CROWN CASTLE INTERNATIONAL CORP., #4329036
SECOND QUARTER 2010 EARNINGS CONFERENCE CALL
July 29, 2010, 10:30 AM ET
Chairperson: Fiona McKone (Mgmt.)

Operator: Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Q2 2010 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star followed by the two. If you're using speaker equipment, please lift the handset before making your selection. This conference is being recorded today, Thursday, July 29, 2010.

I would now like to turn the conference over to Fiona McKone, Vice President of Finance. Please go ahead, ma'am.

Fiona McKone: Thank you, Brandy. Good morning everyone and thank you all for joining us as we review our second quarter 2010 results. With me on the call this morning are Ben Moreland, Crown Castle's Chief Executive Officer; and Jay Brown, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com which we will discuss throughout the call this morning.

This conference call will contain forward-looking statements and information based on management's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurances that those expectations will have proven to have been correct. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Information about the potential factors that could affect the Company's financial results is available in the press release and in the Risk Factors sections of the Company's filings with the SEC. Should one or more of these or other risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. Our statements are made as of today, July 29, 2010 and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

In addition, today's call includes discussions of certain non-GAAP financial measures including adjusted EBITDA, recurring cash flow and recurring cash flow per share. Tables reconciling such non-GAAP financial measures are available under the Investors section of the Company's website at crowncastle.com.

With that, I'll turn the call over to Jay.

Jay Brown: Thank you, Fiona, and good morning everyone. Let me start with a few summary comments as highlighted on Page 3 of the presentation, and then I'll go through our results and outlook in greater detail.

I'm very pleased with our second quarter financial results as we significantly exceeded our expectations for adjusted EBITDA reflecting the increased demand for wireless infrastructure, as evidenced by the 9% increase in site rental revenues from the second quarter of last year. In addition to a great quarter and site rental revenue, our services business also performed very well. Service revenues were up 39% and service gross margins were up 33% compared to the same quarter of last year. In addition, I believe the investments we made, including the purchase of our common shares, the acquisition of land beneath our towers and our agreement to acquire NewPath will enhance long-term recurring cash flow per share growth.

The acquisition of NewPath is expected to extend our ability to provide wireless infrastructure to our customers beyond those areas served by traditional towers and will increase our presence in this market to 44 DAS networks in operation or under construction. The combination of strong year-to-date revenue growth and our expectations for the second half of 2010 allows us to increase our site rental revenue, site rental gross margin, adjusted EBITDA and recurring cash flow outlook for the full year of 2010.

With that, I'd like to take you through the results in greater detail for the quarter and the increase in our 2010 outlook. Turning to Slide 4, during the second quarter we generated site rental revenue of 410 million, up 9% from the second quarter of 2009. Similar to what we would expect in the balance of the year, the components of the 9% growth in site rental revenue from the second quarter of 2009 to the second quarter of 2010 were comprised of the following: 4% growth in the existing base of business through contracted escalators and the renewal of tenant leases net of any churn; and 5% growth attributable to the additional tenant equipment added to our sites, reflecting the new leasing activity we have experienced. Site rental gross margin, defined as site rental revenues less the cost of operations, was 294 million, up 12% from the second quarter of 2009.

We continued to maintain a disciplined approach to operating costs, resulting in over 94% of the growth in site rental revenue finding its way to site rental gross margin. Adjusted EBITDA for the second quarter of 2010 was 280 million, up 13% from the second quarter of 2009. It is important to note that these growth rates were achieved almost entirely through organic growth on assets that we owned as of April 1, 2009, as revenue growth from acquisitions was negligible.

Turning to Slide 5, recurring cash flow, defined as adjusted EBITDA less interest expense, less sustaining capital expenditures, increased 18% to 155 million compared to 132 million in the second quarter of 2009. Recurring cash flow per share also increased 18% to $0.54 compared to $0.46 in the second quarter of 2009.

Moving to the outlook for the third quarter 2010, as shown on Slide 6, we expect site rental revenue of between 419 and 424 million and adjusted EBITDA of between 284 and 289 million. The sequential growth in adjusted EBITDA between the second quarter 2010 and our outlook for the third quarter of 2010 is impacted by the following couple of items. We expect third quarter repairs and maintenance as a component of site rental operating expenses to increase by approximately 2 million from the second quarter of this year; and commensurate with the increase in operating expenses related to repairs and maintenance, we would expect sustaining capital expenditures to also be approximately 2 million higher in the third quarter than in the previous two quarters of the year.

Turning to the full year 2010 outlook on Slide 7, based on the strong results today and our expectations for the remainder of the year, we've increased the mid-point of our outlook for site rental revenues by 4.5 million, site rental gross margin by 7 million, adjusted EBITDA by 15.5 million, and recurring cash flow by 20.5 million for the full year 2010. Our revised 2010 outlook suggests annual site rental revenue growth of just over 8% and recurring cash flow growth of 17% respectively. Substantially, all of the anticipated growth is expected to come from the assets we owned at the beginning of 2008. As I mentioned before, we've made no significant tower acquisitions during the last two years.

Consistent with our past practice, our 2010 outlook doesn't include the anticipated benefit from expected future investment around our core business, and we've not included NewPath in our outlook.

Turning to the balance sheet, as illustrated on Slide 8, total debt to last quarter annualized adjusted EBITDA as of June 30, 2010 was 5.6 times compared to 6.1 times in the same quarter last year. Adjusted EBITDA to cash interest expense as of June 30, 2010 was approximately 2.8 times. Both our adjusted EBITDA leverage and cash interest expense coverage ratio were comfortably within their respective debt covenant requirements.

As illustrated on Slide 9, the liability on a settlement basis associated with our forward-starting interest rate swaps due to be settled during 2011 was 372 million at June 30, 2010. As shown, we have also provided the sensitivity for these swaps to changes in interest rates.

Moving on to the investments and liquidity, the table on Slide 10 reflects our current debt balances and maturities. As many of you have seen, yesterday we launched a 1.55 billion offering to repay in full the

1.33 billion of Series 2006-1 notes outstanding which have an anticipated refinancing date of November 15, 2011. Assuming the successful completion of this financing, we will have no maturities before March 2014. Further, during the last six quarters, we will have refinanced over 6 billion of debt securities with an appropriate laddering of the maturities. This gives us tremendous flexibility as we focus on investing activities that we believe will enhance long-term recurring cash flow per share which we believe is the best long-term measure of shareholder value creation.

To that end, as shown on Slide 11, during the second quarter of 2010 we spent just over $38 million to purchase our common shares with an average price of just over $37 per share. Since January 2003, we've spent $2.4 billion buying back 92 million shares or potential shares at an average per-share price of $25.59. Without these purchases, our current share count would be nearly a third higher than what it is today.

Also during the second quarter of 2010, we spent 55 million on capital expenditures including 31 million on land purchases as we accelerated our spending on our land lease purchase program. Since the beginning of 2010, we have extended 620 land leases and purchased the land beneath 193 of our towers. We have had significant success with this program over the last several years. In fact, to date 33% of our site rental gross margin is generated from towers on land that we own. As of today, we own or control for more than 20 years the land beneath towers representing approximately 69% of our gross margin. Further, the average term remaining on our ground leases is approximately 31 years. Having completed over 8,600 transactions, we believe this activity has resulted in the most secure land position in the industry, based on land ownership and the final ground lease expiration. We continue to believe this is an important long-term effort that provides a long-term benefit as it protects our margins and controls our largest operating expense.

In summary, we had a great quarter and I'm excited about the balance of 2010. I'm pleased we were back to allocating capital in areas related to our core tower business to enhance long-term growth rates and recurring cash flow per share.

And with that, I'll turn the call over to Ben.

Ben Moreland: Thanks, Jay, and thanks to all of you for joining us on the call this morning. As Jay just mentioned, we had a strong second quarter, exceeding our outlook for site rental gross margin, adjusted EBITDA, and recurring cash flow. In addition to continued growth of our site leasing business, our services business continues to perform very well, posting the highest quarterly results in recent years due to the increased take rate that we're delivering on the part of our customers. This success results from a diligent effort to capture more of the opportunities assisting our customers in locating or upgrading installations on our sites. We have also benefited from an expanded range of service offerings over the past couple of years. This increase in services activity is attributable to the confidence our customers have in Crown Castle as regularly expressed in our customer surveys that consistently rank us as delivering the highest customer service in the industry. This did not just happen by accident, and I want to thank our employees who are involved in this effort for this tremendous result this quarter and for the year. While the services business is somewhat difficult to predict, it has evolved into a more stable contributor to our core leasing business over the last two years.

Moving past the summary for the quarter, I'd like to draw your attention to some of the important trends that are driving our business. The trends underlying our business remain very positive with the adoption of the mobile Internet and demand for data services driving our strong growth in operating results. As wireless data services become the carriers' most important growth segment, the carriers are leasing more of our sites to support the growth in demand for wireless data services to capture the higher average revenue per user, or ARPU.

Data revenue growth continues to be driven by customer demand and interest in the smartphone category and by the proliferation of new devices with greater capabilities together with significant increases in innovative applications and content. These overwhelming trends were reflected in the carriers' second quarter results which showed not only growing data usage but importantly confirmed the fact that these investments in network improvements are profitable. The iPhone has helped drive robust wireless data growth and ARPU improvements at AT&T. Specifically, more than 3.2 million iPhones were activated on the AT&T network in the quarter. AT&T also reported very positive customer response to the iPad 3G which launched at the end of April and attributed the introduction of the iPad to 300,000 prepaid ads. A little more than half of AT&T's postpaid subscribers now have integrated devices and the ARPU for integrated devices continues to be 1.7 times greater than the ARPU for non-integrated devices. This data growth contributed to a 27% increase in wireless data revenues at AT&T versus the second quarter of 2009, and data, an increasing percentage of the carrier's overall revenue, represented 31% of AT&T's second quarter wireless service revenues, up from 26% a year ago.

Similarly, Verizon reported data revenue growth of 24% compared to last year, and total data ARPU growth of 16% year-over-year driven by the rapidly growing smartphone device category. At the end of the second quarter, 35% of Verizon's retail postpaid subscriber base had smartphones or multimedia devices, up from 26% just two quarters ago.

In addition, both AT&T and Verizon reported adding significant numbers of other connected machine-to-machine devices such as e-readers, alarm monitoring systems, vehicle tracking devices, consumer electronics, smart grid solutions and medical alert devices, and a host of other emerging products. While these trends are very compelling, it is important to note that the adoption is still in the early stages with less than 40% of wireless subscribers having a data-centric device, representing considerable upside to come. Furthermore, the carriers are still in the early phases of building out high-speed data networks, with Clearwire, for example, only halfway through its planned 40,000 site build and Verizon still on schedule to launch 4G in the fourth quarter in selected markets. We believe our increased 2010 outlook, which includes increased leasing activity in the second half of the year, reflects the launch and pre-launch activities of these coming 4G services and is consistent with the wireless carriers' recent comments on their expectations for a somewhat backend loaded year reflecting the launch of LTE.

I should note that devices alone are not the only ingredient to success. Network quality remains a key factor in the acquisition and retention of subscribers, resulting in carriers investing in their networks to ensure coverage and capacity to meet customer need in order to remain competitive. To that end, both AT&T and Verizon reported significant increases in wireless capital expenditures in the first half of 2010, compared to the first half of 2009, driven by data capacity enhancements and 4G LTE network deployments.

Confirming the view that demand for wireless services will extend beyond just the legacy networks, we are very excited to see the announcement from Harbinger Capital Partners around their intention to build a wholesale 4G wireless network via a company called LightSquared. As recently announced, LightSquared expects their network to require 40,000 cell sites over the next five years. As the largest owner of sites in the Top 100 markets, Crown Castle looks forward to being a material participant in assisting LightSquared in accomplishing their ambitious deployment plan. This build out is similar in scale to Clearwire's proposed network plan which, as noted earlier, is approaching 50% completion and still proceeding very well. These new 4G network deployments, which are responsive to the mobile Internet demand we are witnessing, along with the ongoing activity from the incumbent carriers, add confidence to our long-term growth prospects.

As demand for data services continues unabated, network architecture is evolving. Increasingly, we believe that distributed antennae systems will be an important complement to traditional tower installations. As such, we are excited to have entered into an agreement to acquire NewPath Networks which we expect to close later this quarter. The acquisition of NewPath furthers our capabilities in DAS, enabling us to provide more wireless infrastructure for customers beyond those areas served by traditional towers, thereby augmenting our service offering in this growing market. Like the tower business, the DAS business is a shared infrastructure model and is an important element of the network architecture going forward as carriers work to satisfy both coverage and capacity challenges that have become more acute with the growth and dependency on data services we have all come to expect.

NewPath is a leading provider of DAS networks with a strong reputation and demonstrated leadership in the market, and we look forward to them joining the Crown team. Similar to our existing customer base, NewPath has a high concentration of revenues from the leading wireless carriers with 75% of their revenues coming from the top four wireless carriers. Following the acquisition of NewPath, we will have 44 DAS networks in operation or under construction. Based on existing and contracted networks under construction, we expect the acquisition of NewPath to be short and long-term accretive to our financial results.

So to wrap up, I'd like to reiterate a few points that we've made this morning. We're obviously very pleased with our results and believe they demonstrate the quality of our assets combined with our ability to execute for customers. As always, we remain disciplined and focused on maximizing long-term recurring cash flow per share through opportunistic investments. These investments can take the form of share purchases, land purchases, tower acquisitions, and obviously now DAS networks.

Lastly, on a macro level, we are very excited about the trends we are seeing in wireless and our position to capture value from them. We have the most towers in the Top 100 U.S. markets and the highest level of customer service. We are focused on the U.S. market where the ability of the wireless carriers to make profitable investments is most apparent and barriers to entry remain high. We've had a great first half of the year, and we expect an even better second half as reflected in our increase in outlook for the balance of 2010.

With that, Operator, we're pleased to turn the call over for questions.

Operator: Our first question comes from the line of Brett Feldman with Deutsche Bank. Please go ahead.

Brett Feldman: Thanks for taking the question and thanks for all the color there. I was hoping we could talk a little bit more about your outlook for the second half of the year. You obviously are expecting an increase in leasing activity. Is there any way we can quantify that. For example, is there anything that you can say about your backlog or the pace of commenced leases to help us get a better understanding of what's really behind that improved revenue guidance?

Jay Brown: Sure, Brett. Happy to take that question. As we look at the first half of the year, I think we had talked about on our prior calls that we thought the year was going to be sort of 40/60. It looks like it's probably going to be closer to one-third/two-thirds. So, about two-thirds of the activity we would expect for the full year will be in the second half. And I think Ben's comments around what we're seeing with both LTE and 4G launches are really driving a lot of that activity. The carriers made a lot of comments, obviously, in the first quarter call about what they were spending their capital on in the first half of the year. A lot of those things, be it back haul, fiber back haul and a few other things that they mentioned, really don't necessarily drive a lot of leasing activity on our assets and what we're both seeing and expecting would suggest a pick-up in the activity that we saw in the first half going into the second half of the year.

Brett Feldman: And based on the type of projects you just talked about, is this mostly amendment related or are you also seeing an increase in new full site deployments?

Ben Moreland: It's both, Brett. This is Ben. We're seeing, obviously, a lot of amendments. As we've talked about on prior calls there has been a mix shift in the business gradually over the last two years where we're seeing a lot of amendment activity around data upgrades, whether it'd be 3G, legacy networks or 4G LTE applications. So, the proportion of that has increased but that's not really to diminish the new activity we're seeing as well, so a fairly good cross section of new activity. Obviously, when Clearwire's building out the markets that they're building out, you should expect that we're seeing a lot of Clearwire activity as we've talked about in the past. We'd expect that to continue for the next few years. As we mentioned, they're about 50% through their at least stated objectives. And then as we mentioned, won't really be at any significant financial contribution this year, but we are certainly, I guess, heartened to see the plans from LightSquared and would expect to participate in that materially.

Brett Feldman: And to the extent you've seen these 4G amendments, are they sort of living up to your expectations in terms of the increase in the size of the monthly lease? I think for 3G, you saw maybe a 25 to 35% increase in the lease rate when an upgrade was there. Is that still the ballpark for a 4G upgrade?

Jay Brown: Actually, as we've talked about before, 4G amendments because of the configuration, on average are running lower than your original 3G upgrade. So, I think that's pretty well true across the industry that the configurations are just typically lighter and so the upgrade is less, and so without getting into real specifics, as we've talked about several times, the 4G upgrade is less than your typical initial 3G upgrade. But you sort of make it up in volume because we're doing a lot of them.

Ben Moreland: I think, Brett, one of the other things that we've talked to folks about is that if you look historically, we're probably seeing more activity with regards to 4G amendments and upgrades ahead of actually a product being available to consumers, and it's very difficult for us to know what is it going to look like once it gets launched and you actually have consumer demand on the devices. For us to see this level of amendments, both in terms of the number of sites being touched and the amount of equipment being added long before any of this is really commercially available to consumer, is not usual. So while the initial licenses and amendments are a little less than what we've seen in 3G, most of the 3G activity, frankly, was more commensurate with when devices were available. So, we'll have to see how the product develops and what the usage is like and then watch as the carriers make adjustments as necessary once it gets out into the market.

Brett Feldman: That's great color. Thanks a lot.

Jay Brown: You bet.

Operator: Thank you. And our next question comes from the line of Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss: Thanks. Good morning guys.

Ben Moreland: Hi Ric.

Jay Brown: Morning, Ric.

Ric Prentiss: I want to hit two areas, maybe. First on the distributed antennae system, DAS, can you give us a thought about how big that piece of the business could become? It seems like a niche but a pretty interesting fast-growing niche. So how big for the tower industry in general and how big for you should we think of that becoming?

Ben Moreland: Ric, the answer is I don't know. I'm very intrigued and pleased with what I've seen both in terms of activity on our own account and then, obviously, what the NewPath team brings to the table and the engagements that they have secured over the last few years and the activity level that's just, I think, generally picking up. And as I mentioned in my remarks, I think that's largely a result of all of our demand for data services that work in every little nook and cranny where towers can't necessarily reach, or not sufficiently reach. And so a little bit of a change in the architecture is you may think you've got adequate voice coverage in a location which is true served via a traditional tower network, but when you try to load that up with devices and data demand, it's clearly insufficient. And so, we're seeing areas that are DAS opportunities that maybe previously you wouldn't have seen before under a different demand profile for the network.

So, how big it can be? I don't know. We certainly will invest going forward as we see appropriate opportunities, and we have high expectations that there will be continued opportunities out there in the market. It will almost certainly always be a reasonably small component of our business, just given the size of the run rate of the tower business today. It's just going to be. If it turned out to be a $50 million a year EBITDA business, that would be tremendous and we believe create value in that regard, but again, 50 million would be less than 5% of the total of the Company. That certainly doesn't diminish our enthusiasm though to making incremental investments that create value for the Company and provide a sort of a solution provider element for customers as they see opportunities in these markets, and we are certainly well equipped to not only secure the networks, build them out, but then maintain them and operate them with the expertise we have, as well as what NewPath will bring. And then our distributed offices around the country, and we've got district offices out there basically around our tower footprint, which is extensive, and so we're pretty well set up to maintain and operate these systems and then further add to them over time in the coming years.

Ric Prentiss: Sure. I appreciate the color that it's not in your guidance, because I was wondering that. I didn't notice it in the footnotes last night, so it's not in your 2010 guidance. Can you give us a thought about, assuming it does close end of September, what might be coming into fourth quarter? Is it something, a couple million? Five million on the revenue EBITDA guideline? I'm just trying to gauge roughly what we're looking for.

Jay Brown: Well, given that you'd only have one quarter, it's not going to be that significant relative to a year where we do over a 1.1 billion of EBITDA. So it'll come in the third and fourth quarter and it'll be a few million dollars. I think it's important, let me give everyone a little more color around the NewPath investment and the way to think about it. The NewPath investment of the $115 million at closing and then obviously we will be on board for capital spending for the continuation of their build plan of networks that are under construction and our own for that matter. The NewPath investment stands on its own based on existing networks on the air and contracted networks under construction. So in a very draconian view, which we certainly don't subscribe to, if that's all there ever was, the investment stands on its own. And yet, we see a tremendous opportunity and have high expectations for further investment and further engagements on new networks that obviously add value to that platform. But the way we underwrote it, for obvious reasons because as we think about allocating capital, we always look at sort of the opportunity cost of that dollar and what else we could have done with it. The existing book of business at NewPath results in the investment standing on its own.

Ric Prentiss: And then on LightSquared, we've been hearing that they've released 500 sites search ring in the Baltimore, D.C. area. I think they've got, I think Denver and Phoenix are their initial market launches in mid '11, and then it looks like Vegas and Baltimore, D.C. by end of '11. How much demand are you seeing from them already in the application process, and have you learned enough yet from them about what kind of back-haul they going to use. Because Clearwire obviously was using microwave back-haul, any sense of what LightSquared is thinking of from the standpoint of any of your leasing?

Ben Moreland: Yes, Ric, I'm just really not going to get into any specifics around our discussions with LightSquared or what their build plan may be or their launch plan. It's obviously up to them to decide how to disclose that to the Street. We all saw their press release recently and we were clearly gratified to see them with the public statements they've made out there, but beyond that I'm just not comfortable really describing any more detail in their build plan or back-haul plan or what our potential market share penetration of that would be frankly, until there's more out there publicly from the customer, from the company, and until we get further into this down the road.

Ric Prentiss: It's just GFT – Good For Towers, though..

Jay Brown: Okay.

Ric Prentiss: Thanks.

Jay Brown: You bet.

Ben Moreland: Thanks Ric.

Operator: Thank you. And our next question comes from the line of Jason Armstrong with Goldman Sachs. Please go ahead.

Jason Armstrong: Hey thanks. Good morning. No new acronyms for you guys, but on the current debt deal, you've got a great runway on the maturity side at this point. Now Ben, I wonder, stepping back, can you help us think though how this frees you up in terms of thinking differently about the business? And in some respects you've been a little bit restrained over the last couple of years. In your mind, is having this behind you sort of allow you to be more aggressive either on the deal side or share repurchase activity? Just how that shapes the thought process. And then maybe just a second question on land purchases. They obviously accelerated in the quarter. How should we think about the outlook from here? Is that something that continues to accelerate? Thanks.

Ben Moreland: Sure Jason. Let me take the opportunity to acknowledge Jay and the whole finance team. As he ran through quickly in his comments, if this financing gets done, and we certainly think it will, we will have refinanced the entire balance sheet, over $6 billion, appropriately laddered out, level loaded out the maturity schedule, as you would think is appropriate, out as long as 10 years, and one of them, one little piece out 20 years with over $6 billion refinanced in six quarters. So it is in our view, a fantastic accomplishment. It speaks to the quality of our ability to navigate and operate through the securitization market. Obviously it would have been much easier to just sort of rip off high-yield deals overnight, but we saved ourselves significant amounts of money and coupon by being diligent and working through the securitization process which is, as most of you know, a much more difficult process to go through but it's something that we've become quite good at and I think it's, frankly, sort of a competency in the organization today.

You're absolutely right, having completed, knock wood, this last financing and completed the entire refinancing of the balance sheet and laddered it out properly with an average coupon all-in in the vicinity of 6% with that maturity schedule, in my mind, frees us up significantly in terms of flexibility. And given all of our experiences in the fourth quarter of 2008, when we saw credit markets evaporate, we all have become appropriately more conservative in how you think about the availability of credit markets and can you in fact refinance debt when it's due. With this last financing, that'll be completely behind us for an extended period of time. In fact, the maturity schedule, pretty much you could almost use cash flow now in any given year. So I would say that yes, as a management team, we will feel a big sigh of relief, have much more flexibility going forward.

Also, if you noticed, this financing that's out there today has some excess proceeds in it which will go a long way towards satisfying the swap liability coming up in February of '11, so that as well will create some headroom in terms of liquidity freeing up. So your observation is spot-on. We will feel like we have a lot more flexibility and intend to use it.

And those of you that sort of noticed this behavior this quarter, where we didn't buy a lot of stock but we contracted to spend 115 million on NewPath, you can rightfully assume that we made the diligent call after an appropriate amount of evaluation; that we wanted to put that capital to work in NewPath and thereby not purchase shares in this particular quarter, and that's consistent with our behavior we've discussed over time where we'll constantly weigh the opportunities. But you should not read into that that we're not a buyer of the stock; it's just that opportunity was there. We needed to sort of save some cash for that. Now that this financing gets done, I think you'll see us feel significantly freed up and behave accordingly.

And the last on land leases—

Jay Brown: Yes, Jason, on your second question, we've done 8,600 deals to date which means we've touched nearly 40% of our sites in the U.S. And I would characterize this as the majority of the activity still to come is really opportunistic, and both opportunistic in terms of our ability to deploy capital and then get operating provisions in our leases that maybe make it easier for us to add tenants down the road. I think for the full year this year we'll probably end up spending somewhere in the neighborhood of 130 to $140 million on our land purchase program, and then going into next year I would expect that that will be up next year, potentially in the neighborhood of 180 to $200 million as we've ramped back up our activity in the amount of land purchases. We had over the last year or so, when we had pulled back on capex, focused most of our effort on just doing lease extensions, and now that we've fixed the balance sheet I would expect that we'll hopefully find some opportunities to deploy a little bit more capital along those lines.

You know, one thing that may be helpful, just expanding on some of the comments that I made earlier about the land purchase program, is that it's not necessarily margin-enhancing for us to be buying these properties. As we look back over these 8,600 transactions that we've done, the combination of the impact to the P&L and site rental operating expense as we extend the land lease and therefore have a greater amount of land lease expense, a little bit more in cash but certainly more in the straight-line impact of doing those transactions, that almost entirely offsets the reduction in rent that we see in the P&L from buying back the ground leases. So it's almost neutral to the income statement but certainly gives us much greater control and predictability of the expense long-term, as well as protecting the existing margins that are there today. So hopefully that helps as you think about how to model it. I would give you a similar guidance for the go-forward but I wouldn't necessarily expect that the activity results in a reduction of rent as much as it does keep the amount of expense relatively stable.

Ben Moreland: And by the end of this year, Jay, we will have spent about 500 million sort of life-to-date on this program for which you're not seeing a P&L benefit directly. Obviously, there's tremendous benefit in the portfolio composition, as you ran through in your remarks in terms of the average maturity, number of sites that we control, and as a percentage of our gross margin. Huge movement out to the right on that, but there's no direct financial P&L benefit from that approximately $500 million we spent like today.

Jason Armstrong: That's helpful detail. Thank you both.

Ben Moreland: Okay.

Operator: Thank you. Our next question comes from the line of Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery: Good morning. You've obviously done the DAS deal with NewPath. Can you talk about the M&A environment as it currently stands for domestic towers? I think you've generally been fairly quiet thinking the multiples are up there. Are there any changes—anything that you see you might like? And then there's been a lot of talk about REIT conversion in the tower space. Can you just update us on your thoughts about that and your thoughts on timing? Thanks.

Ben Moreland: Sure, Simon. On the M&A market, we see some things out there that we like and there's a lot for sale, and some of them are very expensive and some of them are, we think, appropriate in sort of the range where they're looking for. Sometimes the challenge goes to the fact that we, with a fairly mature tower portfolio with an obvious trading multiple range, become challenged—sort of get stopped out on multiples where you may have a seller who has a very high-quality portfolio of sites that may have 50% of the revenue that we have on our typical site, and so you might convince yourself from an appropriate return perspective, the sites are actually worth a higher multiple but obviously a lot less per tower than our current trading multiple. And therein lies the challenge because notwithstanding the prospective return on that investment, it becomes very challenging—and we've been very vocal about this—very challenging to do something that's immediately dilutive, and trust me, you'll like it in three or four years. That's just a very hard proposition given even the history that we've all sort of lived through. And obviously there's a certain amount of that we may tolerate but very little because our objectives are to continue to grow recurring cash flow per share as much as we possibly can. Obviously, this year's guidance, as we've just updated it, is 17%. We've got some work left to do this year. The year isn't over, and I hope we do better than that and maybe even approach 20%, but that's just sort of a pet project around here.

So the market, I'd say there are some things we see, some things we like, probably some things we're going to do, but it's the challenge with weighing that opportunity against sort of the current trading value of where we are; and notwithstanding the fact that you may be using some cash or you may be using debt, we don't think about it that way. We think about it as a legitimate, sort of all-in cost of capital evaluation and we'll continue to make our best judgment on where those opportunities are, how you create additional value, and always contrast that with just buying our own stock. And that's the way we're going to continue to behave.

Jay Brown: Simon, on your second question related to REIT conversion, our current projections would suggest that we won't burn off our NOL until 2016 or beyond that date, so as we think about REIT conversion which is really a tax-planning opportunity so that we minimize the amount of leakage of cash flow in the business and don't end up in a double taxation position between ourselves and the investor, it looks like that REIT conversion and the planning for that is probably 2016 and beyond. I think I would make an important point here, if ultimately we determined for any multitude of reasons that paying a dividend was beneficial ultimately to the value of the shares, we could do that earlier and the benefit of that NOL would stay in place and any dividends that we did between now and that REIT conversion date, at least under current tax provisions, would be taxed as a C-corp dividend which would be much below ordinary income dividends, which would be the case if we were to convert to a REIT and then pay out dividends as a REIT. So I think there's some benefit to the tail here on our NOL but wouldn't expect absolute REIT conversion probably until that NOL position either runs out or nears its end, and we're five or six years at least away from that.

Simon Flannery: Is the dividend something that is near-term or is that more two or three years?

Jay Brown: Yes, I think the steady payment of the dividend, we're probably still some period of time away. As we think about it, it's really an allocation of capital and we think primarily, as you've heard us articulate for a long period of time and Ben's comments earlier about how we think about whether it's DAS or tower purchases or tower builds or buy-back of shares, we're trying to allocate the capital in a way that we believe maximizes recurring cash flow per share. So it doesn't look in the short term like that's going to be something we're going to want to do, but we'll continue to watch it and evaluate it based on all of the factors in front of us.

Ben Moreland: I think long term, as we said before, I think long term the REIT designation for the tower business is very positive. I think it's a terrific long-term structure to return a significant amount of the total returns in the form of a predictable dividend and so I look forward to that day. Prior to that, I think we would have to see something very compelling to pay a dividend as a C-corp and have 20%, if that's what ultimately happens with C-corp dividends, 20% tax leakage between us and our shareholders; whereas we could have taken that capital, that free cash flow and just bought shares and deferred that tax until ultimately it's a single taxation in a REIT structure. So again, as Jay says, we'll watch it very carefully. Certainly don't have any quarrel at all with the REIT model, in fact welcome it but for us I think we're still a few years out.

Simon Flannery: Thanks very much.

Operator: Thank you. Our next question comes from the line of David Barden with Bank of America Merrill Lynch. Please go ahead.

David Barden: Hey guys. Thanks for taking the questions. Just two, maybe. First, and I'm sorry if I didn't pick up on this, but just with respect with NewPath, could you kind of outline how did you find these guys and if more companies like them were out there, which there presumably are, and were for sale at these kinds of valuations, are you prepared to exercise some kind of DAS rollup of all these private providers or is this kind of a one-off? And I guess the second question would be, maybe Ben, you've probably been following this. The Congress and the Senate seem increasingly creating a consensus that maybe auctioning off the 7 Megahertz D-block is not their preferred option, and rather they seem to be creating some momentum behind carving out funding and creating the opportunity for public safety to build their own network, which would be an incremental network opportunity for the tower sector, and guys like T-Mobile and others would have to find other opportunities. But have you kind of gotten any sense—or maybe I'd love to see—hear your color on what you think the prospects are for a public safety network being an incremental opportunity. Thanks.

Ben Moreland: Okay. Thanks David. First of all on NewPath, we've known NewPath since inception. In fact, the founder—one of the two founders of NewPath is a former Crown employee, and so we've stayed close to them, been sort of admirers of what they have done as a competitor, because we've been competing with them for several years, and really liked the entrepreneurial spirit and the way at which they have built their business and, frankly, the concentration or amount of business they have secured from big four wireless carriers which is obviously a real feather in their cap and credibility in our eyes in terms of how they've operated and conducted themselves and think that they will fit very, very well with our team. And we're well along the way of an integration plan, as you can imagine, and I think they'll roll right in and really become the real nucleus of our DAS team where we will contribute both our existing networks and employee base that we have working there as a combined team. We're very optimistic.

So for planning purposes right now, David, I guess we would always take a capital allocation approach to looking at anything that was on the market, but we're going to be pretty pleased with this platform and the track record that both our team and their team bring together, I think, makes us pretty formidable competitors in this market. And the real opportunity is on the growth and further investment in getting engaged on new networks. And so while I'd never say never, if there were something else out there available, we'd certainly look at it. This is certainly going to be our platform for the go-forward.

On the D-block, yes, I've been reading the same things with sort of I guess cautious optimism that you could see a new network requirement come out of the public safety discussion. I wouldn't have probably any more developed opinion than many on this call, given that we've seen the public safety initiative stop and start and be on and off again, and it's become very difficult to sort of rely on that for planning purposes for our Company. I think we certainly all can acknowledge the need for a common platform around public safety, and it looks like there's some thoughts coalescing around that, and we would certainly do whatever we could to facilitate that and be a strong partner however that gets built out. But I would certainly not say it's in our current planning horizon.

David Barden: Okay, great. Thanks.

Ben Moreland: Yes.

Operator: Thank you. Our next question comes from the line of Jonathan Atkin with RBC Capital Markets. Please go ahead.

Jonathan Atkin: Yes. I was curious about the services business and what drove the revenue and cash flow trend. It seems a little higher than prior quarters. And then on revenue-enhancing capex on existing sites, is that something that you expect to trend fairly flat going forward or is there any reason that would go up or down?

Ben Moreland: Okay. Yes, hi John. On the services business, I'll just tell you that we are continuing to increase our take rate up materially, I might even say dramatically, over the last two years, and that is a direct credit to the folks that are running that business for us and the folks that are executing that business in the field, dealing with our customers on a daily basis not only on new installations, which have been more the traditional sort of bread and butter of that, over time; but we're doing a lot of work on amendment activity as well. And I mentioned briefly in my remarks expanding the scope, and so we're even doing some site ac and zoning work for folks, really managing the whole front-end of their application process on our sites all the way to completion. And so real credit to our team in that, while I'd like to tell you—I'd love to tell you that all the volume increase from the services is because of all the new leasing activity we're seeing, that would not be quite accurate. It's really because of the take rate in terms of the percentage of time, when somebody's touching our site, that we're actually engaged to manage that process, that installation process for them has increased dramatically. And again, that's just a credit to our team and the way we operate with customers.

On the revenue enhancing front, we are seeing that pleasantly trend down and I'm kind of optimistic that we continue to get better at how we're spending capital to enhance sites, making very smart business decisions every single time around, where are you enhancing sites and to what extent, as well as I think this is not—I can't prove this, but we believe we're seeing the trend where we've taken a couple of passes through the portfolio generally on making improvements and feel like we're probably over the hump on improvements. And so we've got some capacity in the portfolio that we're able to benefit from now as we see applications come through. So I would not expect it to tick up and I've been pleasantly surprised to see that looks like 2010 is going to be less than 2009, and maybe that continues.

Jonathan Atkin: Thank you. And then on carrier portfolios, I'm wondering if you're finding that they're becoming more competitive with kind of stand-alone tower companies from the leasing attractiveness standpoint, and do you think there may be any asset sales over the next several quarters?

Ben Moreland: I think there will be. I think there's some out there that are under consideration, and obviously we'll stay close to those situations, and I won't mention any by name. I am certainly aware that as any prudent owner of a tower portfolio would do, they are out there. Carrier towers, for the most part, are out there actively being marketed for co-location opportunities and that's completely appropriate, and we would compete at that level. So I certainly don't suggest anything otherwise and I think we'll see probably some asset sales here in the next sort of medium term. But that's just speculation at this point.

Jonathan Atkin: Sure. And then on LightSquared, without getting into any kind of quantitative detail, do you expect that you would be signing leases this year?

Ben Moreland: We certainly hope so. That's sort of the plan we're working under, but beyond that, and again, I don't think it would have really any material impact this year, we'll just wait and see how they further describe their deployment plans to the public going forward.

Jonathan Atkin: Thank you very much.

Operator: Our next question comes from the line of James Ratcliffe with sponsored links Barclays Capital. Please go ahead.

James Ratcliffe: Barclays Capital, hi. Guess our links are sponsored; I don't know. Morning guys. Thanks for taking the question. So why the talk, AT&T in particular has been talking a good bit about expanding of their WiFi coverage with, you know, WiFi zones in heavy usage areas in major cities and the like, and I'm wondering how if that's an opportunity for you in terms of infrastructure and actually in terms of WiFi antennas on towers, and just how much exposure you have to sort of dense urban environments like that versus more suburban/rural environments?

Ben Moreland: Yes, I would say—to the WiFi question, is the way I think about it is, there's going to be offloading technologies. There already are. Those of us with iPads are on WiFi a lot with them. So there's going to be offloading technologies that augment the capacity of these wireless networks from now on, and I think over time we'll have an increasing role in satisfying all of our desire to be untethered and have robust high-speed wireless access. But there's a limitation on what that ultimately can do, whether you're sitting in a restaurant or an airport, and so you sort of go from there—really almost sort of in the continuum, in my mind, you go from there to a DAS network which is outside, connected directly to fiber, so high-speed, reasonably close proximity to the antennas, potentially in a residential area or a venue. And so it really starts with a continuum of what the architecture looks like so you're sitting in your house, roaming on your own internal WiFi system or in a public location, and then you sort of get outside of that and you need a hand-off capability—mobile capability, and maybe that takes you into a DAS network. Then you get out onto a more major artery where you have a lot more traffic and a lot more loading of the system and that rolls you into the sort of traditional terrestrial tower network. And so as we've studied this more and more, I've gotten very comfortable that it takes really all of these types of architectures to deliver the enormous amount of bandwidth and capacity that we're all requiring. And it really looks a lot like the Internet adoption curve, and I think there was some pretty interesting industry data out recently where, I think, it's unlikely that the wireless spectrum and the wireless networksthat are built around that spectrum will be able to satisfy all of our demands for wireless services. And so it's really going to take all of that working together, and that's why we got comfortable that DAS is not, by any means in our view a threat to the tower network, it's merely complementary. And then I would say the very same thing about WiFi nodes and ultimately even femtocells if you want to go down that path. I think it really takes all those types of network architectures deployed to try to keep up with what we currently see and what we can expect to see in the future.

Jay Brown: All right? Have time for one more?

Ben Moreland: Yes, let's do one more.

Operator: Thank you. Your next question comes from the line of Jonathan Schildkraut with Evercore. Please go ahead.

Jonathan Schildkraut: Thanks for squeezing me in, guys. Actually it's Jonathan Schildkraut. Just two quick questions here as most of it have been asked and answered. First, in terms of the bond offering that you have out there, previously you've indicated your goals were kind of investment-grade. I'm wondering what your expectations are? And then secondly if you could just refresh us on your kind of view into some of the international opportunities we're now seeing. Both of your kind of larger peers move into Latin America. Thank you.

Jay Brown: Jonathan, on the first question I'm just going to have to ask you to wait until we issue a subsequent press release. I really can't talk about the offering that we have in the market currently but as I spoke about, we believe we'll be successful there and hopefully once we are, we'll put out a press release and give you all the details and be happy to answer any specific questions about it once its done.

Ben Moreland: Historically, the securitizations have been investment-grade.

Jay Brown: Yes, historically they've been rated investment grade.

Ben Moreland: In terms of international opportunities, Jonathan, we continue to look and study and see opportunities that are out there in the marketplace and as yet have not found something that we've been prepared to pursue aggressively enough to win in an auction, if you will. That doesn't mean we won't in the future, so I'm not going to foreclose the opportunity. And as you know, we have our business in Australia so we have a view in an international market today. But I would say that we are very focused on the opportunity we see in the States. From our perspective, it is the fastest growing wireless market in the world, and it's not something you could have said a few years ago. We are, I think, in the U.S., probably among the leaders if not the leader in terms of wireless technology today and where we're headed. The amount of investment that's being deployed in these networks and the incremental returns that the carriers are able to command from those investments, in my mind, make the U.S. market somewhat unique because that's clearly not the case in some other markets that we have looked at. So I will not foreclose the opportunity. We'll continue to remain educated and aware of what's going on, but as we sit here today we are quite enthusiastic about what we see in the U.S. market and the opportunity before us, and that is likely where most of our effort continues to be focused.

Jonathan Schildkraut: Great. And if I could just ask one, Ben, during your prepared comments, you talked a little bit about the 4G rollouts relative to kind of what you had seen with some of the 3G activity and that with 4G, this activity was kind of coming in front of maybe some of the devices and the consumer demand. And I think what we saw, at least with 3G, is we saw initial overlay and then kind of a lot of backfilling which, you know, has been the incremental demand that's benefited the industry. With the 4G build-outs, are you anticipating the same type of activity or were you trying to indicate that maybe with the initial rollouts, carriers were going a little bit deeper in terms of their initial overlays?

Ben Moreland: Yes, no. Thanks for the question—clarification. We see exactly the pattern we've seen before where you have a network rollout and then you have significant backfill or augmentation going through a market as they pick up additional sites commensurate with adding subscribers to the network. We're absolutely seeing that already with some of those markets that have been launched, and we would expect that to be a significant component going forward. And if you think about it from the carriers' perspective as they roll out, that's a very efficient thing to do because obviously you're trying to spread your marketing and your customer acquisition dollar, and so to go back and augment and add to a market that's already on the air is a very efficient thing to do and a very significant component of what I think will be the next few years of 4G lease-up. And if you get out on some of the websites and look at the coverage maps out there, I think you can see exactly what we're referring to. There's a long way to go in the markets that have already been deployed.

Jonathan Schildkraut: All right. Thank you very much for taking the questions.

Ben Moreland: You bet. With that—

Jay Brown: Yes, I think we're right at an hour end, so maybe we'll end the call there. I apologize. I realize we only got to about half of the folks in the queue here with questions this morning, so Ben, myself, Fiona, we're in the office today and if you'd like to give us a ring, we'll try to get back to you as soon as we can. Appreciate you joining us this morning on the call and look forward to talking to you on the third quarter call.

Ben Moreland: Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes the Q2 2010 Earnings Conference Call. If you'd like to listen to a replay of today's conference, please dial 303-590-3030 or 1-800-406-7325 followed by a passcode of 4329036. ACT would like to thank you for your participation. You may now disconnect.

END