AMERICAN TOWER CORP /MA/
Form 10-K/A
November 29, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One):

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the fiscal year ended December 31, 2005

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the transition period from to

Commission File Number: 001-14195

American Tower Corporation

(Exact name of registrant as specified in its charter)

Delaware	**65-0723837**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

116 Huntington Avenue

Boston, Massachusetts 02116

(Address of principal executive offices)

Telephone Number (617) 375-7500

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of exchange on which registered
Class A Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ¨ No x

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 x No ¨

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2005 was approximately $4,801,552,860, based on the closing price of the registrant s Class A Common Stock as reported on the New York Stock Exchange as of the last business day of the registrant s most recently completed second quarter.

As of March 9, 2006, there were 419,677,495 shares of Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the Definitive Proxy Statement) to be filed with the Securities and Exchange Commission relative to the Company s 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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EXPLANATORY NOTE

American Tower Corporation (the Company) is filing this amendment (this Amendment) to its Annual Report on Form 10-K for the year ended December 31, 2005 (the Original Filing) to reflect the restatement of its consolidated financial statements as of December 31, 2005 and 2004 and for each of the years ended December 31, 2005, 2004 and 2003, and certain other changes described below. This Amendment also reflects the restatement of selected financial data as of and for each of the years ended December 31, 1998 through 2005, which is included in Item 6. The restatement of the Original Filing reflected in this Amendment corrects certain errors related to (i) stock-based compensation not previously recorded for certain stock option grants, including the related payroll and income tax effects, (ii) additional charges for stock-based compensation expense related to the modification and repricing of certain stock option grants, primarily associated with options awarded to two former executive officers of the Company, and (iii) changes to income taxes related to the tax effects of foreign currency fluctuations on an intercompany loan with a foreign subsidiary of the Company. These corrections are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Amendment and in note 2 to the consolidated financial statements included in Item 8 of this Amendment.

The Company s decision to restate its previously issued financial statements was based, in part, on an independent review of its historical stock option granting practices and related accounting. On May 19, 2006, the Company announced that its Board of Directors had established a special committee of independent directors to conduct a review of the Company s stock option granting practices and related accounting with the assistance of independent legal counsel and forensic auditors. The special committee determined that, for certain stock option grants, the legal grant dates when all necessary corporate action had been taken differ from the dates previously recorded by the Company for financial accounting and tax purposes. The findings of the special committee are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Amendment.

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

In addition, this Amendment reflects a reclassification related to the Company s presentation of selling, general and administrative expenses. Effective as of January 1, 2006, the Company changed its classification to aggregate all segment and corporate selling, general, administrative and development expenses previously included in rental and management expense, network development services expense, and corporate, general, administrative and development expense into one line item entitled selling, general, administrative and development expense. Accordingly, the information presented in this Amendment reflects the effect of this reclassification on all prior periods. This reclassification is discussed in note 2 to the consolidated financial statements included in Item 8 of this Amendment.

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

Part I	- Item 3. Legal Proceedings
Part II	- Item 6. Selected Financial Data
	- Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
	- Item 8. Financial Statements and Supplementary Data
	- Item 9A. Controls and Procedures
Part IV	- Item 15. Exhibits and Financial Statement Schedules

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 March 15, 2006, the filing date of the Original Filing, or modify or update the disclosures presented in the Original Filing, except to reflect the changes described above and to disclose certain related events, which are described in note 20 to the consolidated financial statements included in Item 8 of this Amendment, and to make clarifications to certain disclosures. Accordingly, this Amendment should be read in conjunction with the Company s periodic filings made with the Securities and Exchange Commission (the SEC) subsequent to the filing date of the Original Filing, including any amendments to those filings, as well as any Current Reports filed on Form 8-K subsequent to the filing date of the Original Filing. Any reference to facts and circumstances at a current date refer to such facts and circumstances as of the filing date of the Original Filing.

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

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FORM 10-K/A AMENDMENT NO. 1 TO ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2005

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Amendment contains statements about future events and expectations, or forward-looking statements, all of which are inherently uncertain. We have based those forward-looking statements on our current expectations and projections about future results. When we use words such as anticipates, intends, plans, believes, estimates, expects, or similar expressions, we do so to identify forward-looking statements. Examples forward-looking statements include statements we make regarding future prospects of growth in the wireless communications and broadcast infrastructure markets, the level of future expenditures by companies in those markets and other trends in those markets, our ability to maintain or increase our market share, our future operating results, our future purchases under our stock repurchase program, our future capital expenditure levels, and our plans to fund our future liquidity needs. These statements are based on our management s beliefs and assumptions, which in turn are based on currently available information. These assumptions could prove inaccurate. These forward-looking statements may be found under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, as well as in this annual report generally.

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You should keep in mind that any forward-looking statement made by us in this Amendment or elsewhere speaks only as of the date on which we make it. All forward-looking statements contained in this Amendment, unless they are specifically otherwise stated to be made as of a different date, are made as of March 15, 2006, the filing date of the Original Filing. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. For example, the review of our historical stock option granting practices and related accounting has resulted in the restatement reflected in this Amendment, and the final results of the review, the costs associated with the review, and the related inquiries, investigations and legal proceedings create additional risk and uncertainty. These and other important factors, including those set forth in Item 1A of this Amendment under the caption Risk Factors, may cause actual results to differ materially from those indicated by our forward-looking statements. We have no duty to, and do not intend to, update or revise the forward-looking statements made by us in this Amendment, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that the future events or circumstances described in any forward-looking statement made by us in this Amendment or elsewhere might not occur.

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PART I

ITEM 1. BUSINESS

Overview

We are a leading wireless and broadcast communications infrastructure company with a portfolio of over 22,000 owned communications sites. Our portfolio includes approximately 20,000 owned tower sites in the United States and over 2,500 in Mexico and Brazil. In addition to our owned tower sites, we offer access to over 10,000 rooftop and tower sites in the United States that we manage for third parties. We also operate in-building distributed antenna systems in malls and casino/hotel resorts. Our primary business is leasing antenna space on multi-tenant communications sites to wireless service providers and radio and television broadcast companies. We operate the largest independent portfolio of wireless and broadcast communications sites in the United States, Mexico and Brazil, based on number of sites and revenue.

Our communications site portfolio provides us with a recurring base of leasing revenues from our existing customers and growth potential due to the capacity to add more tenants and equipment to these sites. Our broad network of communications sites enables us to address the needs of national, regional, local and emerging wireless service providers. We also offer limited services that directly support our site leasing operations and the addition of new tenants and equipment on our sites. We intend to capitalize on the continuing increase in the use of wireless communications services by actively marketing space available for leasing on our existing sites and selectively developing or acquiring new sites that meet our return on investment criteria.

Our site leasing business, which we also refer to as our rental and management segment, accounted for approximately 99.5% and 99.3% of our segment operating profit for the years ended December 31, 2005 and 2004, respectively. In 2006, we expect that our rental and management segment will continue to contribute approximately 99% of our segment operating profit, which we define as segment revenue less direct segment expense (rental and management segment operating profit includes interest income, TV Azteca, net).

Over the last three years, we have focused our operations on our rental and management segment by selling numerous non-core assets and businesses and using the proceeds from these sales to purchase high quality tower assets and reduce our outstanding indebtedness. With the sale of our tower construction services unit in November 2004, we substantially completed our strategic transition to a focused site leasing company.

In August 2005, we expanded our communications site portfolio and our rental and management operations through our merger with SpectraSite, Inc., an owner and operator of approximately 7,800 wireless and broadcast towers and in-building systems in the United States. We believe the merger provided us with significant strategic and financial advantages. We believe our larger scale will translate into increased cooperation with our customers, and create greater flexibility to structure mutually beneficial contracts, potentially resulting in further increases in revenue and market share. We also believe the merger will enable us to maximize our return on investment by creating a significantly larger revenue base over which to spread our relatively fixed overhead costs, therefore further capitalizing on the significant operating leverage inherent in the tower business model. For more information about our merger with SpectraSite, Inc., see note 3 to our consolidated financial statements included in this annual report.

We believe our strategy of focusing operations on our rental and management segment has made our consolidated operating cash flows more stable, will provide us with continuing growth and will enhance our returns on invested capital because of the following characteristics of our core leasing business:

Long-term tenant leases with contractual escalators. In general, a lease with a wireless carrier has an initial term of five-to-ten years with multiple five-year renewal terms thereafter, and lease payments typically increase 3% to 5% per year.

Operating expenses are largely fixed. Incremental operating costs associated with adding wireless tenants to a communications site are minimal. Therefore, as additional tenants are added to a site, the substantial majority of incremental revenue becomes operating profit.

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Low maintenance capital expenditures. On average, a communications site requires low annual capital investments to maintain.

High lease renewal rates. Wireless carriers tend to renew leases because suitable alternative sites may not exist or be available and repositioning a site in a carrier s network is expensive and may adversely affect network quality.

Strategy

Our strategy is to capitalize on the continuing growth in the use of wireless communications services and the infrastructure requirements necessary to deploy current and future generations of wireless communications technologies.

In the United States, the number of wireless service subscribers increased from 128.4 million to 194.5 million between December 2001 and June 2005, representing an increase of approximately 51% and market penetration of approximately 65%. During the same period, the number of cell sites (i.e., the number of antennas and related equipment in commercial operation, not the number of towers on which that equipment is located) increased approximately 40% from approximately 127,500 cell sites to approximately 178,000. In addition, wireless minutes of use, an indicator of demand for wireless services, exceeded one trillion in the United States for 2004, an increase of over 32% from the prior year, and the industry is on pace to report strong growth for 2005.

In Mexico, the number of wireless service subscribers increased from 21.8 million to 44.6 million between December 2001 and September 2005, representing an increase of approximately 105% and market penetration of approximately 42%. In Brazil, the number of wireless service subscribers increased from 28.7 million to 86.2 million between December 2001 and December 2005, representing an increase of approximately 200% and market penetration of approximately 47%.

We believe the continuing growth in the number of wireless service subscribers and the minutes of use per subscriber will require wireless carriers to add new cell sites, and new equipment to existing cell sites, to maintain the performance of their networks in the areas they currently cover and to extend service to areas where coverage does not yet exist. As wireless carriers continue to add subscribers and seek to limit churn, we also anticipate they will focus on network quality as a competitive necessity and will invest in upgrades to their networks. In addition, we believe that as wireless data services, such as email, internet access and video, are deployed on a widespread basis, the deployment of these technologies may require wireless carriers to further increase the cell density of their existing networks, may require new technology and equipment, and may increase the demand for geographic expansion of their network coverage. To meet this demand, we believe wireless carriers will continue to outsource their communications site infrastructure needs as a means of accelerating access to their markets and preserving capital, rather than constructing and operating their own communications sites and maintaining their own communications sites service and development capabilities.

We believe that our existing portfolio of communications sites, our tower-related services offerings and our management team position us to benefit from these trends and to play an increasing role in addressing the needs of wireless service providers and broadcasters. The key elements of our strategy include:

Maximize Use of Existing Site Capacity. We believe that our highest returns will be achieved by leasing additional space on our existing communications sites. We anticipate that our revenues and segment operating profit will continue to grow because many of our communications sites are attractively located for wireless service providers and have capacity available for additional antenna space that we can offer to customers at low incremental costs to us. Because the costs of operating a site are largely fixed, increasing utilization significantly improves operating margins. We will continue to target our sales and marketing activities to increase utilization of, and investment return on, our existing communications sites.

Grow Our Site Portfolio Using Selective Criteria for Acquisitions and New Development. Given the relatively fixed cost structure of our site leasing business, we believe that adding new communications sites to our portfolio will allow us to grow revenues with only modest increases in administrative operating expenses. We seek to acquire, construct and redevelop towers and install in-building systems when our initial and long-term return on investment criteria are met. We similarly evaluate expansion opportunities into new markets. To achieve our expected returns for a new site, we typically secure leases from customers in advance of construction or installation, ensure reasonable estimated construction or installation costs and, for new tower sites, obtain the land on which to build the tower, whether by purchase or ground lease, on reasonable terms.

Continue Our Focus on Customer Service and Processes. Because speed to market and reliable network performance are critical components to the success of wireless service providers, our ability to assist customers in meeting their goals will contribute to our success. We intend to continue to focus on customer service by, for example, reducing cycle times for key functions, such as lease processing. In addition, our merger with SpectraSite, Inc. provided us with an opportunity to adopt best practices from both companies in an effort to further improve the efficiency of our processes. We believe our efforts should enable us to increase revenue generation through improved speed, accuracy and quality. In addition, sharing operational processes and outcomes establishes another connection point with our customers and provides us valuable input and relationship enhancing opportunities.

Build On Our Strong Customer Relationships. Our understanding of the network needs of our customers and our ability to convey effectively how we can satisfy those needs are key to our efforts to add new antenna leases, cross-sell our services and identify desirable new site development projects. We are building on our strong relationships with our major wireless carrier customers to gain more familiarity with their evolving network plans so we can identify opportunities where our nationwide portfolio of sites and experienced personnel can be used to satisfy their needs. We are also working with smaller and emerging wireless carriers and network operators as they define their coverage and network needs and expand into new markets. We believe we are well positioned to be a preferred partner to our customers because of the scope and location of our portfolio of communications sites, our proven operating experience and our scale relative to our competitors.

Participate in Industry Consolidation. We continue to believe there are benefits to consolidation among tower companies. More extensive networks will be better positioned to provide more comprehensive service to customers and to support the infrastructure requirements of future generations of wireless communications technologies. We believe that our merger with SpectraSite, Inc. will result in improvements in cost structure efficiencies, with a corresponding positive impact on our operating results, and that combining with one or more other tower companies should yield similar results. Accordingly, we continue to be interested in participating in the consolidation of our industry on terms that are consistent with these perceived benefits and that create long-term value for our stockholders.

The Company

American Tower Corporation was created as a subsidiary of American Radio Systems Corporation in 1995 to own, manage, develop and lease communications and broadcast tower sites, and was spun off into a free-standing public company in 1998. Over the last ten years, we have grown our communications site portfolio through tower acquisitions, tower development and construction, and through mergers with and acquisitions of other tower operators, increasing the size of our communications site portfolio to over 22,000 owned sites.

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

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We operate in two business segments: rental and management and network development services. For more information about our business segments, as well as financial information about the geographic areas in which we operate, see note 17 to our consolidated financial statements included in this annual report and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

Prior to December 2002, we also had a satellite and fiber network access services segment, which consisted of our Verestar, Inc., subsidiary (Verestar). In December 2002, we committed to a plan to dispose of this business, and in December 2003, Verestar and its affiliates filed for protection under Chapter 11 of the federal bankruptcy laws. Accordingly, we have accounted for Verestar as a discontinued operation through the date of the bankruptcy filing and we ceased to consolidate Verestar s financial results as of that date. See Item 1A of this annual report under the caption Risk Factors The bankruptcy proceeding of our Verestar subsidiary exposes us to risks and uncertainties and notes 4 and 10 to our consolidated financial statements included in this annual report.

Products and Services

Rental and Management

We conduct our site leasing business through our rental and management segment. Our primary business is leasing antenna space on multi-tenant communications sites to wireless service providers and radio and television broadcast companies. Our communications site portfolio includes approximately 20,000 owned tower sites in the United States and over 2,500 in Mexico and Brazil. In addition to our owned tower sites, we offer access to over 10,000 rooftop and tower sites in the United States that we manage for third parties. Through our rental and management segment, we also operate in-building distributed antenna systems in malls and casino/hotel resorts.

Wireless Communications Towers. We own and operate the largest independent portfolio of wireless communications towers in the United States, Mexico and Brazil, based on number of towers and revenue. Our network in the United States includes approximately 19,300 owned wireless communications towers and spans 49 states and the District of Columbia. In addition, 85% of our U.S. network provides coverage in the top 100 markets or core areas such as high traffic interstate corridors. Our Mexican network includes approximately 1,800 owned wireless communications towers in highly populated areas, including Mexico City, Monterrey, Guadalajara and Acapulco. Our Brazilian network consists of approximately 500 owned wireless communications towers, which are concentrated in southern Brazil in major metropolitan areas, including Sao Paulo, Rio de Janeiro, Brasilia and Curitiba. In addition, we market and manage approximately 1,700 wireless tower sites for third parties including approximately 600 sites in the United States, 400 in Mexico and 700 in Brazil. Approximately 400 of the 1,700 wireless tower sites that we manage for third parties were revenue-producing as of December 31, 2005.

We lease antenna space on our wireless communications towers to customers in a diverse range of wireless industries, including personal communications services, cellular, enhanced specialized mobile radio, paging and fixed microwave. Our major domestic wireless customers include ALLTEL, Cingular Wireless, Sprint Nextel, T-Mobile USA and Verizon Wireless. Our major international wireless customers include Iusacell Celular, Nextel Mexico, Telefonica Moviles and Unefon in Mexico, and Nextel Brazil, Telecom Americas and Telecom Italia Mobile in Brazil. For the year ended December 31, 2005, assuming our merger with SpectraSite, Inc. occurred on January 1, 2005, we had three customers that each accounted for greater than 10% of our total revenues. Cingular Wireless accounted for approximately 19% of our 2005 total revenues, Sprint Nextel (assuming the merger of Sprint PCS and Nextel occurred on January 1, 2005) accounted for approximately 17% (approximately 22% including Sprint Nextel partners and affiliates) and Verizon Wireless accounted for approximately 10%. Approximately 59% of our total revenues for the year ended December 31, 2005 were derived from five customers. See Item 1A of this annual report under the caption Risk Factors A substantial portion of our revenue is derived from a small number of customers and Due to the long-term expectations of revenue from tenant leases, the tower industry is sensitive to the credit worthiness of its tenants.

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The number of antennas that our towers can accommodate varies depending on the tower s location, height, and the structural capacity at certain wind speeds. An antenna s height on a tower and the tower s location determine the line-of-sight of the antenna with the horizon and, coupled with the specific band of radio frequency and technology used by the carrier, determine the distance a signal can be transmitted. Some of our customers, such as personal communications services, enhanced specialized mobile radio providers and cellular companies in metropolitan areas, typically do not place their equipment at the highest tower point. Other customers, including paging companies and specialized mobile radio providers in rural areas, prefer higher elevations for broader coverage. We believe that a significant majority of our towers have the capacity to add additional tenants.

Our leases with wireless communications providers in the United States generally have initial terms of five-to-ten years. In Mexico and Brazil, our typical tenant lease has an initial term of ten years. In most cases, our tenant leases have multiple renewal terms at the option of the tenant. Wireless carriers generally renew their leases with us because suitable alternative sites may not exist or be available and repositioning a site in an existing carrier s network is expensive and often requires reconfiguring several other sites in the carrier s network, which may impact the quality of the carrier s coverage and may require the carrier to obtain other governmental permits. Most of our tenant leases have escalation provisions that periodically increase the rent due under the lease. These automatic increases are typically annual and are based on a fixed percentage, inflation or a fixed percentage plus inflation.

Annual rental payments vary considerably depending upon:

- tower location;
- number and weight of antennas on the tower and the size of the transmission lines;
- ground space necessary to store equipment related to the antennas;
- existing tower capacity;
- placement of the customer s antennas on the tower; and
- type and amount of frequency transmitted by the customer.

Broadcast Communications Towers. We are one of the largest independent owners and operators of broadcast towers in the United States and Mexico. We own approximately 220 broadcast towers in the United States and have exclusive rights to approximately 190 in Mexico. Broadcast towers generally are taller and structurally more complex than wireless communications towers, require unique engineering skills and are more costly to build. We lease antenna space on our broadcast towers primarily to radio and television broadcast companies. In leasing antenna space, we generally receive monthly fees from customers, with initial lease periods ranging from ten-to-twenty years.

In-Building Neutral Host Distributed Antenna Systems. As a result of our merger with SpectraSite, Inc., we are now a leading provider in the United States of in-building neutral host distributed antenna systems. We have approximately 100 in-building systems in operation in retail shopping malls and casino/hotel resorts, and we have the exclusive rights to an additional 200 properties in the United States. We obtain rights to install and operate in-building systems by entering into leases with property owners, which are generally for an initial non-cancelable period of ten years. Some of these leases contain automatic extension provisions and continue after the initial period unless terminated by us. Under these leases, we are the exclusive operator of in-building neutral host distributed antenna systems for the term of the lease. We are also responsible for marketing the property as part of our portfolio of communications sites and for installing, operating and maintaining the distributed antenna system at the properties. We grant rights to wireless service providers to attach their equipment to our in-building system for a fee under licenses that typically have an initial non-cancelable term of ten years. We typically share a portion of the licensing fees with the property owners.

Rooftop Management. We also provide rooftop management services to property owners in the United States. We market over 10,000 rooftop sites to our customers in the United States that we manage for third parties, including approximately 1,100 rooftop sites that were revenue-producing as of December 31, 2005. Wireless carriers use rooftop sites to install their communications equipment, generally where there are no existing towers or where new towers are difficult to build. We obtain rights to manage a rooftop by entering into contracts with property owners, which are generally for an initial period of three-to-five years. These contracts typically contain automatic extension provisions and continue after the initial period unless terminated by either party. Under these contracts, we are engaged by property owners as the exclusive manager for a rooftop. For these services, we receive a percentage of occupancy or license fees paid by the wireless carriers.

Network Development Services

We offer tower-related services through our network development services segment. We historically offered extensive tower-related services to support our site leasing business. As we continued to focus our operations on our rental and management segment, we sold services businesses that did not provide incremental value to our site leasing business. With the sale of our tower construction services unit in November 2004, we substantially completed our strategic transition to a focused site leasing company. Our network development services segment continues to provide site acquisition, zoning and permitting services and structural analysis services that support our site leasing operations and the addition of new tenants and equipment on our sites.

Site Acquisition, Zoning and Permitting Services. We engage in site acquisition services for our own account in connection with our tower development projects, as well as for our customers. We typically work with our customers engineers to determine the geographic areas where the customer needs to construct a new tower site to address its coverage objectives. Once a new site is identified, we acquire the rights to the land or structure on which the site will be constructed, and we manage the permitting process to ensure all necessary approvals are obtained to construct and operate the communications site under applicable law.

Structural Analysis. We offer structural analysis services to wireless carriers in connection with the installation of communications equipment on towers. A structural analysis of a tower is routinely performed prior to a decision by a wireless carrier to install equipment on a tower. Our team of engineers can evaluate whether a tower can support the additional burden of the new equipment or if augmentation is needed, which enables our customers to better assess potential tower sites before making an installation decision.

Recent Transactions

Acquisitions

From January 1, 2004 through December 31, 2005, we increased the size of our communications site portfolio by over 8,000 towers. Significant acquisitions included the following:

SpectraSite, Inc. In May 2005, we entered into an agreement and plan of merger with SpectraSite, Inc., an owner and operator of approximately 7,800 wireless and broadcast towers and in-building systems in the United States. We completed the merger in August 2005. Under the terms of the merger agreement, SpectraSite, Inc. merged with and into a wholly owned subsidiary that we formed for purposes of the merger. Each share of SpectraSite, Inc. common stock converted into the right to receive 3.575 shares of our Class A common stock. We issued approximately 169.5 million shares of Class A common stock with respect to shares of SpectraSite, Inc. common stock outstanding as of the closing of the merger and reserved for issuance approximately 16.7 million shares of Class A common stock issuable pursuant to SpectraSite, Inc. options and warrants assumed in the merger. For more information about our merger with SpectraSite, Inc., see note 3 to our consolidated financial statements included in this annual report.

Iusacell Celular. In December 2003, we agreed to acquire up to 143 communications sites from Iusacell Celular (Iusacell) in Mexico for up to $31.4 million. During the year ended December 31, 2005, we acquired six towers from Iusacell in Mexico for approximately $1.3 million, and as of December 31, 2005, had acquired an aggregate of 137 towers for a total purchase price of $30.6 million.

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NII Holdings, Inc. In December 2002, we agreed to acquire over 500 communications sites, predominantly in Mexico, from NII Holdings (NII) for an aggregate purchase price of $100.0 million in cash. Although we have satisfied our minimum purchase obligation under the agreement, we have continued to purchase additional towers from NII. During the year ended December 31, 2005, we acquired 20 towers from NII in Mexico and Brazil for approximately $2.2 million, and as of December 31, 2005, had acquired an aggregate of 728 towers for a total purchase price of approximately $122.2 million. We have the option to purchase additional tower sites from NII in Mexico and Brazil through 2007. We expect to fund any additional acquisitions using funds from operations.

Dispositions

From January 1, 2004 through December 31, 2005, we received approximately $38.9 million of proceeds from selling non-core assets and businesses. In our rental and management segment, we sold 59 non-core tower assets for approximately $11.6 million and sold five office buildings for approximately $7.5 million. In our network development services segment, we sold substantially all the net assets of Kline Iron & Steel Co., Inc. (Kline), our steel fabrication and tall tower design business, for approximately $4.0 million in cash, subject to a post closing working capital adjustment, and sold our tower construction services business for total consideration of approximately $9.1 million, consisting of cash and the assumption of certain capital lease obligations by the purchaser.

Financing Transactions

During the year ended December 31, 2005, we improved our financial flexibility by refinancing our existing debt with less restrictive, lower cost capital, which increased our liquidity and our ability to return value to our stockholders. Significant transactions included those set forth below. For more information about our financing transactions, see note 8 to our consolidated financial statements included in this annual report and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

New Credit Facilities. In October 2005, we refinanced the two existing credit facilities of our principal operating subsidiaries. We replaced the existing American Tower $1.1 billion senior secured credit facility with a new $1.3 billion senior secured credit facility and replaced the existing SpectraSite $900.0 million senior secured credit facility with a new $1.15 billion senior secured credit facility. As a result of the refinancing, we reduced the interest rate on our credit facilities and increased our unused borrowing capacity under our credit facilities to approximately $977.2 million.

Repurchases, Redemptions and Conversions of Debt Securities. During the year ended December 31, 2005, consistent with our strategy of replacing our higher cost, more restrictive debt with less expensive, less restrictive capital, we repurchased, redeemed and converted approximately $605.7 million face amount of our outstanding debt securities, including the repurchase of $270.6 million face amount ($177.8 million accreted value, net of $10.1 million fair value allocated to warrants) of the ATI 12.25% senior subordinated discount notes due 2008 (ATI 12.25% Notes), the redemption of $274.9 million principal amount of our 9 $^{3}/8$% senior notes due 2009 (9 $^{3}/8$% Notes) and the conversion of $57.1 million principal amount of our 3.25% convertible notes due August 15, 2012 (3.25% Notes). In addition, in December 2005, we issued a notice for the redemption of the remaining outstanding $227.7 million face amount of ATI 12.25% Notes, which we redeemed on February 1, 2006. Upon completion of this redemption, no ATI 12.25% Notes remained outstanding.

Stock Repurchase Program. In November 2005, we announced that our Board of Directors had approved a stock repurchase program to repurchase up to $750.0 million of our Class A common stock through December 2006. To facilitate repurchases, we entered into a trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934, which allows us to repurchase shares during periods when we otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. As of December 31, 2005, we

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had repurchased 2.8 million shares of Class A common stock for an aggregate of $76.6 million. Between January 1, 2006 and March 9, 2006, we repurchased an additional 3.9 million shares of Class A common stock for an aggregate of $117.4 million.

ATC International Transactions

ATC Mexico Holding Corp. During 2004, we repurchased a 12.0% interest in ATC Mexico from certain stockholders of ATC Mexico, including J. Michael Gearon, Jr. (Mr. Gearon) and William H. Hess (Mr. Hess), executive officers of the Company. We now own 100% of ATC Mexico as a result of these repurchases.

In April 2004, we repurchased an 8.8% interest in ATC Mexico from Mr. Gearon. In the first quarter of 2004, Mr. Gearon exercised his previously disclosed right to require us to purchase his interest in ATC Mexico. In consideration for his interest in ATC Mexico, we issued to Mr. Gearon 2,203,968 shares of our Class A common stock and paid $3.7 million in cash, representing 80% of the aggregate purchase price for Mr. Gearon s interest. The 2,203,968 shares issued to Mr. Gearon had an aggregate market value on the date of issuance of $24.8 million. Payment of the remaining 20% of the purchase price of $7.3 million, plus interest, was contingent upon ATC Mexico satisfying certain performance criteria. In February 2005, our Board of Directors determined that the performance criteria had been satisfied, and we paid Mr. Gearon $7.7 million in cash. Our Board approved the determination of the fair market value of Mr. Gearon s interest with the assistance of an independent financial advisor.

In October 2004, we repurchased a 3.2% interest in ATC Mexico from certain employees, including Mr. Hess. In the first quarter of 2004, these employees exercised options to purchase an aggregate of 318 shares of ATC Mexico under the ATC Mexico Stock Option Plan. In October 2004, these employees exercised their previously disclosed rights to require us to purchase their collective 3.2% interest in ATC Mexico. In consideration for their interests in ATC Mexico, we issued to these employees (including Mr. Hess) an aggregate of 1,155,678 shares of our Class A common stock, representing 80% of the aggregate purchase price for their collective interests. The 1,155,678 shares issued to these employees had an aggregate market value on the date of issuance of $18.5 million. Payment of the remaining 20% of the purchase price of 218,566 shares of Class A common stock was contingent upon ATC Mexico satisfying certain performance criteria. In February 2005, our Board of Directors determined that the performance criteria had been satisfied, and we issued to these employees (including Mr. Hess) 159,836 shares of our Class A common stock, net of 58,730 shares of Class A common stock retained by us to satisfy employee tax withholding obligations. On the date of issuance, the aggregate market value of these 218,566 shares was $3.9 million. Our Board approved the determination of the fair market value of the interests held by these employees with the assistance of an independent financial advisor.

ATC South America Holding Corp. During 2004 and 2005, ATC South America issued shares of its common stock to certain employees, including Messrs. Gearon and Hess, and in 2005, we reacquired certain of these shares of ATC South America from these employees. As of December 31, 2005, we owned 90.7% of ATC South America.

In March 2004, we consummated a previously disclosed arrangement with Mr. Gearon pursuant to which he purchased an approximate 1.6% equity interest in ATC South America for approximately $1.2 million in cash. Pursuant to the arrangement, Mr. Gearon could require us to purchase his interest in ATC South America, for its then fair market value, after December 31, 2004 or upon certain events as set forth in the stockholder agreement with Mr. Gearon. In October 2005, Mr. Gearon exercised this right to require us to repurchase his interest in ATC South America. In February 2006, our Board of Directors approved the determination of the fair market value of Mr. Gearon s interest in ATC South America with the assistance of an independent financial advisor, and we expect to pay Mr. Gearon $3.7 million in cash in consideration for his 1.6% interest in ATC South America.

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, which provides for the issuance of options to officers, employees,

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directors and consultants of ATC South America to purchase up to an aggregate 10.3% interest in ATC South America. In the first quarter of 2004, ATC South America granted options to purchase 6,024 shares of ATC South America common stock to officers and employees, including Messrs. Gearon and Hess, who received options to purchase shares representing a 6.7% and 1.6% interest, respectively. The exercise price is $1,349 per share, which was determined to be the fair market value per share on the date of issuance based on an independent appraisal performed at our request. In October 2005, in connection with the exercise by Mr. Gearon of his right to require us to purchase his interest in ATC South America, these options vested in full and were exercised. Upon exercise of these options, the holders received 4,428 shares of ATC South America, net of 1,596 shares retained by us to satisfy employee tax withholding obligations. These holders may require us to purchase their shares of ATC South America at their then fair market value six months following their issuance, which date will occur in April 2006. We anticipate that our repurchase obligation with respect to these shares in April 2006 will be approximately $19 million.

Regulatory Matters

Towers and Antennas. Both the Federal Communications Commission (FCC) and the Federal Aviation Administration (FAA) regulate towers used for wireless communications and radio and television broadcasting. These regulations govern the siting, lighting, marking and maintenance of towers. Depending on factors such as tower height and proximity to public airfields, the construction of new towers or modifications to existing towers may require pre-approval by the FAA. Towers requiring FAA approval must be registered with the FCC and must be painted and lighted in accordance with the FAA s standards. The FAA review and the FCC registration processes are prerequisites to use of the tower by FCC licensees, as well as our other customers. Tower owners are responsible for notifying the FAA of any tower lighting outages or malfunctions and for timely repairing lighting outages or malfunctions. Tower owners also must notify the FCC when ownership of a tower changes. We generally indemnify our customers against non-compliance with applicable standards. Non-compliance with applicable tower-related requirements may lead to monetary penalties.

The FCC considers the construction of a new tower or the addition of a new antenna to an existing site (including building rooftops and watertanks) to be a federal undertaking subject to prior environmental review and approval under the National Environmental Policy Act of 1969 (NEPA), which obligates federal agencies to evaluate the environmental impacts of undertakings to determine whether they may significantly affect the environment. The FCC has issued regulations implementing NEPA as well as the National Historic Preservation Act and the Endangered Species Act. These regulations obligate each FCC applicant or licensee to investigate potential environmental and other effects of operations and to disclose any significant impacts in an environmental assessment prior to constructing a tower or adding a new antenna to a site. If a tower or new antenna may have a significant impact on the environment, FCC approval of the tower or antenna could be significantly delayed.

The Telecommunications Act of 1996 amended the Communications Act of 1934 by limiting state and local zoning authorities jurisdiction over the construction, modification and placement of wireless communications towers. The law preserves local zoning authority but prohibits any action that would discriminate between different providers of wireless services or ban altogether the construction, modification or placement of communications towers. It also prohibits state or local restrictions based on the environmental effects of radio frequency emissions to the extent the facilities comply with FCC regulations. The Telecommunications Act of 1996 also requires the federal government to help licensees of wireless communications services gain access to preferred sites for their facilities. This may require that federal agencies and departments work directly with licensees to make federal property available for towers.

We are subject to local and county zoning restrictions and restrictive covenants imposed by local authorities or community developers. These regulations vary greatly, but typically require tower owners and/or licensees to obtain approval from local officials or community standards organizations prior to tower construction or the addition of a new antenna to an existing tower. Local zoning authorities and community residents often are opposed to construction in their communities, which can delay or prevent new tower construction, new antenna

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installation or site upgrade projects, thereby limiting our ability to respond to customer demand. In addition, zoning regulations can increase costs associated with new tower construction and the addition of new antennas to a site. Existing regulatory policies may adversely affect the associated timing or cost of such projects and additional regulations may be adopted which increase delays or result in additional costs to us. These factors could adversely affect our construction activities and operations.

Our tower operations in Mexico and Brazil are also subject to regulation. If we pursue additional international opportunities, we will be subject to regulations in additional foreign jurisdictions. In addition, our customers, both domestic and foreign, also may be subject to new regulatory policies that may adversely affect the demand for communications sites.

Environmental Matters. Our operations, like those of other companies engaged in similar businesses, are subject to 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, and the siting of our towers. As an owner, lessee and/or operator of real property and facilities, we may have liability under those laws for the costs of investigation, removal or remediation of soil and groundwater contaminated by hazardous substances or wastes. Certain of these laws impose cleanup responsibility and liability without regard to whether we, as the owner, lessee or operator, knew of or were responsible for the contamination, and whether or not we have discontinued operations or sold the property. We may also be subject to common law claims by third parties based on damages and costs resulting from off-site migration of contamination.

We, and our customers, also may be required to obtain permits, comply with regulatory requirements, and make certain informational filings related to hazardous substances used at our sites. Violations of these types of regulations could subject us to fines and/or criminal sanctions. In October 2001, we paid $150,000 in civil penalties and entered into a settlement agreement that expires in 2006 related to certain alleged environmental permitting and filing violations in the County of Santa Clara, California.

In November 2005, we finalized a Facilities Audit Agreement with the United States Environmental Protection Agency (EPA) pursuant to the EPA s voluntary audit and disclosure policy. Under the Facilities Audit Agreement, we have agreed to audit by February 2007 the tower sites in our portfolio as of July 2005 (i.e., legacy American Tower sites, but not SpectraSite sites) for compliance with the notice and record-keeping requirements under the Emergency Protection and Community Right to Know Act (EPCRA), the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act. We will inform the EPA of any violations of the above-referenced statutes at a given tower site and take steps to cure the violations. The Facilities Audit Agreement provides for stipulated penalties for violations under EPCRA and, for violations under the remaining statutes, we will pay a penalty based on our economic benefit of non-compliance. We do not expect that the aggregate penalties payable under the Facilities Audit Agreement will be material to our financial condition or results of operations.

Health and Safety. We are subject to the Occupational Safety and Health Act and similar guidelines regarding employee protection from radio frequency exposure. Our field personnel are subject to regulation by the Occupational Safety and Health Administration (OSHA) and equivalent state agencies concerning health and safety matters.

Competition and Customer Demand

Rental and Management

Our rental and management segment competes with other national and regional tower companies (such as Crown Castle International Corp., Global Signal Inc. and SBA Communications Corp.), wireless carriers and broadcasters that own and operate their own tower networks and lease tower space to third parties, numerous independent tower owners and the owners of non-communications tower sites, including rooftops, utility towers, water towers and other alternative structures. We believe that site location and capacity, price and quality of service historically have been and will continue to be the most significant competitive factors affecting owners, operators and managers of communications sites.

Customer demand for our rental and management segment is also affected by the emergence and growth of new technologies. Technologies that make it possible for wireless carriers to expand their use of existing infrastructure could reduce customer demand for our communications sites. The increased use of spectrally efficient air-link technologies, such as lower-rate vocoders, which potentially can relieve some network capacity problems, could reduce the demand for tower-based antenna space.

In addition, any increase in the use of network sharing or roaming or resale arrangements by wireless service providers also could adversely affect customer demand for tower space. These arrangements, which are essentially extensions of traditional roaming agreements, enable a provider to serve customers outside its license area, to give licensed providers the right to enter into arrangements to serve overlapping license areas, and to permit non-licensed providers to enter the wireless marketplace. Consolidation among wireless carriers, such as the October 2004 merger between Cingular Wireless and AT&T Wireless and the August 2005 merger between Sprint PCS and Nextel, could have a similar impact on customer demand for our tower sites because the existing networks of many wireless carriers overlap. Although we do not expect the Cingular/AT&T Wireless merger or the Sprint PCS/Nextel merger to have a material adverse effect on our results of operations, significant consolidation among wireless carriers may adversely affect demand for our tower sites and, accordingly, our revenues and cash flows.

Network Development Services

Our network development services segment competes with a variety of companies offering individual, or combinations of, competing services. The field of competitors includes site acquisition consultants, zoning consultants, real estate firms, right-of-way consulting firms, tower owners/managers, telecommunications equipment vendors who can provide turnkey site development services through multiple subcontractors, and our customers internal staffs. We believe that our customers base their decisions on network development services on various criteria, including a company s experience, track record, local reputation, price, and time for completion of a project.

We believe that we compete favorably as to the key competitive factors relating to our rental and management and network development services segments.

Employees

As of December 31, 2005, we employed 904 full-time individuals and consider our employee relations to be satisfactory.

Available Information