GLOBAL SIGNAL INC
Form 10-Q
May 10, 2006
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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, 2006

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	65-0652634
(State or other jurisdiction of incorporation or organization)	(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 No

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

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

At May 5, 2006, Registrant had outstanding 69,936,595 shares of $0.01 par value common stock.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 183,992	$ 47,793
Accounts receivable, less allowance for doubtful accounts of $1,648 and $1,559, respectively	2,689	2,360
Prepaid expenses and other current assets	37,932	36,930
Interest rate swap asset, at fair value	—	22,609
Total current assets	224,613	109,692
Restricted cash	38,607	20,232
Fixed assets, net of accumulated depreciation of $209,312 and $174,917, respectively	1,672,483	1,681,755
Intangible assets:		
Goodwill	10,610	10,610
Leasehold interests, net of accumulated amortization of $13,784 and $12,811, respectively	7,026	8,084
Lease absorption value, net of accumulated amortization of $60,792 and $53,229, respectively	387,363	395,391
Lease origination value, net of accumulated amortization of $1,965 and $1,669, respectively	23,055	23,638
Deferred debt issuance costs, net of accumulated amortization of $2,395 and $10,943, respectively	16,124	16,870
Other assets	26,760	22,540
	$ 2,406,641	$ 2,288,812
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,227	$ 20,299
Accrued expenses	25,476	22,266
Dividend payable	36,653	34,304
Deferred revenue	32,785	21,307
Notes payable and current portion of long-term debt	576	538
Total current liabilities	115,717	98,714
Long-term debt, net of current portion	1,844,067	1,693,058
Other liabilities	51,102	43,851
Total liabilities	2,010,886	1,835,623
Stockholders' equity:		
Preferred stock, $0.01 par value, 20,000,000 shares authorized, no shares issued or outstanding at March 31, 2006 and December 31, 2005	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized, 69,814,537 shares issued and outstanding at March 31, 2006, and 68,608,725 shares issued and outstanding at December 31, 2005	698	686
Additional paid-in capital	442,917	476,388
Treasury stock, at cost, 29,327 shares at March 31, 2006 and 0 shares at December 31, 2005	(1,463)	—
Deferred stock-based compensation	—	(1,055)

Accumulated other comprehensive income	32,319	20,800
Accumulated deficit	(78,716)	(43,630)
Total stockholders' equity	395,755	453,189
	$ 2,406,641	$ 2,288,812

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

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

	Three Months Ended March 31, 2006	2005
Revenues	$ 120,922	$ 53,798
Direct site operating expenses (excluding depreciation, amortization and accretion)	53,202	15,823
Gross margin	67,720	37,975
Other expenses:		
Selling, general and administrative (including $(10) and $318 of non-cash stock-based compensation (income) expense, respectively)	11,100	6,756
Sprint sites integration costs	254	—
State franchise, excise and minimum taxes	525	174
Depreciation, amortization and accretion	44,270	17,389
	56,149	24,319
Operating income	11,571	13,656
Interest expense, net	24,647	10,201
Gain on derivative instruments	(176)	—
Loss on early extinguishment of debt	21,102	—
Other expense (income)	45	(103)
Income (loss) from continuing operations before income tax benefit (expense)	(34,047)	3,558
Income tax benefit (expense)	(37)	525
Income (loss) from continuing operations	(34,084)	4,083
Loss from discontinued operations	(503)	(169)
Income (loss) before loss on sale of properties	(34,587)	3,914
Loss on sale of properties	(499)	(18)
Net income (loss)	$ (35,086)	$ 3,896
Basic income (loss) per common share:		
Income (loss) from continuing operations	$ (0.49)	$ 0.08
Income (loss) from discontinued operations	(0.01)	(0.01)

Gain (loss) on sale of properties		(0.01)		—
Net income (loss)	$	(0.51)	$	0.07
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$	(0.49)	$	0.08
Income (loss) from discontinued operations		(0.01)		(0.01)
Gain (loss) on sale of properties		(0.01)		—
Net income (loss)	$	(0.51)	$	0.07
Dividends declared per common share	$	0.525	$	0.400
Weighted average number of common shares outstanding:				
Basic		69,378		52,023
Diluted		69,378		53,935

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

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

	Three Months Ended March 31,			
	2006		2005 (Revised) (See Note 2)	
Cash flows from operating activities:				
Net income (loss)	$	(35,086)	$	3,896
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation, amortization and accretion		44,270		17,389
Amortization of deferred debt issuance costs and hedges		1,467		1,564
Loss on early extinguishment of debt		21,102		—
Net of effects from other adjustments:				
Continuing operations		600		(198)
Discontinued operations		236		165
(Increase) decrease in assets, net of effects from acquisitions		(8,175)		(1,208)
Increase in liabilities, net of effects from acquisitions		20,826		2,383
Net cash provided by operating activities		45,240		23,991
Cash flows from investing activities:				
Payments made in connection with acquisitions of communcation sites		(19,769)		(43,999)
Capital expenditures		(5,624)		(2,934)
Proceeds from the sale of fixed assets:				
Continuing operations		243		18

Funds provided by (invested in) restricted cash		(18,375)		(5,329)
Net cash used in investing activities		(43,525)		(52,244)
Cash flows from financing activities:				
Borrowings under notes payable and long-term debt		1,557,050		67,850
Repayment of notes payable and long-term debt		(1,413,008)		(17,955)
Payment of debt issuance costs		(11,867)		(808)
Payment received to terminate interest rate swaps		33,759		—
Ordinary dividends paid		(34,713)		(20,857)
Proceeds from the issuance of common stock		3,205		901
Net cash provided by financing activities		134,426		29,131
Effect of exchange rate changes on cash		58		211
Net increase in cash and cash equivalents		136,199		1,089
Cash and cash equivalents, beginning of period		47,793		5,991
Cash and cash equivalents, end of period	$	183,992	$	7,080
Non-cash investing and financing transactions:				
Assets acquired under a capital lease obligation	$	—	$	243
Increase in the fair value of interest rate swaps recorded to accumulated other comprehensive income (loss)	$	8,450	$	11,703
Equity derivative arising from Investment Agreement	$	—	$	(62,157)
Equity derivative arising from Option Agreement	$	—	$	37,843

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

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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. owns, leases and manages communications towers and other communications sites and leases space on them to providers of communications and broadcast services, such as wireless telephony, paging, mobile radio, wireless data transmission, radio and television broadcasting, and to operators of private networks such as federal, state and local government agencies. For the three months ended March 31, 2006, Sprint Corporation comprised 37.3% of our revenues and Cingular Wireless comprised 15.5% of our revenues.

As used herein, unless the context otherwise requires, ‘‘we,’’ ‘‘us,’’ ‘‘our,’’ ‘‘Company,’’ or ‘‘Global Signal’’ refers to Global Inc. and its wholly owned consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated. ‘‘Fortress’’ refers to Fortress Investment Holdings LLC and certain of its affiliates, ‘‘Greenhill’’ refers to Greenhill Capital Partners, L.P. and affiliated investment funds, and ‘‘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 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 shall 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 are, among other things, used to make dividend distributions to our stockholders. We believe that the UPREIT structure may provide flexibility by enabling us to execute certain acquisitions more effectively by giving tax advantages to sellers 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 condensed 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, 2005, included in Global Signal's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 16, 2006.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The principal accounting policies are set forth below:

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.

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Stock-Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standard (''SFAS'') No. 123(R) Share-Based-Payments, using the modified prospective transition method to account for our employee stock-options. Under that transition method, compensation costs for the portion of awards for which the requisite service had not yet been rendered, and that were outstanding as of the adoption date, will be recognized as the service is rendered based on the grant date fair value of those awards calculated under SFAS No. 123. Prior period results are not restated. Since all options were fully vested on January 1, 2006, the adoption of SFAS No. 123(R) had no impact on net income or earnings per share. In connection with the adoption of SFAS No. 123(R), we reclassified $1.1 million of deferred stock-based compensation expense, which relates entirely to unvested restricted stock, to additional paid-in capital as of January 1, 2006. See Note 7 for disclosures related to stock-based compensation.

New Accounting Pronouncements

Effective January 1, 2006, we adopted Financial Accounting Standards Board (‘‘FASB’’) Interpretation No. 47 (‘‘FIN 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. Our asset retirement obligations are within our control as to timing and method as they relate to the removal of our communications towers from leased land; therefore the adoption of this interpretation did not impact our financial statements.

Effective January 1, 2006, we adopted FASB Staff Position 13-1 Accounting for Rental Costs Incurred during a Construction Period. This staff position concludes that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognized as rental expense. We had already accounted for such rental costs in the manner prescribed by the staff position, so this staff position did not impact our financial statements.

Reclassifications and Revisions

In the first quarter of 2006, we have separately disclosed the operating, investing and financing portion of the cash flows attributed to discontinued operations, which in the prior period was not separately reported. Certain amounts from prior year have been reclassified for consistency with the current year presentation. All other reclassifications relate to discontinued operations. The reclassifications and revisions were not material to the consolidated financial statements.

3. Discontinued Operations

As a part of our ongoing operational reviews, we make decisions to divest ourselves of under-performing towers or other communications sites, including 19 tower sites in the three months ended March 31, 2006, and one tower site in the three months ended March 31, 2005. Of the 19 tower sites we decided to divest in the three months ended March 31, 2006, 14 are included in discontinued operations while the other five remain in continuing operations as we are not assured that they will be sold within one year. At March 31, 2006, we had 232 tower sites that were classified as held for disposal by sale.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we classified the operating results of 227 of these sites as discontinued operations in the accompanying condensed consolidated financial statements and all prior periods have been reclassified to conform to the current quarter’s presentation with respect to these sites.

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Results of operations for these discontinued sites for the three months ended March 31, 2006 and 2005 are as follows (in thousands):

	Three Months Ended March 31,	
	2006	2005

	(unaudited)	(unaudited)
Revenues	$ 550	$ 918
Direct operating expenses	786	1,081
Results of operations	(236)	(163)
Loss on impairment of assets	(33)	—
Loss recognized on assets of discontinued sites	(234)	(6)
Income (loss) from discontinued operations	$ (503)	$ (169)

Assets held for sale of $0.8 million and $0.8 million are included in fixed assets, net in the condensed consolidated balance sheets as of March 31, 2006 and December 31, 2005, respectively.

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4. Debt

Our outstanding debt as of March 31, 2006 and December 31, 2005 consists of the following (in thousands):

	March 31, 2006 (unaudited)	December 31, 2005
February 2004 mortgage loan, weighted average interest rate of approximately 5.0%, secured by first priority mortgage liens on substantially all tangible assets of Pinnacle Towers LLC and its subsidiaries, 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 (repaid in full with a portion of the net proceeds from the February 2006 mortgage loan)	$ —	$ 404,087
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
February 2006 mortgage loan, weighted average interest rate of approximately 5.7%, secured by first priority mortgage liens on substantially all tangible assets of Pinnacle Towers LLC, GSA and GSA II, monthly interest-only installments beginning March 2006, contractual maturity date of February 2011	1,550,000	—
Bridge loan, interest at LIBOR plus 1.50% (5.8% at December 31, 2005), secured by our ownership interests in Global Signal Acquisitions II LLC (‘‘GSA II’’), and in GSA II’s leasehold and subleasehold interests in the Sprint Towers, and an assignment of leases and rent. Interest installments due monthly and a contractual maturity date of May 25,	—	850,000

2006, before extension options (repaid in full with a portion of the net proceeds from the February 2006 mortgage loan.)		
$200.0 million acquisition credit facility, interest at LIBOR plus 2.0% (6.4% at December 31, 2005), secured by the acquired tower assets through a pledge of Global Signal OP's equity interest in Global Signal Acquisitions LLC (''GSA''). Interest installments due monthly and a contractual maturity date of April 24, 2006 (repaid in full with a portion of the net proceeds from the February 2006 mortgage loan.)	—	144,725
Capital lease obligations, interest rate fixed at a weighted average rate of 9.5%, secured by the underlying capital assets, with monthly principal installments beginning April 2004 and continuing through July 2010	818	959
Revolving Credit Facility interest at a variable rate of LIBOR plus 3.0% or the lender's base rate plus 2.0%, secured by a pledge of Global Signal OP's assets, maturity date of December 2006	—	—
	1,844,643	1,693,596
Less: Notes payable and current portion of long-term debt	(576)	(538)
	$ 1,844,067	$ 1,693,058

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As noted in the table above, the February 2004 mortgage loan, the bridge loan and the $200.0 million acquisition credit facility were repaid in full with a portion of the proceeds of the February 2006 mortgage loan described below. In accordance with SFAS No. 6 Classification of Short-Term Obligations Expected to be Refinanced, we reclassified the current portion of debt at December 31, 2005 under these three loans to long-term.

The following table shows the maturities of long-term debt for the five twelve month periods after March 31, 2006 (in thousands):

For the twelve months ending March 31,	
2007	$ 576
2008	201
2009	18
2010	293,844
2011	1,550,004
	$ 1,844,643

The February 2006 Mortgage Loan

On February 28, 2006, three of our wholly owned special purpose entities, Global Signal Acquisitions II LLC, Global Signal Acquisitions LLC and Pinnacle Towers LLC (and its 13 subsidiaries), borrowed a total of $1.55 billion under a mortgage loan made payable to a newly formed trust, Global Signal Trust III (''February 2006 mortgage loan''), that issued $1.55 billion in fixed-rate commercial mortgage pass-through certificates to provide fixed-rate financing for the assets leased in May 2005 from Sprint Corporation (the ''Sprint Towers''), the communications sites originally financed with the February 2004 mortgage loan, and for other communications sites we acquired from April 2005 to January 2006. We have continued to consolidate our subsidiaries, but have not consolidated Global Signal Trust III in our financial statements. The proceeds of the February 2006 mortgage loan were used to repay the $850.0 million bridge loan, to repay $402.7 million (the total then-outstanding borrowings under the February 2004 mortgage loan), to repay $151.8 million (the total then-outstanding borrowings under the acquisition credit facility) and to provide $145.5 million of funds for working capital and general corporate purposes, including payment of fees and expenses of the offering and potential future acquisitions. The borrowers and their direct parent, Global Signal Holdings V LLC, are separate legal entities from Global Signal Inc., with their own assets, which are not available to satisfy the debts and other obligations of Global Signal Inc. or any of its other affiliates.

The principal amount of the February 2006 mortgage loan is divided into seven tranches, each having a different level of seniority. Interest accrues on the February 2006 mortgage loan at a weighted average interest rate of approximately 5.7%. The effective interest rate on the February 2006 mortgage loan, including the benefit from terminating the 2005 interest rate swaps which qualified for hedge accounting and the amortization of deferred debt issuance costs, is approximately 5.5%. The February 2006 mortgage loan requires monthly payments of interest until its repayment date in February 2011. The February 2006 mortgage loan is secured by, among other things, (1) mortgage liens on the borrowers' interests (fee, leasehold and/or easement) in over 80% of their 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 LLC, Global Signal Acquisitions LLC and Global Signal Acquisitions II LLC from its direct parent, Global Signal Holdings V 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 February 2006 mortgage loan as the net cash flow for the sites for the immediately preceding twelve calendar month period divided by the amount of interest that we will be required to pay over the succeeding twelve months on the February 2006 mortgage loan, as of the end of any calendar quarter falls to 1.35 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 until the DSCR exceeds 1.35

times for two consecutive calendar quarters. If the DSCR falls below 1.20 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 February 2006 mortgage loan with applicable prepayment penalties.

We may not prepay the February 2006 mortgage loan in whole or in part at any time prior to February 28, 2008, 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 2006 mortgage loan). Thereafter, prepayment is permitted provided it is accompanied by any applicable prepayment consideration. If the prepayment occurs within three months of the February 2011 monthly payment date, no prepayment consideration is due.

The February 2006 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.

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 (the ‘‘December 2004 mortgage loan’’). Global Signal Trust II (‘‘Trust II’’) 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 Trust II 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 which was used to acquire additional qualifying wireless communications sites over the six-month period following the December 2004 closing. The borrowers and their direct parent, Global Signal Holdings III LLC, are separate legal entities from Global Signal Inc., with their own assets, which are not available to satisfy the debts and other obligations of Global Signal Inc. or any of its other affiliates.

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. The weighted average interest rate on the various tranches is approximately 4.7%. 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 until 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.

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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.

The February 2004 Mortgage Loan

On February 5, 2004, one of our subsidiaries, Pinnacle Towers LLC (formerly known as Pinnacle Towers Inc.) 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''). On February 28, 2006, a portion of the net proceeds from the February 2006 mortgage loan was used to repay the February 2004 mortgage loan in full. A prepayment penalty of $7.0 million was paid and recognized in the first quarter of 2006 as loss on early extinguishment of debt. In addition, unamortized deferred debt issuance costs of $9.5 million and accumulated other comprehensive loss of $3.4 million related to the elimination of the portion of accumulated other comprehensive loss for interest rate swaps related to the February 2004 mortgage loan (see Note 5), respectively, were expensed in the first quarter of 2006 as loss on early extinguishment of debt.

Sprint Bridge Financing

At the closing of the Sprint Transaction, we executed the $850.0 million bridge loan financing with Morgan Stanley Asset Funding Inc. and Bank of America, N.A. The borrower was a newly created entity, Global Signal Acquisitions II LLC, under our indirect control, which owned 100% of our interest in the Sprint Towers. On February 28, 2006, a portion of the net proceeds from the February 2006 mortgage loan was used to repay the Sprint bridge loan in full. Unamortized deferred debt issuance costs of $1.0 million related to the Sprint bridge loan were expensed in the first quarter of 2006 as loss on early extinguishment of debt.

Revolving Credit Agreement

On December 1, 2005, Global Signal OP entered into a 364-day $15.0 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.

At March 31, 2006 and December 31, 2005, there were no balances outstanding under the revolving credit facility. Interest on the $15.0 million revolving credit facility is payable, at Global Signal OP's option, at either LIBOR plus 3.0% or the bank's base rate plus 2.0%. Interest is payable at the end of the interest period or at the time of principal repayments. Principal on the revolving credit facility may be paid, in whole or in part, at any time and must be repaid by the loan maturity date, December 1, 2006.

The Revolving Credit Agreement, and the related ancillary documentation contain covenants and restrictions customary for a facility of this type including a limitation on our consolidated indebtedness at approximately $1.875 billion and a requirement to limit our ratio of consolidated indebtedness to consolidated EBITDA, as defined in the loan document, to a ratio of 7.65 to 1.0. 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.

Acquisition Credit Facility

On April 25, 2005, our wholly owned subsidiary, GSA, 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. On February 28, 2006, a portion of the net proceeds from the February 2006 mortgage loan was used to repay in full and terminate the acquisition credit facility. Unamortized deferred debt issuance costs of $0.2 million related to the acquisition credit facility were expensed in the first quarter of 2006 as loss on early extinguishment of debt.

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5. Interest Rate Swap Agreements

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 communications sites we expected to acquire during 2005, we entered into six forward-starting interest rate swap agreements with Morgan Stanley as counterparty to hedge the variability of future interest rates on our anticipated mortgage financing. Concurrent with the pricing of our February 2006 mortgage loan, we terminated our six interest rate swaps and received a payment, excluding accrued interest, of $8.1 million, of which $4.3 million was recorded as accumulated other comprehensive income and is being amortized as a reduction of interest expense on the February 2006 mortgage loan using the effective interest method over five years, the life of the February 2006 mortgage loan.

On February 2, 2005 and March 21, 2005, in connection with the Sprint Transaction, we entered into ten forward-starting interest rate swap agreements with Bank of America, N.A. as counterparty, in anticipation of securing $850.0 million of bridge financing, which was expected to be replaced by a mortgage loan, for a total notional value of $850.0 million. Concurrent with the pricing of our February 2006 mortgage loan, we terminated our ten interest rate swaps and received a payment, excluding accrued interest, of $25.8 million, which was recorded as accumulated other comprehensive income (loss) and which is being amortized as a reduction of interest expense on the February 2006 mortgage loan using the effective interest method over five years, the life of the February 2006 mortgage loan.

The effective interest rate on the February 2006 mortgage loan including the cost of terminating the swaps and the amortization of deferred debt issuance costs is approximately 5.5%. For the three months ended March 31, 2006, amortization of accumulated other comprehensive income of $0.6 million was recorded as an offset to interest expense.

2004 Interest Rate 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. 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.

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 accumulated other comprehensive income and is being amortized as a reduction of interest expense using the effective interest method over five years, the life of the December 2004 mortgage loan. The effective interest rate on the December 2004 mortgage loan, including the proceeds from terminating the interest rate swaps and the amortization of deferred debt issuance costs, is approximately 5.0%. For the three months ended March 31, 2006 and 2005, amortization of accumulated other comprehensive income of $0.1 million and $0.1 million, respectively, was recorded as an offset to interest expense.

2003 Interest Rate 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 (the ‘‘December 2003 swap’’) with Morgan Stanley as the counterparty to hedge the variability of future interest payments under the anticipated February 2004 mortgage loan. 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 accumulated other comprehensive loss and was 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 February 2004 mortgage loan, including the cost of terminating the interest rate swap and the amortization of deferred debt issuance costs, was approximately 6.0%. For the three

months ended March 31, 2006 and 2005, amortization of accumulated other comprehensive loss of $0.2 million and $0.3 million, respectively, was recorded as interest expense. On February 28, 2006, the February 2004 mortgage loan was repaid in full from a portion of the net proceeds from the February 2006 mortgage loan (see Note 4), and the remaining $3.4 million of unamortized accumulated other comprehensive loss related to the 2003 interest rate swap was recorded in the first quarter of 2006 as loss on early extinguishment of debt.

6. Commitments and Contingencies

Purchase Commitments

As of March 31, 2006, we had signed master services agreements with Stratos VSAT, Inc. and Hark Tower Systems, Inc. which require us to purchase approximately $6.5 million in satellite data monitoring equipment. As of March 31, 2006, we had purchased $4.1 million of equipment under these commitments. As of March 31, 2006, we also had outstanding purchase agreements to acquire 3 communications sites from various sellers for a total estimated purchase price of $4.2 million, including estimated fees and expenses, and 146 land parcels for $21.1 million, including estimated fees and expenses. As of March 31, 2006, we also had binding letters of intent to purchase 5 additional communications sites for approximately $4.3 million, including estimated fees and expenses.

Earn Outs

A number of our asset purchase agreements provide for additional monies to be paid to the sellers based on future lease commencements during a limited period after the acquisition is completed, generally one year or less. The aggregate amount of these contingent purchase prices is not expected to be material for the acquisitions we have closed through March 31, 2006. As of March 31, 2006, we had no accruals for any such additional acquisition payments. The maximum additional contingent payments on closed acquisitions were approximately $1.1 million at March 31, 2006.

Legal Matters

We are involved in litigation incidental to the conduct of our business. We believe that none of such pending litigation, or unasserted claims of which we have knowledge, will have a material adverse effect on our business, financial condition, results of operations or liquidity.

7. Stockholders' Equity

Dividends

On March 15, 2006, our board of directors declared a dividend of $0.525 per share of our common stock for the three months ended March 31, 2006, which was paid on April 20, 2006 to the stockholders of record as of April 6, 2006.

The entire dividend of $36.7 million was a reduction of additional paid-in capital.

Stock-Based Compensation

Prior to our January 1, 2006 adoption of SFAS No. 123(R), we accounted for our stock option and restricted stock grants to employees and stock grants to directors using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Under APB No. 25, no compensation costs were recognized relating to the stock 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. We used and will continue to use under SFAS No. 123(R) the accelerated method to recognize compensation expense of our equity-based awards with graded vesting. For restricted stock grants under APB No. 25, the unamortized portion of the related compensation expense was recorded as deferred stock compensation expense, a contra account within stockholders' equity. In connection with the adoption of SFAS No. 123(R), we reclassified $1.1 million of deferred stock-based compensation expense, which relates entirely to unvested restricted stock, to additional paid-in capital as of January 1, 2006. Prior to adopting SFAS No. 123(R), we amended an officer's option agreement to cancel options

relating to 35,875 shares with an exercise price of $8.53 per share and options relating to 107,625 shares with an exercise price of $18.00 per share, and accelerated vesting of options relating to 46,125 shares with an exercise price of $8.53 per share and options relating to 138,375 shares with an exercise price of $18.00 per share.

Had compensation costs for employee stock option activity been determined based on the fair value at the dates of grant for the periods prior to calendar year 2006, our net income for the three months ended March 31, 2005, would have decreased to the pro forma amount indicated below (in thousands, except per share data):

	Three Months Ended March 31, 2005 (unaudited)	
Net income attributable to common stockholders:		
Net income as reported	$	3,896
Add: Stock-based compensation costs included in reported net income, 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)
Pro forma net income	$	3,556
Basic income per share attributable to common stockholders:		
Net income per share as reported	$	0.07
Pro forma net income per share	$	0.07
Diluted income per share attributable to common stockholders:		
Net income per share as reported	$	0.07
Pro forma net income per share	$	0.07

Stock Incentive Plan

The Stock Incentive Plan (the "Plan") became effective November 1, 2002. The Plan provides for awards consisting of stock options and restricted stock grants (‘‘Awards’’) to employees, non-employee directors, and other persons who perform services for us. The Plan is administered by the board of directors or, at the board of directors’ sole discretion, by a committee consisting solely of persons who are non-employee directors and outside directors (the ‘‘Committee’’).

On February 11, 2004, the stockholders approved an increase of 2,000,000 shares in the shares available under the Plan and as of January 1, 2005, subsequent annual increases of the lesser of 1,000,000 shares or 2% of the then-outstanding number of shares of common stock on the last day of the immediately preceding fiscal year. The maximum number of shares of common stock that may be made subject to awards granted under the Plan was 7,715,000 at December 31, 2005. On January 1, 2006, the number of shares available increased by 1,000,000 pursuant to the annual increases provision discussed above. In the event of any change in our capitalization, an equitable substitution or proportionate adjustment shall be made in the aggregate number and/or kind of shares of common stock reserved for issuance under the Plan and the kind, number and/or option price at the sole discretion of the Committee. In addition, if any award expires or terminates without having been exercised, the shares of common stock subject to the Award again become available for grant under the Plan.

The Committee is authorized to grant to eligible persons incentive stock options (‘‘ISO’’) or nonqualified stock options (‘‘NSO’’). The term of an ISO cannot exceed 10 years, and the exercise price of any ISO must be equal to or greater than the fair market value of the shares of common stock on the date of the grant. Any ISO granted to a holder of 10% or more of the combined voting power of our capital stock must have an exercise price equal to or greater than 110% of the fair market value of the common stock on the date of grant and may not have a term exceeding five years from the grant date. The Committee shall determine the exercise price and the term of an NSO on the date that the NSO is granted.

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Options shall become exercisable in whole or in part on the date or dates specified by the Committee. The Committee, in its sole discretion, may accelerate the date or dates on which an option becomes exercisable. Each option shall expire on such date or dates as the Committee shall determine at the time the option is granted. Upon termination of an optionee’s employment for retirement, death or disability, options granted to the employee will expire one year from the date of termination. Upon termination of an optionee’s employment for involuntary termination other than for cause, options granted to the employee will expire ninety days plus the number of days the employee is prohibited from trading in Global Signal’s shares because of insider trading rules or other arrangements, after the date of termination. Upon termination of an optionee’s employment for any other reasons, options granted to the employee will expire on the expiration date specified in the agreement. If an optionee’s employment is terminated for cause (as defined in the Plan), all of such person’s options shall immediately terminate.

The Committee may also grant to an eligible person an award of common stock subject to future service and such other restrictions and conditions as the Committee may determine, which may be either restricted stock, wherein the recipient receives the benefits of ownership (such as voting and the receipt of dividends) prior to the vesting of the stock (other than the right to sell or transfer the stock), or deferred stock, wherein the recipient does not have any benefits of ownership prior to the vesting of the stock (as applicable, the ‘‘Restricted Stock’’ or the ‘‘Deferred Stock’’). The Committee will determine the terms of such Restricted Stock and/or Deferred Stock, including the price, if any, to be paid by the recipient for the stock, the restrictions placed on the shares and the time or times when the restrictions will lapse, at the time of the granting thereof.

A summary of our stock option activity under the Plan for the three months ended March 31, 2006, is presented in the table below. Net proceeds from the exercise of stock options for the three months ended March 31, 2006, were $4.7 million which was recorded in common stock and additional paid-in capital. The fair value at the time of issuance of the options that vested during the three months ended March 31, 2006, was $2.1 million. The intrinsic value at the time of exercise of the stock options exercised during the three months ended March 31, 2006, was $47.9 million.

	Number of Shares Subject to Option	Exercise Price Range	Weighted Average Exercise Price
Under option, December 31, 2005	1,317,134	$4.26 – $18.00	$ 9.41
Granted	—	N/A	N/A
Forfeited	—		