GLOBAL SIGNAL INC
Form 10-Q
May 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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 001-32168

GLOBAL SIGNAL INC.

Delaware (State or other jurisdiction of incorporation or organization)	65-0652634 (I.R.S. Employer Identification No.)

301 North Cattlemen Road, Suite 300, Sarasota, Florida 34232-6427

(Address of principal executive offices)

Telephone: (941) 364-8886

(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 __X__ No ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No __X__

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes __X__ No ______

At May 11, 2005, Registrant had outstanding 58,572,715 shares of $0.01 par value common stock.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

GLOBAL SIGNAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 7,080	$ 5,991
Accounts receivable, net	628	533
Prepaid expenses and other current assets	9,930	9,772
Interest rate swap assets, at fair value	11,742	—
	29,380	16,296
Restricted cash	78,183	72,854
Fixed assets, net	665,765	636,200
Intangible assets:		
Lease absorption value, net	150,381	149,625
Leasehold interests, net	6,756	7,791
Goodwill	9,770	9,770
Deferred debt issuance costs, net	18,387	18,911
Other	4,611	4,461
Other assets	8,408	7,461
	$ 971,641	$ 923,369
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 15,746	$ 16,397
Dividends payable	20,858	20,491
Deferred revenue	15,373	13,410
Interest rate swap liabilities, at fair value	39	—
Notes payable and current portion of long-term debt	60,388	8,268
	112,404	58,566
Long-term debt	696,670	698,652
Other long-term liabilities	13,766	12,954
Total liabilities	822,840	770,172
Stockholders' equity:		
Preferred stock, $0.01 par value, 20,000,000 shares authorized, no shares issued or outstanding at March 31, 2005 and December 31, 2004	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized, 52,143,987 shares issued and outstanding at March 31, 2005, and 51,304,769 shares issued and outstanding at December 31, 2004	521	513
Additional paid-in capital	116,255	157,004
Deferred stock-based compensation	(2,783)	(3,101)
Accumulated other comprehensive income (loss)	10,494	(1,219)
Equity derivatives	24,314	—
Retained earnings	—	—
	148,801	153,197
	$ 971,641	$ 923,369

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these condensed financial statements.
2

GLOBAL SIGNAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004 (restated)
Revenues	$ 54,422	$ 43,091
Direct site operating expenses (excluding depreciation, amortization and accretion)	16,362	13,646
Gross margin	38,060	29,445
Other expenses:		
Selling, general and administrative (excluding $318 and $2,604 of non-cash stock-based compensation expense, respectively)	6,348	6,558
State franchise, excise and minimum taxes	174	172
Depreciation, amortization and accretion	17,554	12,347
Non-cash stock-based compensation expense	318	2,604
	24,394	21,681
Operating income	13,666	7,764
Interest expense, net	10,201	6,091
Loss on early extinguishment of debt	—	8,449
Other expenses (income)	(14)	8
Income (loss) from continuing operations before income tax benefit (expense)	3,479	(6,784)
Income tax benefit (expense)	525	(11)
Income (loss) from continuing operations	4,004	(6,795)
Income (loss) from discontinued operations	(90)	19
Income (loss) before gain (loss) on sale of properties	3,914	(6,776)
Gain (loss) on sale of properties	(18)	142
Net income (loss)	$ 3,896	$ (6,634)
Dividends declared per common share	$ 0.4000	$ 0.3125
Basic and diluted income per common share:		
Income (loss) from continuing operations	$ 0.08	$ (0.17)
Income (loss) from discontinued operations	(0.01)	0.00
Gain (loss) on sale of properties	(0.00)	0.01
Net income (loss)	$ 0.07	$ (0.16)
Diluted income per common share:		
Income (loss) from continuing operations	$ 0.07	$ (0.17)
Income (loss) from discontinued operations	(0.00)	0.00
Gain (loss) on sale of properties	(0.00)	0.01

Net income (loss)	$ 0.07	$ (0.16)
Weighted average number of common shares outstanding		
Basic	52,022	41,058
Diluted	53,935	41,058

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these condensed financial statements.
3

GLOBAL SIGNAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004 (restated)
Cash flows from operating activities:		
Net income (loss)	$ 3,896	$ (6,634)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	17,554	12,347
Amortization of deferred debt issuance and hedging costs	1,564	1,154
Loss on early extinguishment of debt	—	8,449
Non-cash stock-based compensation expense	318	2,604
Other non-cash adjustments	(516)	409
Increase in current assets	(1,208)	(1,487)
Increase in current liabilities	2,383	4,034
Net cash provided by operating activities	23,991	20,876
Cash flows from investing activities:		
Payments made in connection with acquisitions of communications sites	(43,999)	(637)
Capital expenditures	(2,934)	(2,294)
Proceeds from the sale of fixed assets	18	611
Funds invested in restricted cash	(5,329)	(11,971)
Purchase of Pinnacle Towers Acquisitions LLC subsidiary	—	(20)
Net cash used in investing activities	(52,244)	(14,311)
Cash flows from financing activities:		
Borrowings under mortgage loans	—	418,000
Borrowings under notes payable and long-term debt	67,850	165
Repayment of long-term debt and mortgage loans	(17,955)	(235,606)
Payment of debt issuance costs	(808)	(13,729)
Payment made to terminate interest rate swap	—	(6,175)
Special distribution paid	—	(142,188)
Ordinary dividends paid	(20,857)	(12,813)
Proceeds from the issuance of common stock, net of offering costs	901	1,681

Minority interest in subsidiary		—		9
Net cash provided by financing activities		29,131		9,344
Effect of exchange rate changes on cash		211		(249)
Net increase in cash and cash equivalents		1,089		15,660
Cash and cash equivalents, beginning of period		5,991		9,661
Cash and cash equivalents, end of period	$	7,080	$	25,321
Non-cash investing and financing transactions:				
Assets acquired under a capital lease obligation	$	243	$	975
Increase (decrease) in the fair value of interest rate swaps recorded to other comprehensive income	$	11,703	$	(4,321)
Equity derivative arising from Investment Agreement	$	(62,157)	$	—
Equity derivative arising from Option Agreement	$	37,843	$	—
Supplemental disclosure of cash flows:				
Cash paid for interest and taxes	$	8,843	$	3,198

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these condensed financial statements.

GLOBAL SIGNAL INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

1. Nature of Business

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations and cash flows of Global Signal Inc. and its wholly-owned subsidiaries. Global Signal Inc., formerly Pinnacle Holdings Inc., owns, leases and manages communications towers and other communications sites to providers of wireless communications and broadcast services, such as wireless telephony services, paging, mobile radio, wireless data transmission and radio and television broadcasting, and to operators of private networks such as federal, state and local government agencies.

2. Basis of Presentation

As used herein, as of March 31, 2005 and December 31, 2004, unless the context otherwise requires, "we," "us," "our," "Company," or "Global Signal" refers to Global Signal Inc. and its wholly-owned consolidated subsidiaries, including, without limitation, Pinnacle Towers LLC, Pinnacle Towers Canada, Inc., Pinnacle Towers Acquisitions Holdings LLC, Global Signal Services LLC, and Pinnacle Towers Limited. All significant intercompany balances and transactions have been eliminated. "Fortress" refers to Fortress Investment Holdings LLC and certain of its affiliates, and "Greenhill" refers to Greenhill Capital Partners, L.P. and affiliated investment funds. "Abrams" refers to Abrams Capital, LLC and certain of its affiliates. Since November 1, 2002, Fortress has been our largest stockholder, Greenhill has been our second largest stockholder and Abrams has been our third largest stockholder.

On May 11, 2004, we completed our formation of an UPREIT structure whereby we own substantially all of our assets and conduct our operations through an operating partnership, Global Signal Operating Partnership, L.P. ("Global Signal OP"). Global Signal Inc. is the special limited partner of Global Signal OP. Global Signal GP LLC, our wholly-owned subsidiary, is the managing general partner and as such, has the exclusive power to manage and conduct the business of Global Signal OP. Global Signal Inc. holds 99% of the partnership interests and Global Signal GP LLC holds 1% of the partnership interests in Global Signal OP. The partnership agreement of Global Signal OP provides that it distribute cash flows from its operations to its limited partners and the managing general partner in accordance with their relative percentage interests. The distributions that we receive from Global Signal OP will, among other things, enable us to make dividend distributions to our stockholders. We believe that the UPREIT structure provides flexibility by enabling us to execute certain acquisitions more effectively by giving tax advantages to transferees who accept partnership units in the UPREIT as payment.

Results of operations for any interim period are not necessarily indicative of results of any other periods or for the year. The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments), considered necessary for fair presentation have been included. Certain amounts from the prior year period have been reclassified for consistency with current presentation. These reclassifications were not material to the consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with Global Signal's audited consolidated financial statements and notes thereto for the year ended December 31, 2004 included in Global Signal's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2005.

---

3. Summary of Significant Accounting Policies

Use of Estimates

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

Stock-Based Compensation

As permitted by Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation, we account for our stock option grants to employees and directors using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and adopted the disclosure-only provisions of SFAS No. 123 and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS Statement No. 123. Under APB No. 25, no compensation costs are recognized relating to the option grants to employees if the exercise price of the options awarded was equal to or greater than the fair value of the common stock on the dates of grant. During the three months ended March 31, 2005, we recognized $0.3 million of compensation expense related to stock options granted in 2004 with exercise prices below market value and restricted stock granted in 2004. The unamortized portion of the related compensation expense is recorded as deferred stock-based compensation, a contra account within stockholders' equity. We use the accelerated method to recognize compensation expense of our equity-based awards with graded vesting.

We follow SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18, Accounting for Equity Investments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods and

Services, for our stock option grants to other individuals. As such, we measure compensation expense at the date of grant and recognize the expense ratably over the service period. Prior to vesting or termination, we recognize expense using the fair value of the option at the end of the reporting period. Additional expense due to increases in the value of the options prior to the vesting date would be recognized in the period of the option value increase.

Had compensation costs for employee stock option activity been determined based on the fair value at the dates of grant consistent with the provisions of SFAS No. 123, our net income would have decreased to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended March 31,			
	2005		2004	
	(unaudited)		(unaudited) (restated)	
Net income (loss) attributable to common stockholders:				
Net income (loss) as reported	$	3,896	$	(6,634)
Add: Stock-based compensation costs included in reported net income (loss), net of $0 related tax effect for all periods		318		—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of $0 related tax effect for all periods		(658)		(931)
Pro forma net income	$	3,556	$	(7,565)
Basic income (loss) per share attributable to common stockholders:				
Net income (loss) per share as reported	$	0.07	$	(0.16)
Pro forma net income (loss) per share	$	0.07	$	(0.18)
Diluted income (loss) per share attributable to common stockholders:				
Net income (loss) per share as reported	$	0.07	$	(0.16)
Pro forma net income (loss) per share	$	0.07	$	(0.18)

Derivative Financial Instruments indexed to, and Settled in our Stock

For derivative financial instruments indexed to, and settled in our stock, we follow the accounting as specified in EITF Issue No. 00-19 "Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". Under this pronouncement, for instruments that meet certain criteria, the instrument is valued at fair value on the day it is created and is not marked to market in subsequent periods. The instrument is recorded in the stockholders' equity section of the balance sheet under the caption "Equity Derivatives". The Investor Agreement and Option Agreement, entered into as part of the Sprint Transaction, created instruments that qualified for this accounting treatment as proscribed under EITF Issue No. 00-19 (See Note 6 – Stockholders' Equity).

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R) Share-Based Payment, which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. Generally, the approach in the new pronouncement is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) would require all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant, beginning with the first interim or annual reporting period of the first fiscal year beginning on or after June 15, 2005. The pronouncement is effective for us as of January 1, 2006. As of the required effective date, we will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost for the portion of awards for which the requisite service has not yet been rendered, and that are outstanding as of the required effective date, shall be recognized as the service is rendered based on the grant date fair value of those awards calculated under SFAS No. 123. We have not yet determined the effect of the new standard on our financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations. This interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation is unconditional even though uncertainty exists about the timing and (or) method of settlement. This interpretation is effective for us as of January 1, 2006. We have not yet determined the effect of this new interpretation on our financial statements.

7

---

4. Debt

Our outstanding debt as of March 31, 2005 and December 31, 2004 consists of the following (in thousands):

	March 31, 2005 (unaudited)	December 31, 2004
February 2004 mortgage loan, weighted average interest rate of approximately 5.0% secured by first priority mortgage liens on certain sites, monthly principal and interest installments of approximately $2.4 million beginning March 2004. Contractual maturity date of January 2029, anticipated maturity date of January 2009	$ 409,998	$ 411,909
December 2004 mortgage loan, weighted average interest rate of approximately 4.7%, secured by first priority mortgage liens on substantially all tangible assets of Pinnacle Towers Acquisition LLC and its subsidiaries, monthly interest-only installments beginning January 2005, contractual maturity date of December 2009	293,825	293,825
Revolving credit agreement, interest at a variable rate of LIBOR plus 1.75% to 3.0% or the lender's base rate plus 0.75% to 2.0%, secured by a pledge of Global Signal OP's assets, maturity date of December 2005	51,917	—
Capital lease obligations, interest rate fixed at 9.7%, secured by the underlying capital assets, with monthly principal installments beginning April 2004	1,318	1,186
	757,058	706,920
Less: Notes payable and current portion of long-term debt	(60,388)	(8,268)

$	696,670	$	698,652

The following table shows the maturities of long-term debt for the four twelve month periods after March 31, 2005 (in thousands):

For the twelve months ended March 31,		
2006	$	60,388
2007		9,013
2008		9,154
2009		678,503
	$	757,058

The February 2004 Mortgage Loan

On February 5, 2004, our largest operating subsidiary based on revenues for 2004, Pinnacle Towers LLC (known as Pinnacle Towers Inc. at the time) and thirteen of its direct and indirect subsidiaries issued a $418.0 million mortgage loan to a newly formed trust, Global Signal Trust I ("February 2004 mortgage loan"). The Trust then issued an identical amount of commercial mortgage pass-through certificates in a private transaction. We have continued to consolidate our subsidiaries, but have not consolidated the Trust in our financial statements. The net proceeds from the February 2004 mortgage loan were used to repay the then outstanding borrowings under our old credit facility of $234.4 million, to fund a $142.2 million special distribution to our stockholders, to fund $4.6 million of restricted cash into an imposition reserve which was required to be escrowed in connection with our securitization transaction and February 2004 mortgage loan and relates to taxes, insurance and rents, and the remaining $15.9 million was available to fund operations.

The principal amount of the February 2004 mortgage loan is divided into seven tranches, each having a different level of seniority. Interest accrues on each tranche at a fixed rate per annum. As of March 31, 2005, the weighted average interest rate on the various tranches was approximately 5.0%. The February 2004 mortgage loan is secured by mortgages, deeds of trust, deeds to secure debt and first priority mortgage liens on more than 1,100 of the communications sites of Pinnacle Towers LLC

and its thirteen direct and indirect subsidiaries. The February 2004 mortgage loan requires monthly payments of principal and interest calculated based on a 25-year amortization schedule through January 2009 (the "Anticipated Repayment Date"). If the February 2004 mortgage loan is not repaid in its entirety by the Anticipated Repayment Date, the interest rate on the February 2004 mortgage loan increases by the greater of 5.0% or a U.S. Treasury-based index, and substantially all of the borrower's excess cash flows from operations are utilized to repay outstanding amounts due under the February 2004 mortgage loan.

On a monthly basis, the excess cash flows from the securitized entities, after the payment of principal, interest, reserves and expenses, are distributed to us. The February 2004 mortgage loan requires us to maintain a minimum debt service coverage ratio ("DSCR") defined as the preceding 12 months of net cash flow, as defined in the February 2004 mortgage loan, divided by the amount of principal and interest payments required under the February 2004 mortgage loan in the next 12 months, of 1.45 times. Net cash flow, as defined in the February 2004 mortgage loan, with respect to Pinnacle Towers LLC and its 13 direct and indirect subsidiaries, is approximately equal to gross margin minus capital expenditures made for the purpose of maintaining our sites, minus 10% of revenue. If the DSCR falls below 1.45 times, the excess cash flows from the securitized entities are escrowed until the DSCR exceeds 1.45 times for two consecutive quarters, at which time the previously escrowed excess cash flows are released to us. If the DSCR falls below 1.2 times, all excess cash flows, including amounts previously escrowed, are used to repay outstanding principal due under the February 2004 mortgage loan. The February 2004 mortgage loan also restricts our ability to incur unsecured indebtedness without confirmation from the rating agencies that such indebtedness will not impact the February 2004 mortgage loan rating. Because the February 2004 mortgage loan has covenants which require our subsidiaries to maintain certain financial ratios, these covenants could indirectly limit our subsidiaries' ability to pay dividends to us.

We may not prepay the February 2004 mortgage loan in whole or in part at any time prior to February 5, 2006, the second anniversary of the closing date, except in limited circumstances (such as the occurrence of certain casualty and condemnation events relating to the communications sites securing the February 2004 mortgage loan). Thereafter, prepayment is permitted provided it is accompanied by any applicable prepayment consideration. If the prepayment occurs within three months of the January 2009 monthly payment date, no prepayment consideration is due.

The February 2004 mortgage loan documents include covenants customary for mortgage loans subject to rated securitizations. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets. In addition, so long as the tangible assets of the borrowers represent at least 25% of the total tangible assets of Global Signal Inc., it will be an event of default under the February 2004 mortgage loan if Global Signal Inc. incurs any unsecured indebtedness for borrowed money without confirmation from the rating agencies that rated the commercial mortgage pass-through certificates that none of the ratings will be adversely affected.

The December 2004 Mortgage Loan

On December 7, 2004, our subsidiary, Pinnacle Towers Acquisition Holdings LLC and five of its direct and indirect subsidiaries issued a $293.8 million mortgage loan to a newly formed trust, Global Signal Trust II ("December 2004 mortgage loan"). The Trust then issued an identical amount of commercial mortgage pass-through certificates in a private transaction. We have continued to consolidate our subsidiaries, but have not consolidated the Trust in our financial statements. The net proceeds of the December 2004 mortgage loan were used primarily to repay the $181.7 million of then outstanding borrowings under our credit facility and to partially fund a $120.7 million site acquisition reserve account to be used to acquire additional qualifying wireless communications sites over the six-month period following the December 2004 closing. Under our December 2004 mortgage loan, we are required to prepay the loan plus applicable prepayment penalties with funds in our acquisition reserve account to the extent such funds are not used to acquire additional qualifying wireless communications sites during the six month period following the closing of the loan. As of March 31, 2005, $26.3 million remained in the acquisition reserve account, which is included in restricted cash in the accompanying consolidated balance sheet, pending its investment in qualifying wireless

communication sites. The site acquisition reserve account was reduced to $0.6 million as of April 29, 2005 due to additional acquisition investments.

The principal amount of the December 2004 mortgage loan is divided into seven tranches, each having a different level of seniority. Interest accrues on each tranche at a fixed rate per annum. As of March 31, 2005, the weighted average interest rate on the various tranches was approximately 4.74%. The December 2004 mortgage loan requires monthly payments of interest until its maturity in December 2009 when the unpaid principal balance will be due. The December 2004 mortgage loan is secured by, among other things, (1) mortgage liens on the borrowers' interests (fee, leasehold or easement) in substantially all of their wireless communications sites, (2) a security interest in substantially all of the borrowers' personal property and fixtures and (3) a pledge of the capital stock (or equivalent equity interests) of each of the borrowers (including a pledge of the capital stock of Pinnacle Towers Acquisition Holdings LLC from its direct parent, Global Signal Holdings III LLC).

On a monthly basis, the excess cash flows from the securitized entities, after the payment of principal, interest, reserves and expenses, are distributed to us. If the debt service coverage ratio ("DSCR"), defined in the December 2004 mortgage loan as the net cash flow for the sites for the immediately preceding twelve calendar month period divided by the amount of principal and interest that we will be required to pay over the succeeding twelve months on the December 2004 mortgage loan, as of the end of any calendar quarter falls to 1.30 times or lower, then all excess cash flow will be deposited into a reserve account instead of being released to us. The funds in the reserve account will not be released to us unless the DSCR exceeds 1.30 times for two consecutive calendar quarters. If the DSCR falls below 1.15 times as of the end of any calendar quarter, then all funds on deposit in the reserve account along with future excess cash flows will be applied to prepay the December 2004 mortgage loan.

We may not prepay the December 2004 mortgage loan in whole or in part at any time prior to December 7, 2006, the second anniversary of the closing date, except in limited circumstances (such as the occurrence of certain casualty and condemnation events relating to the communications sites securing the December 2004 mortgage loan). Thereafter, prepayment is permitted provided it is accompanied by any applicable prepayment consideration. If the prepayment occurs within three months of the December 2009 monthly payment date, no prepayment consideration is due.

The December 2004 mortgage loan documents include covenants customary for mortgage loans subject to rated securitizations. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets.

Revolving Credit Agreement

On December 3, 2004, Global Signal OP entered into a 364-day $20.0 million revolving credit facility pursuant to a revolving credit agreement which we refer to as the Revolving Credit Agreement, with Morgan Stanley Asset Funding Inc. and Bank of America, N.A. to provide funding for working capital and other corporate purposes. On February 9, 2005, Global Signal OP amended and restated the Revolving Credit Agreement with Morgan Stanley Asset Funding Inc. and Bank of America, N.A., to provide an additional $50.0 million term loan facility in connection with the Sprint Transaction (see Note 11 – Acquisitions). On February 14, 2005, the full amount of the term loan was posted as a deposit, as required by the Agreement to Lease from the Sprint Transaction. At March 31, 2005, we had $50.0 million outstanding under the term loan and $1.9 million outstanding under the revolving credit facility portion of the Revolving Credit Agreement. On April 15, 2005, we amended and restated the Revolving Credit Agreement to provide an additional $25.0 million multi-draw term loan to be used for fees and expenses incurred in connection with the Sprint Transaction. Amounts available under the revolving credit facility are reduced to $15.0 million upon the earlier of June 3, 2005 or the completion of certain equity issuances by us in excess of $5.0 million (excluding any equity issuances by us in connection with the Sprint Transaction, including the equity offering discussed in Note 7 – Common Stock Offering, or as a result of the exercise of options or warrants outstanding as of February 9, 2005).

Interest on the $20.0 million revolving portion of this credit facility is payable, at Global Signal OP's option, at either the LIBOR plus 3.0% or the bank's base rate plus 2.0%. On March 31, 2005, the interest rates on the individual draws on the Revolving Credit Agreement averaged 5.86%. Interest on the term loans under the Revolving Credit Agreement is payable at our option at either, LIBOR plus 1.75% or the bank's base rate plus 0.75%. On March 31, 2005, the term loan portion of the Revolving Credit Agreement interest rate was 5.93%.

In connection with the Sprint Transaction, we expect to repay and terminate the $50.0 million and $25.0 million term loans. As a result, we will write-off as a loss on early extinguishment of debt any unamortized deferred debt issuance costs associated with the term loans.

The revolving credit facility, through the Revolving Credit Agreement and the related ancillary documentation, contains covenants and restrictions customary for a facility of this type including a limitation on our consolidated indebtedness at approximately $1.0 billion and a requirement to limit our ratio of consolidated indebtedness to consolidated EBITDA, as defined in the loan document, to 7.0 to 1.0. The limitations on consolidated indebtedness will be increased to approximately $1.8 billion and the ratio to 7.65 to 1.0 upon consummation of the bridge financing for the Sprint Transaction. The Revolving Credit Agreement continues to be guaranteed by us, Global Signal GP, LLC and certain subsidiaries of Global Signal OP. It is secured by a pledge of Global Signal OP's assets, including a pledge of 65% of its interest in our United Kingdom subsidiary, 100% of its interest in certain other domestic subsidiaries, a pledge by us and Global Signal GP, LLC of our interests in Global Signal OP, and a pledge by us of 65% of our interest in our Canadian subsidiary. The term loans must be repaid on the earlier of (1) August 14, 2005, (2) the date that we receive a refund of the deposit from Sprint under the Agreement to Lease, or (3) the date of the closing of the Sprint Transaction.

Acquisition Credit Facility

As of April 25, 2005, our wholly owned subsidiary, Global Signal Acquisitions LLC, or Global Signal Acquisitions, entered into a 364-day $200.0 million credit facility, which we refer to as the acquisition credit facility, with Morgan Stanley Asset Funding Inc. and Bank of America, N.A. to provide funding for the acquisition of additional communications sites. The acquisition credit facility is guaranteed by Global Signal OP and future subsidiaries of Global Signal Acquisitions. Moreover, it is secured by substantially all of Global Signal Acquisitions' tangible and intangible assets and by a pledge of Global Signal OP's equity interest in Global Signal Acquisitions. In addition, we have agreed to enter into a guarantee agreement with respect to the acquisition credit facility, and to secure that guarantee by a pledge of our equity interest in Global Signal OP, no later than May 16, 2005. We intend to fund future acquisitions with this credit facility along with a portion of the net proceeds from the common stock offering described above and incremental equity offerings, and for a short period of time may fund 100% of the purchase price of acquisitions with the acquisition credit facility. The level of borrowings is limited based on a borrowing base.

Borrowing under the acquisition credit facility will bear interest at our option at either the Eurodollar rate plus 1.5% or the bank's base rate plus approximately 1.25% provided the loan balance is equal to or lower than 68% of the acquisition price (as defined therein) of towers owned, leased or managed by Global Signal Acquisitions, from time to time. If the loan balance is higher than 68% of the aggregate acquisition price of towers owned, leased or managed by Global Signal Acquisitions, from time to time, then borrowings under the acquisition credit facility will bear interest at our option at either the Eurodollar rate plus 2.0% or the bank's base rate plus approximately 1.75%.

In connection with the closing of the acquisition credit facility, we paid an origination fee of 0.375% of the $200.0 million commitment and agreed to pay to Morgan Stanley Asset Funding Inc. and Bank of America, N.A. an exit fee of 0.375% of the principal amount of the loans under the acquisition credit facility in connection with any refinancing of such borrowings. In addition, to the extent the principal amount of borrowings related to an acquisition of towers to be owned, leased or managed exceeds 68% of the acquisition price thereof, we will be required to pay an additional origination fee to Morgan Stanley Asset Funding Inc. and Bank of America, N.A. in an amount equal to 0.125% of the amount borrowed for such acquisition and an additional exit fee in the amount of

0.125% of the amount borrowed for such acquisition in connection with the refinancing of such borrowings. Any exit fees shall be credited against fees payable to each of Morgan Stanley and Bank of America, N.A. if they are offered the position of co-lender with respect to refinancing of the acquisition credit facility. The acquisition credit facility contains typical representations and covenants for facilities of this type.

5. Interest Rate Swap Agreements

December 2003 Swap

On December 11 2003, in anticipation of the issuance of the February 2004 mortgage loan, we entered into a forward-starting interest rate swap agreement ("December 2003 swap") with Morgan Stanley as the counterparty to hedge the variability of future interest payments under the anticipated February 2004 mortgage loan. Under the December 2003 swap, we agreed to pay Morgan Stanley a fixed rate of 3.816% on a notional amount of $400.0 million for five years beginning in March 2004 in exchange for receiving floating payments based on three month LIBOR on the notional amount for the same five-year period. The December 2003 swap required us to begin making monthly payments to the counterparty equal to the difference between 3.816% and the then current three month LIBOR rate, which was 1.15% on December 31, 2003, on the notional amount of $400.0 million. The December 2003 swap was terminated in connection with the issuance of the February 2004 mortgage loan on February 5, 2004 at a cost of $6.2 million which was recorded as part of other comprehensive income and is being amortized as interest expense using the effective interest method over five years, the expected life of the February 2004 mortgage loan. The effective interest rate on the mortgage loan, including the cost of terminating the interest rate swap and the amortization of deferred debt issuance costs, is approximately 6.0%. For the three months ended March 31, 2005 and 2004, amortization of $0.3 million and $0.1 million, respectively, was recorded as interest expense.

March 2004 and August 2004 Swaps

On March 26, 2004, in anticipation of a future financing, we entered into four forward-starting interest rate swaps with Morgan Stanley as counterparty to hedge the variability of future interest rates on the financing. Under the interest rate swaps, we agreed to pay the counterparty a fixed interest rate of 3.416% on a total notional amount of $200.0 million beginning in October 2004 through April 2009 in exchange for receiving three month LIBOR on the same notional amount for the same period.

On August 27, 2004, in anticipation of a future financing, we entered into two additional forward-starting interest rate swaps with Morgan Stanley as counterparty to hedge the variability of future interest rates on the financing. Under the interest rate swaps, we agreed to pay the counterparty a fixed interest rate of 3.84% on a total notional amount of $100.0 million beginning in October 2004 through April 2009 in exchange for receiving three month LIBOR on the same notional amount for the same period.

Concurrent with the pricing of the December 2004 mortgage loan, we terminated our six interest rate swaps and received a net payment of $2.0 million which was recorded as part of other comprehensive income and which is being amortized as a reduction of interest expense using the effective interest method over five years, the expected life of the December 2004 mortgage loan. Because the $300.0 million total notional value of the six interest rate swaps exceeded the $293.8 million principal amount of the December 2004 mortgage loan, one of the swaps was no longer effective and we expensed approximately $40,000 as additional interest expense, related to the fair market value of one of our August 2004 swaps, during the fourth quarter of 2004. The effective interest rate on the mortgage loan, including the cost of terminating the interest rate swap and the amortization of deferred debt issuance costs, is approximately 4.9%. For the three months ended March 31, 2005, amortization of $0.1 million was recorded as an offset to interest expense.

2005 Interest Rate Swaps

On January 11, 2005, in anticipation of the issuance of interim bridge financing and later a third mortgage loan to finance the acquisition of additional wireless communication towers we expect to acquire during 2005, we entered into six additional forward-starting interest rate swaps agreements with Morgan Stanley as counterparty to hedge the variability of future interest rates on our anticipated mortgage financing. Under the interest rate swaps, we agreed to pay the counterparty a weighted average fixed interest rate of 4.403% on a total notional amount of $300.0 million beginning on various dates between July 29, 2005 and November 30, 2005 and continuing through September 2010 with a mandatory termination date of January 31, 2006 in exchange for receiving floating payments based on three month LIBOR on the same notional amounts for the same period. The January 2005 interest rate swaps had a fair value of $2.9 million at March 31, 2005.

On February 2, 2005, in connection with the Sprint Transaction, we entered into eight additional forward-starting interest rate swap agreements with Bank of America, N.A. as counterparty, in anticipation of securing $750.0 million or more of bridge financing, which is expected to be replaced by a mortgage loan for a total notional value of $750.0 million. Under the interest rate swaps, we agreed to pay the counterparty a fixed interest rate of 4.303% on a total notional amount of $750.0 million beginning on June 1, 2005 through December 1, 2010, with a mandatory termination date of March 31, 2006, in exchange for receiving floating payments based on three-month LIBOR on the same notional amount for the same period. The February 2005 interest rate swaps had a fair value of $8.9 million at March 31, 2005.

On March 21, 2005, in connection with the Sprint Transaction and the $850.0 million bridge loan term sheet we executed on March 10, 2005, we entered into two additional forward-starting interest rate swap agreements for a total notional amount of $100.0 million with Bank of America, N.A. as counterparty. This brings the total notional amount of swap agreements related to financing the Sprint Transaction to $850.0 million. These swap agreements are in anticipation of the Sprint Transaction bridge financing described above, which is expected to be replaced by a mortgage loan of at least $850.0 million. Under the interest rate swaps, we agreed to pay the counterparty a fixed interest rate of 4.733% on the total notional amount of $100.0 million beginning June 1, 2005 through December 1, 2010, with a mandatory maturity date of March 31, 2006, in exchange for receiving floating payments based on three-month LIBOR on the same notional amount for the same period. The March 2005 interest rate swaps had a fair value of $(0.04) million at March 31, 2005.

6. Stockholders' Equity

Dividends

On March 30, 2005, our board of directors declared a dividend of $0.40 per share of our common stock for the three months ended March 31, 2005, payable on April 21, 2005 to the stockholders of record as of April 11, 2005. The portion of this dividend which exceeded our retained earnings as of March 31, 2005, $17.0 million, represents a return of capital.

Equity Derivatives

On February 14, 2005, in connection with the execution of the Sprint Transaction, we entered into an Investment Agreement (the "Investment Agreement") with (a) Fortress Investment Fund II LLC, a Delaware limited liability company ("FIF II"), an affiliate of our largest stockholder, Fortress; (b) various affiliates of our third largest stockholder, Abrams Capital, LLC ("Abrams"); and (c) various affiliates of Greenhill, our second largest stockholder. Greenhill, with FIF II and Abrams are referred to as the "Investors", and each individually as an "Investor".

Under the Investment Agreement, the Investors committed to purchase, at the closing of the Sprint Transaction, up to $500.0 million of our Common Stock, par value $0.01 per share ("Common Stock") at a price of $25.50 per share. The $500.0 million aggregate commitment from the Investors will automatically be reduced by (1) the amount of net proceeds received by us pursuant to an

offering of our equity securities prior to the closing of the Sprint Transaction (see Note 7 – Common Stock Offering), and (2) the amount of any borrowings in excess of $750.0 million outstanding prior to the closing of the Sprint Transaction under any credit facility or similar agreements provided to us in connection with the Sprint Transaction (see Note 11 – Acquisitions, Sprint Transaction, Sprint Bridge Financing), provided that the Investors' aggregate commitment will not be reduced below $250.0 million. As of May 9, 2005, we expect that we will only sell the Investors $250.0 million of our Common Stock due to the public offering completed on that day and additional debt financing which has been committed. Pursuant to the terms of the Investment Agreement, each of FIF II, Abrams and Greenhill shall purchase such number of shares of Common Stock equal to 48%, 32% and 20%, respectively, of the total number of shares of Common Stock to be purchased under the Investment Agreement. The purchase of the shares by the Investors is conditioned upon the occurrence of the closing of the Sprint Transactions, and will close simultaneously with the Sprint Transaction. In the event an Investor fails to purchase the shares of common stock it is obligated to purchase, the other Investors have the right, but not the obligation, to purchase such shares. This issuance of these securities will be made pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The forward contract to sell up to $500.0 million of our Common Stock to the Investors had a negative fair value of $62.1 million as of February 14, 2005. We estimated this fair value using our stock price on the close of business immediately prior to the execution of this agreement compared to the $25.50 agreed-upon stock sale price. This amount has been reclassified from additional paid in capital and is included in equity derivatives within stockholders' equity in our balance sheet as of March 31, 2005.

In connection with the Investment Agreement, the Investors agreed to issue to us, at the closing of the Investment Agreement, a one-time option to purchase from the Investors a number of shares of Common Stock having a value equal to the difference between the total consideration paid by the Investors for the common stock at the closing of the Sprint Transactions and $250.0 million. This option would be issued by the Investors pursuant to an Option Agreement among the Investors and us. Pursuant to the Option Agreement, we would have the right to purchase the shares at a price per share of $26.50. The option would immediately vest upon issuance at the closing and would expire six months and one day after the closing of the Sprint Transactions. If we were to exercise the option, we would purchase shares from each Investor in proportion to that Investor's participation in the Investment Agreement set forth above. We will only sell $250.0 million of our Common Stock to the Investors and as such, we do not expect the option will be issued. The option to purchase the shares issued to the Investors had a fair value of $37.8 million as of February 14, 2005. We estimated this fair value using a binomial model, utilizing our stock price on the close of business immediately prior to the execution of this agreement and other inputs based on the volatility of our stock price over the past eight months. This amount has been reclassified to additional paid-in capital and is included in equity derivatives within stockholders' equity in our balance sheet as of March 31, 2005.

7. Common Stock Offering

On May 3, 2005 the Securities and Exchange Commission declared our Registration Statement on Form S-11 under the Securities Act of 1933 effective, whereby we offered for sale an additional 6,325,000 shares of our common stock, inclusive of the underwriters' overallotment option. This offering was consummated on May 9, 2005 at an offering price to the public of $30.70 per share, which generated proceeds of $183.0 million, net of underwriters' commissions, discounts and estimated offering costs, for us. We used a portion of the net proceeds to repay $55.0 million of outstanding borrowings on the term loans under our Revolving Credit Agreement. This will also terminate our ability to make future draws under the term loan portions. As a result, we will write off as a loss on early extinguishment of debt the unamortized deferred financing cost of approximately $0.3 million in our second quarter of 2005. In addition, we expect to use approximately $82.0 million to finance a portion of the up front rental payment to be paid in connection with the Sprint Transaction and the remaining $46.0 million will be used for working capital and other general corporate purposes, which may include future acquisitions.

14

8. Discontinued Operations

As a part of our ongoing operational reviews, we make decisions to divest ourselves of under-performing tower sites including one and 18 tower sites in the three months ended March 31, 2005 and 2004, respectively. The operations related to each of these assets were sold or liquidated by March 31, 2005 except for 44 under-performing sites that were held for disposal by sale at March 31, 2005. During the three months ended March 31, 2005 and 2004, no impairment charges were recognized on our underperforming sites.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we classified the operating results of these assets as discontinued operations in the accompanying consolidated financial statements and all prior periods have been classified to conform to the current quarter's presentation with respect to these assets.

Results of operations for these discontinued assets for the three months ended March 31, 2005 and 2004 are as follows (in thousands):

	Three Months Ended March 31,	
	2005 (unaudited)	2004 (unaudited) (restated)
Revenues	$ 294	$ 738
Direct operating expenses	(378)	(782)
Results of operations	(84)	(44)
Gain (loss) recognized upon sale of assets of discontinued sites	(6)	63