CROWN CASTLE INTERNATIONAL, #4478158
CROWN CASTLE INTERNATIONAL THIRD QUARTER EARNINGS CALL
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Chairperson: Jay Brown (Mgmt.)

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Crown Castle International Third Quarter Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one, on your touch-tone phone. If you need to withdraw your question, press the star, followed by the two and if you are using speaker equipment today, you may need to lift your handset before making your selection. Today's conference is being recorded today, October 26th, 2011.

I would now like to turn the conference over to our host, Fiona McKone, Vice President of Corporate Finance. Please go ahead.

Fiona McKone: Thanks Lisa. Good morning everyone and thank you all for joining us as we review our third 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 those expectations will prove 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 are 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 fail to materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. Our statements are made as of today, October 26th, 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 Investors 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 third quarter exceeding the high end of our previously issued guidance for site rental revenue, site rental gross margin, Adjusted EBITDA and recurring cash flow. The strong year-to-date results from our site rental business together with better than expected performance from our Services business allow us to increase our 2011 Outlook for Adjusted EBITDA by approximately 18 million. Also during the third quarter, we invested $278 million in activities around our core business which we believe will enhance long-term recurring cash flow per share.

Turning to slide 4, I'd like to highlight a few things from our third quarter results. During the third quarter, we generated site rental revenue of $469 million, up 7% from the third quarter of 2010. Site rental gross margin, defined as site rental revenues less cost of operations, was $347 million, up 8% from the third quarter of 2010. Adjusted EBITDA for the third quarter of 2011 was $332 million, up 9% from the third quarter of 2010. As shown on slide 5, recurring cash flow, defined as Adjusted EBITDA less interest expense less sustaining capital expenditures, was $199 million, up 12% from the third quarter of 2010. And recurring cash flow per share was $0.70, up 13% from the third quarter of 2010.

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

Turning to investments and liquidity, during the third quarter as shown on slide 6, we spent $278 million on purchases of our common and preferred shares, capital expenditures and acquisitions. Specifically during the third quarter, we purchased approximately 2.7 million of our common shares for $109 million. Further, we used $15 million of cash to purchase a portion of our 6.25 preferred shares, reducing the potential common shares by a little over 300,000 shares. Since 2003, we have spent $2.7 billion to purchase approximately 100 million of our common shares and potential common shares representing more than a third of the Company's shares at an average price of $26.84 per share.

With regards to our capital expenditures during the third quarter, we spent $148 million. These capital expenditures include $111 million in our land lease purchase program which includes an $89 million purchase of our ground leases in a single transaction. As of today, we own or control for more than 20 years the land beneath towers representing approximately 75% of our site rental gross margin, up from less than 40% in January of 2007 when we completed our acquisition of Global Signal. We continue to enjoy significant success with this program as evidenced by the fact that today 37% of our site rental gross margin is generated from towers on land that we own, up from less than 15% in January of 2007. Further, the remaining average term on our ground leases is approximately 34 years. Of the remaining capital expenditures, we spent $6 million on sustaining capital expenditures and $31 million on revenue-generating capital expenditures, the latter consisting of $20 million on existing sites and $11 million on the construction of new sites, including most notably, distributed antenna system deployment.

The final component of our investments in the third quarter were tower acquisitions of approximately $6 million.

We ended the third quarter of 2011 with total net debt to last quarter's annualized Adjusted EBITDA of 5.2 times and Adjusted EBITDA to cash interest expense of 3.3 times.

Moving to the outlook for the fourth quarter and full year 2011 as shown on slides 7 and 8, we expect site rental revenue of between $467 and $472 million and Adjusted EBITDA between $330 and $335 million for the fourth quarter of 2011. Our revised full year 2011 outlook suggests annual site revenue growth of 9% and recurring cash flow growth of approximately 18%. Substantially all of the anticipated growth is expected to come from the assets we owned at the beginning of 2010 as we've made no significant acquisitions during the last two years.

The growth in site rental revenue from 2010 to 2011 is comprised of approximately 5% attributable to additional tenant equipment added to the sites reflecting the strong leasing activity we have enjoyed since the beginning of 2011 and approximately 4% growth in the existing base of business that was in place at the beginning of the year through contracted escalators and the renewal of tenant leases net of churn.

Turning to slide 9, before I take you through the 2012 Outlook, I would like to take a minute to talk through some significant initiatives we've set out to accomplish a few years ago and our progress to date. First, we wanted to refinance and extend our debt maturities over multiple years and lower our level of leverage to strengthen our balance sheet and increase our financial flexibility. Second, we wanted to protect our long-term margins by securing our towers that reside on land leases through purchasing land and extending land leases beyond 30 years. And third, we wanted to improve the quality and the duration of our tenant contracts. We have made significant progress on all of these initiatives, in some cases beyond what we thought was possible. We believe that these actions have increased the certainty of future cash flows, lowered our exposure to fluctuations in the debt markets and improved our customer relationships. Over time, we believe these improvements in our core business and capital structure will lower our cost of equity, particularly as we anticipate nearing a period of time when our recurring cash flows may be distributed in the form of dividends. Between 2009 and 2010, we refinanced over $6 billion of debt securities, extending the terms and spreading the maturities over multiple years. Further, we have lowered our leverage from 7.5 times in 2007 to 5.2 times today. As a result, we believe we have tremendous flexibility and funding capacity to focus on investing activities we believe will enhance long-term recurring cash flow per share. On the land lease side, we have completed almost 11,000 land transactions, including both purchases and extensions. The focus on this activity, which we commenced in earnest in 2007, underscores the long-term view we take of our business as we have invested nearly $675 million in securing our land rights and purchasing the land beneath our towers. We believe that this activity has resulted in the most secure land position in the industry based on land ownership and final ground lease expiration, and we believe that we have significantly reduced our potential risk to margin erosion.

Finally, similar to our land lease purchase program, we endeavor to improve our tenant contracts. As we entered 2008, we had approximately $1 billion of aggregate contracted rent due beyond five years as is shown on slide 9. We made it a priority to secure our tenant contracts for longer periods as we reached the first renewal periods of the original anchor tenant contracts on the majority of our sites. Since the beginning of 2008, we have extended approximately 27,000 of our tenant licenses for up to 15 years. As a result, today we have more than $10 billion of aggregate contracted rent due beyond five years. Further, as shown on slide 10, we've more than doubled the weighted average life our tenant contracts to approximately nine years from four years with a total of $17 billion of contracted rent compared to $5 billion at the beginning of 2008. This $17 billion of contracted rent represents non-cancellable contracts with our customers.

Considering what is left to be addressed, over the next five years there is approximately 36% of the existing portfolio of tenant contracts that will reach a renewal period spread nearly equally over that period of time. Typically, our tenant lease contracts have annual fixed escalations of 3 to 5%. As such, today the contractual terms of our tenant licenses indicates that by the end of the weighted average life of these leases the annual revenue of these leases will have increased by over 30%, illustrating the benefit of these long-term contracts and their embedded escalation.

In extending the term of our customer leases, we have also modified the contractual terms to help speed the deployment of our customers' data roll outs. In addition, the modifications to our customer licenses give us certainty of pricing and in some cases certainty of activity in the deployment of 4G wireless networks.

Moving now to the Full Year 2012 Outlook, and as shown on slide 11, for the full year 2012, we expect site rental revenue of approximately $1.94 billion and Adjusted EBITDA of approximately $1.37 billion. Further, we anticipate producing nearly $3.00 per share of recurring cash flow in 2012 based on our current shares outstanding, more than double what it was just five years ago. In 2012, we expect site rental revenue growth of approximately $90 million, wholly comprised of new leasing activity in the form of amendments to existing installations and brand new installations on our towers. As shown on slide 12, this is in line with the growth in organic leasing we have enjoyed since about 2007. We expect the vast majority of this revenue to come from Verizon, AT&T and Sprint. We have not included any potential revenue from the network sharing arrangement between Sprint and LightSquared. Typically in a year where we have no significant customer contract renewals such as 2008, we would expect to see approximately 1 to 2% of growth on the existing base of business from lease escalators net of churn. In 2012, we expect that higher than average churn will offset the normal benefit from escalators. This additional churn specifically relates to Alltel licenses Verizon is expected to terminate as a result of its acquisition of Alltel in 2009. While the number of licenses that we expect will churn is only approximately 10% higher than 2011, the churn is expected to occur mostly in the first half of 2012 and this timing increases the impact to revenues from the churn by approximately 50% as compared to 2011. Therefore, we expect the base of business to be flat year-over-year as we do not expect any significant extensions to offset the churn that I mentioned previously. Similar to past years, we would expect to begin next year with about 97% of our outlook for site rental revenue contracted on January 1st.

I would also note that we are expecting to see our Services business perform at a level similar to what we've seen in 2011. Consistent with our past practice, our 2012 Outlook does not include the benefit from expected future investments such as share purchases, tower acquisitions, new site construction and land purchases that we believe maximizes long-term recurring cash flow per share which we consider the best long-term measure of shareholder value creation. While we don't include this expected benefit from investment in our outlook, it can be significant as I expect we'll have approximately $1.2 billion of cash to invest in 2012. This $1.2 billion is comprised of the cash flow we expect to produce in the business and the debt capacity created from our expected growth in Adjusted EBITDA if we maintain our current debt to EBITDA ratio. I would currently expect that of this $1.2 billion we'll invest approximately $300 million in capital expenditures around the core business at high returns. I would anticipate that the balance of the $1.2 billion, or approximately $900 million, to be available for acquisitions and to return cash to shareholders in the form of share purchases. This $900 million represents over 7% of our current market capitalization and provides the opportunity for us to enhance our growth rate and maximize our long-term cash flow per share through acquisitions and share purchases. I believe that this level of investment can add between 4 and 6% to our organic cash flow per share growth rate annually.

In summary, we had an excellent third quarter as we continue to execute around our core business and I'm excited about the prospects for growth and investments as I look forward to 2012.

One final housekeeping note, many of you have asked me if we will begin to disclose funds from operations, or commonly abbreviated FFO, and Adjusted funds from operations, commonly abbreviated AFFO, commensurate with American Towers' expected conversion to a REIT in 2012. For the benefit of comparability, we currently do expect to be able to report both FFO and AFFO in 2012.

And with that, I'm pleased to 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 an excellent third quarter, exceeding our outlook for site rental revenue, site rental gross margin, Adjusted EBITDA and recurring cash flow. With the three largest US carriers actively engaged in network upgrades, we are enjoying a period of tremendous visibility to future revenue growth associated with these deployments. AT&T and Verizon continue their aggressive roll out of LTE and as the largest single provider of sites with Sprint, we are benefiting from their accelerated deployment of Sprint's Network Vision plan as reflected in our results.

While most of our deployment activity comes from the largest three carriers, we continue to expect that we will benefit as additional spectrum is deployed by other firms such as Dish Networks, LightSquared, Metro PCS and even perhaps the Public Safety Network one day. We believe that spectrum has the most value in the most 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 that may come to market through spectrum not yet deployed.

In addition, this quarter, our US Services business performed exceptionally well, making its largest contribution to gross margin in our company's history as we continue to work very hard to meet customer deployment objectives and facilitate customers' installations on our sites.

Normally, at this point in the call, I take a moment to highlight some of the very powerful secular trends occurring in wireless that we are benefiting from. No doubt I could spend the rest of the morning on how we see a world of smartphone penetration and broadband wireless Internet usage driving a continuing need for investment in wireless infrastructure that gives us tremendous confidence in our future prospects. But as consumers of wireless services, I think you get it.

So instead, I wanted to spend a minute on our long-term strategy which, as shareholders or prospective shareholders, we think it is important for you to understand. We believe the US market is the most attractive wireless market in the world and provides plenty of opportunities for carriers to invest profitably and for Crown Castle to participate meaningfully in its future growth. We believe that with the scale we have in the US market and our customer-focused approach we can provide more services to customers that facilitate speed and ease in their deployment process at attractive economic terms for us. We take a long-term approach to the business, as if it were our own, and that means we make investments such as land purchases that have given us the unique ability to control our largest spend while also accelerating customer access to our sites. We pair our customer-focused approach with the best assets in the industry as evidenced by the concentration of our sites in the top 100 markets, the percentage of revenue from the Big Four carriers, and the percentage of land ownership and term on our ground leases. The combination of our customer-focused approach together with the best assets in the industry allows us to maximize the opportunity in the US market.

Lastly, the final component of our long-term strategy is how we allocate capital. We've been at this for years with the same basic template. We seek to invest our significant and growing investment capacity in a way that we believe drives the highest recurring cash flow per share while at the same time improving the security and duration of that cash flow as we anticipate that cash flow quality and yield, whether distributed or not, will become an increasing component of value in the future.

Consider that since 2007, we have grown recurring cash flow per share 19% annually while materially reducing the risk profile of the business as we have discussed. Further, at current multiples, the 2012 guidance that we are now providing you here at the end of October, a year prior, suggests almost 17% total return next year when considering the recurring cash flow yield on the current share price plus the 10% organic growth in the Outlook. We believe long-term we will be valued on the cash flow distributed to shareholders in the form of dividends plus our growth prospects. When considering the core growth in our business, the quality of our cash flows and our current valuation, I believe we compare very favorably to real estate and other infrastructure companies.

For at least a few more years I expect we will be able to offset current income at the corporate level with net operating loss carry forwards from prior periods. As such, we intend to make the most of our flexibility by allocating our substantial investment capacity to acquisitions and purchases of our stock to maximize recurring cash flow per share within the strategy that I've outlined. We are very proud of how we are positioned as a company and the significant confidence our customers have placed in us by allowing us to help them realize their network objectives in this very exciting time for wireless.

So in closing, I am very pleased with our results and very pleased with the progress we've made this year and look forward to the balance of the year.

With that, Operator, I'd be happy to address some questions.

Operator: Thank you, sir. Ladies and gentlemen, 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 touch-tone phone. If you need to withdraw your question, press the star, followed by the two and if you are using speaker equipment today, it may be necessary to lift your handset before making your selection.

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

James Ratcliffe: Good morning. Thanks for taking the question, two if I could. First of all, on the land purchase this quarter of 89 million, can you talk about how much you expect that to reduce run rate operating costs as just essentially you've capitalized the rent on that? And secondly, on the Services business, can you talk a little bit more about what you see in terms of carriers and activity, if that's carriers coming up with new sites or it's upgrade-driven? Thanks.

Jay Brown: Sure James. On the first question—and maybe it's helpful to clarify as you have identified, all of the sites that we purchased that I referenced in the single transaction were all ground leases under our own sites and were not third-party land leases. And so the impact we will benefit from there is at the land lease line in the direct cost of operations in the site rental business.

As I look forward to 2012, it's embedded in the outlook that we gave and so basically we believe almost all of our operating costs will be flat year-over-year. A little bit of an increase from land leases but certainly this purchase helps offset what we would normally expect in the neighborhood of 2 to 3% escalation. So in that sense I think what we'll basically do is pay for the normal escalation expense that we would have combined with the other purchases that we'll doing during calendar year 2011.

Ben Moreland: On Services, James, thanks for that because it gives me an opportunity to recognize the tremendous efforts that our team has made to continue to grow our Services opportunity and that's by increasing the take rate or the number of instances where we're actually involved with a carrier touching our site through an upgrade on a site or a new installation where we're managing that installation. We're also bringing that more value-add sort of further upstream from the front end of their application process to include structural analyses, zoning and permitting work and not just simply the management of the construction activity on the site. So that's basically the nature of what's going on there and we think it provides the high touch experience that we're excited about delivering with customers and allows us to control what's going on in the site and really manage the sites better. So very pleased with the effort we've demonstrated there.

James Ratcliffe: Great. Thank you.

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

Simon Flannery: Thank you very much. Good morning. If I could turn to the 2012 guidance, a couple of things. First on the 90 million assumption, I think you've talked for a little while about Sprint being much more active following the MLA, so if Sprint is going to be very active in '12, were not for most of '11, does that imply that we're seeing a little bit less from some of the other carriers or are you just being conservative? Talk around that. And then on the Alltel commentary, perhaps you can just provide us a little bit more color there and in particular, is this it? Is there any other Alltel or other sort of churn that we would expect that should have the same sort of impact in the next year or two out beyond this? Thanks.

Jay Brown: Sure Simon. Thanks for both questions. With reference to the first question, the $90 million of growth as you think about 2012, I think it's helpful to go back to our original comments and what we expected in the calendar year 2011. When we began 2011, and the guidance that we gave for 2011 in the fall of 2010, our expectation was that all we were going to see in this calendar year, meaning 2011, was activity from Verizon and AT&T, that they were going to make up the vast majority of the activity. As we got into 2011, we actually saw Sprint accelerate the activity around Network Vision on our sites and began to see that during the third quarter and are seeing in the fourth quarter of this year. You can go back and see last quarter we significantly increased our expectation for calendar year 2011. That was based in part on increases in the FX benefit that we were getting from Australia, but the second largest benefit was the activity we were seeing from Sprint. As you look at our activity for 2012, the run rate we're assuming there is really where we've been for the second half of all of '11 and at the high end of the guidance it assumes most of basically the run rate we've gotten in the second half of 2011 and then we came off that a little bit obviously because we're still early; it's October of '11 and we're trying to figure out what we think leasing will look like towards the end of 2012. But at the high end of the guidance, that is most of the run rate which would include the activity from Verizon, Sprint and AT&T for a full year 2012.

On your second question around Alltel, I think most of the impact from Alltel we are going to see in 2012 and as we've tried to point out, it's offsetting the benefit from escalation. The benefit we would see absent churn from escalations in the calendar year 2012 would be about 2% of revenues. Alltel is not the whole offset there. We have normal churn in the business but it is a little bit higher than what we would normally see. But importantly, the activity in terms of churn, if you think about the number of licenses churned in the calendar year 2012, that's up about 10% from what we're experiencing in 2011 of which Alltel is a component in 2012. But really the impact there is much greater than that. It results in almost a 50% impact because that churn activity is heavily weighted towards the first half of 2012, in fact it's about 75-25 in the case of Alltel.

So the impact there in terms of year-over-year growth from revenues is more impactful than the actual number of churn licenses and I think by the time we're done with 2012, we'll probably have gotten most of what we would expect to lose from Alltel out of the run rate. Would not expect in 2013 and years beyond to not have any churn but I think the component being Alltel, most of that would be gone.

Simon Flannery: Thank you.

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

Brett Feldman: Yes, thanks. Just a couple of quick ones here. You talked about your liquidity that you're forecasting at least for 2012, the 1.2 billion and around 300 would go into discretionary capex, 900 being available for other investments. Could you just start off by dividing what those numbers are in 2011 so we can get some sort of relative change?

Jay Brown: Sure. I think from a land purchase standpoint that's going to be somewhere in the neighborhood of about $150 million. Secondly, the component around adding additional tenants to the sites, that will probably end up being somewhere in the neighborhood of $75- to $100 million, and then the final significant component would be the amount of capital that we've put into new sites. As we've spoken about over the last couple of quarters, that activity is largely distributed antenna system deployments and that would be somewhere in the neighborhood of $50 million, maybe a little bit higher than that. So that gets you pretty close to the $300 million.

Brett Feldman: Okay, great. And then for your guidance for next year, it looks like you're just sort of assuming the same exchange rate that you're using for 2011 which I think is a bit conservative relative to current levels. What's sort of the rough math on if the prevailing exchange rate remained intact? What that would do to the quarterly revenues or annual revenues as we kind of run some sensitivities on that?

Jay Brown: Based on the current spot rate, that would benefit about $5 million in revenue for the full year and $3- to $4 million to EBITDA.

Brett Feldman: Okay. And then just one last question just to say to the modeling exercise…

Jay Brown: Brett, importantly I think if you're looking at calendar year '11 to calendar year '12, but we're assuming basically exactly the same exchange ratio in '12 in our Outlook as we think actuals will look like in '11, so that 3 to 5, you've now made the periods non-comparable as you think through that.

Brett Feldman: Okay. And then just a last question here on modeling just to make sure I understand it right. Because it seems like some of the churn is going to be a bit more front end-loaded this year relative to ’11 and I think about sequentially modeling out quarters, does that mean that sequential growth rates in say the first and second quarter would be somewhat minimal and then a lot of the revenue growth you would expect over the course of ’12 would be in the third and fourth quarters?

Jay Brown: That’s correct.

Brett Feldman: Okay. Thanks for clarifying that.

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

Jason Armstrong: Hey, thanks. Good morning. Maybe just a couple of follow ups. First on the land deals and we’ve seen a number of them in 3Q and I totally understand the strategic logic and sort of reducing the risks around the cost structure over time but I’m just wondering from your perspective the pace of activity in 3Q and what we saw, what created that opportunity? Was it a different pricing environment from buying the land? Is it sort of a different level of a sense of urgency around taking it down amongst the different tower operators? Maybe just some context there would be helpful. And then second question, just back to the Alltel buildup. I guess a lot of us are kind of surprised to see that resurface at this point because if you look at A). what Alltel represented as a percent of your revenues when you went into the Verizon deal, you know, 3 to 4% so it was a pretty small manageable number; B). what we saw from Verizon’s cell site activity was a lot of decommission activity from 4Q ’09 through the second quarter of 2010 and then it really leveled out. So to see it resurface at this point, maybe it just suggests that your assumption around renewal rates on the stuff that comes up for grabs next year has changed and I’d just like a little more context around that. Thanks.

Ben Moreland: Yes Jason, this is Ben. On the land deals, I’d say it’s just opportunistic. I mean it’s something came up; we had an opportunity to purchase a number of sites in a single portfolio. Again all of them being sites that are under our towers and we look at it like just more of the same. It’s essentially two quarters worth of activity we were able to pull into the third quarter. I don’t know that that will happen again. We’re continuing to work on the same pace we’ve been on, on the internal process, as Jay mentioned, somewhere in the vicinity of $150 million a year kind of run rate, maybe $120 million a year run rate, and we talked extensively about the progress we’ve made and what that does for the long-term attributes of the business so I think you understand that.

On the Alltel situation, this is basically the churn that we would have expected. It took about 18 to 24 months for them to rationalize sites, get fiber pulled to other sites. I mean this was sort of an ongoing process that was resident within Verizon on rationalizing sites and I wouldn’t begin to speculate on what others had in their arrangements but this was part of a contracted termination arrangement on these sites as they go through and this is actually the churn that we felt from the deal. We didn't really have a whole lot when they did the deal. This is just delayed impact of that as they go through and rationalize sites and pull fiber to other sites. So again, it's all in the context of the backdrop, as it always is, around if you consider the significant investment that Verizon is making on improving and upgrading sites around their LTE overlay, you know, on a net basis it's a tremendous gain in terms of revenue growth for us on the Verizon account. It just so happens we're isolating this one negative event because it does actually move the numbers in 2012 as we've talked about. But it's always important to keep in proper context what's going on in the entirety of the Verizon undertaking.

Jay Brown: And Jason I think you correctly stated our exposure to Alltel back in the end of 2008 was about 3% of our revenues and the period of time which you articulated that others have seen churn, we did not see any churn from Alltel so maybe we just got an extra year or so of revenue and now we're experiencing some churn there.

Jason Armstrong: Okay. And as you look at the lease expirations for Alltel, you know, what you guys have seen over time and the renewal percentage that actually surfaced in those leases, what was it and what are you forecasting for next year?

Jay Brown: I think the churn that's embedded in, as I talked about, the total churn that's embedded of about 2% of revenues of which Alltel is a component of that, and we don't expect any additional churn from Alltel beyond 2012.

Jason Armstrong: Okay. And everything expiring from Alltel you're pretty much assuming nothing gets renewed and it would be an upside surprise if it does?

Jay Brown: No, if your question is are we assuming that all of the Alltel leases are going to be cancelled, no, we're not assuming that. Is that what you were asking?

Jason Armstrong: I was asking if the renewal percentage over time, you've got a certain amount of leases expiring from Alltel every year. To be conservative, I guess the approach would be let's just assume they do not get renewed but historically my sense is a good percentage of those actually did get renewed and so…

Jay Brown: I understand what you're saying and it would not be that we're assuming 100% of their licenses get terminated, just the ones that Verizon identified for us were not necessary going forward.

Jason Armstrong: Okay, great. Thanks.

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 my questions. If I could just follow up on that theme with one more and then go back to the organic demand. Just on this Alltel stuff, Jay, it sounds like it was a differentiating feature of your contractual relationship with Alltel that kind of allowed you to enjoy revenues for a longer period than others were able to and now we have this kind of cliff of churn. So it seems like you've known about it for a couple of years but we're only finding out about it today. Are there any more kind of skeletons in the closet with respect to the AT&T Dobson deal and your contract terms there or the Verizon/Rural Cellular deal and your contract terms there? Or any other contract or any other relationship that could be kind of one of these cliff events that we find out about the day of? That would be helpful. And then number two, just going back again to clarify on the $90 million of new business expectations for next year, I guess, Ben, you laid out a lot of the upside and to those we could add PCS has been talking about raising capex and Leap has been talking about raising capex but it doesn't appear that they're in the run rate today. So is it therefore that as you set guidance today, you're not including those kinds of intentions because they're not really in the visible pipeline today? Thanks.

Ben Moreland: David, first of all on your Alltel question and the notion of a cliff, let me help you with a little bit here. First of all, we're just now giving guidance for 2012 so we're not going to give you forward guidance for '13, '14, '15 or whatever else could happen out in the future. So when we talk about the concept of a cliff, let's keep it in proper context. I think Jay's comments indicated that our total churn for 2012 was expected to be around 2%. He also said that that's about 50% more by dollar amount than 2011 which would lead you to think that 2011 is about 1.3 or 1.4% area. So I hardly think that 60, 70 basis points of churn is a cliff so let's just keep the numbers in proper context here.

With respect to what we're looking at in terms of forward guidance on revenue growth, I think, you know as Jay talked about, we've got three active carriers going very actively on building out LTE or upgrading in the case of Network Vision. That's in the numbers. In terms of speculating on other upside, other spectrum launches, other things going on, here it's at the end of October, I think that would be really difficult for us to speculate on but—Jay, did you have anything you wanted to add there?

Jay Brown: No.

Ben Moreland: I mean I guess there's always potential upside. We saw upside in our Services business. We're always reticent to project that for obvious reasons but it'searly days and we're going to do the best we can to get all we can.

Jay Brown: I think typically, Dave, it has been our practice historically to wait until initiatives or intentions are funded before we would put it into our outlook and as my comments reflected earlier, Verizon, Sprint, AT&T, that activity all looks like it's funded and is running and so we based our outlook for next year on that. Around other intentions that have been discussed which we did not include, I think I would have to put the network sharing arrangement between Sprint and LightSquared, we didn't include any potential benefit from that in our 2012 Outlook.

David Borden: If I could just follow up and again, just to kind of address this issue because all of us have spent a lot of time talking about this Alltel question last night and why it showed up now and its impact and is it impacting the rest of the industry.. Could you speak to whether this relationship that you had with Alltel that led to this particular event was unique to this Alltel relationship and therefore we can kind of look out into the future and we don't really necessarily have to budget for potential changes of this nature again? Is that fair?

Jay Brown: Dave, I think what I would say is going back to the big picture comments that I made earlier, we've made a concerted effort over the last several years to improve the quality of these relationships with the tenant and the duration of these contracts. As we approach renewal dates which we laid out on one of the slides for you kind of show you what percentage of revenues come up for renewal in multiple years, sure, there's always the possibility that tenants don't renew. Historically, we've seen about 1 to 1.5% on an annual basis of churn. Typically, that churn is spread pretty equally throughout the course of the year. As we sat down and looked at our 2012 Outlook, it appears that that churn as we noted from Alltel is going to be heavily weighted towards the first half of the year so it's about 75% in the first half and 25% in the back half so the impact to revenues is more severe than it would normally be. Obviously by the time that you get to the end of the year it doesn't matter at what point in time in year that it cancels, it, from a run rate standpoint, will end up looking like similar to previous years in the neighborhood of 1.5% of revenues that are churned. But when you're comparing periods over periods, then, as Ben mentioned, maybe we're picking up an extra 60 basis points or 70 basis points of impact from that.

In terms of your question about other carriers and consolidations and what impact that might have, you know, I think we've articulated as various mergers have been announced what's potential book case of those outcomes is and ultimately we won't know until the carriers get through the process of integrating and in the case of Alltel it's an excellent example. Alltel was done back several years ago and it took three or four years before we actually saw the impact of the churn. So it may be a while before we see and can quantify for you exactly what the impact of any of the combinations that have happened over time with the carriers would be.

Ben Moreland: Just to put one more finer point on that, just backing into some numbers here for you Dave. It looks like about 40% of our licenses churn on Alltel. So if you go back to the 3% revenue, kind of back into it, it's about 40% would now have come put. That's happening in the latter part of this year and then all of next year. And then I think it's always important to look at the context of what has Verizon done since 2009 around building out LTE and significant revenue opportunities, significant investment in LTE and 4G to continue their market position and which we and our peers have all been the great beneficiary of. So while you do have some churn that you can isolate in a particular period, the overall picture is significantly positive as you look at revenue growth and that continues—even with this churn in the numbers, it continues into 2012.

David Borden: All right guys. Thanks for the detail.

Operator: Thank you. Our next question comes from the line of Michael Rollins with Citi Investment Research.

Michael Rollins: Hey, thanks for taking the questions. So the first question is so it sounds like you want to give AFFO and FFO details for next year. Does that infer that you're going to provide straight line impacts to revenue and costs and if so, can you give us an update maybe on where that is today? The second question that I had for you guys was really just around if you look at the third quarter and the second quarter and you look at the reported revenue growth rates that you've provided, can you give us the breakdown of what was from the—we'll call it increased occupancy versus what was the combination of escalation churn in straight line in terms of the growth rate? You know, I think in the first quarter of '11 by example, you mentioned it was roughly 7% from increased occupancy year-over-year growth that you got. Can you just give us a baseline of what Q2 and Q3 were in terms of the growth rates there? Thanks.

Jay Brown: Sure. On your first question, Mike, we do expect in our AFFO metrics to highlight or line item the impact from straight line rent and straight line rental expense so it will be both the revenue and the expense. I think roughly for the full year 2011—and you can kind of get to this by looking at the cash flow statement—a little over 90%, more than that possibly, of the RCF that we'll produce in the calendar year 2011will be cash. So it's in that area and certainly, you know…

Ben Moreland: With less than 10% non-cash.

Jay Brown: Less than 10% of it would be non-cash.

In answer to the second question, I don't know that I have right in front of me the components of the growth in the quarter, I think was essentially your question.

Michael Rollins: Yes.

Jay Brown: I think I've laid out in my comments that for the full year it was about 5 and 4 and I believe that that's very similar for each of the quarters during the year in the back half of this year, that we'll get somewhere in the neighborhood of about 5 and 4 from the benefit of 5% being the additional equipment and about 4% being the benefit from escalation. You can see on that page that we laid out on slide 12 that from a dollar amount standpoint, the benefits that we received for the GAAP revenues was about $60 million.

Michael Rollins: And did you qualify for '12 whether you thought that would be a front end-loaded or a back end-loaded year in terms of the new equipment?

Jay Brown: We didn't answer that question. From a churn standpoint it's obviously significantly front end-loaded so from a net leasing standpoint it will certainly be back end-loaded. From a leasing standpoint, it's probably going to be somewhat back end loaded as well.

Michael Rollins: Great. Thanks very much.

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

Clay Moran: Good morning. Two questions. Can you tell us for the 2012 guidance what does it imply for cash revenue growth? I guess somewhat similar to those last questions. And then second question, you did mention also on the 2012 Outlook that it does not assume any significant license extensions. Is that something you're considering currently? I would think that the Global Signal contract would be up soon so are you looking at doing a sizeable lease extension?

Jay Brown: Yes, Clay, on your first question, by implication as you look at the growth, the fact that all of the growth is coming from leasing activity, I think the majority of that revenue growth is going to be cash and as you…

Ben Moreland: Virtually all of it.

Jay Brown: As we get into the year and you can look at the AFFO metric and we'll be able to analyze that and you can see it precisely.

On the second question, as we laid out the next five years, there's roughly 36% of the tenant licenses that are going to come up for renewal; those are spread ratably and I would suspect that you will see us going through the process of renewing those as they come up. If we have an opportunity to move some of that forward, we may take that opportunity to do so but I wouldn't necessarily want to give you any guidance on that. As we noted in our outlook, we're not assuming that we pull forward any of those licenses from future periods and do any sizeable renewals in the calendar year 2012 but as we get into the year, if we decide to do that, we'll certainly tell you.

Clay Moran: Okay. Thank you.

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

Jonathan Schildkraut: Good morning. A few questions if I may. First, in terms of Alltel Verizon, if I could follow up on Brett's question. You know, we're running through the numbers in our model and I just want to understand because our model is pointing to potential here for sequential declines in site rental revenue so a little more color around that would be great. Secondly, on tower sites, you know you continue to decommission sites and kind of rationalize your cost structure. It's definitely had a positive impact on the margin side. As we look out longer term, you know we have been modeling site expansion or tower expansion. You know, can you give us some color on what the Company's plans are regarding that? And then finally, the Company has previously targeted 15 to 20% recurring free cash flow per share growth. Right now, from midpoint to midpoint on your recurring free cash flow in absolute terms, your guidance implies about 8% year-over-year growth which would point to—call it 650 to 750 million of share buyback to get into that 15% range. Is 15 to 20% still the Company goal? Thank you.

Jay Brown: On your first question, Jonathan, we're not going to give guidance by quarter for 2012 but I'm not—we're not expecting sequential declines in site rental revenue as we get into calendar year 2012. I think we'll have sequential increases. I think certainly the amount of those increases as we move from Q4 to Q1 2012, those will be less than what we would expect in the back half of the year as you move from Q2 to Q3 and Q3 on to Q4 as a result of the churn that we talked about in our previous comments.

Jonathan Schildkraut: Understood.

Ben Moreland: On the site decommissioning, Jonathan, I'd say that's a fairly minor activity and not something that's going to have a significant impact. We're obviously rationalizing some sites and then in terms of adding new sites, you know, we're always in the market. We've done a few acquisitions this year. I would like to see us add assets and further be able to leverage some talent with what we're delivering on the operating side of the business today but we're only going to do that where we're confident can generate a return that's in excess of frankly what we can get buying our own stock and that's always the opportunity cost dilemma that we put ourselves through around here and a lot of days frankly the acquisition doesn't prevail. But we'd love for it to and we'd like to find other assets to acquire but only on the disciplined approach that we've talked about.

And then that leads us to sort of your RCF per share growth question. You know as you saw from this year, 2011, this fourth quarter that suggests we're going to do 18%, coming off the string from 2007 where it's been about 19% I guess we said all the way through 2011. So we're very pleased with that and going forward as I look out, you know, the organic growth of about 10% recurring cash flows on the current share count and then the current cash we have available in terms of cash flow, about a 7% yield today, chances are if history is any guide, we'll end up using part of that to shrink the share count and part of it to add assets, again, based on this methodology and relative values that we always focus on. And so it's our expectation that you should still be able to count on sort of mid-teens growth if we're putting that cash flow to work properly and that's our expectation.

You know, it's very clear to me that at some point in the future, and that's probably at the longest when we burn off our net operating losses, we'll be a significant dividend payer and likely a REIT structure. It's very difficult to find an example of a model where you can otherwise take out and not incur corporate income tax level where that doesn't ultimately prevail and the prevailing school of thought is we will convert to a REIT once it becomes efficient to do so and we've burned off the NOL.

So we are very focused as a management team on the notion that there's a date certain and the longest time that is, is when you burn off the NOLs. It could actually be sooner when we're going to be valued on the dividend approach and growth. And so anything we spend capital on, whether it be buying shares or buying assets, we are focused on driving that distributable cash flow per share as high as we possibly can and I think it's important to think about Crown Castle as having somewhat of a unique window of time of flexibility where we can put this capital to work in the most productive way before we lock ourselves into a dividend approach which will be ultimately a fairly significant dividend in all likelihood because of the tax depreciation and the rapid pace that it burns off, the necessary cash that's distributable at that point in time to eliminate the net income in the REIT, looking out a few years will probably be a very significant component of our free cash flow.

So any way, that's really how we're thinking about it. I would say that my objectives are still sort of mid to high teens. We've done that here in the most recent year and there's been no change in that view going forward.

Jonathan Schildkraut: That's very helpful. Just to follow up on that, can you give us an update on where your NOLs stand? They may be higher than we can calculate on our own given the opportunity to take advantage of accelerated depreciation.

Jay Brown: Our number is about $2 billion currently so it's not moved much and our current planning is that we'll burn that off in the neighborhood of 2015 and as we've talked about in the past, we would expect the REIT conversion to come about somewhere in the neighborhood of the beginning of 2016.

Jonathan Schildkraut: Thanks so much.

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

Rick Prentiss: Thanks guys. Hey first, applaud, thank you. AFFO has been a long time coming; glad to see it being reported. Really appreciate that. Can you give us the guidance in 2012 in an AFFO basis too or kind of the percentage like you gave for '11?

Jay Brown: Not yet. Not yet.

Ben Moreland: But we will.

Rick Prentiss: Good stuff. But again, major item. I think it's been an issue with the stock. I think it's been an issue with REIT investors as they look at it and say, "We need to see AFFO and straight line. It's very important." So appreciate that.

Second question is in your 2012 guidance, how much Service business is assumed there? Is it kind of this really significant level we've seen in the last couple of quarters? Does it revert back to a lower level?

Jay Brown: Sure Rick. We've assumed for the full year '12 a level similar to what we would expect for full year '11. So the contribution there is a little over $60 million is what we're expecting for 2012.

Rick Prentiss: Okay. And in regards to how you'll book the Sprint MLA, should we assume that the lease extensions happen on a site-by-site basis and your revenue guidance includes the fact that you have the extension gap math working just on a as-touched basis?

Jay Brown: I don't know that we want to specifically get into how the contractual terms of our leases work with any one of our customers. We talked about last quarter as Sprint announced the transaction that we had done with them that it's an activity-related contract so we will receive rents and revenues from them as they go out and touch the sites for Network Vision but I think beyond that I'll be quiet about how the contract works.

Rick Prentiss: Sure. And one final question on the land deal, the one-time purchase. So was that from one owner?

Ben Moreland: Yes.

Rick Prentiss: How many of your land sites are owned by somebody that owns more than a site after this transaction? In other words, how much concentration is in post-transaction?

Ben Moreland: Sure. This is one owner, one owner transaction and in terms of what's out there that's been aggregated, I'm aware of about 100 sites in one owner's hands and Jay, there's one more, right? Smaller?

Jay Brown: I think about 70.

Ben Moreland: About 70 in another one and that's it as far as we're aware.

Operator: Thank you.

Rick Prentiss: And how many was in this one?

Ben Moreland: We haven't disclosed that because, for obvious competitive reasons, we're in the market buying every day.

Rick Prentiss: I figured I'd ask though.

Ben Moreland: Okay.

Rick Prentiss: Thanks a lot guys. Have a good day.

Ben Moreland: All right, thanks Rick.

Jay Brown: Thanks Rick.

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

Phil Cusick: Hey, thanks for taking the question. You know the one thing I wanted to go back to was on the Services side and this was asked a little bit earlier but can you just remind us of how specific contracts in your Services business work? How much lead time do you have on those? How much do you have to staff up with more demand? Just help us think about the visibility in that business.

Ben Moreland: Yes Phil, I'd say we get really good visibility three months out. And there's always variability in there and fortunately it's been running in our favor so when our guys come in with their forecasts, fortunately for all of us they've been sort of hitting the high end of their forecast every quarter and we've become quite accustomed to that, if they're listening. But nonetheless, it's about three months. So when you get out in the six month area, you've got a pipeline and you've certainly got an expectation and we've got a pretty good track record of delivering but we get very cautious beyond about that period, although I would add to the fact that we've gotten better at the take rate, we've gotten better at sort of predicting what we're likely to see from the application volume and by customer, so we know what we're doing by customer and which regions of the country we're more engaged and which we still have some work to do. So we're able to make ever-increasing, probably better forecasts around what that level of activity will be but it's not a precise science and it has been cutting our way lately which I'm quite happy to say but, again, it's not always assured and could have some variability in it.

Phil Cusick: So I think this was asked earlier but can you sort of talk about what the guidance implies just for Services year-over-year?

Ben Moreland: Yes, it's about flat. We're assuming flat contribution for '12 versus '11 and so that's not insignificant. That's moving pretty good and so that's the confidence we have in the team and obviously we're going to work very hard to deliver it.

Phil Cusick: Good. Thanks guys.

Ben Moreland: You bet. I think we're right on the hour. I want to thank everybody for joining us on the call today and your continued interest in Crown Castle and look forward to finishing the year and we'll talk to you on the year end results probably toward the end of January. So thanks again.

Operator: Ladies and gentlemen, this concludes the Crown Castle International Third Quarter Conference Call. If you'd like to listen to a replay of today's conference, please dial 1-800-406-7325 or 303-590-3030 and enter the access code of 4478158 followed by the pound sign.

Thank you for your participation. You may now disconnect.

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