CROWN CASTLE INTERNATIONAL, #4455448
CROWN CASTLE INTERNATIONAL – Q2 EARNINGS CALL
July 28, 2011, 9:30 AM CT
Chairperson: Jay Brown (Mgmt.)

Operator: Good morning ladies and gentlemen. Thank you so much for standing by. Welcome to the Crown Castle International Second Quarter Earnings Call. During today's conference, all parties will be in a listen-only mode, and 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, July 28, 2011.

I would now like to turn the conference over to Fiona McKone, Vice-President of Finance and Investor Relations. Please go ahead.

Fiona McKone: Thank you. Good morning, everyone, and thank you all for joining us as we review our second quarter 2011 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 Investor 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 the expectations will prove to have been correct, because 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 Factor section 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 of today, July 28, 2011, 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 Investor section of the Company's website at crowncastle.com.

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

Jay Brown: Thanks, Fiona, and good morning, everyone. As you've seen from our press release, and as outlined on slide 3, we had an excellent second quarter and are excited about the ongoing deployment of wireless data network. The strong year-to-date results and our expectations for the second half of the year allow us to meaningfully increase our outlook for site rental revenue, site rental gross margin, adjusted EBITDA, and recurring cash flow outlook for the full year 2011. Also, since the end of the first quarter, we have invested over $180 million in purchasing our common shares, which we believe will enhance long-term recurring cash flow per share.

Turning to slide 4, I'd like to highlight a few items from the second quarter.

During the second quarter, we generated site rental revenue of $457 million, up 12% from the second quarter of 2010. Site rental gross margin, defined as site rental revenues, less cost of operations, was $336 million, up 14% from the second quarter of 2010. Adjusted EBITDA for the second quarter of 2011 was $320 million, up 14% from the second quarter of 2010, with an incremental margin of 90%, reflecting our continued focus on managing our costs.

Recurring cash flows, defined as adjusted EBITDA, less interest expense, less sustaining capital expenditures, was $189 million, up 22% from the second quarter of 2010, and recurring cash flow per share was $0.66, also up 22% from the second quarter of 2010.

It is important to note that these growth rates were achieved almost entirely through organic growth on assets we owned as of April 1, 2010, as growth from acquisitions was negligible.

Site rental revenue and adjusted EBITDA benefited by $1.6 million and $1 million, respectively, from a stronger than expected Australian dollar during the second quarter. Further, there were no significant non-recurring items in the second quarter.

Turning to investments and liquidity, as shown on slide 6. During the second quarter, we purchased approximately 3.6 million of our common shares and an additional 700,000 shares in July. Year to date, we have spent $220 million to purchase our common shares. Since 2003, we have spent $2.6 billion to purchase approximately 98 million of our common shares and potential shares, representing a third of the Company's shares and potential shares, at an average price of $26.50 per share. Further, in July, we used $6 million of cash to purchase a portion of our 6.25% preferred shares.

Also, during the second quarter, we spent $64 million on capital expenditures. These capital expenditures include $30 million on our land-lease purchase program. As of today, we own or control for more than 20 years the land beneath our towers, representing approximately 73% of our US gross margin, up from less than 40% in January 2007, when we completed our acquisition of Global Signal. Further, the average term remaining on our ground leases is approximately 34 years.

We continue to focus a significant amount of effort on purchasing land beneath our towers and extending our ground leases. We believe this activity has resulted in the most secure land position in the industry, based on land ownership and final ground lease expiration. This is an important effort because it provides a long-term benefit as it protects our margins and controls our largest operating expense. During 2011, we expect to close approximately 1700 land transactions. Based on our pipeline of deals, we would expect about a third of these transactions to be purchases. I believe our current level of spend on this activity is likely to continue for the foreseeable future.

Of the remaining capital expenditures, we spent $5 million on sustaining capital expenditures in the quarter and $29 million on revenue generating capital expenditures, the latter consisting of $19 million on existing sites and $10 million on the construction of new sites, including distributed antenna system deployments.

Additionally, during the second quarter, we increased our revolving credit facility by $50 million to $450 million, of which $220 million is currently drawn. We ended the second quarter of 2011 with total net debt to last quarter annualized adjusted EBITDA, of 5.3 times, the lowest in the Company's history, with no meaningful maturities in the next three years, and adjusted EBITDA to cash interest expense of 3.2 times.

Moving to the outlook for the third quarter and full year 2011, as shown on slides 7 and 8, we expect site rental revenue of between $461 million and $466 million, and adjusted EBITDA of between $319 million and $324 million for the third quarter of 2011.

Turning to the full year 2011 Outlook, based on our first half results and our visibility into near-term leasing activity, we have meaningfully increased our full year 2011 Outlook from what we provided in April, increasing site rental revenue by $20 million, site rental gross margin by $17 million, adjusted EBITDA by $28 million, and recurring cash flow by $27 million. This increase in our Outlook for adjusted EBITDA is driven largely by increasing our expectations for leasing activity by approximately 15 to 20% for the balance of the year; secondly, higher run rate site rental revenues as we exited the second quarter; third, increasing our expectation of the contribution from our services business of approximately $8 million for the full year; and, finally, the expected benefit of favorable foreign exchange rate in our Australia business, from our previous Outlook. We now expect site rental revenue growth in 2011 of approximately 9%, comprised of approximately 4% growth in the existing base of business and 5% growth from expected additional tenant equipment to be added to our sites, and recurring cash flow growth of 15% year-over-year.

As shown on slide 9, we expect to generate approximately $380 million of recurring cash flow for the balance of the year and spend approximately $160 million on capital expenditures related to the purchases of land beneath our towers, the addition of tenants to our towers and the construction of new sites, including distributed antenna systems. The remaining portion of the recurring cash flow, ignoring our financing capacity, represents approximately $220 million of cash flow for the balance of 2011 that we could invest in activities related to our core business, including reducing common shares outstanding and acquisitions.

Consistent with our past practice, our 2011 Outlook does not include the benefit from expected future investment, such as share purchases, tower acquisitions, new site construction and land purchases, that we believe will maximize long-term recurring cash flow, which we believe is the best long-term measure of shareholder value creation.

In summary, we had an excellent second quarter as we continued to execute around our core business. With that, I'm happy to turn the call over to Ben.

Ben Moreland: Thanks, Jay, and thank you all for joining our call this morning. As Jay just mentioned, we had an excellent second quarter, exceeding the high end of our Outlook for site rental revenue, site rental gross margin, adjusted EBITDA and recurring cash flow, which, together with our expectations for the second half of the year, allowed us to significantly increase guidance for the full year 2011.

AT&T and Verizon continue their aggressive roll-out of LTE, and, as Sprint announced yesterday, we are very pleased to be partnering with them as they deploy their multi-year Network Vision plans. As you might have seen, Sprint announced a spectrum hosting agreement with LightSquared this morning. Crown Castle has amended our contracts with Sprint to include provisions which would allow Sprint to host the LightSquared spectrum on their new Network Vision equipment for an adjustment in rent. As the largest single provider of sites to Sprint, we are well positioned to capture a greater share of the economics of this build relative to our peers. We are pleased to play a significant role in facilitating this efficient approach to network deployment that should improve the prospects for a successful launch while fairly compensating Crown Castle for its valuable assets. With all three of the largest US carriers actively engaged in network upgrades, we believe we are entering a period of increased revenue growth associated with these deployments. In addition, our services business continues to perform very well, demonstrating our ability to execute for customers and their willingness to give us an increasing amount of this work.

Consistent with our longstanding practice and approach to capital allocation, we invested over $180 million since April 1st in our own common stock, which, in our judgment, was the best investment available to us during this period.

Before I turn the call over to questions, I'd like to make a few comments about the trends in the wireless environment, from which we are benefiting. Smartphones continue to drive wireless data revenue, and, according to Neilson's May survey of mobile consumers in the US, 38% now own smartphones, compared to 23% at the end of 2009, and 55% of those who purchased a new handset in the last three months reported buying a smartphone instead of a feature phone, up from 34% just a year ago. In fact, smartphone penetration is expected to surpass 50% in 2012. Similarly, the amount of data the average smartphone user consumes per month has grown by 89%, from 230 megabytes in the first quarter of 2010 to 435 megabytes in the first quarter of 2011. A look at the distribution of data consumption is even more revealing. Data usage for the top 10% of smartphone users has doubled, while the top 1% has grown their usage by 2.5 times, from 1.8 gigabytes in the first quarter of 2010 to over 4.6 gigabytes in the first quarter of 2011. Consumers with iPhones and Android smartphones consumed the most data, 582 megabytes per month for the average Android user and 492 megabytes for the average iPhone user, with Android now ranking as the top operating system with 38% of US smartphone subscribers, while Apple has the number two position, with 27% of the smartphone market.

The continued penetration of smartphones and other data enabled devices, coupled with the ever increasing appetite and consumption of data, requires the carriers to increase the density of their network and upgrade their existing sites. This is a trend that has been ongoing for a number of years. As the largest owner of sites in the top 100 markets, we are benefiting from this trend, which is continuing unabated. The impact of the previous statistics is evident in the US wireless market, as data services grew 23% year-over-year to reach $15.4 billion in the first quarter of 2011. In fact, data revenues are expected to exceed voice revenues in the US market in 2013.

As can be seen in the wireless carriers' results, the demand for data services and resulting revenue and margin growth is yielding high incremental returns on capital investments required to provision more data capacity. We are clearly a beneficiary of this virtuous cycle of investment.

Looking out beyond the current deployment activity, there's a significant amount of spectrum available to be deployed in the hands of companies like Dish, Clearwire and LightSquared. We believe that this spectrum has the most value in the more densely populated areas, and having the largest portfolio of towers in the most populated areas in the US, we are uniquely positioned to facilitate the future deployment of this spectrum.

Before I wrap up, one quick comment on the Sprint press release that many of you have seen from yesterday. We are, obviously, thrilled with the relationship and the continuing partnership to assist them in building out their Network Vision plan. Some of you have asked about the specific financial terms of the contract and, as has been our practice, we won't comment beyond what Sprint put in their release yesterday. However, I would say this contract establishes the price and the process by which they can access our sites but gives us no certainty of future amendment activity.

So, to wrap up, I'd like to reiterate a few points from this morning. We are very pleased with our results and believe they demonstrate the quality of our assets, combined with our ability to execute for our customers. As always, we remain disciplined and focused on maximizing long-term recurring cash flow per share through opportunistic investment, such as buying back our own common stock; and, at a macro level, we are incredibly excited about the trends we are seeing in wireless and our position to capture value from them. We are focused on the US market, because it is the largest market in the world, with revenues estimated to be $186 billion this year, and still growing 7% over last year. Further, smartphone penetration is only now approaching 40%, suggesting a long runway of profitable investment for wireless carriers and, by extension, additional demand for our sites in the coming years. We have the best located assets in the industry and significantly more towers in the top 100 markets than anyone else. Our customer surveys continue to indicate that Crown Castle delivers the highest level of customer satisfaction in the industry.

So, in closing, we had an excellent second quarter and look forward to finishing the year strong.

With that, Operator, I would like to turn the call over for questions.

Operator: Thank you, sir. We will now begin the question and answer session. As a reminder, 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, you'll need to lift the handset before making your selection.

Our first question comes from the line of Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery: Thank you very much. Good morning. Congrats on the results. Jay, a question on the balance sheet, strong free cash generation, you noted the leverage was down to 5.3, very impressive, and you've got a lot more cash flow coming the rest of the year. How are you thinking about your medium-term leverage target and the ability to maybe use some financing here to get a little bit more aggressive on the buyback, versus balancing kind of the REIT conversion down the road and having, you know, a conservative capital structure? Thank you.

Jay Brown: Sure. Thanks for the question, Simon. We haven't changed our target of thinking about the balance sheet in four to six times debt to adjusted EBITDA level, and we're approaching sort of the mid-point of that, which, as I've said in the past, I would expect on most days that's where we're going to operate the Company, in and around that level. As we've delevered, I think what we've done is created some opportunity for us to be opportunistic as maybe an acquisition or other opportunity comes along, and we wouldn't necessarily be opposed to seeing the leverage tick up for the right transaction. But, again, I think most of the time you're going see us operate the business in and around five times.

The second part of that question really leads to how much cash flow do we have available in the business. In a normal year, we're growing recurring cash flow, or adjusted EBITDA, if you want to think about it that way, in the neighborhood of $100 million per year. So, if we were to maintain in the neighborhood of fives turns leverage, that would give us the capacity of an additional $500 million of borrowing, in addition to the cash flow that we're producing in the business, in the neighborhood of $750 million. So, there's meaningful amounts of flexibility that we have at this current level of leverage.

The other part of your question is we think longer term about REIT conversion. Today, we have about $2 billion of net operating losses, and I would expect that we would exhaust those before converting to a REIT, and that would put us somewhere in the neighborhood of 2015 or 2016, before we would expect to make that REIT conversion, and I do think there is probably value at that point in time to having an investment grade credit rating once we're in the area of converting to a REIT, and that would suggest a leverage level that may be slightly below that five times target. So, we'll have to look at it over time and continue to manage the balance sheet appropriately, and I would indicate that we'll continue to do that with an appropriate level of flexibility, and I think that's really what I'm trying to point out by saying that we were down to the lowest level in the Company's history. I think we're at a place now where we do have some flexibility, maybe in past periods where we didn't have that flexibility.

Simon Flannery: Great. That's very helpful, thank you.

Operator: Thank you. Our next question comes from the line of Phil Cusick with JP Morgan. Please go ahead.

Phil Cusick: Hey, guys, thanks. I understand that you don't talk about customers, but can you give people a little bit of comfort that the network sharing deal sort of protects you for the long term; and give us an idea of where the pricing for that comes in versus the sort of regular amendment you would have gotten anyway with Sprint, because of their Network Vision plan, versus sort of a new tenant? Thank you.

Ben Moreland: Yes, Phil, I appreciate the question and why you would want to understand that, but here's the situation. We are very comfortable with the transaction that we've struck. As Sprint alluded to, we think it's fair for both sides. It provides a very efficient way for, in this example, LightSquared to be deployed across the Network Vision equipment, at the same time compensating us appropriately for the rights that they're going to gain by doing that.

I'm not going to go into really any of the economics, and if for no other reason—let me impress upon you one particular reason. I don't necessarily believe this is the last of these we'll see. We may see more opportunity with Sprint or we may see other opportunities to host other parties' spectrums across existing networks from others of our customers, and I just don't think it's in our interest, or, frankly, in our customers' interest, for us to be talking about the economics. We're very pleased with the transaction. It's implied in our guidance, both for the rest of this year, and then, obviously, as we look forward to next year, we'll roll it in as we see activity and make our judgment for next year and the years to come, but that's really where we're going to come out on that.

Phil Cusick: Maybe if I can press my luck a little bit and follow up on what you just said. Can we be assured that there's incremental revenue to be had for each additional entity that would be hosted?

Ben Moreland: Yes.

Phil Cusick: Great. Thank you.

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

James Ratcliffe: Good morning. Thanks for taking the question. Just two, if I could, quickly. Can you tell us if the new deal with Sprint, or for that matter LightSquared, is any part of the increase in the second half with your EBITDA guidance; and, secondly, regarding capital structure and the buybacks have accelerated significantly this quarter, any thoughts around a dividend, potentially, in advance of having to issue one as part of a REIT structure? Thanks.

Jay Brown: James, thanks for the question. With regards to your first question around the increase in our outlook, I think, as we talked about on the first quarter call, we didn't expect to see in calendar year 2011 much activity from Sprint. We thought that most of the Network Vision activity would be a really late 2011 event, potentially, not even see that until the beginning of 2012, and, as I've mentioned in my comments, we've increased the amount for activity of leasing that we would expect to see in the second half of this year by about 15 to 20%, and a big portion of that would be related to what we're seeing from Sprint. So, it absolutely is embedded in some of that, but, basically, all of it would be forward looking, based on the activity that they talked about this morning on their call, as well as the activity that we're seeing from the work that we're doing with them currently.

The second part of your question, in terms of accelerating a dividend ahead of the REIT conversion, I think we've been really clear over a long period of time that there's a certain level of capex that we would expect to spend in the business around the activities of adding additional tenants to the tower, as well as things like distributed antenna systems that we've done and the land purchase program, and beyond that, that excess cash flow, to the extent that there are not acquisitions for us to purchase, we would expect to return that capital to shareholders, and we've been committed to returning that capital to shareholders over a very long period of time. You can think about it as investing or having returned to shareholders $2.6 billion since 2003. So, I think that's an activity that we're committed to.

We do look carefully, and have looked carefully over a long period of time, at the tradeoffs between paying a dividend and buying back shares, and I would imagine on an ongoing basis we'll continue to look at that, study that, and make the decision at a future date as to what the appropriate thing to do was. At this point, though, we've decided that, as to the last quarter, that share purchases were the appropriate way to return capital to shareholders.

James Ratcliffe: Great. Thanks very much.

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

David Barden: Hey, guys. Thanks a lot for taking the questions; two, maybe, if I could. Just to follow up, you know, again on this Sprint situation, Jay, maybe if you could kind of give us a sense—you said that some of the second half guidance benefit is coming from accelerated leasing. Is that to a specific carrier, and is that related to cash income or simply, you know, changes in the life of the agreement which are giving us the non-cash benefit? If you could kind of elaborate on the cash which is not non-cash and how substantive Sprint is in that second half number, that would be helpful.

Then, I guess the second question maybe is for Ben, which is that, obviously, for the last couple of months we've all been looking in the rearview mirror and there's been a lot of hand wringing about the AT&T T-Mobile deal, and that people are starting to get comfortable that could actually yield more benefits than risks in the short term, but, you know, as we look out into the headlights, we've got, Charlie Ergen consolidating spectrum in the S-Band, we've got the cable companies reportedly doing more strategic thinking around their business, the public safety, both the Republican and Democratic proposals look to be funding public safety networks. Is there any kind of bubbling up in the surface that you're seeing of the new demand, conversations that you weren't having before, anything tangible about the new opportunities as we look into '12 and '13? Thanks.

Jay Brown: Dave, on your first question, you know, there's a litany of things that are running through the revenue line there that helped us increase our outlook, I would mention all of them, because I think they're relevant if you're looking at site rental revenues, and the three components would be the benefit that we've seen in FX; secondly, where we saw run rate revenues—I mentioned the FX adjustment in the second quarter to bring you down to where revenues would have been on a like-to-like basis relative to the outlook, and we came in even above—slightly above our outlook for the second quarter, even adjusting for FX. So, that run rate, obviously, flows through the balance of the year, which helps us increase revenues, and then, the leasing activity, the increase of 15 to 20%.

As Ben mentioned, specific to Sprint, the arrangements that we have with them gives certainty to both parties around the pricing process at which they deploy their new Network Vision equipment, but it doesn't give us certainty of activity in terms of what we will actually see related to that, so I think you'll see the revenues follow as the activity follows, and that's embedded in that 15 to 20% increase that we're expecting in actual leasing activity, and therein lies the increase for the outlook for the balance of the year.

David Barden: I apologize, Ben. If I could just quickly follow up on that, Jay. So, that is to say that this is actually new business that you're doing with Sprint, rather than some part of this agreement being lease extensions which are giving you some accounting benefit, which is part of the guidance increase?

Jay Brown: Yes, the guidance increase that we talked about would be related to our activity base, the work that we're doing for all of the carriers. We're calling out Sprint. There's actually increases from more than just Sprint, but in trying to answer your question, that's embedded in that 15 to 20%.

David Barden: Okay. Thanks, Jay.

Ben Moreland: Dave, that second part of your question around, basically, spectrum that's been aggregated and is idle, I'll park that for just a moment, because I want to make sure we hit a theme of this call that I want to impress upon everyone, and that is our pleasure, frankly, that we're seeing three national carriers being very active in upgrading their networks. With Sprint's announcement, and their commitment to this Network Vision plan, and what that suggests in terms of upgrades and activity, improving their network, providing additional capacity to their customers, and now facilitating a very efficient way to launch LightSquared, should they choose to proceed on that basis. We are extremely excited that you're going to see all three national carriers be very aggressive in upgrading capacity, and that is a market change for our business, at least from my chair. So, I just want to make sure we got that point across this morning.

Now, going forward, I think we've all witnessed a lot of spectrum be aggregated and accumulated and some of it deployed, and some of it not, over time. I think we, along with most on this call, sort of wait with bated breath to see how some of that spectrum attempts to come to the market. I think, in the example this morning, with Sprint and the hosting arrangement, it provides a very interesting roadmap for an efficient way to launch spectrum without a completely new build, and, as I've suggested, we'll be very supportive of that and facilitate that in a way that we think benefits both parties. But, beyond that, I can't identify for you a specific additional spectrum build that's coming to the market in any particular timeline, but I remain very optimistic that, given the consumer demand that we've seen and the capacity requirements, as that continues to grow, that this spectrum will get put to use in some form or fashion in some business plan that maybe we haven't contemplated yet, and certainly our assets will play a material role in facilitating that coming to the market.

David Barden: All right. Thanks for the color, Ben.

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

Brett Feldman: Yes, just two questions. I know you can only give us so many details about the agreement with Sprint, but Sprint did indicate in their LightSquared announcement this morning that there are conditions that could cause the agreement to be terminated, so I'm just curious. If that were to happen and they just really can't get this off the ground, would you actually owe any refunds to Sprint for any work that they might done already?

Ben Moreland: No, no.

Brett Feldman: Okay, good. Then, just a bigger-picture question, just a sort of a follow-up to something that came up a bit earlier. If I look at the way you're investing your money this year, the buybacks and the other investments have essentially been contained to the size of the cash flow that you're creating in 2011, but because of where you're getting with in regards to your leverage levels, it seems like your total investment capacity, as we move into next year, might actually be greater than the amount of cash you create from operations, so there'd be sort of a disproportionate increase in your investment capacity relative to your cash flow growth. Is that an appropriate way of thinking about it?

Jay Brown: Yes, Brett, I think that naturally happens as we approach that five turns of leverage level. To the extent that we maintain that level of leverage, then $750 million, roughly, of recurring cash flow, and then you subtract out the amount of capex that we're spending on an annualized basis, somewhere in the neighborhood of about $300-350 million with capex, leaving you $400 million of excess cash flow, at that point, if we are borrowing to maintain five times, and growth in EBITDA is around $100 million, then you're more than doubling the amount of excess cash flow available for investment, be that share purchases or tower acquisitions or other investments around the core business. So, you're right, there is the opportunity for that number to increase in terms of capacity.

Brett Feldman: So, potentially, it's a lot. I mean, that $220 million that you have available for the rest of the year, that's, arguably, half the run rate you could have next year if you're comfortable doing more work in the capital market. Is that reasonable?

Jay Brown: That's correct, that's correct.

Brett Feldman: Great. Thank you for clarifying.

Operator: Our next question comes from the line of Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss: Yes. Thanks, guys. I just want to follow up a little bit, try to get us honest with the LightSquared/Sprint agreement and what your MLA change did. Sprint, yesterday, in their press release, talked about a uniform rate, I think, that they we're going at, and you've mentioned a couple times the price certainty and the process certainty. If Sprint were to put up new equipment that was Network Vision without LightSquared, would that be a different rent to you guys, as opposed to Sprint with LightSquared; and to piggyback on Phil's question, if it's Sprint plus LightSquared plus somebody else, is that a third of the higher rent? In other words, is there like an ABC of that uniform rate that Sprint was talking to?

Ben Moreland: Yes, Ric, let me help you with that. That's pretty straightforward. There's a price certainty, which they were alluding to, on the Network Vision equipment installation, which we've granted them, price and process. There's also price certainty should they elect to host LightSquared, and then there'll be yet to be determined, but it is specific to LightSquared, but to the extent they wanted to bring others to host, we could certainly have a conversation about that, but at the moment LightSquared specific as to price.

Ric Prentiss: Right, and if there is a second carrier, it would be another price certainty for the extra add-on from that one?

Ben Moreland: I mean, we would entertain a conversation at that point, if there were more, but it's not contemplated today.

Ric Prentiss: I think the market is a little concerned that Sprint's getting close to $9 billion from a company that doesn't really have that much money, so people are trying to make sure Sprint's not spending money they don't have and then pass it on, the money that they have to pay you in rent, that maybe isn't going to be able to be …

Ben Moreland: Yes, I think we've probably commented, of course, where we're going to go on the pricing. Again, it's one level for the network upgrade, it's another for sharing, specifically to LightSquared, and then anything beyond that would be open for discussion.

Ric Prentiss: To piggyback on kind of David's comments earlier, and yours, I think, while you haven't given 2012 guidance yet, do you anticipate giving 2012 guidance in your typical timeline of third-quarter call, and given the macro that you've discussed about three national carriers now building versus two, is it a fairly safe assumption, on macro level, without any numbers attached to it, that leasing activity in '12 should very well be higher than the leasing activity we saw in '11 in the US?

Jay Brown: Ric, I appreciate the question and I think I'm about to step in something I don't want to. We would expect to give guidance in the third quarter, and a great benefit of giving guidance in the third quarter for next year is we can wait until October to determine what we think about 2012 leasing, so I'll leave it at that.

Ric Prentiss: But the common thread is three national guys buildings now when you've just been experiencing really two.

Operator: Our next question comes from the line of Jason Armstrong with Goldman Sachs. Please go ahead.

Jason Armstrong: Hey, thanks. Good morning. Just, I guess, quickly on capital allocation, you know, the sort of decision to be buying back your stock, tapping private markets, field activity, you're buying land, you know, in Q2 you over-indexed on buybacks, relative to where you stand right now and sort of looking forward over the next few months, is anything in that calculation changed? I mean, we heard about private multiples being too high on the first quarter call. Has that backed off at all? Should we expect more activity there?

Then, I guess, the second question is just a refresher on the international framework. You guys, historically, have sort of thought differently about the risks associated with a lot of the international markets that your peers have gone into. I'm wondering if you could just sort of remind us if the thinking is still there or have the risks in your mind changed at all. Thanks.

Jay Brown: Okay, on the first question, Jason, you know, I don't think currently anything has changed from what we talked about last time in the domestic market. Obviously, that could change tomorrow. I know that that's a forward-looking statement, but commenting on relative to what we saw during the quarter, it looks like domestically nothing has changed in that environment, and that's why we spent the money we did on buyback of shares.

Ben Moreland: I mean, it's no secret, we've, for the last three years, earned the multiple down 30% in this business, and that continues to be sort of less than we're seeing in the private market, and given our position and our ability to execute around our sites, we're quite happy to acquire more of our sites, it's been our practice for some time.

But, against that, we always look at other alternatives, and your question about international is one we continue to spend time on and look at, but we see international transactions trading, frankly, within a reasonable shouting distance of our current multiple, which we just can't quite get there on.

The second thing I'd say about international is our international business in Australia, we haven't commented on this call, but we do have high expectations for next year around growth, and that market is looking increasingly like it's going to hit another inflection point that has been somewhat slow for the last two or three years, and we are excited about what we see down there; and, again, not a huge component of our business, but could be a larger component of our growth going forward, and we are anxious and working now already on executing, preparing for next year.

So, Jason, it's really business as usual, we're going to continue to look at international opportunities. If you see us do something, you can assume that it's because we believe that it presents longer term greater value creation on a risk adjusted basis than, you know, acting on something here in the US. But, as I mentioned in my prepared remarks, we are extremely excited about what we see in the US market right now and we're going to continue to execute like we are.

Jason Armstrong: So, then, your optimism on Australia, is this where you're positioned with the existing assets or would you want to get ahead of this inflection that you're talking about with increased exposure in that market?

Ben Moreland: Well, we would certainly look at additional assets to the extent they were available. I'll just leave it at that. But, certainly, we've got a long way to go to optimize and exploit our existing assets, so there's opportunity on both sides there.

Jason Armstrong: Great. Thanks.

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

Jonathan Atkin: Yes, I have a couple questions. G&A expense declined a bit sequentially. I wondered what kind of levels we should expect going forward.

Then, the Sprint Network Vision plan, does it contemplate ultimately the removal of iDEN equipment maybe, you know, after next year at some point, and is that treated separately under your agreement with them, or is that already contemplated in the agreement that was announced yesterday?

Jay Brown: On your first question around G&A, the sequential growth, a portion of that is the continued rise in FX down in Australia, so that's a big portion of that, and I think if your modeling the business, John, for periods beyond 2011, I would expect that we'll continue to manage that G&A somewhere in the neighborhood of 3% or less as a growing number, subject to any acquisition that we would do of any size, it would obviously drive that number up a little bit, but we're not seeing anything in the business that would suggest our long-stated approach of maintaining that number in and around 3% growth to change from that.

Ben Moreland: On your iDEN question with Sprint, John, I would really ask you to probably address that question to Sprint, in terms of their decommissioning plan around iDEN. With respect to our Company, we still maintain our Nextel leases, and I think, on average, about three-and-a-half years of average life left in the book on that, and I think we can all reasonably assume, as they said, it's their objective to migrate that to their new Network Vision equipment, but that's really for them to determine and, frankly, I think that's still a couple of years out. Right now, our Nextel exposure is about 2% of revenue, if you will.

Jonathan Atkin: Okay, that's help. Then, on outdoor DAS, any kind of updated views, how do you size that overall market opportunity?

Ben Moreland: Yes, pardon me for not mentioning it on this call, only because it's still not a significantly material part of our financial results, but we are very excited about what we see around DAS, continue to see it growing rapidly. We're very pleased with our acquisition of Newpath Networks company last September. We've got a team now of about 45 individuals dedicated solely DAS, as well as the shared resource in our sales organization, and so we are seeing a significant amount of activity on the DAS front, both outdoor and indoor, and we've got our plate full there, still maintain high expectations for growth there.

Jonathan Atkin: Thank you.

Operator: Our next question comes from the line of Clay Moran with Benchmark Capital. Please go ahead.

Clay Moran: Hey, good morning. My questions have been pretty much been asked, but maybe you could give us an update on your portfolio of towers, you know, the average capacity remaining, maybe the percent that is full; and I also noticed that tower construction activity has picked up pretty meaningfully this year, it's not really material, but I'm just wondering where you're finding opportunities and any reason for that change?

Jay Brown: Sure. On the first question around capacity, we continue to find capacity on the sites and don't believe that we're nearing a point where the assets are full. We've learned to be pretty creative around how to create space and adjust, amend and extend these sites in order to hold additional equipment, and so we're not really running into a capacity issue on sites.

On the second part of your question around construction, we have seen that start to pick up a little bit. We've built a few more sites. We're mostly focused on the metro areas, as we have done historically. The biggest portion of the increase, though, if you look at the spend on these sites, would be related to the distributed antenna systems that we continue to invest in, and my guess is that for full year 2011, or certainly by the end of this year and going into 2012, we'll be at a run rate of spending in the neighborhood of about $50 million a year of capex specifically on the distributed antenna systems deployment.

Clay Moran: Okay. On the capacity question, can you just then give us average tenant per tower today?

Jay Brown: We're at about three tenants per tower, a little over three tenants per tower on a physical basis.

Clay Moran: Okay. Thanks.

Operator: Our next question comes from the line of Jonathan Schildkraut with Evercore Partners. Please go ahead.

Jonathan Schildkraut: Great. Thanks for squeezing me in. Most of my questions have been asked and answered, but maybe we could talk a little bit more about the portfolio. I notice that you guys continue to call some of the towers out. I guess I've been looking for this activity to kind of taper off and start to see some portfolio growth, so maybe you can give us a little more color on where you are in terms of working through some of the calling of the tower assets. Thanks.

Jay Brown: Yes, Jonathan, thanks for the question. We continue to look at the assets, and when we look at them we're really looking at two areas—one is what's the current run rate of cash flows on the assets; and then, secondly, we're looking at what's the prospect of additional growth. As we work through the portfolio and there are changes, particularly with regards to some of the towers that we acquired back when we did the GSL acquisition, there was a portfolio that they had purchased that had some paging exposure to it, and some of those towers that would have had paging on them, where the paging has turned off and maybe the tower is vacant, and today we look at it and assess what we believe the future growth of the asset could be, to the extent that we don't see a lot of opportunities for it, then we'll go out and take the sites down. I think we're through most of that. I mean, there will forever be times when we're taking down towers, I would expect we'll have some of that every quarter, but I think the bulk of that analysis and work has really been done following our acquisition of Global Signal, so I think it will taper off over time.

If you're trying to figure out what the impact of the results is, frankly, most of the time that calling is a slight increase to adjusted EBITDA, and probably no impact to site rental revenue. If there are tenants on towers, we're not going through and disposing of those towers. So, you know, I think, on a net basis, it would be slightly positive to adjusted EBITDA and cash flows, but it's a number so small you couldn't find it in the financials.

Jonathan Schildkraut: Great. Thank you again.

Operator: Our next question comes from the line of Batya Levi with UBS. Please go ahead.

Batya Levi: Yes, thanks. Two questions, one more a follow-up on the Sprint contract. Can you actually talk about the contract, the spectrum specific for Sprint, and like its current spectrum band.

The other question I have was on the revenue growth trajectory for the second half. I think the outlook implies that the growth will decelerate to 6% because of the MLA you signed a year ago, but the implied guidance for 4Q is actually looking for a further deceleration, maybe growth going below 5%, and with Sprint helping and, actually, Verizon spending a little more than we thought, shouldn't we see a larger sequential bump in the fourth quarter? Thank you.

Ben Moreland: First, on the spectrum question, Batya, it's specific to the LightSquared spectrum, again. So, to the extent they choose to avail themselves of that option, it's called out specifically, and to the extent they want to do something else, then we're certainly pleased to engage in a conversation around that.

Jay Brown: I think, in regards to your second question, it has to do with the percentage changes versus nominal changes. If you look at the nominal change in dollars, we continue to perform very well on that basis sequentially quarter-to-quarter. As you remember, last year, in the third quarter, we announced the amendment with a customer that significantly increased the amount of rent that we were receiving, and the result of that, basically, makes a base that's lower in the first two quarters of last year, that we're comparing against for the first two quarters of this year. By the time you get to the third quarter, you're comparing off of that then higher run rate. So, we're getting larger and that bigger base means, by definition, the percentages are going to come down. To the extent, you know, in the fourth quarter, I think, obviously, we have some visibility in terms of what we see for the third quarter and we'll have to see and play out how the fourth quarter develops.

Batya Levi: Okay, great. Thanks.

Operator: Our next question comes from the line of Gray Powell with Wells Fargo. Please go ahead.

Gray Powell: Good morning. Thanks for taking the questions. I just had a couple of quick ones. I think you've already kind of addressed this to some extent, but I really just want to make sure that I have it right. Last quarter, I think you said that you expected activity in Q2 and the second of 2011 to be flat from Q1 levels, and that overall leasing activity would be down around 15% from 2010. Just given that you just raised guidance, what are your new assumptions for the second half of '11 versus the first half of the year, and then how do you think activity for the full year of 2011 compares to that of 2010?

Jay Brown: Sure. With regards to 2011 full year versus 2010, the change in our outlook for the balance of the year basically brings the full year 2011 back up to a level similar to what we did in 2010; and you're correct, leaving the first quarter, as I think I mentioned earlier, we thought that the majority of the activity that we would see in the full year was just going to come from the two largest carriers in the US, and so the change here is a little bit of change in activity broadly across all carriers, but, specifically, the timing and amount of the activity that we would expect from Sprint for the balance of the year as they get to work on Network Vision, and so I think that's the increase, and almost all of that would be third and fourth quarter related in 2011, not as much in the second quarter, but for the full year, I think by the time we close 2011, we would expect, at least today, that, on a leasing basis, we'll be pretty similar to what we did in 2010.

Gray Powell: Got it. That makes a lot of sense. Then, you know, obviously, you said Sprint is contributing now. Is it safe to assume that AT&T and Verizon are still like roughly half of leasing activity this year, or is Sprint such that—is Sprint becoming a bigger component?

Jay Brown: Yes, you know, Gray, I don't want to comment necessarily, specifically, on the amount of activity by carrier, but they are obviously continuing to be meaningful, and so I'll leave it at that.

Gray Powell: Okay. Then just a last one, if I may. Any thoughts on a potential public safety network next year?

Ben Moreland: We can only hope. Obviously, we stand ready to facilitate it. We'll have to see. It looks like Congress is a little distracted here at the moment.

Gray Powell: Fair enough. Thank you very much.

Fiona McKone: Operator, I think we have time for one more question.

Operator: Thank you. Our final question is from the line of Michael Rollins with Citi Investment Research. Please go ahead.

Michael Rollins: Hey, thanks for fitting my questions in, I appreciate it. Actually, I just had more of a general question for you. You know, as we get closer down the road of a tower company becoming a REIT, potentially, next year, how do you guys feel about disclosing metrics that relate to the way REIT investors look at assets, so, you know, providing what your comparison would be for like FFO, AFFO, and just giving people more information—I know you give already some stuff on your recurring cash flow metrics, but have you given some thought in terms of extending the disclosure to some of those metrics so you could be more comparable to a larger peer group?

Jay Brown: Mike, thanks for the question. We have given some thought to that and we've noticed with interest that as you look at some of the fact sheets that the REITs produce, they'll put out sometimes 40/50 pages worth of detail where they show revenues by market, tenants by market and assets by market, in addition to the metrics that you've talked about, and I think we'll study that over time and I think, to the extent that the industry attracts a different type of investor and we start to attract those REIT investors, I would believe that those will become increasingly important, and so moving from our recurring cash flow metric at some point in time towards more of an asset flow metric, probably makes sense, in order to help us be comparable with other REITs that they would be used to looking at. So, I think you'll see us watch that, look at it and then try to determine when is the appropriate time to do that, but longer term, I think certainly that will be the case.

Michael Rollins: Thanks very much.

Jay Brown: You bet.

Ben Moreland: All right. I think I'll just wrap real quickly. I appreciate everybody joining us today. We are feeling great about the business, obviously, with three active carriers in the market building significant upgrade to their networks, as we've talked about, and then we're executing at a very high level on the opportunities before us, as evidenced by our results, and for that I certainly credit our team, everybody involved, and we look forward to the rest of the year and we'll talk to you on the next quarter's call. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. If you'd like to listen to a replay of today's call, please dial 303 590-3030, or 800 406-7325 and enter the access code 4455448. We'd like to thank you for participation and you may now disconnect.

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