWER CORPORATION**

**INDEX**

**FORM 10-Q/A AMENDMENT NO. 1 TO QUARTERLY REPORT**

**QUARTER ENDED SEPTEMBER 30, 2004**

|  | <b><u>Page No.</u></b> |
|--|------------------------|
| <b>PART I. FINANCIAL INFORMATION</b>   |                        |
| Item 1. Unaudited Condensed Consolidated Financial Statements  |                        |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003</u>                            | 1                      |
| <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2004 and 2003</u> | 2                      |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003</u>           | 3                      |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 4                      |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                   | 27                     |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 46                     |
| Item 4. <u>Controls and Procedures</u>   | 47                     |
| <b>PART II. OTHER INFORMATION</b>  |                        |
| Item 1. <u>Legal Proceedings</u>   | 49                     |
| Item 2. <u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>                        | 49                     |
| Item 6. <u>Exhibits</u>  | 49                     |
| <u>Signatures</u>  | 50                     |
| <u>Exhibit Index</u>   |                        |

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

(in thousands, except share data)

|  | September 30,<br>2004        | December 31,<br>2003 |
|--|------------------------------|----------------------|
|  | (as restated,<br>see note 2) |                      |
| <b>ASSETS</b>  |                              |                      |
| <b>CURRENT ASSETS:</b>   |                              |                      |
| Cash and cash equivalents  | \$ 126,833                   | \$ 105,465           |
| Restricted cash and investments  |                              | 170,036              |
| Accounts receivable, net of allowances of \$13,189 and \$17,445, respectively              | 41,704                       | 57,735               |
| Prepaid and other current assets   | 42,529                       | 34,105               |
| Costs and earnings in excess of billings on uncompleted contracts and unbilled receivables | 16,552                       | 19,933               |
| Deferred income taxes  | 14,122                       | 14,122               |
| Assets held for sale   | 3,389                        | 10,119               |
| <b>Total current assets</b>  | <b>245,129</b>               | <b>411,515</b>       |
| PROPERTY AND EQUIPMENT, net  | 2,324,343                    | 2,488,350            |
| OTHER INTANGIBLE ASSETS, net   | 993,384                      | 1,019,861            |
| GOODWILL, net  | 592,683                      | 592,683              |
| DEFERRED INCOME TAXES  | 577,135                      | 502,737              |
| NOTES RECEIVABLE AND OTHER LONG-TERM ASSETS  | 288,536                      | 275,508              |
| <b>TOTAL</b>   | <b>\$ 5,021,210</b>          | <b>\$ 5,290,654</b>  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                              |                      |
| <b>CURRENT LIABILITIES:</b>  |                              |                      |
| Accounts payable and accrued expenses  | \$ 104,833                   | \$ 107,557           |
| Accrued interest   | 31,162                       | 59,734               |
| Current portion of long-term obligations   | 6,722                        | 77,622               |
| Billings in excess of costs on uncompleted contracts and unearned revenue                  | 33,154                       | 41,449               |
| Liabilities held for sale  |                              | 8,416                |
| <b>Total current liabilities</b>   | <b>175,871</b>               | <b>294,778</b>       |
| LONG-TERM OBLIGATIONS  | 3,211,635                    | 3,283,603            |
| OTHER LONG-TERM LIABILITIES  | 115,420                      | 83,496               |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

|   |                     |                     |
|---|---------------------|---------------------|
| Total liabilities   | 3,502,926           | 3,661,877           |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                     |                     |
| MINORITY INTEREST IN SUBSIDIARIES   | 11,863              | 18,599              |
| <b>STOCKHOLDERS EQUITY:</b>   |                     |                     |
| Preferred Stock: \$.01 par value; 20,000,000 shares authorized; no shares issued or outstanding   |                     |                     |
| Class A Common Stock: \$.01 par value; 500,000,000 shares authorized; 226,741,565 and 211,855,658 shares issued, 226,596,344 and 211,710,437 shares outstanding, respectively | 2,267               | 2,119               |
| Class B Common Stock: \$.01 par value; 50,000,000 shares authorized; 0 and 6,969,529 shares issued and outstanding, respectively  |                     | 70                  |
| Class C Common Stock: \$.01 par value; 10,000,000 shares authorized; 0 and 1,224,914 shares issued and outstanding, respectively  |                     | 12                  |
| Additional paid-in capital  | 3,973,893           | 3,910,879           |
| Accumulated deficit   | (2,465,373)         | (2,291,816)         |
| Note receivable   |                     | (6,720)             |
| Treasury stock (145,221 shares at cost)   | (4,366)             | (4,366)             |
| Total stockholders equity   | 1,506,421           | 1,610,178           |
| <b>TOTAL</b>  | <b>\$ 5,021,210</b> | <b>\$ 5,290,654</b> |

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<br>September 30,      |  | Nine Months Ended<br>September 30,       |  |
|--|--|--|--|--|
|  | 2004<br><br>(as restated,<br>see note 2) | 2003<br><br>(as restated,<br>see note 2) | 2004<br><br>(as restated,<br>see note 2) | 2003<br><br>(as restated,<br>see note 2) |
| <b>REVENUES:</b>   |  |  |  |  |
| Rental and management  | \$ 174,946                               | \$ 158,193                               | \$ 507,109                               | \$ 456,571                               |
| Network development services   | 24,242                                   | 28,681                                   | 71,230                                   | 67,052                                   |
| <b>Total operating revenues</b>  | <b>199,188</b>                           | <b>186,874</b>                           | <b>578,339</b>                           | <b>523,623</b>                           |
| <b>OPERATING EXPENSES:</b>   |  |  |  |  |
| Rental and management  | 59,838                                   | 60,066                                   | 177,034                                  | 176,427                                  |
| Network development services   | 23,216                                   | 26,274                                   | 68,213                                   | 62,486                                   |
| Depreciation, amortization and accretion   | 82,382                                   | 82,619                                   | 250,662                                  | 250,863                                  |
| Corporate general, administrative and development expense  | 6,861                                    | 6,493                                    | 20,391                                   | 20,106                                   |
| Impairments, net loss on sale of long-lived assets and restructuring expense   | 8,815                                    | 7,646                                    | 18,102                                   | 19,344                                   |
| <b>Total operating expenses</b>  | <b>181,112</b>                           | <b>183,098</b>                           | <b>534,402</b>                           | <b>529,226</b>                           |
| <b>OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS</b>  | <b>18,076</b>                            | <b>3,776</b>                             | <b>43,937</b>                            | <b>(5,603)</b>                           |
| <b>OTHER INCOME (EXPENSE):</b>   |  |  |  |  |
| Interest income, TV Azteca, net of interest expense of \$373, \$374, \$1,124 and \$1,121, respectively   | 3,584                                    | 3,523                                    | 10,776                                   | 10,553                                   |
| Interest income  | 1,166                                    | 1,177                                    | 3,402                                    | 4,033                                    |
| Interest expense   | (65,653)                                 | (68,906)                                 | (202,870)                                | (211,849)                                |
| (Loss) gain on retirement of long-term obligations   | (47,951)                                 | 3,255                                    | (87,392)                                 | (41,068)                                 |
| Other expense  | (1,176)                                  | (928)                                    | (2,035)                                  | (7,216)                                  |
| <b>Total other expense</b>   | <b>(110,030)</b>                         | <b>(61,879)</b>                          | <b>(278,119)</b>                         | <b>(245,547)</b>                         |
| <b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND LOSS ON EQUITY METHOD INVESTMENTS</b>                            | <b>(91,954)</b>                          | <b>(58,103)</b>                          | <b>(234,182)</b>                         | <b>(251,150)</b>                         |
| Income tax benefit   | 31,414                                   | 16,404                                   | 64,238                                   | 58,890                                   |
| Minority interest in net earnings of subsidiaries  | (271)                                    | (907)                                    | (2,184)                                  | (2,270)                                  |
| Loss on equity method investments  | (611)                                    | (521)                                    | (1,851)                                  | (19,834)                                 |
| <b>LOSS FROM CONTINUING OPERATIONS</b>   | <b>(61,422)</b>                          | <b>(43,127)</b>                          | <b>(173,979)</b>                         | <b>(214,364)</b>                         |
| <b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX (PROVISION) BENEFIT OF \$(700), \$1,199, \$(227) AND \$5,404 RESPECTIVELY</b> | <b>1,300</b>                             | <b>(15,164)</b>                          | <b>422</b>                               | <b>(54,065)</b>                          |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

|   |             |             |              |              |
|---|-------------|-------------|--------------|--------------|
| NET LOSS  | \$ (60,122) | \$ (58,291) | \$ (173,557) | \$ (268,429) |
| <b>BASIC AND DILUTED LOSS PER COMMON SHARE AMOUNTS:</b> |             |             |              |              |
| Loss from continuing operations                         | \$ (0.27)   | \$ (0.20)   | \$ (0.78)    | \$ (1.05)    |
| Loss from discontinued operations                       |             | (0.07)      |              | (0.26)       |
| NET LOSS PER COMMON SHARE                               | \$ (0.27)   | \$ (0.27)   | \$ (0.78)    | \$ (1.31)    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING              | 224,839     | 213,788     | 222,948      | 204,201      |

See notes to condensed consolidated financial statements.



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

|   | <b>Nine Months Ended<br/>September 30,</b> |                                      |
|---|--|--------------------------------------|
|   | <b>2004</b>                                | <b>2003</b>                          |
|   | <b>(as restated,<br/>see note 2)</b>       | <b>(as restated,<br/>see note 2)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |  |                                      |
| Net loss  | \$ (173,557)                               | \$ (268,429)                         |
| Non-cash items reflected in statements of operations                        | 356,243                                    | 373,716                              |
| (Increase) decrease in assets   | (132)                                      | 12,546                               |
| Decrease in liabilities   | (33,391)                                   | (37,808)                             |
| <b>Cash provided by operating activities</b>                                | <b>149,163</b>                             | <b>80,025</b>                        |
| <b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>                            |  |                                      |
| Payments for purchase of property and equipment and construction activities | (28,612)                                   | (45,934)                             |
| Payments for acquisitions   | (27,843)                                   | (75,990)                             |
| Payments for acquisition of Mexico minority interest                        | (3,947)                                    |                                      |
| Proceeds from sale of businesses and other long-term assets                 | 23,499                                     | 74,296                               |
| Deposits and investments  | 325  | (10,048)                             |
| <b>Cash used for investing activities</b>                                   | <b>(36,578)</b>                            | <b>(57,676)</b>                      |
| <b>CASH FLOWS USED FOR FINANCING ACTIVITIES:</b>                            |  |                                      |
| Proceeds from issuance of debt securities and notes payable                 | 570,000                                    | 632,384                              |
| Net proceeds from equity offering, stock options and other                  | 23,460                                     | 125,205                              |
| Repayment of notes payable, credit facility and capital leases              | (1,523,835)                                | (528,745)                            |
| Borrowings under credit facility  | 700,000                                    |                                      |
| Restricted cash and investments   | 170,036                                    | (283,722)                            |
| Deferred financing costs  | (30,878)                                   | (28,632)                             |
| <b>Cash used for financing activities</b>                                   | <b>(91,217)</b>                            | <b>(83,510)</b>                      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 | <b>21,368</b>                              | <b>(61,161)</b>                      |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                         | <b>105,465</b>                             | <b>127,292</b>                       |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                             | <b>\$ 126,833</b>                          | <b>\$ 66,131</b>                     |
| <b>CASH PAID FOR INCOME TAXES</b>   | <b>\$ 1,902</b>                            | <b>\$ 1,613</b>                      |
| <b>CASH PAID FOR INTEREST</b>   | <b>\$ 173,718</b>                          | <b>\$ 198,658</b>                    |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

NON-CASH TRANSACTIONS

|  |    |        |          |
|--|----|--------|----------|
| Issuance of common stock in exchange for acquisition of Mexico minority interest | \$ | 24,773 |          |
| Capital leases   |    | 2,996  |          |
| Change in fair value of cash flow hedges (net of tax)                            |    |        | \$ 5,192 |
| Convertible note repurchases (excluding gain (loss) on retirements)              |    |        | 52,356   |

See notes to condensed consolidated financial statements.

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

**1. Basis of Presentation and Accounting Policies**

The accompanying condensed consolidated financial statements have been prepared by American Tower Corporation (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 2003 Annual Report on Form 10-K/A (Amendment No. 1).

*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.

*Inventories* Inventories, which consist entirely of finished goods, are stated at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) basis. As of September 30, 2004 and December 31, 2003, inventories were approximately \$3.6 million and \$3.2 million, respectively, and are included in prepaid and other current assets in the accompanying condensed consolidated balance sheets.

*Loss Per Common Share* Basic and diluted loss per common share have been computed by dividing the Company's loss by the weighted average number of common shares outstanding during the period. For the three and nine months ended September 30, 2004 and 2003, potential common shares, including options, warrants and shares issuable 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 loss per share were approximately 71.8 million and 68.3 million as of September 30, 2004 and 2003, respectively.

*Sales of Subsidiary Stock* As described in note 12, during the nine months ended September 30, 2004, certain option holders exercised options to purchase a 3.2% interest in the subsidiary that conducts the Company's Mexico operations. As a result, the Company adopted the provisions of SEC Staff Accounting Bulletin (SAB) No. 51, Accounting for Sales of Stock by a Subsidiary, and recorded the difference between the Company's carrying value of the interest in the subsidiary's equity that was sold over the proceeds received for that interest to additional paid-in-capital. The Company will record any gains or losses resulting from the future sale of stock by a subsidiary as a component of stockholders' equity.

*Stock-Based Compensation* The Company continues to use Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for equity grants and awards to employees, officers and directors and has adopted the disclosure-only provisions of Statement of Financial Accounting Standard (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123.



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

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 (as amended) to stock-based compensation. The estimated fair value of each option is calculated using the Black-Scholes option-pricing model (in thousands, except per share amounts):

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|-------------|------------------------------------|--------------|
|  | 2004                                | 2003        | 2004                               | 2003         |
| Net loss as reported   | \$ (60,122)                         | \$ (58,291) | \$ (173,557)                       | \$ (268,429) |
| Add: Stock-based employee compensation expense, net of related tax effect, included in net loss as reported                              | 376                                 |             | 376                                |              |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect | (3,983)                             | (7,878)     | (16,823)                           | (21,613)     |
| Pro-forma net loss   | \$ (63,729)                         | \$ (66,169) | \$ (190,004)                       | \$ (290,042) |
| Basic and diluted net loss per share - as reported   | \$ (0.27)                           | \$ (0.27)   | \$ (0.78)                          | \$ (1.31)    |
| Basic and diluted net loss per share pro-forma   | \$ (0.28)                           | \$ (0.31)   | \$ (0.85)                          | \$ (1.42)    |

*Asset Retirement Obligations* The Company adopted the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations, during 2003. During the three months ended June 30, 2004, the Company revised certain assumptions used in estimating its aggregate retirement obligation. The impact of these revisions resulted in an increase in depreciation, amortization and accretion expense of \$4.5 million, an increase in tower assets of \$12.0 million, and an increase in other long-term liabilities of approximately \$16.0 million.

*Recent Accounting Pronouncements* In December 2003, the FASB issued Interpretation (FIN) No. 46-R, a revision of FIN 46, Consolidation of Variable Interest Entities. FIN 46-R addresses the consolidation of entities whose equity holders have either not provided sufficient equity at risk to allow the entity to finance its own activities or do not possess certain characteristics of a controlling financial interest. FIN 46-R was applicable for financial statements of public entities that have interests in variable interest entities (VIEs) or potential VIEs referred to as special purpose entities for periods ending after December 15, 2003, of which the Company had none. Application by public entities for all other types of entities was required in financial statements for periods ending after March 15, 2004. The Company adopted the remaining provisions of FIN 46-R in the first quarter of 2004 and such adoption was not material to the Company's consolidated financial position and results of operations.

**2. Restatement of Consolidated Financial Statements**

Subsequent to the issuance of the condensed consolidated financial statements for the quarter ended September 30, 2004, Company management determined that its previously issued financial statements should be restated to correct the Company's accounting practices for ground leases underlying its tower sites. The Company determined that previous periods used to calculate depreciation and amortization expense and straight-line rent expense relating to certain of its tower assets and underlying ground leases were not appropriate as they did not accurately

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

match the expected life of the lease. Accordingly, the Company restated its condensed consolidated financial statements as of September 30, 2004 and for each of the three and nine month periods ended September 30, 2004 and 2003, included in this Quarterly Report on Form 10-Q/A.

As set forth below, the primary effect of this accounting correction is to accelerate to earlier periods non-cash rent expense and depreciation and amortization expense with respect to certain of the Company's tower sites, resulting in an increase in non-cash expenses compared to what has previously been reported.

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

*Rent expense* Many of the leases underlying the Company's tower sites have fixed rent escalators, which provide for periodic increases in the amount of ground rent payable by the Company over time. Historically, the Company has calculated straight-line ground rent expense for these leases using the initial term of the ground lease, excluding any potential renewal periods. The Company has determined that it should change the periods used to calculate its straight-line ground rent expense based on the term of the underlying ground lease, the applicable tower's useful life, and the term of tenant leases on the applicable tower. Typically, the Company enters into tenant leases, which contain multiple renewal options, with its customers for antenna space on its towers. Certain of these tenant leases require the Company to exercise all available renewal options pursuant to the underlying ground lease if the tenant exercises its renewal option. For towers with these types of tenant leases at the inception of the ground lease, the Company will calculate its straight-line ground rent over the lesser of the remaining ground lease life (including all renewal options) or the life of the tenant lease (including all renewal options). In instances where the Company's tenant leases do not require the Company to exercise all available renewal options pursuant to the underlying ground lease, the Company will calculate its straight-line ground rent over the lesser of the remaining ground lease life (including all renewal options) or a period equal to or greater than the 15-year period over which the Company depreciates its tower assets. This change does not impact the timing or amount of actual payments under these ground leases, but does impact the rent expense recorded by the Company as compared to what has previously been reported.

*Depreciation and amortization* A number of the Company's towers are located on leased land where the term of the underlying ground lease had been or is shorter than the useful life of the tower. Historically, the Company has used a consistent depreciable life, 15 years, for all of its towers, regardless of the remaining term of the ground lease underlying each tower. The Company has determined that it should depreciate each tower and tower related assets (customer base and network intangibles) using a 15-year period, or, if the term of the underlying ground lease is less than 15 years (including all renewal options), using a period equal to the term of the ground lease. This change will result in an increase in the amount of depreciation and amortization recorded by the Company as compared to what has previously been reported.

*Reclassifications* Loss on equity method investments and minority interest in net earnings of subsidiaries historically had been included as a component of other expense in the condensed consolidated statements of operations. The Company has reclassified loss on equity method investments and minority interest in net earnings of subsidiaries to below the income tax benefit line in the condensed consolidated statements of operations for all periods presented.

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

The following schedules reconcile the amounts as originally reported in the Company's condensed consolidated statements of operations for each of the three and nine month periods ended September 30, 2004 and 2003, and the condensed consolidated balance sheet as of September 30, 2004, to the corresponding restated amounts (in thousands):

|  | <b>Condensed Consolidated<br/>Statements<br/>of Operations</b> |                        |
|--|--|------------------------|
|  | <b>As previously<br/>reported</b>                              | <b>As<br/>restated</b> |
| <b>Three Months Ended September 30, 2004</b>       |  |                        |
| Rental and management expense                      | \$ 56,969  | \$ 59,838              |
| Depreciation, amortization and accretion           | 78,695   | 82,382                 |
| Total operating expenses                           | 174,556  | 181,112                |
| Operating income from continuing operations        | 24,632   | 18,076                 |
| Income tax benefit                                 | 29,076   | 31,414                 |
| Net loss   | (55,904)   | (60,122)               |
| Net loss per common share                          | (0.25)   | (0.27)                 |
| <b>Three Months Ended September 30, 2003</b>       |  |                        |
| Rental and management expense                      | \$ 56,758  | \$ 60,066              |
| Depreciation, amortization and accretion           | 77,687   | 82,619                 |
| Total operating expenses                           | 174,858  | 183,098                |
| Operating income from continuing operations        | 12,016   | 3,776                  |
| Income tax benefit                                 | 13,593   | 16,404                 |
| Net loss   | (52,862)   | (58,291)               |
| Net loss per common share                          | (0.25)   | (0.27)                 |
| <b>Nine Months Ended September 30, 2004</b>        |  |                        |
| Rental and management expense                      | \$ 168,186   | \$ 177,034             |
| Depreciation, amortization and accretion           | 237,754  | 250,662                |
| Total operating expenses                           | 512,646  | 534,402                |
| Operating income from continuing operations        | 65,693   | 43,937                 |
| Income tax benefit                                 | 56,720   | 64,238                 |
| Net loss   | (159,319)  | (173,557)              |
| Net loss per common share                          | (0.71)   | (0.78)                 |
| <b>Nine Months Ended September 30, 2003</b>        |  |                        |
| Rental and management expense                      | \$ 165,659   | \$ 176,427             |
| Depreciation, amortization and accretion           | 236,965  | 250,863                |
| Total operating expenses                           | 504,560  | 529,226                |
| Operating income (loss) from continuing operations | 19,063   | (5,603)                |
| Income tax benefit                                 | 50,453   | 58,890                 |
| Net loss   | (252,200)  | (268,429)              |
| Net loss per common share                          | (1.24)   | (1.31)                 |





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

|  | <b>Condensed Consolidated<br/>Balance Sheet</b> |                    |
|--|---|--------------------|
|  | <b>As previously<br/>reported</b>               | <b>As restated</b> |
| <b>September 30, 2004</b>                  |   |                    |
| Property and equipment, net                | \$ 2,391,203                                    | \$ 2,324,343       |
| Other intangible assets, net               | 1,034,823                                       | 993,384            |
| Deferred income taxes                      | 516,060   | 577,135            |
| Other long-term liabilities                | 47,037  | 115,420            |
| Accumulated deficit                        | (2,349,766)                                     | (2,465,373)        |
| Total assets                               | 5,068,434                                       | 5,021,210          |
| Total liabilities                          | 3,434,543                                       | 3,502,926          |
| Total stockholders' equity                 | 1,622,028                                       | 1,506,421          |
| Total liabilities and stockholders' equity | 5,068,434                                       | 5,021,210          |

**3. 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.

During the three months ended September 30, 2004, the Company revised its annual effective tax rate from 23.1% for the six months ended June 30, 2004 to 27.4% for the nine months ended September 30, 2004. Such revision was attributable to an increase in the Company's estimated annual net loss, and a change in projected taxable income related to its foreign subsidiaries.

**4. Pending Sale of Tower Construction Services Unit**

In August 2004, the Company announced that it was considering strategic alternatives for its tower construction services unit, including a potential sale of all of its tower construction service capabilities. In October 2004, the Company entered into an agreement to sell its tower construction services unit for total consideration of approximately \$10.0 million, consisting of cash and the assumption of certain capital lease obligations by the purchaser. As a result of the anticipated disposal, the Company recorded an impairment charge of approximately \$2.3 million in the third quarter of 2004 to reduce the carrying value of the net assets of its tower construction services unit to the estimated proceeds expected upon disposal. The Company will report its tower construction services unit as a discontinued operation commencing in the fourth quarter of 2004. The sale is expected to close during the fourth quarter of 2004, subject to satisfaction of customary closing conditions. After the sale, the Company's network development services segment will continue to provide complementary non-construction services to the rental and management segment including site acquisition, zoning and permitting, and structural analysis.

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

As of September 30, 2004, the tower construction services unit was included in the network development services segment and had revenues of \$18.3 million and \$25.3 million for the three months ended September 30, 2004 and 2003, respectively, and \$56.4 million and \$57.3 million for the nine months ended September 30, 2004 and 2003, respectively. The tower construction services unit had pre-tax (loss) income of \$(1.0) million and \$0.6 million for the three months ended September 30, 2004 and 2003 and \$(4.2) million and \$(2.5) million for the nine months ended September 30, 2004 and 2003, respectively.

**Table of Contents****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****5. Discontinued Operations**

During the nine months ended September 30, 2004 and the year ended December 31, 2003, in connection with the Company's plan to focus on its core tower business, the Company sold or committed to sell several non-core businesses. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company classified the operating results of these businesses as discontinued operations in the accompanying condensed consolidated statements of operations. In addition, the assets and liabilities of the discontinued operations not disposed of as of September 30, 2004 and December 31, 2003 have been reflected as assets held for sale and liabilities held for sale in the accompanying condensed consolidated balance sheets.

The following businesses have been reflected as discontinued operations in the accompanying condensed consolidated statements of operations:

*Verestar* In December 2002, the Company committed to a plan to sell Verestar, Inc., a wholly owned subsidiary, by December 31, 2003. On December 22, 2003, Verestar and its subsidiaries (collectively, Verestar) filed for protection under Chapter 11 of the federal bankruptcy laws. Verestar was reported as a discontinued operation through the date of the bankruptcy filing, and, as of that date forward, the Company ceased to consolidate Verestar's financial results. (See note 11.)

*Kline* In June 2003, the Company committed to a plan to sell Kline Iron & Steel Co., Inc. (Kline). During 2004, the Company sold substantially all the assets of Kline for approximately \$4.0 million in cash and up to an additional \$2.0 million in cash payable in 2006 based on future revenues generated by Kline. Kline was previously included in the Company's network development services segment.

The following table presents summary operating results of the Company's discontinued operations (in thousands):

|  | Three Months<br>Ended September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2004                                | 2003(1)     | 2004                               | 2003(1)     |
| Revenue  |                                     | \$ 45,761   | \$ 3,857                           | \$ 159,174  |
| Loss from discontinued operations  |                                     | (2,219)     | (1,014)                            | (13,609)    |
| Income tax benefit on loss from discontinued operations  |                                     | 455         | 355                                | 1,642       |
| Net income (loss) on disposal of discontinued operations, net of tax (provision) benefit of \$(700), \$744, \$(582) and \$3,762 respectively | \$ 1,300                            | (13,400)    | 1,081                              | (42,098)    |
| Income (loss) from discontinued operations, net  | \$ 1,300                            | \$ (15,164) | \$ 422                             | \$ (54,065) |

- (1) In addition to the businesses described above, loss from discontinued operations, net for the periods ended September 30, 2003 includes the results of operations of the following: Flash Technologies, sold in January 2003; Maritime Telecommunications Network, sold in February 2003; an office building in Schaumburg, Illinois, sold in March 2003; an office building in Westwood, Massachusetts, sold in May 2003; and Galaxy Engineering, sold in August 2003. Loss from discontinued operations, net for the nine months ended September 30, 2003 primarily includes estimated net losses on the disposal of Verestar, Kline, Galaxy and a net loss on the disposal of an office building in Westwood, Massachusetts.

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

As of September 30, 2004 and December 31, 2003, the Company held for sale the following assets and liabilities (in thousands):

|  | September 30,<br>2004 | December 31,<br>2003 |
|--|-----------------------|----------------------|
| Accounts receivable, net   |                       | \$ 2,982             |
| Prepaid and other current assets                                 |                       | 1,554                |
| Property and equipment, net                                      | \$ 3,389              | 5,532                |
| Other long-term assets   |                       | 51                   |
| <b>Assets held for sale</b>                                      | <b>\$ 3,389</b>       | <b>\$ 10,119</b>     |
| Accounts payable, accrued expenses and other current liabilities | \$                    | \$ 8,416             |
| <b>Liabilities held for sale</b>                                 | <b>\$</b>             | <b>\$ 8,416</b>      |

**6. Goodwill and Other Intangible Assets**

The Company's net carrying amount of goodwill as of September 30, 2004 and December 31, 2003 was approximately \$592.7 million, all of which related to its rental and management segment.

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

|   | September 30,<br>2004 | December 31,<br>2003 |
|---|-----------------------|----------------------|
| Acquired customer base and network location intangibles | \$ 1,351,682          | \$ 1,299,708         |
| Deferred financing costs                                | 95,266                | 111,484              |
| Acquired licenses and other intangibles                 | 43,326                | 43,125               |
| <b>Subtotal</b>   | <b>1,490,274</b>      | <b>1,454,317</b>     |
| Less accumulated amortization                           | (496,890)             | (434,456)            |
| <b>Other intangible assets, net</b>                     | <b>\$ 993,384</b>     | <b>\$ 1,019,861</b>  |

The Company amortizes its intangible assets over periods ranging from three to fifteen years. Amortization of intangible assets for the three and nine months ended September 30, 2004 was approximately \$24.8 million and \$73.5 million, respectively (excluding amortization of deferred financing costs, which is included in interest expense). The Company expects to record estimated amortization expense of \$97.9 million for the year ended December 31, 2004, and \$96.6 million, \$94.7 million, \$90.8 million, \$89.3 million and \$87.6 million, respectively, for the years ended December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

## 7. Financing Transactions

*3.00% Convertible Notes Offering* In August 2004, the Company sold \$345.0 million principal amount of 3.00% convertible notes due August 15, 2012 (3.00% Notes) through an institutional private placement. The net proceeds were approximately \$335.9 million, after deducting the commissions payable to the initial purchaser and other expenses related to the offering. The net proceeds were used to redeem a portion of the Company's 9 3/8% senior notes due 2009 (9 3/8% Notes), as described below.

The 3.00% Notes mature on August 15, 2012 and interest is payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2005. The Company may redeem the 3.00% notes after

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

August 20, 2009 at an initial redemption price of 101.125% of the principal amount, subject to a ratable decline after August 15 of the following year to 100% of the principal amount in 2012. The 3.00% Notes rank equally with the Company's other convertible notes, the 7.50% senior notes due 2012 (7.50% Notes) and the 9<sup>3</sup>/<sub>8</sub>% Notes and are structurally and effectively junior to indebtedness outstanding under the credit facility, the 12.25% senior subordinated discount notes due 2008 issued by American Towers, Inc. (ATI), a wholly owned subsidiary of the Company (ATI 12.25% Notes), and the 7.25% senior subordinated notes due 2011 issued by ATI (ATI 7.25% Notes). The 3.00% Notes also rank equally with the Company's 7.125% senior notes due 2012 (7.125% Notes), issued in October 2004. (See note 14.)

The 3.00% Notes are convertible at any time prior to maturity, subject to their prior redemption or repurchase, into shares of the Company's Class A common stock at a conversion price of approximately \$20.50 per share, subject to adjustment in certain events. Upon a fundamental change of control as defined in the notes indenture, the holders of the 3.00% Notes may require the Company to repurchase all or part of the 3.00% Notes for a cash purchase price equal to 100% of the principal amount. In addition, upon a fundamental change in control, the holders may elect to convert their notes based on a conversion rate adjustment that entitles the holders to receive additional shares of the Company's Class A common stock upon conversion depending on the terms and timing of the change of control.

*New Credit Facility* In May 2004, the Company refinanced its previous credit facility with a new \$1.1 billion senior secured credit facility. At closing, the Company received \$685.5 million of net proceeds from the borrowings under the new facility, after deducting related expenses and fees. Approximately \$670.0 million of the net proceeds were used to repay principal and interest on the previous credit facility. The Company used the remaining net proceeds of \$15.5 million for general corporate purposes, including the repurchase of other outstanding debt securities. The Company recorded a charge of \$11.7 million related to the write-off of deferred financing fees associated with its previous credit facility, which is reflected in loss on retirement of long-term obligations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2004.

As of September 30, 2004, the new credit facility consists of the following:

\$400.0 million in undrawn revolving loan commitments, against which approximately \$26.7 million of undrawn letters of credit were outstanding at September 30, 2004, maturing on February 28, 2011;

a \$300.0 million term loan A, which is fully drawn, maturing on February 28, 2011; and

a \$399.0 million term loan B, which is fully drawn, maturing on August 31, 2011.

The new credit facility extends the previous credit facility maturity dates from 2007 to 2011 for a majority of the borrowings outstanding under the new credit facility, subject to certain conditions described below, and permits the Company to use borrowings under the new credit facility and internally generated funds to repurchase other indebtedness without additional lender approval. The new credit facility is guaranteed by the Company and its subsidiaries and secured by a pledge of substantially all of the Company's assets. The new credit facility also contains certain financial ratios and operating covenants and other restrictions similar to the previous credit facility (including limitations on additional debt, guarantees, use of proceeds from asset sales, dividends and distributions, investments and liens) with which the Company's borrower and



restricted subsidiaries must comply.

The maturity date for term loan A and any outstanding revolving loans will be accelerated to August 15, 2008 and the maturity date for term loan B will be accelerated to October 31, 2008 if (1) on or prior to August 1, 2008, the Company's 9/8% Notes have not been (a) refinanced with parent company indebtedness having a

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

maturity date of February 28, 2012 or later or with loans under the new credit facility, or (b) repaid, prepaid, redeemed, repurchased or otherwise retired; and (2) the Company's consolidated leverage ratio (total parent company debt to annualized operating cash flow) at June 30, 2008 exceeds 4.50 to 1.00. If this were to occur, the payments due in 2008 for term loan A and term loan B would be \$225.0 million and \$386.0 million, respectively.

*7.50% Senior Notes Offering* In February 2004, the Company sold \$225.0 million principal amount of 7.50% senior notes due 2012 (7.50% Notes) through an institutional private placement. The net proceeds of the offering were approximately \$221.7 million, after deducting the commissions payable to the initial purchasers and other expenses related to the offering. The net proceeds were used to redeem all of the Company's outstanding 6.25% convertible notes due 2009 (6.25% Notes) and repurchase a portion of the Company's outstanding 5.0% convertible notes due 2010 (5.0% Notes), as discussed below.

The 7.50% Notes mature on May 1, 2012 and interest is payable semiannually in arrears on May 1 and November 1 beginning May 1, 2004. The Company may redeem the 7.50% Notes after May 1, 2008. The initial redemption price on the 7.50% Notes is 103.750% of the principal amount, subject to a ratable decline after May 1 of the following year to 100% of the principal amount in 2010 and thereafter. The 7.50% Notes rank equally with the Company's convertible notes and the 9/8% Notes and are structurally and effectively junior to indebtedness outstanding under the credit facility, the ATI 12.25% Notes, and the ATI 7.25% Notes. The 7.50% Notes also rank equally with the Company's 7.125% Notes, issued in October 2004. (See note 14.) The indenture for the 7.50% Notes contains certain covenants that restrict the Company's ability to incur more debt; guarantee indebtedness; issue preferred stock; pay dividends; make certain investments; merge, consolidate or sell assets; enter into transactions with affiliates; and enter into sale leaseback transactions.

*6.25% Convertible Notes Redemption* In February 2004, the Company redeemed all of its outstanding \$212.7 million principal amount of 6.25% Notes pursuant to the terms of the indenture at a purchase price equal to 102.083% of the principal amount, plus accrued interest. The total aggregate redemption price was \$221.9 million, including \$4.8 million in accrued interest. As a result of the redemption, the Company recorded a charge of \$7.2 million. Such charge is reflected in loss on retirement of long-term obligations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2004.

*9<sup>3</sup>/8% Senior Notes Redemption* In September 2004, the Company redeemed \$337.0 million principal amount of its 9/8% Notes pursuant to the terms of the indenture at a purchase price equal to 107.07% of the principal amount, plus accrued interest. The Company used the \$335.9 million in net proceeds from the 3.00% Notes offering and \$29.2 million in cash on hand to pay the aggregate redemption price of \$365.1 million, including \$4.3 million in accrued interest. As a result of the redemption, the Company recorded a charge of \$30.2 million. Such charge is reflected in loss on retirement of long-term obligations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2004. In November 2004, the Company redeemed an additional \$276.0 million principal amount of its 9<sup>3</sup>/8% Notes. (See note 14.)

*Other Debt Repurchases* During the nine months ended September 30, 2004, in addition to the redemptions discussed above, the Company repurchased in privately negotiated transactions an aggregate of \$184.2 million face amount of its ATI 12.25% Notes (\$104.6 million accreted value, net of \$9.0 million fair value discount allocated to warrants) for approximately \$136.2 million in cash; repurchased \$26.9 million principal amount of its 9<sup>3</sup>/8% Notes for \$28.8 million in cash; and repurchased \$73.7 million principal amount of its 5.0% Notes for

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

approximately \$73.3 million in cash. As a result of these transactions, the Company recorded an aggregate charge of \$38.1 million related to the write-off of deferred financing fees and amounts paid in excess of or below carrying value. Such loss is reflected in loss on retirement of long-term obligations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2004.

**Table of Contents****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****8. Restructuring**

During the nine months ended September 30, 2004, the Company incurred certain employee separation costs and made cash payments against its accrued restructuring liability. The following table presents the activity for the accrued restructuring liability for the nine months ended September 30, 2004 (in thousands):

|   | <b>Liability as of<br/>January 1,<br/>2004</b> | <b>Restructuring<br/>Expense</b> | <b>Cash<br/>Payments</b> | <b>Liability as of<br/>September 30,<br/>2004</b> |
|---|--|----------------------------------|--------------------------|---|
| Employee separations                                | \$ 2,239                                       | \$ 340                           | \$ (2,109)               | \$ 470  |
| Lease terminations and other facility closing costs | 1,450  | (95)                             | (478)                    | 877   |
| <b>Total</b>  | <b>\$ 3,689</b>                                | <b>\$ 245</b>                    | <b>\$ (2,587)</b>        | <b>\$ 1,347</b>                                   |

During the nine months ended September 30, 2004, the Company reduced its lease terminations and other facility closing costs liability by \$95,000. The Company expects to pay the balance of the employee separation liabilities during the remainder of 2004 or first quarter of 2005. Additionally, the Company continues to negotiate certain lease terminations associated with its restructuring liability. Such liability is reflected in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

**9. Business Segments**

The Company operates in two business segments: rental and management (RM) and network development services (Services). The RM segment provides for the leasing and subleasing of antennae sites on multi-tenant towers and other properties for a diverse range of customers primarily in the wireless communication and broadcast industries. The Services segment offers a broad range of services, including antenna and line installation, maintenance, construction, site acquisition and zoning.

The accounting policies applied in compiling segment information below are similar to those described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003. In evaluating financial performance, management focuses on operating profit (loss), excluding depreciation, amortization and accretion; corporate general, administrative and development expense; and impairments, net loss on sale of long-lived assets and restructuring expense. This measure of operating profit (loss) is also before interest income, interest expense, (loss) gain on retirement of long-term obligations, other expense, minority interest in net earnings of subsidiaries, loss on equity method investments, income taxes and discontinued operations. For reporting purposes, the RM segment includes interest income, TV Azteca, net.

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

The Company's reportable segments are strategic business units that offer different services. They are managed separately because each segment requires different resources, skill sets and marketing strategies. Summarized financial information concerning the Company's reportable segments as of and for the three and nine months ended September 30, 2004 and 2003 is shown in the following table. The Other column below represents amounts excluded from specific segments, such as depreciation, amortization and accretion; corporate general, administrative and development expense; impairments, net loss on sale of long-lived assets and restructuring expense; interest income; interest expense; (loss) gain on retirement of long-term obligations; and other expense. In addition, the Other column also includes corporate assets such as cash and cash equivalents, certain tangible and intangible assets and income tax accounts that have not been allocated to specific segments, as well as assets held for sale.

| Three months ended September 30, (in thousands)       | RM         | Services  | Other        | Total      |
|---|------------|-----------|--------------|------------|
| <b>2004</b>   |            |           |              |            |
| Revenues  | \$ 174,946 | \$ 24,242 |              | \$ 199,188 |
| Operating profit (loss)                               | 118,692    | 1,026     | \$ (211,672) | (91,954)   |
| Assets  | 4,111,062  | 63,527    | 846,621      | 5,021,210  |
| <b>2003</b>   |            |           |              |            |
| Revenues  | \$ 158,193 | \$ 28,681 |              | \$ 186,874 |
| Operating profit (loss)                               | 101,650    | 2,407     | \$ (162,160) | (58,103)   |
| Assets  | 4,420,895  | 101,365   | 1,028,700    | 5,550,960  |
| <b>Nine months ended September 30, (in thousands)</b> |            |           |              |            |
| <b>2004</b>   |            |           |              |            |
| Revenues  | \$ 507,109 | \$ 71,230 |              | \$ 578,339 |
| Operating profit (loss)                               | 340,851    | 3,017     | \$ (578,050) | (234,182)  |
| Assets  | 4,111,062  | 63,527    | 846,621      | 5,021,210  |
| <b>2003</b>   |            |           |              |            |
| Revenues  | \$ 456,571 | \$ 67,052 |              | \$ 523,623 |
| Operating profit (loss)                               | 290,697    | 4,566     | \$ (546,413) | (251,150)  |
| Assets  | 4,420,895  | 101,365   | 1,028,700    | 5,550,960  |

**10. Acquisitions**

During the three and nine months ended September 30, 2004, the Company acquired 49 and 187 communications sites for approximately \$9.4 million and \$27.8 million in cash. The Company has accounted for the acquisition of these towers under the purchase method of accounting. The purchase price has been preliminarily allocated to the assets acquired (principally tangible assets). The allocation is preliminary as an appraisal of the assets acquired has not been finalized. The Company does not expect changes in depreciation and amortization from the finalization of the purchase price allocation to be material to its consolidated results of operations.

*Unaudited Pro Forma Operating Results* The unaudited pro forma results of operations for the three and nine months ended September 30, 2004 and 2003 are not presented for comparative purposes due to the insignificant impact of the communications sites acquired in 2004 (as described above) on the Company's condensed consolidated results of operations.



---

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

**11. Commitments and Contingencies**

*Verestar* As discussed in note 5, Verestar filed for protection under Chapter 11 of the federal bankruptcy laws on December 22, 2003. If Verestar fails to honor certain of its contractual obligations because of its bankruptcy filing or otherwise, claims may be made against the Company for breaches by Verestar of those contracts as to which the Company is primarily or secondarily liable as a guarantor. The Company accrued its estimate of costs to settle these obligations as of December 31, 2003 and adjusted such estimate to reflect actual payments made during the nine months ended September 30, 2004. In addition, Verestar's bankruptcy estate may bring certain claims against the Company or seek to hold the Company liable for certain transfers made by Verestar to the Company and/or for Verestar's obligations to creditors under various equitable theories recognized under bankruptcy law. The Official Committee of Unsecured Creditors appointed in the Verestar bankruptcy proceeding (the Committee) has requested, and the Company has agreed to produce, certain documents in connection with a subpoena for Rule 2004 Examination (as defined under federal bankruptcy laws) issued by the Committee. The Bankruptcy Court also entered an order approving a stipulation between Verestar and the Committee that permits the Committee to file claims against the Company and/or its affiliates on behalf of Verestar. The Committee has not filed any claims against the Company or its affiliates. In the opinion of management, the resolution of any claims that may be made against the Company by Verestar's bankruptcy estate will not have a material impact on the Company's consolidated financial position, results of operations or liquidity. Finally, the Company will incur additional costs in connection with its involvement in the reorganization or liquidation of Verestar's business.

*Litigation* The Company periodically becomes involved in various claims and lawsuits (either asserted or unasserted) that are incidental to its business. In the opinion of management, after consultation with counsel, there are no matters currently pending which would, in the event of adverse outcome, have a material impact on the Company's consolidated financial position, the results of its operations or liquidity.

*Acquisition Commitments* As of September 30, 2004, the Company was party to agreements relating to the acquisition of 33 tower assets from Iusacel Celular (Iusacel) for an aggregate remaining purchase price of approximately \$6.9 million. The Company may pursue the acquisitions of other properties and businesses in new and existing locations, although there are no definitive material agreements with respect thereto.

*Build-to-Suit Agreements* As of September 30, 2004, the Company was party to various arrangements relating to the construction of tower sites under existing build-to-suit agreements. Under the terms of the agreements, the Company may be obligated to construct up to 750 towers (400 towers in Mexico and 350 towers in Brazil) over a three-year period. During the nine months ended September 30, 2004, the Company constructed 29 towers in Mexico and 0 towers in Brazil.

**12. ATC International Transactions**

*ATC Mexico Holding* In April 2004, the Company repurchased an 8.8% interest in ATC Mexico Holding Corp., the subsidiary through which the Company conducts its Mexico operations (ATC Mexico) from J. Michael Gearon, Jr. (Mr. Gearon), an executive officer of the Company. Mr. Gearon had exercised his previously disclosed put right in January 2004 requiring the Company to purchase his interest in ATC Mexico. The net aggregate consideration paid for Mr. Gearon's interest was \$35.9 million. The Company issued Mr. Gearon 2,203,968 shares of its Class A common stock valued at \$24.8 million and paid \$3.9 million in cash in satisfaction of 80% of the net consideration due to him. Payment of the remaining 20% of the purchase price of \$7.3 million is contingent upon ATC Mexico satisfying certain performance criteria and will be paid in

cash, if at all, in January 2005. The Company's board of directors approved the determination of the fair market value of Mr. Gearon's interest with the assistance of an independent financial advisor.



**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

In accordance with FASB No. 141 Business Combinations the acquisition has been accounted for under the purchase method of accounting. The purchase price has been preliminarily allocated to the net assets acquired (principally intangible assets). The allocation is preliminary as an appraisal of the net assets acquired has not been finalized. The Company does not expect changes in depreciation and amortization from the finalization of the purchase price allocation to be material to its consolidated results of operations.

As of September 30, 2004, the Company owned a 96.8% interest in ATC Mexico. The remaining 3.2% minority interest in ATC Mexico was held by ATC Mexico employees and an executive officer of the Company. In the first quarter of 2004, 318 options held by ATC Mexico employees and an executive officer of the Company under the ATC Mexico Stock Option Plan were exercised. In connection with the issuance of these shares, the Company adopted the provisions of SEC SAB No. 51 and recorded a \$1.8 million reduction to stockholders' equity in the accompanying condensed consolidated balance sheet. Such adjustment reflected the difference in the Company's carrying value of the interest in ATC Mexico's equity that was sold over the proceeds received for that interest. (See note 1.) The employees holding these shares had the right to require the Company to purchase their interests in ATC Mexico six months following their issuance at the then fair market value, which date occurred in the fourth quarter of 2004. The employees exercised this put right in October 2004. (See note 14.) As of September 30, 2004, William H. Hess (Mr. Hess), an executive officer of the Company, owned a 1.4% interest in ATC Mexico as a result of his exercise of options granted to him under the ATC Mexico Stock Option Plan. Mr. Hess exercised his put right with respect to such shares in October 2004, and as of such exercise, no longer owned an interest in ATC Mexico. (See note 14.)

*ATC South America* During the nine months ended September 30, 2004, the Company consummated a previously disclosed arrangement with Mr. Gearon pursuant to which he would purchase an equity interest in certain of the Company's international subsidiaries, including ATC South America Holding Corp., the subsidiary through which the Company conducts its Brazilian operations (ATC South America). On March 31, 2004, ATC South America issued to Mr. Gearon stock representing an approximate 1.6% interest for approximately \$1.2 million in cash. The Company's carrying value of the equity interest that was sold approximated the fair value. The purchase price represented the fair market value of the interest in ATC South America on the date of the sale, as determined by the Company's board of directors with the assistance of an independent appraisal. Mr. Gearon may require the Company to purchase his interest in ATC South America, for its then fair market value, at any time after the earliest to occur of December 31, 2004 or Mr. Gearon's death or disability, and the Company has the right to purchase Mr. Gearon's interest in ATC South America, for its then fair market value, at any time after the earliest to occur of December 31, 2005, Mr. Gearon's death or disability, or the occurrence of either a Gearon Termination Event or a Forfeiture Event (each as defined in the Company's stockholder agreement with Mr. Gearon).

As part of Mr. Gearon's investment, ATC South America's Board of Directors also approved the formation of the ATC South America Stock Option Plan that provides for the issuance of options to officers, employees, directors and consultants of ATC South America, including Mr. Gearon, to purchase up to an aggregate approximate 10.3% interest in ATC South America. During the nine months ended September 30, 2004, ATC South America granted 6,024 options to purchase shares of ATC South America common stock to officers and employees, including Messrs. Gearon and Hess, who received options to purchase shares representing an approximate 6.7% and 1.6% interest, respectively. The exercise price is \$1,349 per share, which was the fair market value per share on the date of grant as determined by the board of directors with the assistance of an independent appraisal performed at the Company's request. Options granted vest upon the earlier to occur of: the exercise by or on behalf of Mr. Gearon of his right to require the Company to purchase his interest in ATC South America; the exercise by the Company of its right to acquire Mr. Gearon's interest in ATC South America; or July 1, 2006. These options expire ten years from the date of grant. The employees holding these options may



---

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

also require the Company to purchase their interests in ATC South America six months following the exercise of their options at the then fair market value.

**13. Common Stock Conversions**

In February 2004, Steven B. Dodge, the Company's former Chairman and Chief Executive Officer, retired from the Company's Board of Directors and elected to convert all of his shares of the Company's Class B common stock, which triggered the Dodge Conversion Event as defined in the Company's charter. Accordingly, all outstanding shares of Class B common stock were converted into shares of Class A common stock on a one-for-one basis. In addition, in February 2004, all outstanding shares of the Company's Class C common stock were converted into shares of its Class A common stock on a one-for-one basis. The Company's charter prohibits the future issuance of shares of Class B common stock, but permits the future issuance of shares of Class C common stock.

**14. Subsequent Events**

*7.125% Senior Notes Offering* In October 2004, the Company sold \$300.0 million principal amount of 7.125% senior notes due 2012 (7.125% Notes) through an institutional private placement. The net proceeds were approximately \$292.8 million, after deducting the commissions payable to the initial purchasers and other expenses related to the offering. The net proceeds were used to redeem a portion of the Company's 9<sup>3</sup>/<sub>8</sub>% Notes, as described below.

The 7.125% Notes mature on October 15, 2012 and interest is payable semi-annually in arrears on April 15 and October 15 of each year, beginning April 15, 2005. The Company may redeem up to 35% of the 7.125% Notes prior to October 15, 2007 at a price equal to 107.125% of the principal amount of the notes, plus accrued and unpaid interest thereon (and additional interest, if any), with the net cash proceeds of certain public equity offerings within 60 days, as applicable, after the closing of any such offering. The Company may redeem the 7.125% notes at 100% of the applicable premium prior to October 15, 2008 and after October 15, 2008, at an initial redemption price of 103.563% of the principal amount, subject to a ratable decline after October 15 of the following year to 100% of the principal amount in 2010 and thereafter. Upon a change of control as defined in the notes indenture, the Company may be required to repurchase the 7.125% Notes equal to 101% of the principal amount. The 7.125% Notes rank equally with the Company's convertible notes, the 7.50% Notes and the 9<sup>7</sup>/<sub>8</sub>% Notes and are structurally and effectively junior to indebtedness outstanding under the credit facility, the ATI 12.25% Notes and the ATI 7.25% Notes. The indenture for the 7.125% Notes contains certain covenants that restrict the Company's ability to incur more debt; guarantee indebtedness; issue preferred stock; create liens; pay dividends; make certain investments; merge, consolidate or sell assets; enter into transactions with affiliates; and enter into sale leaseback transactions.

*9<sup>3</sup>/<sub>8</sub>% Senior Notes Redemption* In November 2004, the Company redeemed \$276.0 million principal amount of its 9<sup>3</sup>/<sub>8</sub>% Notes pursuant to the terms of the indenture at a purchase price equal to 106.23% of the principal amount, plus accrued interest. The Company used the \$292.8 million in net proceeds from the 7.125% Notes offering and \$7.1 million in cash on hand to pay the aggregate redemption price of \$299.9 million, including \$6.7 million in accrued interest. As a result, the Company expects to record a pre-tax loss on retirement of long-term obligations in the fourth quarter of 2004 of approximately \$21.9 million related to cash paid in excess of carrying value and the write-off of related deferred financing fees.

*Other Debt Repurchases* From October 1, 2004 to November 5, 2004, the Company repurchased in privately negotiated transactions an aggregate of \$72.6 million face amount of its ATI 12.25% Notes (\$43.0

**Table of Contents**

**AMERICAN TOWER CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**

million accreted value, net of \$3.3 million fair value discount allocated to warrants) for approximately \$54.7 million in cash. As a result of these repurchases, the Company expects to record a pre-tax loss on retirement of long-term obligations in the fourth quarter of 2004 of approximately \$13.0 million, related to the cash paid in excess of carrying value and write-off of related deferred financing fees.

*Exercise of ATC Mexico Put Rights* In October 2004, certain employees, including Mr. Hess, exercised their previously disclosed put rights to require the Company to purchase their collective 3.2% interest in ATC Mexico. (See note 12.) In consideration for their interests in ATC Mexico, the Company issued to these stockholders an aggregate of 1,155,678 shares of Class A common stock, representing 80% of the aggregate purchase price for their collective interests. The 1,155,678 shares issued to these stockholders had an aggregate market value on the date of issuance of \$18.5 million. Payment of the remaining 20% of the purchase price is contingent upon ATC Mexico satisfying certain performance criteria and will be paid by the issuance of 218,566 shares of Class A common stock, if at all, in January 2005. The Company owns 100% of ATC Mexico as a result of these repurchases.

**15. Subsidiary Guarantees**

ATI's payment obligations under the ATI 12.25% Notes and the ATI 7.25% Notes (collectively, the ATI Notes) are fully and unconditionally guaranteed on joint and several bases by the Company (ATI's parent) and substantially all of the Company's and ATI's wholly owned domestic subsidiaries. The ATI Notes and the subsidiary guarantees under the ATI Notes are subordinated to all indebtedness under the credit facility.

The following condensed consolidating financial data illustrates the composition of the Company, ATI, the combined guarantor subsidiaries under the ATI Notes and non-guarantor subsidiaries. These statements have been prepared in accordance with the rules and requirements of the SEC and the requirements contained in the ATI Notes indentures. The Company believes that separate complete financial statements of the respective guarantors would not provide additional material information which would be useful in assessing the financial composition of the guarantors. No single guarantor has any significant legal restrictions on the ability of investors or creditors to obtain access to its assets in event of default on the subsidiary guarantee other than its subordination to the credit facility described above.

Investments in subsidiaries are accounted for by the Company under the equity method for purposes of the supplemental consolidating presentation. In addition, ATI and the guarantor subsidiaries account for their subsidiaries that are not guarantors under the equity method. (Earnings) losses of subsidiaries accounted for under the equity method are therefore reflected in their parents' investment accounts. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

**Table of Contents****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET****SEPTEMBER 30, 2004****(in thousands)**

|  | <u>Parent</u>                | <u>ATI</u>                   | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-guarantor<br/>Subsidiaries</u> | <u>Eliminations</u>          | <u>Consolidated<br/>Totals</u> |
|--|------------------------------|------------------------------|-----------------------------------|---------------------------------------|------------------------------|--------------------------------|
|  | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2)   | (as restated,<br>see note 2)          | (as restated,<br>see note 2) | (as restated,<br>see note 2)   |
| <b>ASSETS</b>  |                              |                              |                                   |                                       |                              |                                |
| <b>CURRENT ASSETS:</b>                                 |                              |                              |                                   |                                       |                              |                                |
| Cash & cash equivalents                                | \$ 69,276                    | \$ 33,215                    | \$ 578                            | \$ 23,764                             |                              | \$ 126,833                     |
| Accounts receivable, net                               |                              | 35,149                       | 446                               | 6,109                                 |                              | 41,704                         |
| Prepaid & other current assets                         | 10,349                       | 36,207                       | 5,206                             | 7,319                                 |                              | 59,081                         |
| Deferred income taxes                                  | 14,122                       |                              |                                   |                                       |                              | 14,122                         |
| Assets held for sale                                   |                              |                              | 3,389                             |                                       |                              | 3,389                          |
| <b>Total current assets</b>                            | <b>93,747</b>                | <b>104,571</b>               | <b>9,619</b>                      | <b>37,192</b>                         |                              | <b>245,129</b>                 |
| <b>PROPERTY AND EQUIPMENT, NET</b>                     |                              | <b>2,025,424</b>             | <b>18,910</b>                     | <b>280,009</b>                        |                              | <b>2,324,343</b>               |
| <b>INTANGIBLE ASSETS, NET</b>                          | <b>34,702</b>                | <b>1,416,373</b>             | <b>9,858</b>                      | <b>125,134</b>                        |                              | <b>1,586,067</b>               |
| <b>INVESTMENTS IN AND ADVANCES TO<br/>SUBSIDIARIES</b> | <b>2,523,661</b>             | <b>25,225</b>                | <b>473,245</b>                    |                                       | <b>\$(3,022,131)</b>         |                                |
| <b>OTHER LONG-TERM ASSETS</b>                          | <b>570,999</b>               | <b>170,100</b>               | <b>25</b>                         | <b>124,547</b>                        |                              | <b>865,671</b>                 |
| <b>TOTAL</b>   | <b>\$ 3,223,109</b>          | <b>\$ 3,741,693</b>          | <b>\$ 511,657</b>                 | <b>\$ 566,882</b>                     | <b>\$(3,022,131)</b>         | <b>\$ 5,021,210</b>            |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b>         |                              |                              |                                   |                                       |                              |                                |
| <b>CURRENT LIABILITIES:</b>                            |                              |                              |                                   |                                       |                              |                                |
| Accounts payable and accrued expenses                  | \$ 24,851                    | \$ 89,271                    | \$ 4,160                          | \$ 17,713                             |                              | \$ 135,995                     |
| Current portion of long-term obligations               | 46                           | 6,217                        |                                   | 459                                   |                              | 6,722                          |
| Other current liabilities                              |                              | 32,791                       | 368                               | (5)                                   |                              | 33,154                         |
| <b>Total current liabilities</b>                       | <b>24,897</b>                | <b>128,279</b>               | <b>4,528</b>                      | <b>18,167</b>                         |                              | <b>175,871</b>                 |
| <b>LONG-TERM OBLIGATIONS</b>                           | <b>1,691,080</b>             | <b>1,485,755</b>             | <b>2</b>                          | <b>34,798</b>                         |                              | <b>3,211,635</b>               |
| <b>OTHER LONG-TERM LIABILITIES</b>                     | <b>711</b>                   | <b>111,027</b>               | <b>98</b>                         | <b>3,584</b>                          |                              | <b>115,420</b>                 |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

|  |                     |                     |                   |                   |                       |                     |
|--|---------------------|---------------------|-------------------|-------------------|-----------------------|---------------------|
| Total liabilities                        | 1,716,688           | 1,725,061           | 4,628             | 56,549            |                       | 3,502,926           |
| <b>MINORITY INTEREST IN SUBSIDIARIES</b> |                     |                     |                   |                   |                       |                     |
|  |                     |                     |                   | 11,863            |                       | 11,863              |
| <b>STOCKHOLDERS EQUITY</b>               |                     |                     |                   |                   |                       |                     |
| Common Stock                             | 2,267               |                     |                   |                   |                       | 2,267               |
| Additional paid-in capital               | 3,973,893           | 3,318,518           | 454,614           | 939,534           | \$ (4,712,666)        | 3,973,893           |
| Accumulated (deficit) earnings           | (2,465,373)         | (1,301,886)         | 52,415            | (441,064)         | 1,690,535             | (2,465,373)         |
| Treasury stock                           | (4,366)             |                     |                   |                   |                       | (4,366)             |
| Total stockholders equity                | 1,506,421           | 2,016,632           | 507,029           | 498,470           | (3,022,131)           | 1,506,421           |
| <b>TOTAL</b>                             | <b>\$ 3,223,109</b> | <b>\$ 3,741,693</b> | <b>\$ 511,657</b> | <b>\$ 566,882</b> | <b>\$ (3,022,131)</b> | <b>\$ 5,021,210</b> |

Table of Contents

## AMERICAN TOWER CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2004

(in thousands)

|   | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-guarantor<br>Subsidiaries | Eliminations                    | Consolidated<br>Totals       |
|---|------------------------------|------------------------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|
|   | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2)  | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2) |
| Operating revenues  |                              | \$ 161,724                   | \$ 4,390                        | \$ 33,074                     |                                 | \$ 199,188                   |
| Operating expenses  |                              | 153,141                      | 4,045                           | 23,926                        |                                 | 181,112                      |
| Operating income from continuing operations   |                              | 8,583                        | 345                             | 9,148                         |                                 | 18,076                       |
| Other income (expense):   |                              |                              |                                 |                               |                                 |                              |
| Interest income, TV Azteca, net   |                              |                              |                                 | 3,584                         |                                 | 3,584                        |
| Interest income   | \$ 838                       | 162                          |                                 | 166                           |                                 | 1,166                        |
| Interest expense  | (34,175)                     | (31,210)                     | (1)                             | (267)                         |                                 | (65,653)                     |
| Other (expense) income  | (32,060)                     | (17,594)                     | (4)                             | 531                           |                                 | (49,127)                     |
| Equity in (loss) income of subsidiaries, net of income taxes recorded at the subsidiary level                         | (14,247)                     | 421                          | 12,974                          |                               | \$ 852                          |                              |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND LOSS ON EQUITY METHOD INVESTMENTS | (79,644)                     | (39,638)                     | 13,314                          | 13,162                        | 852                             | (91,954)                     |
| Income tax benefit (provision)  | 18,222                       | 12,781                       | (93)                            | 504                           |                                 | 31,414                       |
| Minority interest in net earnings of subsidiaries   |                              |                              |                                 | (271)                         |                                 | (271)                        |
| Loss on equity method investments   |                              | (611)                        |                                 |                               |                                 | (611)                        |
| (LOSS) INCOME FROM CONTINUING OPERATIONS  | (61,422)                     | (27,468)                     | 13,221                          | 13,395                        | 852                             | (61,422)                     |
| INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX PROVISION  | 1,300                        |                              |                                 |                               |                                 | 1,300                        |
| NET (LOSS) INCOME   | \$ (60,122)                  | \$ (27,468)                  | \$ 13,221                       | \$ 13,395                     | \$ 852                          | \$ (60,122)                  |





Table of Contents

## AMERICAN TOWER CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2004

(in thousands)

|  | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-guarantor<br>Subsidiaries | Eliminations                    | Consolidated<br>Totals       |
|--|------------------------------|------------------------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|
|  | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2)  | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2) |
| Operating revenues   |                              | \$ 475,376                   | \$ 9,146                        | \$ 93,817                     |                                 | \$ 578,339                   |
| Operating expenses   |                              | 456,234                      | 8,447                           | 69,721                        |                                 | 534,402                      |
| Operating income from continuing operations  |                              | 19,142                       | 699                             | 24,096                        |                                 | 43,937                       |
| Other income (expense):  |                              |                              |                                 |                               |                                 |                              |
| Interest income, TV Azteca, net  |                              |                              |                                 | 10,776                        |                                 | 10,776                       |
| Interest income  | \$ 1,396                     | 1,459                        |                                 | 547                           |                                 | 3,402                        |
| Interest expense   | (104,550)                    | (97,247)                     | (3)                             | (1,070)                       |                                 | (202,870)                    |
| Other expense  | (40,501)                     | (48,614)                     | (6)                             | (306)                         |                                 | (89,427)                     |
| Equity in (loss) income of subsidiaries, net of<br>income taxes recorded at the subsidiary level                               | (65,767)                     | 1,341                        | 28,202                          |                               | \$ 36,224                       |                              |
| (LOSS) INCOME FROM CONTINUING<br>OPERATIONS BEFORE INCOME TAXES,<br>MINORITY INTEREST AND LOSS ON<br>EQUITY METHOD INVESTMENTS | (209,422)                    | (123,919)                    | 28,892                          | 34,043                        | 36,224                          | (234,182)                    |
| Income tax benefit (provision)   | 34,565                       | 32,155                       | (166)                           | (2,316)                       |                                 | 64,238                       |
| Minority interest in net earnings of subsidiaries  |                              |                              |                                 | (2,184)                       |                                 | (2,184)                      |
| Loss on equity method investments  |                              | (1,851)                      |                                 |                               |                                 | (1,851)                      |
| (LOSS) INCOME FROM CONTINUING<br>OPERATIONS  | (174,857)                    | (93,615)                     | 28,726                          | 29,543                        | 36,224                          | (173,979)                    |
| INCOME (LOSS) FROM DISCONTINUED<br>OPERATIONS, NET OF INCOME TAXES   | 1,300                        | (121)                        | (757)                           |                               |                                 | 422                          |
| NET (LOSS) INCOME  | \$ (173,557)                 | \$ (93,736)                  | \$ 27,969                       | \$ 29,543                     | \$ 36,224                       | \$ (173,557)                 |

Table of Contents

## AMERICAN TOWER CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2004

(in thousands)

|   | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-guarantor<br>Subsidiaries | Consolidated<br>Totals       |
|---|------------------------------|------------------------------|---------------------------------|-------------------------------|------------------------------|
|   | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2)  | (as restated,<br>see note 2) |
| CASH FLOWS (USED FOR) PROVIDED BY OPERATING ACTIVITIES                      | \$ (134,895)                 | \$ 212,873                   | \$ (297)                        | \$ 71,482                     | \$ 149,163                   |
| CASH FLOWS (USED FOR) PROVIDED BY INVESTING ACTIVITIES:                     |                              |                              |                                 |                               |                              |
| Payments for purchase of property and equipment and construction activities |                              | (18,586)                     | (1,171)                         | (8,855)                       | (28,612)                     |
| Payments for acquisitions   |                              | (4,794)                      |                                 | (26,996)                      | (31,790)                     |
| Proceeds from sale of businesses and other long-term assets                 |                              | 15,655                       | 3,683                           | 4,161                         | 23,499                       |
| Deposits, investments and other   |                              | 813                          | 25                              | (513)                         | 325                          |
| Cash (used for) provided by investing activities                            |                              | (6,912)                      | 2,537                           | (32,203)                      | (36,578)                     |
| CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:                     |                              |                              |                                 |                               |                              |
| Proceeds from issuance of debt securities                                   | 570,000                      |                              |                                 |                               | 570,000                      |
| Borrowings under credit facilities  |                              | 700,000                      |                                 |                               | 700,000                      |
| Repayment of notes payable, credit facilities and capital leases            | (680,054)                    | (843,274)                    |                                 | (507)                         | (1,523,835)                  |
| Deferred financing costs, restricted cash and other                         | 116,718                      | 45,900                       |                                 |                               | 162,618                      |
| Investment in and advances from (to) subsidiaries                           | 183,590                      | (137,181)                    | (2,498)                         | (43,911)                      |                              |
| Cash provided by (used for) financing activities                            | 190,254                      | (234,555)                    | (2,498)                         | (44,418)                      | (91,217)                     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                        | 55,359                       | (28,594)                     | (258)                           | (5,139)                       | 21,368                       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                              | 13,917                       | 61,809                       | 836                             | 28,903                        | 105,465                      |
|   | \$ 69,276                    | \$ 33,215                    | \$ 578                          | \$ 23,764                     | \$ 126,833                   |

CASH AND CASH EQUIVALENTS, END OF  
PERIOD

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

**Table of Contents****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2003**

(in thousands)

|  | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-guarantor<br>Subsidiaries | Eliminations                 | Consolidated<br>Totals       |
|--|------------------------------|------------------------------|---------------------------------|-------------------------------|------------------------------|------------------------------|
|  | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2)  | (as restated,<br>see note 2) | (as restated,<br>see note 2) |
| <b>ASSETS</b>  |                              |                              |                                 |                               |                              |                              |
| <b>CURRENT ASSETS:</b>                                 |                              |                              |                                 |                               |                              |                              |
| Cash and cash equivalents                              | \$ 13,917                    | \$ 61,809                    | \$ 836                          | \$ 28,903                     |                              | \$ 105,465                   |
| Restricted cash and investments                        | 120,915                      | 49,121                       |                                 |                               |                              | 170,036                      |
| Accounts receivable, net                               |                              | 49,957                       | 317                             | 7,461                         |                              | 57,735                       |
| Prepaid and other current assets                       | 3,621                        | 42,582                       | 3,717                           | 4,118                         |                              | 54,038                       |
| Deferred income taxes                                  | 14,122                       |                              |                                 |                               |                              | 14,122                       |
| Assets held for sale                                   |                              |                              | 10,119                          |                               |                              | 10,119                       |
| <b>Total current assets</b>                            | <b>152,575</b>               | <b>203,469</b>               | <b>14,989</b>                   | <b>40,482</b>                 |                              | <b>411,515</b>               |
| <b>PROPERTY AND EQUIPMENT, NET</b>                     |                              | <b>2,159,828</b>             | <b>19,199</b>                   | <b>309,323</b>                |                              | <b>2,488,350</b>             |
| <b>INTANGIBLE ASSETS, NET</b>                          | <b>37,679</b>                | <b>1,486,910</b>             | <b>9,508</b>                    | <b>78,447</b>                 |                              | <b>1,612,544</b>             |
| <b>INVESTMENTS IN AND ADVANCES TO<br/>SUBSIDIARIES</b> | <b>2,751,607</b>             | <b>26,822</b>                | <b>442,179</b>                  |                               | <b>\$ (3,220,608)</b>        |                              |
| <b>OTHER LONG-TERM ASSETS</b>                          | <b>508,411</b>               | <b>158,668</b>               |                                 | <b>111,166</b>                |                              | <b>778,245</b>               |
| <b>TOTAL</b>   | <b>\$ 3,450,272</b>          | <b>\$ 4,035,697</b>          | <b>\$ 485,875</b>               | <b>\$ 539,418</b>             | <b>\$ (3,220,608)</b>        | <b>\$ 5,290,654</b>          |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b>         |                              |                              |                                 |                               |                              |                              |
| <b>CURRENT LIABILITIES:</b>                            |                              |                              |                                 |                               |                              |                              |
| Accounts payable and accrued expenses                  | \$ 61,175                    | \$ 91,938                    |                                 | \$ 14,178                     |                              | \$ 167,291                   |
| Current portion of long-term obligations               | 44                           | 77,166                       |                                 | 412                           |                              | 77,622                       |
| Other current liabilities                              |                              | 41,449                       |                                 |                               |                              | 41,449                       |
| Liabilities held for sale                              |                              |                              | \$ 8,416                        |                               |                              | 8,416                        |
| <b>Total current liabilities</b>                       | <b>61,219</b>                | <b>210,553</b>               | <b>8,416</b>                    | <b>14,590</b>                 |                              | <b>294,778</b>               |
| <b>LONG-TERM OBLIGATIONS</b>                           | <b>1,772,155</b>             | <b>1,476,096</b>             |                                 | <b>35,352</b>                 |                              | <b>3,283,603</b>             |
| <b>OTHER LONG-TERM LIABILITIES</b>                     |                              | <b>81,620</b>                |                                 | <b>1,876</b>                  |                              | <b>83,496</b>                |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

|                                   |              |              |            |            |                |              |
|-----------------------------------|--------------|--------------|------------|------------|----------------|--------------|
| Total liabilities                 | 1,833,374    | 1,768,269    | 8,416      | 51,818     |                | 3,661,877    |
| MINORITY INTEREST IN SUBSIDIARIES |              |              |            | 18,599     |                | 18,599       |
| STOCKHOLDERS EQUITY:              |              |              |            |            |                |              |
| Common stock                      | 2,201        |              |            |            |                | 2,201        |
| Additional paid-in capital        | 3,910,879    | 3,475,578    | 453,013    | 946,328    | \$ (4,874,919) | 3,910,879    |
| Accumulated (deficit) earnings    | (2,291,816)  | (1,208,150)  | 24,446     | (470,607)  | 1,654,311      | (2,291,816)  |
| Note receivable                   |              |              |            | (6,720)    |                | (6,720)      |
| Treasury stock                    | (4,366)      |              |            |            |                | (4,366)      |
| Total stockholders equity         | 1,616,898    | 2,267,428    | 477,459    | 469,001    | (3,220,608)    | 1,610,178    |
| TOTAL                             | \$ 3,450,272 | \$ 4,035,697 | \$ 485,875 | \$ 539,418 | \$ (3,220,608) | \$ 5,290,654 |

Table of Contents

## AMERICAN TOWER CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2003

(in thousands)

|   | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-Guarantor<br>Subsidiaries   | Eliminations                    | Consolidated<br>Totals       |
|---|------------------------------|------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------------|
|   | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see<br>note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2) |
| Operating revenues  |                              | \$ 160,678                   | \$ 1,073                        | \$ 25,123                       |                                 | \$ 186,874                   |
| Operating expenses  |                              | 161,641                      | 790                             | 20,667                          |                                 | 183,098                      |
| Operating (loss) income from continuing operations  |                              | (963)                        | 283                             | 4,456                           |                                 | 3,776                        |
| Other income (expense):   |                              |                              |                                 |                                 |                                 |                              |
| Interest income, TV Azteca, net   |                              |                              |                                 | 3,523                           |                                 | 3,523                        |
| Interest income   |                              | 1,150                        |                                 | 27                              |                                 | 1,177                        |
| Interest expense  | \$ (36,375)                  | (32,225)                     | (2)                             | (304)                           |                                 | (68,906)                     |
| Other income (expense)  | 4,709                        | (1,440)                      |                                 | (942)                           |                                 | 2,327                        |
| Equity in (loss) income of subsidiaries, net of income taxes recorded at the subsidiary level                         | (34,795)                     | 341                          | 4,210                           |                                 | \$ 30,244                       |                              |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND LOSS ON EQUITY METHOD INVESTMENTS | (66,461)                     | (33,137)                     | 4,491                           | 6,760                           | 30,244                          | (58,103)                     |
| Income tax benefit (provision)  | 8,170                        | 9,631                        | (74)                            | (1,323)                         |                                 | 16,404                       |
| Minority interest in net earnings of subsidiaries   |                              |                              |                                 | (907)                           |                                 | (907)                        |
| Loss on equity method investments   |                              | (521)                        |                                 |                                 |                                 | (521)                        |
| (LOSS) INCOME FROM CONTINUING OPERATIONS  | (58,291)                     | (24,027)                     | 4,417                           | 4,530                           | 30,244                          | (43,127)                     |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX BENEFIT  |                              | (2,759)                      | (286)                           | (12,119)                        |                                 | (15,164)                     |
| NET (LOSS) INCOME   | \$ (58,291)                  | \$ (26,786)                  | \$ 4,131                        | \$ (7,589)                      | \$ 30,244                       | \$ (58,291)                  |





Table of Contents

## AMERICAN TOWER CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2003

(in thousands)

|   | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-Guarantor<br>Subsidiaries   | Eliminations                 | Consolidated<br>Totals       |
|---|------------------------------|------------------------------|---------------------------------|---------------------------------|------------------------------|------------------------------|
|   | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see<br>note 2) | (as restated,<br>see note 2) | (as restated,<br>see note 2) |
| Operating revenues  |                              | \$ 453,494                   | \$ 3,068                        | \$ 67,061                       |                              | \$ 523,623                   |
| Operating expenses  |                              | 468,674                      | 2,353                           | 58,199                          |                              | 529,226                      |
| Operating (loss) income from continuing operations  |                              | (15,180)                     | 715                             | 8,862                           |                              | (5,603)                      |
| Other income (expense):   |                              |                              |                                 |                                 |                              |                              |
| Interest income, TV Azteca, net   |                              |                              |                                 | 10,553                          |                              | 10,553                       |
| Interest income   |                              | 3,887                        |                                 | 146                             |                              | 4,033                        |
| Interest expense  | \$ (110,214)                 | (100,444)                    | (2)                             | (1,189)                         |                              | (211,849)                    |
| Other expense   | (33,773)                     | (13,174)                     |                                 | (1,337)                         |                              | (48,284)                     |
| Equity in (loss) income of subsidiaries, net of income taxes recorded at the subsidiary level                         | (142,043)                    | (2,585)                      | 10,137                          |                                 | \$ 134,491                   |                              |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND LOSS ON EQUITY METHOD INVESTMENTS | (286,030)                    | (127,496)                    | 10,850                          | 17,035                          | 134,491                      | (251,150)                    |
| Income tax benefit (provision)  | 27,595                       | 34,729                       | (186)                           | (3,248)                         |                              | 58,890                       |
| Minority interest in net earnings of subsidiaries   |                              |                              |                                 | (2,270)                         |                              | (2,270)                      |
| Loss on equity method investments   | (9,994)                      | (9,840)                      |                                 |                                 |                              | (19,834)                     |
| (LOSS) INCOME FROM CONTINUING OPERATIONS  | (268,429)                    | (102,607)                    | 10,664                          | 11,517                          | 134,491                      | (214,364)                    |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX BENEFIT  |                              | (4,496)                      | (13,076)                        | (36,493)                        |                              | (54,065)                     |
| NET (LOSS) INCOME   | \$ (268,429)                 | \$ (107,103)                 | \$ (2,412)                      | \$ (24,976)                     | \$ 134,491                   | \$ (268,429)                 |



**Table of Contents****AMERICAN TOWER CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2003**

(in thousands)

|   | Parent                       | ATI                          | Guarantor<br>Subsidiaries       | Non-guarantor<br>Subsidiaries | Consolidated<br>Totals       |
|---|------------------------------|------------------------------|---------------------------------|-------------------------------|------------------------------|
|   | (as restated,<br>see note 2) | (as restated,<br>see note 2) | (as<br>restated,<br>see note 2) | (as restated,<br>see note 2)  | (as restated,<br>see note 2) |
| <b>CASH FLOWS (USED FOR) PROVIDED BY OPERATING ACTIVITIES</b>                     | \$ (126,621)                 | \$ 159,278                   | \$ 1,173                        | \$ 46,195                     | \$ 80,025                    |
| <b>CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:</b>                    |                              |                              |                                 |                               |                              |
| Payments for purchase of property and equipment and construction activities       |                              | (33,544)                     | (254)                           | (12,136)                      | (45,934)                     |
| Payments for acquisitions   |                              |                              | (129)                           | (75,861)                      | (75,990)                     |
| Proceeds from sale of businesses and other long-term assets                       |                              | 53,564                       |                                 | 20,732                        | 74,296                       |
| Deposits, investments and other   |                              | (7,649)                      | 50                              | (2,449)                       | (10,048)                     |
| <b>Cash provided by (used for) investing activities</b>                           |                              | <b>12,371</b>                | <b>(333)</b>                    | <b>(69,714)</b>               | <b>(57,676)</b>              |
| <b>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:</b>                    |                              |                              |                                 |                               |                              |
| Proceeds from issuance of debt securities and notes payable                       | 210,000                      | 419,884                      |                                 | 2,500                         | 632,384                      |
| Net proceeds from equity offering, stock options and employee stock purchase plan | 125,205                      |                              |                                 |                               | 125,205                      |
| Repayment of long-term obligations  | (143,924)                    | (379,229)                    |                                 | (5,592)                       | (528,745)                    |
| Deferred financing costs, restricted cash and other                               | (127,797)                    | (184,557)                    |                                 |                               | (312,354)                    |
| Investment in and advances from (to) subsidiaries                                 | 63,137                       | (91,414)                     | 997                             | 27,280                        |                              |
| <b>Cash provided by (used for) financing activities</b>                           | <b>126,621</b>               | <b>(235,316)</b>             | <b>997</b>                      | <b>24,188</b>                 | <b>(83,510)</b>              |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                       |                              | <b>(63,667)</b>              | <b>1,837</b>                    | <b>669</b>                    | <b>(61,161)</b>              |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                               |                              | <b>107,600</b>               | <b>756</b>                      | <b>18,936</b>                 | <b>127,292</b>               |

|  |           |          |           |           |
|--|-----------|----------|-----------|-----------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 43,933 | \$ 2,593 | \$ 19,605 | \$ 66,131 |
|--|-----------|----------|-----------|-----------|

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Quarterly Report on Form 10-Q/A contains forward-looking statements relating to our goals, beliefs, plans or current expectations and other statements that are not of historical facts. For example, when we use words such as project, believe, anticipate, expect, estimate, intend, should, would, could or may, or other words that convey uncertainty of future events or outcome, we are making forward-looking statements. Certain important factors may cause actual results to differ materially from those indicated by our forward-looking statements, including those set forth below under the caption Factors That May Affect Future Results. Forward-looking statements represent management's current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements made by us.*

The discussion and analysis of our financial condition and results of operations that follows are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. We have restated our condensed consolidated financial statements, as further discussed in the Explanatory Note in the forepart of this Form 10-Q/A and in note 2 to the condensed consolidated financial statements included herein, and the following discussion and analysis of our financial condition and results of operations reflect this restatement.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ significantly from these estimates under different assumptions or conditions. This discussion should be read in conjunction with our condensed consolidated financial statements herein and the accompanying notes thereto, and our annual report on Form 10-K/A for the year ended December 31, 2003, in particular, the information set forth therein under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our continuing operations are reported in two segments, rental and management and network development services. Management focuses on segment profit (loss) as a means to measure operating performance in these business segments. We define segment operating profit (loss) as segment revenues less segment operating expenses excluding depreciation, amortization and accretion; corporate general, administrative and development expense; and impairments, net loss on sale of long-lived assets and restructuring expense. Segment profit (loss) for the rental and management segment also includes interest income, TV Azteca, net (see note 9 to our accompanying condensed consolidated financial statements). In accordance with generally accepted accounting principles, our accompanying condensed consolidated statements of operations for periods presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to reflect certain businesses as discontinued operations (see note 5 to our accompanying condensed consolidated financial statements).

**Table of Contents****Results of Operations****Three Months Ended September 30, 2004 and 2003 (dollars in thousands)**

|  | Three Months Ended<br>September 30, |                    | Amount of<br>Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|--|-------------------------------------|--------------------|-------------------------------------|-----------------------------------|
|  | 2004                                | 2003               |                                     |                                   |
| <b>REVENUES:</b>   |                                     |                    |                                     |                                   |
| Rental and management  | \$ 174,946                          | \$ 158,193         | \$ 16,753                           | 11%                               |
| Network development services   | 24,242                              | 28,681             | (4,439)                             | (15)                              |
| <b>Total revenues</b>  | <b>199,188</b>                      | <b>186,874</b>     | <b>12,314</b>                       | <b>7</b>                          |
| <b>OPERATING EXPENSES:</b>   |                                     |                    |                                     |                                   |
| Rental and management  | 59,838                              | 60,066             | (228)                               | N/A                               |
| Network development services   | 23,216                              | 26,274             | (3,058)                             | (12)                              |
| Depreciation, amortization and accretion   | 82,382                              | 82,619             | (237)                               | N/A                               |
| Corporate general, administrative and development expense                            | 6,861                               | 6,493              | 368                                 | 6                                 |
| Impairments, net loss on sale of long-lived assets and restructuring expense         | 8,815                               | 7,646              | 1,169                               | 15                                |
| <b>Total operating expenses</b>  | <b>181,112</b>                      | <b>183,098</b>     | <b>(1,986)</b>                      | <b>(1)</b>                        |
| <b>OTHER INCOME (EXPENSE):</b>   |                                     |                    |                                     |                                   |
| Interest income, TV Azteca, net of interest expense of \$373 and \$374, respectively | 3,584                               | 3,523              | 61                                  | 2                                 |
| Interest income  | 1,166                               | 1,177              | (11)                                | (1)                               |
| Interest expense   | (65,653)                            | (68,906)           | (3,253)                             | (5)                               |
| (Loss) gain on retirement of long-term obligations                                   | (47,951)                            | 3,255              | 51,206                              | (1,573)                           |
| Other expense  | (1,176)                             | (928)              | 248                                 | 27                                |
| Income tax benefit   | 31,414                              | 16,404             | 15,010                              | 92                                |
| Minority interest in net earnings of subsidiaries                                    | (271)                               | (907)              | (636)                               | (70)                              |
| Loss on equity method investments  | (611)                               | (521)              | 90                                  | 17                                |
| Income (loss) from discontinued operations, net                                      | 1,300                               | (15,164)           | (16,464)                            | (109)                             |
| <b>Net loss</b>  | <b>\$ (60,122)</b>                  | <b>\$ (58,291)</b> | <b>\$ 1,831</b>                     | <b>3%</b>                         |

*Total Revenues*

Total revenues for the three months ended September 30, 2004 were \$199.2 million, an increase of \$12.3 million from the three months ended September 30, 2003. The increase resulted from an increase in rental and management revenues of \$16.8 million, offset by a decrease in network development services revenue of \$4.4 million.

*Rental and Management Revenue*

Rental and management revenue for the three months ended September 30, 2004 was \$174.9 million, an increase of \$16.8 million from the three months ended September 30, 2003. The increase resulted primarily from adding additional wireless and broadcast tenants subsequent to July 1, 2003 to towers that existed as of July 1, 2003 and, to a lesser extent, from revenue generated on the approximately 570 towers acquired and/or constructed subsequent to July 1, 2003, and approximately \$2.0 million of net, non-recurring positive items. This increase was partially offset by a reduction in revenue on the approximately 330 owned towers sold or disposed of subsequent to July 1, 2003. We believe that our rental and management revenue will continue to grow as we utilize existing tower capacity. We anticipate that the majority of our new leasing activity in the remainder of 2004 will continue to come from wireless and broadcast service providers.

## **Table of Contents**

### *Network Development Services Revenue*

Network development services revenue for the three months ended September 30, 2004 was \$24.2 million, a decrease of \$4.4 million from the three months ended September 30, 2003. The decrease in revenue was a result of year over year volume decline in construction services.

In October 2004, we entered into an agreement to sell our tower construction services unit. Commencing with the fourth quarter of 2004, we will report our tower construction services unit as a discontinued operation. The sale is expected to close during the fourth quarter of 2004, subject to satisfaction of customary closing conditions. Our tower construction services unit had revenues of \$18.3 million and \$25.3 million for the three months ended September 30, 2004 and 2003, respectively, and segment operating profit of \$0.2 million and \$1.8 million for the three months ended September 30, 2004 and 2003, respectively. After the sale, our network development services segment will continue to provide complementary non-construction services to the rental and management segment, including site acquisition, zoning and permitting, and structural analysis.

### *Total Operating Expenses*

Total operating expenses for the three months ended September 30, 2004 were \$181.1 million, a decrease of \$2.0 million from the three months ended September 30, 2003. The principal components of the decrease were attributable to decreases in expenses within our network development services segment of \$3.1 million and minor reductions in rental and management expense and depreciation, amortization and accretion, offset by minor increases in corporate general, administrative and development expense and impairments, net loss on sale of long-lived assets and restructuring expense.

### *Rental and Management Expense/Segment Profit*

Rental and management expense for the three months ended September 30, 2004 was \$59.8 million, a decrease of \$0.2 million from the three months ended September 30, 2003. This decrease resulted primarily from a reduction in expenses related to our existing towers resulting from overhead efficiencies and by a reduction in expenses on the approximately 330 owned towers sold or disposed of subsequent to July 1, 2003. The decrease was partially offset by an increase in tower expenses related to approximately 570 towers we have acquired/constructed since July 1, 2003.

Rental and management segment profit for the three months ended September 30, 2004 was \$118.7 million, an increase of \$17.0 million from the three months ended September 30, 2003. The increase resulted primarily from incremental revenues and operating profit from adding additional tenants to existing towers and newly acquired and/or constructed towers, and approximately \$2.0 million of net non-recurring positive items, partially offset by towers sold, as discussed above.

### *Network Development Services Expense*



## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

Network development services expense for the three months ended September 30, 2004 was \$23.2 million, a decrease of \$3.1 million from the three months ended September 30, 2003. The majority of the decrease correlates directly to the revenue decline noted above.

### *Impairments, Net Loss on Sale of Long-lived Assets and Restructuring Expense*

Impairments, net loss on sale of long-lived assets and restructuring expense for the three months ended September 30, 2004 was \$8.8 million, an increase of \$1.2 million from the three months ended September 30, 2003. The increase resulted primarily from an increase in impairment charges for certain non-core tower assets and an impairment charge of \$2.3 million associated with the pending sale of the tower construction services unit.

### *Interest Expense*

Interest expense for the three months ended September 30, 2004 was \$65.7 million, a decrease of \$3.3 million from the three months ended September 30, 2003. The decrease resulted primarily from a net decrease in interest expense as a result of refinancing our credit facility in the second quarter of 2004 and other debt

## **Table of Contents**

repurchases and refinancings during 2003 and 2004. These decreases were primarily offset by increases in interest expense related to our ATI 7.25% senior subordinated notes issued in November 2003, our 7.50% senior notes issued in February 2004 and, to a lesser extent, our 3.00% convertible notes issued in August 2004.

### *(Loss) Gain on Retirement of Long-Term Obligations*

During the three months ended September 30, 2004, we repurchased or redeemed a total of \$441.4 million of debt securities, consisting of \$84.1 million face amount of our ATI 12.25% senior subordinated discount notes (\$48.2 million accreted value, net of \$4.0 million fair value discount allocated to warrants) for \$62.6 million in cash and \$357.3 million principal amount of our 9<sup>3</sup>/<sub>8</sub>% senior notes for \$382.6 million in cash. As a result of these repurchases and redemptions, we recorded a \$48.0 million charge related to the write-off of deferred financing fees and amounts paid in excess of the carrying value of the notes.

During the three months ended September 30, 2003, we repurchased \$71.4 million face amount of our 2.25% convertible notes (\$57.0 million accreted value) for \$57.4 million in cash and \$69.1 million principal amount of our 5.0% convertible notes for \$61.7 million in cash. We also made a \$100.0 million repayment of the revolving loans under our previous credit facility from the net proceeds of our 3.25% convertible notes offering and a \$14.0 million unscheduled principal payment on the term loan A under our credit facility. As a result of these transactions, we recorded an aggregate net gain of \$3.3 million related to amounts paid in excess of or below carrying value and the write-off of deferred financing fees.

### *Income Tax Benefit*

The income tax benefit for the three months ended September 30, 2004 was \$31.4 million, an increase of \$15.0 million from the three months ended September 30, 2003. The effective tax rate was 34.2% for the three months ended September 30, 2004, as compared to 28.2% for the three months ended September 30, 2003. The primary reason for the increase in the effective rate is a result of a revision in the third quarter of 2004 to reflect an increase in our estimated annual net loss for 2004, coupled with a change in taxable income in 2004 related to our foreign subsidiaries. The effective tax rate on loss from continuing operations for the three months ended September 30, 2004 and 2003 differs from the federal statutory rate due primarily to valuation allowances related to our capital losses, foreign items and non-deductible losses on the retirement of debt.

In June 2003, we filed an income tax refund claim with the IRS related to carrying back net operating losses that we generated in 1998, 1999 and 2001. We filed a similar claim in October 2003 with respect to net operating losses generated in 2002. We anticipate receiving a refund of approximately \$90.0 million as a result of these claims, which will monetize a portion of our deferred tax asset. We estimate recovery of these amounts within two to three years of the dates the claims were filed with the IRS. There can be no assurances, however, with respect to the specific amount and timing of the refund.

SFAS No. 109, Accounting for Income Taxes, requires that we record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At September 30, 2004, we have provided a valuation allowance of approximately \$175.2 million primarily related to net state deferred tax assets, capital loss carryforwards and the lost tax benefit and costs associated with the tax refund claims described above (recorded in 2002). We have not provided a valuation allowance for the remaining deferred tax assets, primarily our tax refund claims and our federal net operating loss carryforwards, as we believe that we will be successful with our tax refund claims and will have sufficient time to realize these federal net operating loss carryforwards during the twenty-year tax carryforward period.

We intend to recover a portion of our deferred tax asset through our tax refund claims discussed above. The recoverability of our remaining net deferred tax asset has been assessed utilizing stable state (no growth) projections based on our current operations. The projections show a significant decrease in depreciation and interest expense in the later years of the carryforward period as a result of a significant portion of our assets being fully depreciated during the first fifteen years of the carryforward period and debt repayments reducing interest expense. Accordingly, the recoverability of our net deferred tax asset is not dependent on material improvements

**Table of Contents**

to operations, material asset sales or other non-routine transactions. Based on our current outlook of future taxable income during the carryforward period, we believe that our net deferred tax asset will be realized. The realization of our deferred tax assets as of September 30, 2004 will be dependent upon our ability to generate approximately \$1.3 billion in taxable income from October 1, 2004 to December 31, 2004. If we are unable to generate sufficient taxable income in the future, or carry back losses, as described above, we will be required to reduce our net deferred tax asset through a charge to income tax expense, which would result in a corresponding decrease in stockholders' equity.

Depending on the resolution of the Verestar bankruptcy proceedings described in notes 5 and 11 to our accompanying condensed consolidated financial statements, we may be entitled to a worthless stock or bad debt deduction for our investment in Verestar. No income tax benefit has been provided for these potential deductions due to the uncertainty surrounding the bankruptcy proceedings.

*Income (Loss) from Discontinued Operations, Net*

Income from discontinued operations, net for the three months ended September 30, 2004 was \$1.3 million, as compared to a loss from discontinued operations of \$15.2 million for the three months ended September 30, 2003. The change is primarily a result of our disposal of substantially all of our discontinued operations prior to April 1, 2004 and the settlement during the three months ended September 30, 2004 of a Verestar related contractual obligation for less than its original estimate.

**Nine Months Ended September 30, 2004 and 2003 (dollars in thousands)**

|  | Nine Months Ended<br>September 30, |                | Amount of<br>Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|--|------------------------------------|----------------|-------------------------------------|-----------------------------------|
|  | 2004                               | 2003           |                                     |                                   |
| <b>REVENUES:</b>   |                                    |                |                                     |                                   |
| Rental and management  | \$ 507,109                         | \$ 456,571     | \$ 50,538                           | 11%                               |
| Network development services   | 71,230                             | 67,052         | 4,178                               | 6                                 |
| <b>Total revenues</b>  | <b>578,339</b>                     | <b>523,623</b> | <b>54,716</b>                       | <b>10</b>                         |
| <b>OPERATING EXPENSES:</b>   |                                    |                |                                     |                                   |
| Rental and management  | 177,034                            | 176,427        | 607                                 | N/A                               |
| Network development services   | 68,213                             | 62,486         | 5,727                               | 9                                 |
| Depreciation, amortization and accretion   | 250,662                            | 250,863        | (201)                               | N/A                               |
| Corporate general, administrative and development expense                                | 20,391                             | 20,106         | 285                                 | 1                                 |
| Impairments, net loss on sale of long-lived assets and restructuring expense             | 18,102                             | 19,344         | (1,242)                             | (6)                               |
| <b>Total operating expenses</b>  | <b>534,402</b>                     | <b>529,226</b> | <b>5,176</b>                        | <b>1</b>                          |
| <b>OTHER INCOME (EXPENSE):</b>   |                                    |                |                                     |                                   |
| Interest income, TV Azteca, net of interest expense of \$1,124 and \$1,121, respectively | 10,776                             | 10,553         | 223                                 | 2                                 |
| Interest income  | 3,402                              | 4,033          | (631)                               | (16)                              |
| Interest expense   | (202,870)                          | (211,849)      | (8,979)                             | (4)                               |

Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

|   |                   |                   |                   |       |
|---|-------------------|-------------------|-------------------|-------|
| Loss on retirement of long-term obligations       | (87,392)          | (41,068)          | 46,324            | 113   |
| Other expense                                     | (2,035)           | (7,216)           | (5,181)           | (72)  |
| Income tax benefit                                | 64,238            | 58,890            | 5,348             | 9     |
| Minority interest in net earnings of subsidiaries | (2,184)           | (2,270)           | (86)              | (4)   |
| Loss on equity method investments                 | (1,851)           | (19,834)          | (17,983)          | (91)  |
| Income (loss) from discontinued operations, net   | 422               | (54,065)          | (54,487)          | (101) |
|   | <u>          </u> | <u>          </u> | <u>          </u> |       |
| Net loss  | \$ (173,557)      | \$ (268,429)      | \$ (94,872)       | (35)% |
|   | <u>          </u> | <u>          </u> | <u>          </u> |       |

## **Table of Contents**

### *Total Revenues*

Total revenues for the nine months ended September 30, 2004 were \$578.3 million, an increase of \$54.7 million from the nine months ended September 30, 2003. The increase resulted from an increase in rental and management revenues of \$50.5 million, coupled with an increase in network development services revenue of \$4.2 million.

### *Rental and Management Revenue*

Rental and management revenue for the nine months ended September 30, 2004 was \$507.1 million, an increase of \$50.5 million from the nine months ended September 30, 2003. The increase resulted primarily from adding additional wireless and broadcast tenants to towers that existed as of January 1, 2003 and, to a lesser extent, from revenue generated on the approximately 840 towers acquired and/or constructed subsequent to January 1, 2003. This increase was partially offset by a reduction in revenue on the approximately 400 owned towers sold or disposed of subsequent to January 1, 2003. We believe that our rental and management revenue will continue to grow as we utilize existing tower capacity. We anticipate that the majority of our new leasing activity in the remainder of 2004 will continue to come from wireless and broadcast service providers.

### *Network Development Services Revenue*

Network development services revenue for the nine months ended September 30, 2004 was \$71.2 million, an increase of \$4.2 million from the nine months ended September 30, 2003. The increase in revenue was driven by year over year volume improvement in construction and engineering services. The tower construction services revenue increase for the nine months ended September 30, 2004 occurred within the first six months of 2004.

In August 2004, we announced our intention to consider strategic alternatives related to our tower construction services unit, and in October 2004, we entered into an agreement to sell our tower construction services unit. Commencing with the fourth quarter of 2004, we will report our tower construction services unit as a discontinued operation. The sale is expected to close during the fourth quarter of 2004, subject to satisfaction of customary closing conditions. Our tower construction services group had revenues of \$56.4 million and \$57.3 million for the nine months ended September 30, 2004 and 2003, respectively, and segment operating profit of \$0.2 million and \$2.3 million for the nine months ended September 30, 2004 and 2003, respectively. After the sale, our network development services segment will continue to provide complementary non-construction services to the rental and management segment, including site acquisition, zoning and permitting, and structural analysis.

### *Total Operating Expenses*

Total operating expenses for the nine months ended September 30, 2004 were \$534.4 million, an increase of \$5.2 million from the nine months ended September 30, 2003. The increase was primarily due to increases in expenses within our network development services segment of \$5.7 million and within our rental and management segment of \$0.6 million, coupled with a minor increase in corporate general, administrative and development expense. These increases were partially offset by a decrease in impairments, net loss on sale of long-lived assets and restructuring expense and depreciation, amortization and accretion.

*Rental and Management Expense/Segment Profit*

Rental and management expense for the nine months ended September 30, 2004 was \$177.0 million, an increase of \$0.6 million from the nine months ended September 30, 2003. The increase resulted primarily from an increase in tower expenses related to the approximately 840 towers we have acquired/constructed since January 1, 2003. This increase was partially offset by a reduction in expenses related to our existing towers resulting from overhead efficiencies and by a reduction in expenses on the approximately 400 owned towers sold or disposed of subsequent to January 1, 2003.

## Table of Contents

Rental and management segment profit for the nine months ended September 30, 2004 was \$340.9 million, an increase of \$50.2 million from the nine months ended September 30, 2003. The increase resulted primarily from incremental revenues and operating profit from adding additional tenants to existing towers and newly acquired and/or constructed towers, partially offset by an increase in tower expenses, as discussed above.

### *Network Development Services Expense*

Network development services expense for the nine months ended September 30, 2004 was \$68.2 million, an increase of \$5.7 million from the nine months ended September 30, 2003. The majority of the increase correlates directly to the revenue increase noted above.

### *Impairments, Net Loss on Sale of Long-lived Assets and Restructuring Expense*

Impairments, net loss on sale of long-lived assets and restructuring expense for the nine months ended September 30, 2004 was \$18.1 million, a decrease of \$1.2 million from the nine months ended September 30, 2003. The majority of the decrease resulted from decreased losses on sales of long-lived tower and other non-core assets, partially offset by an impairment charge of \$2.3 million associated with the pending sale of the tower construction services unit.

### *Interest Expense*

Interest expense for the nine months ended September 30, 2004 was \$202.9 million, a decrease of \$9.0 million from the nine months ended September 30, 2003. The decrease resulted primarily from a net decrease in interest expense as a result of refinancing our credit facility in the second quarter of 2004 and other debt repurchases and refinancings during 2003 and 2004. These decreases were primarily offset by increases in interest expense related to our ATI 7.25% senior subordinated notes issued in November 2003, our 7.50% senior notes issued in February 2004 and, to a lesser extent, our 3.00% convertible notes issued in August 2004.

### *Loss on Retirement of Long-Term Obligations*

During the nine months ended September 30, 2004, we refinanced our previous credit facility and recorded a charge of \$11.7 million related to the write-off of deferred financing fees. We also repurchased or redeemed a total of \$834.6 million of debt securities, consisting of \$212.7 million principal amount of our 6.25% convertible notes for \$217.2 million in cash, \$73.7 million principal amount of our 5.0% convertible notes for \$73.3 million in cash, \$363.9 million principal amount of our 9<sup>3</sup>/<sub>8</sub>% senior notes for \$389.6 million in cash, and \$184.2 million face amount of our ATI 12.25% senior subordinated discount notes (\$104.6 million accreted value, net of \$9.0 million fair value discount allocated to warrants) for \$136.2 million in cash. In addition, we made a voluntary repayment of \$21.0 million of term loans under our previous credit facility. As a result of the debt repurchases and redemptions, and the voluntary repayment of term loans, we also recorded an aggregate charge of \$75.7 million related to amounts paid in excess of or below carrying value and the write-off of deferred financing fees.

During the nine months ended September 30, 2003, we repurchased an aggregate of \$165.0 million face amount of our 2.25% convertible notes (\$130.8 million accreted value) in exchange for an aggregate of 8,415,984 shares of our Class A common stock and approximately \$82.2 million



in restricted cash. These shares included an aggregate of 6,440,636 shares of Class A common stock issued to the note holders in addition to the amounts issuable upon conversion of those notes as provided in the indenture. As a consequence of these repurchases, we recorded a charge of \$39.9 million, which primarily represented the fair market value of the shares of stock issued to the note holders in excess of the number of shares originally issuable upon conversion of the notes. In addition, we repurchased an aggregate of \$69.1 million principal amount of our 5.0% convertible notes for approximately \$61.7 million in cash. We also made a \$200.0 million repayment under our credit facility from the proceeds of our ATI 12.25% senior subordinated discount notes offering, a \$100.0 million repayment under our credit facility from the proceeds of our 3.25% convertible notes offering and a \$14.0 million

## **Table of Contents**

unscheduled principal payment reducing our overall borrowing capacity under our credit facility. As a result of these transactions, we also recorded an aggregate net loss of \$1.2 million related to amounts paid in excess of or below carrying value and the write-off of deferred financing fees.

### *Other Expense*

Other expense for the nine months ended September 30, 2004 was \$2.0 million, a decrease of \$5.2 million from the nine months ended September 30, 2003. The decrease resulted primarily from fees and expenses incurred in 2003 in connection with a financing transaction that we did not consummate. We incurred no such charges during the nine months ended September 30, 2004.

### *Income Tax Benefit*

The income tax benefit for the nine months ended September 30, 2004 was \$64.2 million, an increase of \$5.3 million from the nine months ended September 30, 2003. The effective tax rate was 27.4% for the nine months ended September 30, 2004, as compared to 23.4% for the nine months ended September 30, 2003. The primary reason for the increase in the effective rate in 2004 is a decrease in capital losses and non-deductible losses on the retirement of debt as compared to 2003. The effective tax rate on loss from continuing operations for the nine months ended September 30, 2004 and 2003 differs from the federal statutory rate due primarily to valuation allowances related to our capital losses, foreign items and non-deductible losses on the retirement of debt.

In June 2003, we filed an income tax refund claim with the IRS related to carrying back net operating losses that we generated in 1998, 1999 and 2001. We filed a similar claim in October 2003 with respect to net operating losses generated in 2002. We anticipate receiving a refund of approximately \$90.0 million as a result of these claims, which will monetize a portion of our deferred tax asset. We estimate recovery of these amounts within two to three years of the dates the claims were filed with the IRS. There can be no assurances, however, with respect to the specific amount and timing of the refund.

SFAS No. 109, *Accounting for Income Taxes*, requires that we record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At September 30, 2004, we have provided a valuation allowance of approximately \$175.2 million primarily related to net state deferred tax assets, capital loss carryforwards and the lost tax benefit and costs associated with the tax refund claims (recorded in 2002). We have not provided a valuation allowance for the remaining deferred tax assets, primarily our tax refund claims and our federal net operating loss carryforwards, as we believe that we will be successful with our tax refund claims and will have sufficient time to realize these federal net operating loss carryforwards during the twenty-year tax carryforward period.

We intend to recover a portion of our deferred tax asset through our tax refund claims discussed above. The recoverability of our remaining net deferred tax asset has been assessed utilizing stable state (no growth) projections based on our current operations. The projections show a significant decrease in depreciation and interest expense in the later years of the carryforward period as a result of a significant portion of our assets being fully depreciated during the first fifteen years of the carryforward period and debt repayments reducing interest expense. Accordingly, the recoverability of our net deferred tax asset is not dependent on material improvements to operations, material asset sales or other non-routine transactions. Based on our current outlook of future taxable income during the carryforward period, we believe that our net deferred tax asset will be realized. The realization of our deferred tax assets as of September 30, 2004 will be dependent upon our ability to generate approximately \$1.3 billion in taxable income from October 1, 2004 to December 31, 2024. If we are unable to generate sufficient taxable income in the future, or carry back losses, as described above, we will be required to reduce our net deferred tax asset through a charge to income tax expense, which would result in a corresponding decrease in stockholders' equity.



## **Table of Contents**

Depending on the resolution of the Verestar bankruptcy proceedings described in notes 5 and 11 to our accompanying condensed consolidated financial statements, we may be entitled to a worthless stock or bad debt deduction for our investment in Verestar. No income tax benefit has been provided for these potential deductions due to the uncertainty surrounding the bankruptcy proceedings.

### *Loss on Equity Method Investments*

Loss on equity method investments for the nine months ended September 30, 2004 was \$1.9 million, a decrease of \$18.0 million from the nine months ended September 30, 2003. The decrease is primarily related to a decrease in impairment charges on our equity investments.

### *Income (Loss) from Discontinued Operations, Net*

Income from discontinued operations, net for the nine months ended September 30, 2004 was \$0.4 million, as compared to a loss from discontinued operations, net of \$54.1 million for the nine months ended September 30, 2003. The change is primarily a result of our disposal of substantially all of our discontinued operations prior to January 1, 2004.

## **Liquidity and Capital Resources**

The information in this section updates, as of September 30, 2004, certain portions of the **Liquidity and Capital Resources** section of our annual report on Form 10-K/A for the year ended December 31, 2003 and should be read in conjunction with that report.

Our primary sources of liquidity have been internally generated funds from operations, borrowings under our credit facility, proceeds from equity and debt offerings, and proceeds from the sale of non-core assets. We have used those funds to meet our operating and capital requirements, which consist primarily of operating expenses, debt service and capital expenditures for tower maintenance, construction and acquisitions. We expect that our cash flows from operations and our cash on hand will be sufficient to fund our operating and capital requirements through 2005.

### *Uses of Cash*

#### *Tower Acquisitions, Construction and Improvements.*

*Acquisitions.* During the nine months ended September 30, 2004, we acquired a total of 187 towers for approximately \$27.8 million, including 20 towers in Brazil and 18 towers in Mexico from NII Holdings for \$5.8 million, 76 towers in Mexico from Iusacell Celular for \$16.0 million, and 73 towers in the United States from various sellers for \$4.0 million. We expect to acquire an additional 33 towers from Iusacell Celular for approximately \$6.9 million during the remainder of 2004.

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

*Construction and Improvements.* Payments for purchases of property and equipment and construction activities during the nine months ended September 30, 2004 totaled \$28.6 million, including capital expenditures incurred in connection with the construction of 40 towers. We expect to construct an additional 20 to 30 new towers during the remainder of 2004, and expect our 2004 total capital expenditures for construction and improvements, services and corporate to be between approximately \$39.0 million and \$44.0 million.

*Debt Service.* As of September 30, 2004, we had outstanding debt of approximately \$3.2 billion. During the nine months ended September 30, 2004, we paid approximately \$173.7 million in cash interest and repaid or refinanced \$1.5 billion of principal on our outstanding debt, including the refinancing of our previous credit facility of \$665.8 million, a \$21.0 million prepayment of term loan A under our previous credit facility, the redemption of \$212.7 million principal amount of our 6.25% convertible notes, the partial redemption and

## **Table of Contents**

repurchase of \$363.9 million principal amount of our 9<sup>3</sup>/<sub>8</sub>% senior notes and the repurchase of \$258.0 million face amount of our other debt securities. For more information about debt reductions and refinancings, see Financing Activities.

*Contractual Obligations.* Our contractual obligations relate primarily to borrowings under our credit facility and our outstanding notes. We included a table of our contractual obligations in our annual report on Form 10-K/A for the year ended December 31, 2003, which we updated in our quarterly report on Form 10-Q/A for the quarter ended June 30, 2004. Since June 30, 2004, we refinanced and repurchased a portion of our outstanding debt, as discussed below under Financing Activities.

## ***Sources of Cash***

*Total Liquidity at September 30, 2004.* As of September 30, 2004, we had approximately \$500.1 million of total liquidity, comprised of approximately \$126.8 million in cash and cash equivalents and the ability to draw approximately \$373.3 million of the revolving loan under our credit facility.

*Cash Generated by Operations.* For the nine months ended September 30, 2004, our cash provided by operating activities was \$149.2 million, compared to \$80.0 million for the same period in 2003. Our rental and management segment and network development services segments are expected to generate cash flows from operations during 2004 in excess of their cash needs for expenditures for construction, improvements and acquisitions and debt service. See Results of Operations.

*Proceeds from the New Credit Facility and Sales of Debt Securities.* In May 2004, we refinanced our previous credit facility with a new \$1.1 billion senior secured credit facility. See Financing Activities. In February 2004, August 2004 and October 2004, we raised approximately \$221.7 million, \$335.9 million and \$292.8 million, respectively, of net proceeds through institutional private placements of our 7.50% senior notes due 2012, 3.00% convertible notes due August 15, 2012 and 7.125% senior notes due 2012. See Financing Activities.

*Divestiture Proceeds.* During the nine months ended September 30, 2004, we completed certain transactions that generated approximately \$23.5 million in cash. Significant transactions included the sale of approximately \$15.7 million of non-core assets, including 48 non-strategic towers and two buildings. Additionally, in March 2004, we received approximately \$4.0 million for substantially all the assets of Kline and we may receive up to an additional \$2.0 million in cash payable in 2006 based on future revenues generated by Kline. In October 2004, we announced the pending sale of our tower construction services unit, which is expected to close during the fourth quarter of 2004. The total purchase consideration is expected to be approximately \$10.0 million, consisting of cash and the assumption of certain capital lease obligations by the purchaser.

## ***Financing Activities***

During the nine months ended September 30, 2004, we took several actions to increase our financial flexibility and extend the maturities of our indebtedness.

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

*New Credit Facility.* In May 2004, we refinanced our previous credit facility with a new \$1.1 billion senior secured credit facility. At closing, we received \$685.5 million of net proceeds from the borrowings under the new facility, after deducting related expenses and fees, approximately \$670.0 million of which we used to repay principal and interest under the previous credit facility. We used the remaining net proceeds of \$15.5 million for general corporate purposes, including the repurchase of other outstanding debt securities. A description of the credit facility can be found in the Liquidity and Capital Resources section of our quarterly report on Form 10-Q/A for the quarter ended June 30, 2004 and in note 7 to our accompanying condensed consolidated financial statements.

---

**Table of Contents***Notes Offerings*

*7.50% Senior Notes Offering.* In February 2004, we sold \$225.0 million principal amount of our 7.50% senior notes due 2012 through an institutional private placement. The net proceeds of the offering were approximately \$221.7 million, after deducting the commissions payable to the initial purchasers and other expenses related to the offering. The net proceeds were used to redeem all of our outstanding 6.25% convertible notes and to repurchase a portion of our outstanding 5.0% convertible notes, discussed below. A description of our 7.50% senior notes can be found in the Liquidity and Capital Resources section of our quarterly report on Form 10-Q/A for the quarter ended June 30, 2004 and in note 6 to our accompanying condensed consolidated financial statements.

*3.00% Convertible Notes Offering.* In August 2004, we sold \$345.0 million principal amount of 3.00% convertible notes due August 15, 2012 through an institutional private placement. The net proceeds of the offering were approximately \$335.9 million, after deducting the commissions payable to the initial purchaser and other expenses related to the offering, and were used to redeem a portion of our 9<sup>3</sup>/<sub>8</sub>% senior notes, discussed below.

The 3.00% convertible notes mature on August 15, 2012 and interest is payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2005. The 3.00% convertible notes are convertible at any time prior to maturity, subject to their prior redemption or repurchase, into shares of our Class A common stock at a conversion price of approximately \$20.50 per share, subject to certain adjustments. We may redeem the 3.00% convertible notes on or after August 20, 2009 at an initial redemption price of 101.125% of the principal amount, subject to a ratable decline after August 15 of the following year to 100% of the principal amount in 2012. The 3.00% convertible notes rank equally with our other convertible notes, our 7.125% senior notes, our 7.50% senior notes and our 9<sup>3</sup>/<sub>8</sub>% senior notes and are structurally and effectively junior to indebtedness outstanding under our credit facility, our ATI 12.25% senior subordinated discount notes and our ATI 7.25% senior subordinated notes.

*7.125% Senior Notes Offering.* In October 2004, we sold \$300.0 million principal amount of 7.125% senior notes due 2012 through an institutional private placement. The net proceeds of the offering were approximately \$292.8 million, after deducting the commissions payable to the initial purchasers and other expenses related to the offering. The net proceeds were used to redeem a portion of our 9<sup>3</sup>/<sub>8</sub>% senior notes, discussed below.

The 7.125% senior notes mature on October 15, 2012 and interest is payable semi-annually in arrears on April 15 and October 15 of each year, beginning April 15, 2005. We may redeem the 7.125% senior notes on or after October 15, 2008 at an initial redemption price of 103.563% of the principal amount, subject to a ratable decline after October 15 of the following year to 100% of the principal amount in 2010 and thereafter. We may redeem up to 35% of the 7.125% senior notes prior to October 15, 2007 at a price equal to 107.125% of the principal amount of the notes plus accrued and unpaid interest thereon and additional interest, if any, with the net cash proceeds of certain public equity offerings within 60 days, as applicable, after the closing of any such offering. The 7.125% senior notes rank equally with our convertible notes, our 7.50% senior notes and our 9<sup>3</sup>/<sub>8</sub>% senior notes and are structurally and effectively junior to indebtedness outstanding under our credit facility, our ATI 12.25% senior subordinated discount notes and our ATI 7.25% senior subordinated notes. The indenture for the 7.125% senior notes contains certain covenants that restrict our ability to incur more debt; guarantee indebtedness; issue preferred stock; pay dividends; make certain investments; merge, consolidate or sell assets; enter into transactions with affiliates; and enter into sale leaseback transactions.

*Redemptions and Debt Repurchases*

*6.25% Convertible Notes Redemption.* In February 2004, we completed the redemption of all of our outstanding \$212.7 million principal amount of 6.25% convertible notes. We redeemed these notes pursuant to the terms of the indenture at a purchase price equal to 102.083% of the principal amount, plus accrued and unpaid interest. The total aggregate redemption price was \$221.9 million, including \$4.8 million in accrued interest.





---

**Table of Contents**

*9<sup>3</sup>/<sub>8</sub>% Senior Notes Redemptions.* In September and November 2004, we completed the redemption of an aggregate of \$613.0 million principal amount of our outstanding 9<sup>3</sup>/<sub>8</sub>% senior notes due 2009. On September 20, 2004, we redeemed \$337.0 million principal amount of our outstanding 9<sup>3</sup>/<sub>8</sub>% senior notes using \$335.9 million in net proceeds from our 3.00% convertible notes offering, plus an additional \$29.2 million in cash on hand. We redeemed these notes pursuant to the terms of the indenture at a purchase price equal to 107.07% of the principal amount, for an aggregate redemption price of \$365.1 million, including \$4.3 million in accrued interest. On November 4, 2004, we redeemed an additional \$276.0 million principal amount of our outstanding 9<sup>3</sup>/<sub>8</sub>% senior notes using \$292.8 million in net proceeds from our 7.125% senior notes offering, plus an additional \$7.1 million in cash on hand. We redeemed these notes pursuant to the terms of the indenture at a purchase price equal to 106.23% of the principal amount, for an aggregate redemption price of \$299.9 million, including \$6.7 million in accrued interest.

*Other Debt Repurchases.* During the nine months ended September 30, 2004, in addition to the redemptions discussed above, we repurchased in privately negotiated transactions an aggregate of \$184.2 million face amount of our ATI 12.25% senior subordinated discount notes (\$104.6 million accreted value, net of \$9.0 million fair value discount allocated to warrants) for approximately \$136.2 million in cash; repurchased \$26.9 million principal amount of our 9<sup>3</sup>/<sub>8</sub>% senior notes for \$28.8 million in cash; and repurchased \$73.7 million principal amount of our 5.0% convertible notes for approximately \$73.3 million in cash. From October 1, 2004 to November 5, 2004, we repurchased an aggregate of \$72.6 million face amount of our ATI 12.25% senior subordinated discount notes (\$43.0 million accreted value, net of \$3.3 million fair value discount allocated to warrants) for approximately \$54.7 million in cash.

*Capital Markets.* In April 2004, the SEC declared effective our universal shelf registration statement for possible future public offerings of an aggregate of up to \$1.0 billion of debt and/or equity securities, including the offering of shares of our Class A common stock pursuant to a direct stock purchase plan, with respect to which our Board of Directors currently has approved offerings of up to an aggregate of \$150.0 million.

***Factors Affecting Sources of Liquidity***

*Restrictions Under New Credit Facility.* The new credit facility with our borrower subsidiaries contains certain financial ratios and operating covenants and other restrictions (including limitations on additional debt, guarantees, use of proceeds from asset sales, dividends and other distributions, investments and liens) with which our borrower subsidiaries and restricted subsidiaries must comply.

The credit facility contains four financial tests with which we must comply:

a total borrower leverage ratio (Total Debt to Annualized Operating Cash Flow). We are required to maintain a ratio of not greater than 5.50 to 1.00, decreasing to 5.25 to 1.00 at July 1, 2005, to 5.00 to 1.00 at January 1, 2006, to 4.75 to 1.00 at April 1, 2006, to 4.50 to 1.00 at July 1, 2006, and to 4.00 to 1.00 at January 1, 2007 and thereafter;

a senior leverage ratio (Senior Debt to Annualized Operating Cash Flow). We are required to maintain a ratio of not greater than 4.00 to 1.00, decreasing to 3.75 to 1.00 at January 1, 2006, to 3.50 to 1.00 at July 1, 2006, and to 3.00 to 1.00 at January 1, 2007 and thereafter;

an interest coverage ratio (Annualized Operating Cash Flow to Interest Expense). We are required to maintain a ratio of not less than 2.50 to 1.00; and

a fixed charge coverage ratio (Annualized Operating Cash Flow to Fixed Charges). We are required to maintain a ratio of not less than 1.00 to 1.00.



## **Table of Contents**

Any failure to comply with these covenants would not only prevent us from being able to borrow additional funds under our revolving loan, but would also constitute a default. These covenants also restrict our ability, as the parent company, to incur any debt other than that currently outstanding and refinancings of that debt. The credit facility also limits our revolving loan drawdowns based on our cash on hand.

If a default occurred under our credit facility or any of our other debt securities, the maturity dates for our outstanding debt could be accelerated, and we likely would be prohibited from making additional borrowings under the credit facility until we cured the default. If this were to occur, we would not have sufficient cash on hand to repay such indebtedness. The key factors affecting our ability to comply with the debt covenants described above are our financial performance relative to the financial ratios defined in the credit facility agreement and our ability to fund our debt service obligations. Based upon our current expectations, we believe our operating results will be sufficient to comply with these covenants. However, due to the risk factors outlined below under **Factors That May Affect Future Results**, there can be no assurance that our financial performance will not deteriorate to a point that would result in a default.

If we are unable to refinance our subsidiary debt or renegotiate the terms of such debt, we may not be able to meet our debt service requirements in the future. In addition, as a holding company, we depend on distributions or dividends from our subsidiaries, or funds raised through debt and equity offerings, to fund our debt obligations. Although the agreements governing the terms of our credit facility and senior subordinated notes permit our subsidiaries to make distributions to us to permit us to meet our debt service obligations, such terms also significantly limit their ability to distribute cash to us under certain circumstances. Accordingly, if we do not receive sufficient funds from our subsidiaries to meet our debt service obligations, we may be required to refinance or renegotiate the terms of our debt, and there is no assurance we will succeed in such efforts.

Our ability to make scheduled payments of principal and interest on our debt obligations, and our ability to refinance such debt obligations, will depend on our future financial performance, which is subject to many factors beyond our control, as outlined below under **Factors That May Affect Future Results**. In addition, our ability to refinance any of our debt in the future may depend on our credit ratings from commercial rating agencies, which are dependent on our expected financial performance, the liquidity factors discussed above, and the rating agencies' outlook for our industry. We expect that we will need to refinance a substantial portion of our debt on or prior to its scheduled maturity in the future. There can be no assurance that we will be able to secure such refinancings or, if such refinancings are obtained, that the terms will be commercially reasonable.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, as well as related disclosures of contingent assets and liabilities. We evaluate our policies and estimates on an ongoing basis, including those related to income taxes, impairment of assets, allowances for accounts receivable, investment impairment charges and revenue recognition. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In our annual report on Form 10-K/A for the year ended December 31, 2003, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to income taxes, impairment of assets, allowances for accounts receivable, investment impairment charges and revenue recognition. We have reviewed our policies and determined that these remain our most critical accounting policies for the quarter ended September 30, 2004. We did not make any changes to these policies during the quarter.



**Table of Contents**

**Factors That May Affect Future Results**

*Decrease in demand for tower space would materially and adversely affect our operating results and we cannot control that demand.*

Many of the factors affecting the demand for wireless communications tower space, and to a lesser extent our network development services business, could materially affect our operating results. Those factors include:

consumer demand for wireless services;

the financial condition of wireless service providers;

the ability and willingness of wireless service providers to maintain or increase their capital expenditures;

the growth rate of wireless communications or of a particular wireless segment;

governmental licensing of broadcast rights;

mergers or consolidations among wireless service providers;

increased use of network sharing arrangements or roaming and resale arrangements by wireless service providers;

delays or changes in the deployment of 3G or other technologies;

zoning, environmental, health and other government regulations; and

technological changes.

The demand for broadcast antenna space is dependent, to a significantly lesser extent, on the needs of television and radio broadcasters. Among other things, technological advances, including the development of satellite-delivered radio, may reduce the need for tower-based broadcast transmission. We could also be affected adversely should the development of digital television be further delayed or impaired, or if demand for it were less than anticipated because of delays, disappointing technical performance or cost to the consumer.

*Substantial leverage and debt service obligations may adversely affect us.*

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

We have a substantial amount of indebtedness. As of September 30, 2004, we had approximately \$3.2 billion of consolidated debt. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. Approximately 22% of our outstanding indebtedness bears interest at floating rates. As a result, our interest payment obligations on such indebtedness will increase if interest rates increase. In addition, we are permitted under certain of our senior note indentures to enter into swap agreements or similar transactions that increase our floating rate obligations. Consequently, changes in interest rates could increase our interest payment obligations on our floating rate indebtedness or our payment obligations under any such swap agreements or similar transactions. Subject to certain restrictions, we may also obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

Our substantial leverage could have significant negative consequences on our financial condition and results of operations, including:

impairing our ability to meet one or more of the financial ratios contained in our debt agreements or to generate cash sufficient to pay interest or principal, including periodic principal amortization payments, which events could result in an acceleration of some or all of our outstanding debt as a result of cross-default provisions;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional debt or equity financing;

## **Table of Contents**

requiring the dedication of a substantial portion of our cash flow from operations to service our debt, thereby reducing the amount of our cash flow available for other purposes, including capital expenditures;

requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;

limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete; and

placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

### ***Restrictive covenants in our credit facility and indentures could adversely affect our business by limiting flexibility.***

Our credit facility and the indentures governing the terms of our other debt securities contain restrictive covenants and, in the case of the credit facility, requirements that we comply with certain leverage and other financial tests. These limit our ability to take various actions, including incurring additional debt, guaranteeing indebtedness, issuing preferred stock, engaging in various types of transactions, including mergers and sales of assets, and paying dividends and making distributions or other restricted payments, including investments. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, new tower development, merger and acquisition or other opportunities.

### ***Our participation or inability to participate in tower industry consolidation could involve certain risks.***

We believe there are benefits to consolidation among tower companies, and have in the past and may in the future explore merger or acquisition transactions with one or more other companies in our industry. Any merger or acquisition transaction would involve several risks to our business, including demands on managerial personnel that could divert their attention from other aspects of our core leasing business, increased operating risks due to the integration of major national networks into our operational system, and potential antitrust constraints, either in local markets or on a regional basis, that could require selective divestitures at unfavorable prices. Any completed transaction may have an adverse effect on our operating results, particularly in the fiscal quarters immediately following its completion while we integrate the operations of the other business. In addition, once integrated, combined operations may not necessarily achieve the levels of revenues, profitability or productivity anticipated. There also may be limitations on our ability to consummate a merger or acquisition transaction. For example, any transaction would have to comply with the terms of the credit facility and our note indentures, or may require the consent of lenders under those instruments that might not be obtainable on acceptable terms. In addition, regulatory constraints might impede or prevent business combinations. Our inability to consummate a merger or acquisition for these or other reasons could result in our failure to participate in the expected benefits of industry consolidation and may have an adverse effect on our ability to compete effectively.

### ***If our wireless service provider customers consolidate or merge with each other to a significant degree, our growth, revenue and ability to generate positive cash flows could be adversely affected.***

Significant consolidation among our wireless service provider customers, such as the recently completed transaction between Cingular Wireless and AT&T Wireless, may result in reduced capital expenditures in the aggregate because the existing networks of many wireless carriers overlap, as do their expansion plans. Similar consequences might occur if wireless service providers engage in extensive sharing, roaming or resale arrangements as an alternative to leasing our antennae space. In January 2003, the Federal Communications Commission (FCC)



eliminated its spectrum cap, which prohibited wireless carriers from owning more than 45 MHz of spectrum in any given geographical area. The FCC has also eliminated the cross-interest rule for metropolitan areas, which limited an entity's ability to own interests in multiple cellular licenses in an

## **Table of Contents**

overlapping geographical service area. Also, in May 2003, the FCC adopted new rules authorizing wireless radio services holding exclusive licenses to freely lease unused spectrum. Some wireless carriers may be encouraged to consolidate with each other as a result of these regulatory changes as a means to strengthen their financial condition. Consolidation among wireless carriers would also increase our risk that the loss of one or more of our major customers could materially decrease revenues and cash flows.

*Due to the long-term expectations of revenue from tenant leases, the tower industry is sensitive to the creditworthiness of its tenants.*

Due to the long-term nature of our tenant leases, we, like others in the tower industry, are dependent on the continued financial strength of our tenants. Many wireless service providers operate with substantial leverage. During the past two years, several of our customers have filed for bankruptcy, although to date these bankruptcies have not had a material adverse effect on our business or revenues. If one or more of our major customers experience financial difficulties, it could result in uncollectible accounts receivable and our loss of significant customers and anticipated lease revenues.

*Our foreign operations are subject to expropriation risk, governmental regulation, funds inaccessibility and foreign exchange exposure.*

Our expansion in Mexico and Brazil, and any other possible foreign operations in the future, could result in adverse financial consequences and operational problems not experienced in the United States. We have loaned \$119.8 million (undiscounted) to a Mexican company, own or have the economic rights to over 1,850 towers in Mexico, including approximately 200 broadcast towers (after giving effect to pending transactions) and, subject to certain rejection rights, are contractually committed to construct up to approximately 400 additional towers in that country over the next three years. We also own or have acquired the rights to approximately 440 communications towers in Brazil and are, subject to certain rejection rights, contractually committed to construct up to 350 additional towers in that country over the next three years. The actual number of sites constructed will vary depending on the build out plans of the applicable carrier. We may, if economic and capital market conditions permit, also engage in comparable transactions in other countries in the future. Among the risks of foreign operations are governmental expropriation and regulation, the credit quality of our customers, inability to repatriate earnings or other funds, currency fluctuations, difficulty in recruiting trained personnel, and language and cultural differences, all of which could adversely affect our operations.

*A substantial portion of our revenues is derived from a small number of customers.*

A substantial portion of our total operating revenues is derived from a small number of customers. Approximately 62.8% of our revenues for the nine months ended September 30, 2004 and approximately 61.5% of our revenues for the year ended December 31, 2003 were derived from nine customers. Our largest domestic customer is Verizon Wireless, which represented 11.6% of our total revenues for the nine months ended September 30, 2004 and 12.3% of our revenues for the year ended December 31, 2003. If the recently completed transaction between Cingular Wireless and AT&T Wireless had occurred as of January 1, 2003, the combined revenues would have represented 14.0% of our revenues for the nine months ended September 30, 2004 and 13.2% of our revenues for the year ended December 31, 2003. Our largest international customer is Iusacell Celular, which is an affiliate of TV Azteca. Iusacell Celular accounted for approximately 3.8% and 4.7% of our total revenues for the nine months ended September 30, 2004 and the year ended December 31, 2003, respectively. TV Azteca also owns a minority interest in Unefon, which is our second largest customer in Mexico and accounted for approximately 2.6% and 2.8% of our total revenues for the nine months ended September 30, 2004 and the year ended December 31, 2003, respectively. In addition, we received \$10.8 million and \$14.2 million in interest income, net, from TV Azteca for the nine months ended September 30, 2004 and the year ended December 31, 2003, respectively. If any of these customers were unwilling or unable to perform their obligations under our agreements with them, our revenues, results of operations, and financial condition could be adversely affected.



## **Table of Contents**

In the ordinary course of our business, we also sometimes experience disputes with our customers, generally regarding the interpretation of terms in our agreements. Although historically we have resolved these disputes in a manner that did not have a material adverse effect on our company or our customer relationships, these disputes could lead to a termination of our agreements with customers or a material modification of the terms of those agreements, either of which could have a material adverse effect on our business, results of operations and financial condition. If we are forced to resolve any of these disputes through litigation, our relationship with the applicable customer could be terminated or damaged, which could lead to decreased revenues or increased costs, resulting in a corresponding adverse effect on our operating results.

### ***Status of Iusacell Celular's financial restructuring exposes us to certain risks and uncertainties.***

Iusacell Celular is our largest customer in Mexico and accounted for approximately 3.8% of our total revenues for the nine months ended September 30, 2004 and approximately 4.7% of our total revenues for the year ended December 31, 2003. In addition, in December 2003 we agreed to acquire up to 143 tower sites from Iusacell for up to an aggregate of \$31.4 million, and had acquired 110 tower sites for approximately \$24.5 million as of September 30, 2004. Iusacell currently is in default under certain of its debt obligations and is involved in litigation with certain of its creditors. If Iusacell files for bankruptcy, or if the creditor litigation has an adverse impact on Iusacell's overall liquidity, it could interfere with Iusacell's ability to meet its operating obligations, including rental payments under our leases with them.

### ***New technologies could make our tower antenna leasing services less desirable to potential tenants and result in decreasing revenues.***

The development and implementation of new technologies designed to enhance the efficiency of wireless networks could reduce the use and need for tower-based wireless services transmission and reception and have the effect of decreasing demand for antenna space. Examples of such technologies include technologies that enhance spectral capacity, such as lower-rate vocoders, which can increase the capacity at existing sites and reduce the number of additional sites a given carrier needs to serve any given subscriber base. In addition, the emergence of new technologies could reduce the need for tower-based broadcast services transmission and reception. For example, the growth in delivery of video services by direct broadcast satellites could adversely affect demand for our antenna space. The development and implementation of any of these and similar technologies to any significant degree could have an adverse effect on our operations.

### ***We could have liability under environmental laws.***

Our operations, like those of other companies engaged in similar businesses, are subject to the requirements of various federal, state and local and foreign environmental and occupational safety and health laws and regulations, including those relating to the management, use, storage, disposal, emission and remediation of, and exposure to, hazardous and non-hazardous substances, materials and wastes. As owner, lessee or operator of approximately 15,000 real estate sites, we may be liable for substantial costs of remediating soil and groundwater contaminated by hazardous materials, without regard to whether we, as the owner, lessee or operator, knew of or were responsible for the contamination. In addition, we cannot assure you that we are at all times in complete compliance with all environmental requirements. We may be subject to potentially significant fines or penalties if we fail to comply with any of these requirements. The current cost of complying with these laws is not material to our financial condition or results of operations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. It is possible that these requirements will change or that liabilities will arise in the future in a manner that could have a material adverse effect on our business, financial condition and results of operations.

### ***Our business is subject to government regulations and changes in current or future laws or regulations could restrict our ability to operate our business as we currently do.***

We are subject to federal, state, local and foreign regulation of our business, including regulation by the Federal Aviation Administration (FAA), the FCC, the Environmental Protection Agency, the Department of

## **Table of Contents**

Transportation and the Occupational Safety and Health Administration. Both the FCC and the FAA regulate towers used for wireless communications and radio and television antennae and the FCC separately regulates transmitting devices operating on towers. Similar regulations exist in Mexico, Brazil and other foreign countries regarding wireless communications and the operation of communications towers. Local zoning authorities and community organizations are often opposed to construction in their communities and these regulations can delay, prevent or increase the cost of new tower construction, collocations or site upgrade projects, thereby limiting our ability to respond to customer demand. Existing regulatory policies may adversely affect the timing or cost of new tower construction and locations and additional regulations may be adopted that increase delays or result in additional costs to us or that prevent or restrict new tower construction in certain locations. These factors could adversely affect our operations.

*Increasing competition in the tower industry may create pricing pressures that may adversely affect us.*

Our industry is highly competitive, and our customers have numerous alternatives for leasing antenna space. Some of our competitors are larger and have greater financial resources than we do, while other competitors are in weak financial condition or may have lower return on investment criteria than we do. Competitive pricing pressures for tenants on towers from these competitors could adversely affect our lease rates and services income.

In addition, if we lose customers due to pricing, we may not be able to replace these customers, leading to an accompanying adverse effect on our profitability. Increasing competition could also make the acquisition of high quality tower assets more costly.

Our competition includes:

national tower companies;

wireless carriers that own towers and lease antenna space to other carriers;

site development companies that purchase antenna space on existing towers for wireless carriers and manage new tower construction; and

alternative site structures (e.g., building rooftops, billboards and utility poles).

*Our costs could increase and our revenues could decrease due to perceived health risks from radio emissions, especially if these perceived risks are substantiated.*

Public perception of possible health risks associated with cellular and other wireless communications media could slow the growth of wireless companies, which could in turn slow our growth. In particular, negative public perception of, and regulations regarding, these perceived health risks could slow the market acceptance of wireless communications services and increase opposition to the development and expansion of tower sites. The potential connection between radio frequency emissions and certain negative health effects has been the subject of substantial study by the scientific community in recent years. To date, the results of these studies have been inconclusive.

If a connection between radio frequency emissions and possible negative health effects, including cancer, were established, or if the public perception that such a connection exists were to increase, our operations, costs and revenues would be materially and adversely affected. We do not maintain any significant insurance with respect to these matters.

*The bankruptcy proceeding of our Verestar subsidiary exposes us to risks and uncertainties.*

Our wholly owned subsidiary, Verestar, Inc., filed for protection under Chapter 11 of the federal bankruptcy laws on December 22, 2003. Verestar was reported as a discontinued operation through the date of the bankruptcy filing in 2003 for financial statement purposes and, as of the date of the bankruptcy filing, was deconsolidated for financial statement purposes.

**Table of Contents**

If Verestar fails to honor certain of its contractual obligations because of its bankruptcy filing or otherwise, claims may be made against us for breaches by Verestar of those contracts as to which we are primarily or secondarily liable as a guarantor, which we do not expect will exceed \$10.0 million. In addition, Verestar's bankruptcy estate may bring certain claims against us or seek to hold us liable for certain transfers made by Verestar to us and/or for Verestar's obligations to creditors under various equitable theories recognized under bankruptcy law. The Official Committee of Unsecured Creditors appointed in the Verestar bankruptcy proceeding (the Committee) has requested, and we have agreed to produce, certain documents in connection with the subpoena for Rule 2004 Examination (as defined under federal bankruptcy laws) issued by the Committee. The Bankruptcy Court also has entered an order approving a stipulation between Verestar and the Committee that permits the Committee to file claims against us and/or our affiliates on behalf of Verestar. As of the date of this filing, the Committee has not filed any claims against us or our affiliates on behalf of Verestar. The outcome of complex litigation (including claims which may be asserted against us by Verestar's bankruptcy estate) cannot be predicted with certainty and is dependent upon many factors beyond our control; however, any such claims, if successful, could have a material adverse impact on our financial condition. Finally, we will incur additional costs in connection with our involvement in the reorganization or liquidation of Verestar's business.

**Information Presented Pursuant to the Indentures of Our 9<sup>3</sup>/<sub>8</sub>% Notes, 7.50% Notes, ATI 12.25% Notes and ATI 7.25% Notes**

The following table sets forth information that is presented solely to address certain tower cash flow reporting requirements contained in the indentures for our 9<sup>3</sup>/<sub>8</sub>% senior notes, 7.50% senior notes, ATI 12.25% senior subordinated discount notes and ATI 7.25% senior subordinated notes. The information contained in note 15 to our condensed consolidated financial statements is also presented to address certain reporting requirements contained in the indentures for our ATI 12.25% senior subordinated discount notes and ATI 7.25% senior subordinated notes.

The following table presents Tower Cash Flow, Adjusted Consolidated Cash Flow and Non-Tower Cash Flow for the Company and its restricted subsidiaries, as defined in the indentures for the notes (in thousands):

|   | <u>9<sup>3</sup>/<sub>8</sub>% Notes</u> | <u>ATI 12.25% Notes,<br/>ATI 7.25% Notes<br/>and 7.50% Notes</u> |
|---|--|--|
| Tower Cash Flow, for the three months ended September 30, 2004                  | \$ 118,692                               | \$ 117,113   |
| Consolidated Cash Flow, for the twelve months ended September 30, 2004          | \$ 427,676                               | \$ 421,541   |
| Less: Tower Cash Flow, for the twelve months ended September 30, 2004           | (447,393)                                | (441,269)  |
| Plus: four times Tower Cash Flow, for the three months ended September 30, 2004 | 474,768                                  | 468,452  |
| Adjusted Consolidated Cash Flow, for the twelve months ended September 30, 2004 | \$ 455,051                               | \$ 448,724   |
| Non-Tower Cash Flow, for the twelve months ended September 30, 2004             | \$ (21,728)                              | \$ (21,739)  |



**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates on long-term debt obligations. We attempt to reduce these risks by utilizing derivative financial instruments, namely interest rate caps pursuant to our policies. All derivative financial instruments are for purposes other than trading. During the nine months ended September 30, 2004, we repaid or refinanced approximately \$1.5 billion of principal on our outstanding debt, including the refinancing of our previous credit facility of \$665.8 million with a new \$1.1 billion senior secured credit facility; a \$21.0 million prepayment of term loan A under our previous credit facility; the redemption of \$212.7 million principal amount of our 6.25% convertible notes; the partial redemption and repurchase of \$363.9 million principal amount of our 9<sup>3</sup>/<sub>8</sub>% senior notes; and the repurchase of \$258.0 million face amount of our other debt securities. In February 2004 and August 2004, we issued \$225.0 million principal amount of 7.50% senior notes due May 1, 2012 and \$345.0 million principal amount of 3.25% convertible notes due August 15, 2012. In June 2004 and July 2004, we entered into two cap agreements with an aggregate notional amount of \$250.0 million and \$100.0 million, respectively, and during the nine months ended September 30, 2004, we had four caps expire with aggregate notional amounts totaling \$500.0 million.

The following tables provide information as of September 30, 2004 about our market risk exposure associated with changing interest rates. For long-term debt obligations, the tables present principal cash flows by maturity date and average interest rates related to outstanding obligations. For interest rate caps, the tables present notional principal amounts and weighted-average interest rates by contractual maturity dates.

**Twelve month period ended September 30, 2004****Principal Payments and Interest Rate Detail by Contractual Maturity Dates**

(In thousands, except percentages)

| <b>Long-Term Debt</b>     | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>Thereafter</b> | <b>Total</b> | <b>Fair Value</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|-------------------|
| Fixed Rate Debt (a)       | \$ 2,722    | \$ 16,826   | \$ 276,030  | \$ 650,858  | \$ 636,103  | \$ 1,221,690      | \$ 2,804,229 | \$ 2,797,670      |
| Average Interest Rate (a) | 7.94%       | 8.11%       | 8.50%       | 8.56%       | 6.04%       | 5.53%             |              |                   |
| Variable Rate Debt (a)    | \$ 4,000    | \$ 19,000   | \$ 49,000   | \$ 64,000   | \$ 64,000   | \$ 499,000        | \$ 699,000   | \$ 704,389        |
| Average Interest Rate (a) |             |             |             |             |             |                   |              |                   |

**Aggregate Notional Amounts Associated with Interest Rate Caps in Place****As of September 30, 2004 and Interest Rate Detail by Contractual Maturity Dates**

(In thousands, except percentages)

| <b>Interest Rate CAPS</b> | <b>2005</b> | <b>2006</b> |
|---------------------------|-------------|-------------|
| Notional Amount (b)       | \$ 350,000  | \$ 350,000  |
| Cap Rate                  | 6.00%       | 6.00%       |

(a) As of September 30, 2004, variable rate debt consists of our credit facility (\$699.0 million) and fixed rate debt consists of: the 2.25% Notes (\$0.1 million); the 5.0% Notes (\$275.7 million); the 3.25% Notes (\$210.0 million); the 7.50% Notes (\$225.0 million); the ATI 7.25% Notes (\$400.0 million); the ATI 12.25% Notes (\$650.8 million principal amount due at maturity; the balance as of September 30, 2004 is \$366.6 million accreted value, net of the allocated fair value of the related warrants of \$42.9 million); the 9<sup>3</sup>/<sub>8</sub>% Notes (\$636.1 million); the 3.00% Notes (\$345.0 million principal amount due at maturity; the balance as of September 30, 2004 is \$344.3 million accreted value) and other debt of \$61.6 million. Interest on the credit facility is payable in accordance with the applicable London Interbank Offering Rate (LIBOR) agreement or quarterly and accrues at our option either at LIBOR plus margin (as defined) or the base

## Edgar Filing: AMERICAN TOWER CORP /MA/ - Form 10-Q/A

rate plus margin (as defined). The weighted average interest rate in effect at September 30, 2004 for the credit facility was 4.03%. For the nine months ended September 30, 2004, the weighted average interest rate under the credit facility was 3.66%. The 2.25% Notes bear interest (after giving effect to the accretion of the original discount on the 2.25% Notes) at 6.25% per annum, which is payable semiannually on April 15 and October 15 of each year. The 5.0% Notes bear interest at 5.0% per annum, which is payable semiannually on February 15 and August 15 of each year. The ATI 12.25% Notes bear interest (after giving effect to the accretion of the original discount and the accretion of the fair value of the warrants) at 14.7% per annum, payable upon maturity. The 9 <sup>3</sup>/<sub>8</sub>% Notes bear interest at 9 <sup>3</sup>/<sub>8</sub>% per annum, which is payable semiannually on February 1 and August 1 of each year. The 3.25% Notes bear interest at 3.25% per annum, which is payable semiannually on February 1 and August 1 of each year. The ATI 7.25% Notes bear interest at 7.25% per annum, which is payable semiannually on June 1 and December 1 of each year. The 7.50% Notes bear interest at 7.50% per annum,

## **Table of Contents**

which is payable semiannually on May 1 and November 1 of each year. The 3.00% Notes bear interest at 3.00% per annum, which is payable semiannually on February 15 and August 15 of each year. Other debt consists of notes payable, capital leases and other obligations bearing interest at rates ranging from 7.9% to 12.0%, payable monthly.

(b) Includes notional amounts of \$250,000 and \$100,000 that will expire in June and July 2006, respectively.

We maintain a portion of our cash and cash equivalents in short-term financial instruments that are subject to interest rate risks. Due to the relatively short duration of such instruments, we believe fluctuations in interest rates with respect to those investments will not materially affect our financial condition or results of operations.

Our foreign operations include rental and management segment divisions in Mexico and Brazil. The remeasurement gain (loss) for the three and nine months ended September 30, 2004 was approximately \$0.6 million and \$(0.1) million, respectively. The remeasurement loss for the three and nine months ended September 30, 2003 was approximately \$(0.9) million and \$(1.5) million, respectively.

## **ITEM 4. CONTROLS AND PROCEDURES**

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

In February 2005, subsequent to the period covered by this report, our management determined that our previously issued financial statements should be restated to correct our accounting practices for ground leases underlying our tower sites. We undertook a review of our lease accounting practices as a result of changes in lease accounting announced by other public companies in January and February of 2005 and guidance provided by the Securities and Exchange Commission in its February 7, 2005 letter to the accounting industry. As a result of this review, our management determined that we should change the periods used to calculate depreciation and amortization expense and straight-line rent expense relating to certain of our tower assets and underlying ground leases. Accordingly, we restated our condensed consolidated financial statements as of September 30, 2004 and for each of the three and nine month periods ended September 30, 2004 and 2003, included in this Form 10-Q/A. The restatement is further discussed in the Explanatory Note in the forepart of this Form 10-Q/A and in note 2 to our condensed consolidated financial statements included herein.

(a) *Evaluation of disclosure controls and procedures.* Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report in connection with the filing of our Form 10-Q in November 2004. Based on that evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

In connection with the restatement and the filing of this Form 10-Q/A, our management, with the participation of our principal executive officer and principal financial officer, re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2004, the end of the period covered by this Form 10-Q/A. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are not effective, as of the end of the period covered by this Form 10-Q/A, in ensuring that material information relating to American Tower Corporation, required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods. The evaluation did not reveal any fraud, intentional misconduct or concealment on the part of our personnel. We have remediated the ineffectiveness

of our disclosure controls and procedures by conducting a review of our lease accounting practices and correcting our accounting practices for depreciation and amortization expense and straight-line rent expense relating to certain of our tower assets and underlying ground leases.

**Table of Contents**

(b) *Changes in internal controls.* There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during our fiscal quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Based on the definition of "material weakness" in the Public Company Accounting Oversight Board's Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements, restatement of financial statements in prior filings with the Securities and Exchange Commission is a strong indicator of the existence of a "material weakness" in the design or operation of internal control over financial reporting. Based on this interpretation, our management concluded that a material weakness existed in our internal control over financial reporting relating to the selection, application and monitoring of our accounting practices for depreciation and amortization expense and straight-line rent expense relating to certain of our tower assets and underlying ground leases. Our management disclosed this to the Audit Committee and to our independent registered public accountants. We have remediated the material weakness in internal control over financial reporting by conducting a review of our lease accounting practices and correcting our accounting practices for depreciation and amortization expense and straight-line rent expense relating to certain of our tower assets and underlying ground leases.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

The Company periodically becomes involved in various claims and lawsuits (either asserted or unasserted) that are incidental to its business. In the opinion of management, after consultation with counsel, there are no matters currently pending that would, in the event of an adverse outcome, have a material impact on the Company's consolidated financial position, the results of operations or liquidity.

**ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

In August 2004, the Company sold in an institutional private placement \$345.0 million principal amount of 3.00% convertible notes due August 15, 2012 for net proceeds of approximately \$335.9 million. The Company issued the 3.00% convertible notes in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. As a basis for doing so, in each case the Company relied on the following facts: (1) the Company offered the securities to a limited number of offerees without any general solicitation, (2) the Company obtained representations from the purchasers that they satisfied the definition of "qualified institutional buyer" under Rule 144A and (3) the Company issued all of the securities with restrictive CUSIPs limiting resales to "qualified institutional buyers."

**ITEM 6. EXHIBITS.**

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q/A, which Exhibit Index is incorporated by this reference.

**Table of Contents**

**SIGNATURES**

**Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.**

Date: March 29, 2005

AMERICAN TOWER CORPORATION

By: */s/* BRADLEY E. SINGER  
**Bradley E. Singer**  
**Chief Financial Officer and Treasurer**

**(Duly Authorized Officer and Principal Financial Officer)**

**Table of Contents**

**EXHIBIT INDEX**

| <b><u>Exhibit No.</u></b> | <b><u>Description</u></b>   |
|---------------------------|---|
| 10*                       | Asset Purchase Agreement dated as of October 18, 2004 between ATC Tower Services, Inc., and Andrew Corporation. |
| 31.1                      | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.         |
| 31.2                      | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.         |
| 32                        | Certifications pursuant to 18 U.S.C. Section 1350.  |

\* Previously filed.