CROWN CASTLE INTERNATIONAL, #4568261
CROWN CASTLE INTERNATIONAL
THIRD QUARTER 2012 EARNINGS CALL
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Chairperson: Jay Brown (Mgmt.)

Operator: Good day ladies and gentlemen, and thank you for standing by. Welcome to the Crown Castle International Q3 2012 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 would like to withdraw your question, press the star, followed by the two, and if you are using speaker equipment, please lift your handset before making your selection. This conference is being recorded today, October 25th, 2012.

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

Fiona McKone: Thank you. Good morning everyone and thank you all for joining us as we review our third quarter 2012 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 such 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 is available in the press release and in the Risk Factors sections of the Company's filings with the SEC. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. Our statements are made as of today, October 25th, 2012, 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, Funds from Operations, Funds from Operations per Share, Adjusted funds from Operations and Adjusted Funds from Operations 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 Adjusted Funds from Operations, or AFFO. 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 2012 Outlook for Adjusted EBITDA. In addition to our strong operating results, we recently announced an agreement to acquire the rights to lease and operate approximately 7,200 T-Mobile towers in the U.S. for $2.4 billion with a similar concentration in the top urban locations as our existing tower portfolio, reinforcing our position as the largest provider of wireless infrastructure in the U.S. We expect to close this transaction later this quarter and then we'll talk more about why we were excited about this investment and other recent industry news.

Further, on October 15th, we closed on a $1.65 billion senior notes offering, the proceeds of which, together with cash on hand and drawings under our revolving credit facility, are expected to be used to fund a portion of the—the fund the consideration of the T-Mobile tower transaction.

With that, let me turn to slide 4 as I highlight some of the results of our third quarter. During the third quarter, we generated site rental revenue of $539 million, up 15% from the third quarter of 2011. Site rental gross margin, defined as site rental revenues less costs of operations, was $403 million, up 16% from the third quarter of 2011. Adjusted EBITDA for the third quarter of 2012 was $400 million, up 20% from the third quarter of 2011. As shown on slide 5, AFFO was $230 million, up 22% from the third quarter of 2011, and AFFO per share was $0.79, up 20% from the third quarter of 2011.

Moving on to investments and liquidity, during the third quarter as shown on slide 6, we spent $124 million on capital expenditure. These capital expenditures included $30 million in our land lease purchase program, $8 million on sustaining capital expenditures and $86 on revenue generating capital expenditures consisting of $37 million on existing sites and $49 million on the construction of new sites, primarily distributed antenna systems deployment, or small cells.

On October 15th, we closed on the aforementioned $1.65 billion senior notes offering with an interest rate at 5.25% per annum. These notes mature in 2023.

Pro forma for the closing of the T-Mobile tower transaction, we expect total net debt to annualize Adjusted EBITDA to be less than 6.5 times.

Moving to the Outlook for the fourth quarter and full year 2012 as shown on slide 7 and slide 8, we expect site rental revenue of between $538- and $543 million and Adjusted EBITDA between $398 and $403 million for the fourth quarter of 2012. The sequential change to site rental revenue for the fourth quarter is negatively impacted by approximately $2 million of non-recurring site rental revenue we received in the third quarter that we do not expect to recur in the fourth quarter. Additionally, the assumed Australia exchange rate in the fourth quarter is lower than the actual exchange rate in the third quarter, resulting in a negative impact of approximately $1 million in site rental revenue as compared to the third quarter. We are forecasting services gross margin in the fourth quarter to be lower by approximately $2 million from the third quarter. Further, AFFO in the fourth quarter of 2012 includes $18 million of interest expense associated with the recently closed $1.65 billion financing, the proceeds of which we expect to use to fund the T-Mobile tower transaction.

Our revised Outlook for 2012 suggests annual site rental revenue growth of 13% and AFFO growth of 16%, including the impact of the aforementioned interest expense. Moving to the Outlook on slide 9, on an apples-to-apples basis, we expect AFFO growth in 2013 to be approximately $120 million, essentially the same amount of growth we are forecasting in 2012. For the full year 2013, we expect site rental revenue of approximately $2.2 billion, Adjusted EBITDA of approximately $1.6 billion and AFFO of approximately $885 million. As noted before, we have excluded any benefit from the T-Mobile tower transaction in our outlook, both in 2012 and 2013. However, given that we have closed on a portion of the financing for the expected transaction, we have included the interest expense of approximately $86 million for the full year 2013 associated with the $1.65 billion senior notes.

At a high level, our 2013 Outlook for AFFO indicates 14% growth in AFFO per share before the expected benefit from the investment of our expected 2013 cash flow and the T-Mobile tower transaction. Generally, we believe the investment of our cash flow can add approximately 400 to 600 basis points to our growth rate in AFFO per share, as has been the case for the last several years.

We believe that AFFO per share is the best metric to value our business as it represents our potential dividend capability as we expect to convert to a REIT in the coming years, after we have largely consumed our net operating losses. As you have heard us say for a long time, we evaluate the decisions that we make in the business based on this on the long-term impact to cash flow per share and AFFO is the best proxy for this.

As you can see from the Outlook, this growth rate and the AFFO is meaningfully higher than the growth in site rental revenue and Adjusted EBITDA. So I'd like to take a few minutes to walk through some of the various assumptions in our 2013 Outlook.

The 2013 Outlook for site rental revenue growth of approximately $100 million assumes that the majority of the 2013 leasing activity comes from the four largest U.S. carriers as amendment activity related to 4G deployment. As a result of Crown Castle's previously disclosed agreements with these four carriers, a significant portion of the revenue benefit of this 2013 amendment activity is already included in the run rate of site rental revenue as of the third quarter of 2012. With regard to our expectations from small cells, we expect site rental revenue from small cells to increase approximately 40% in 2013 compared to 2012. The demand for small cells continues to exceed our original expectations as we are building systems, laying infrastructure and staffing appropriately to meet this demand. The vast majority of the growth in site rental operating expenses is related to the expansion and deployment of new small cell systems. Further, we expect year-over-year site rental revenue growth from Australia of approximately 9% as the carriers are beginning to upgrade for 4G and we begin to see the benefit from the deployment of the National Broadband Network.

In addition, the 2013 Outlook assumes 2% growth from escalators on the existing run rate of revenues off-set by tenant terminations of approximately 1% of total site rental revenue which is consistent with historical averages.

With regard to our services business, we are expecting the contribution to gross margin to be similar to that of 2012. As shown on slide 9, the net results of these assumptions is that we expect site rental revenue for 2013 to increase approximately $100 million and Adjust EBITDA to increase approximately $65 million. The greatest impact to our incremental margins is our decision to continue to expand and invest in small cells which we believe we'll have terrific long-term returns but requires a meaningful investment in operating expenses as we scale the business and deploy new systems. As such, we expect 2013 AFFO to increase by approximately $120 million, or 14% compared to 2012, excluding the expected benefit from the T-Mobile tower transaction and the 2013 interest expense associated with the $1.65 billion senior notes raised in advance of the expected transaction.

Turning to slide 10, our 2013 AFFO benefits from the cash impact of new leasing activity and the significant increases in the contracted cash payments under the previously announced agreements with our customers related to the ongoing 4G deployments. As we've mentioned over the last several years, we have been very successful in working with our customers to extend the terms of our site rental contracts and gained certainty of the benefit from the deployment of 4G across a significant portion of existing leases on our U.S. tower portfolio. Over the past three years, we have been able to renew and extend approximately two-thirds of our customer contracts with initial terms of up to 15 years. Due to these long-term customer contracts with fixed escalations, in the early years of the term we recognize site rental revenues in advance of the contracted cash payments from our customers in accordance with Generally Accepted Accounting Principles. We have a similar dynamic in the site rental expenses as we recognize higher site rental expense than the actual cash rental payments as a result of renewing our ground leases with fixed escalations for long periods of time. As shown there, we have graphed all of our existing leases, particularly with regard to our revenue tenant leases for years 2012 through 2020 showing the expected reported amounts of cash receipts. As shown, we would expect that beginning in about 2015 or 2016, our cash receipts from tenant leases will exceed the amount of reported site rental revenues. For purposes of generating the graph, we have assumed that all leases are renewed at their respective term end dates.

As illustrated in the graph based on the aforementioned assumptions, we expect that our cash receipts from our existing tenant licenses will grow at approximately 4% per annum for years 2012 to 2020 based on the contracted terms of these licenses. We have made no assumptions in the graphs with regard to additional tenant leases.

The cash benefit of these lease agreements is reflected in our AFFO Outlook which is the primary reason our expected growth in AFFO exceeds our expectation for growth in Adjusted EBITDA in 2013.

On slide 11, with regards to our capital spending in 2013, we expect to invest approximately $350 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 small cells. Our AFFO after expected capital expenditures represents a little of $130 million per quarter of cash flow that we could invest in activities related to our core business, including purchases of our shares and acquisitions. Consistent with our past practice, we are focused on investing our cash in activities we believe will maximize long-term AFFO per share.

While not included in our 2013 Outlook, let me quickly run through the expected benefit of the T-Mobile transaction which is outlined on slide 12. We estimate that the T-Mobile towers will produce approximately $125 million to $130 million in AFFO before financing costs in 2013. Further, we expect to fund the balance of the consideration beyond what was raised in the 5.25 notes offering for the T-Mobile tower transaction through drawings under our revolving credit facility which has a borrowing cost of LIBOR plus 250 basis points, or approximately 3% currently. As a result, we expect the T-Mobile tower transaction net of the related debt financing costs to be accretive to our Outlook for AFFO in 2013.

In summary, we had an excellent third quarter. We're very pleased to have been able to access the capital markets at a very attractive rate to fund our T-Mobile tower transaction bringing greater clarity to the accretion we expect from the transaction. We are excited about the growth we are seeing in small cells and we expect to deliver mid- to high-teens growth in AFFO per share in 2013.

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. It's a busy time this week with a lot of calls. As Jay just mentioned, we had an excellent third quarter, exceeding our Outlook for site rental revenue, site rental gross margins, Adjusted EBITDA and AFFO and we are excited about our business as we look to the balance of the year. As you know there is currently a significant amount of activity in our industry as all four major U.S. wireless carriers are engaged in major network upgrades simultaneously and we are enjoying unprecedented visibility into future growth as reflected in our increased 2012 guidance and our initial Outlook for 2013.

We continue to make great progress integrating the NextG and WCP assets and are very pleased with the performance and growth of the small cell networks which have exceeded our initial expectations. In fact, organic leasing growth in small cells is above our business plan and we are excited to be investing in this growth area.

This activity is consistent with our continued—with the continued adoption by the carriers of small cells to create a better and more seamless experience by users in areas that are not adequately covered by the traditional macro tower infrastructure. According to ABI research, both DAS and small cell equipment sales should reach the $2 billion mark by 2016.

In addition to the continued growth of our site leasing business, I am very pleased that our services business continues to perform very well, reflecting the significant level of network upgrade activity in the market. Services revenues were up 84% and service margins were up 63% compared to the same quarter last year. This success results from a diligent effort to capture more of the opportunities to assist our customers in locating or upgrading installations on our sites and reflects the doubling of activity we were seeing from all four major carriers as they upgrade their networks compared to a year ago.

In addition to our strong organic leasing results, you might have heard we recently acquired—announced the agreement to acquire the rights to the T-Mobile sites to lease and operate approximately 7,200 towers which we expect will close later in the fourth quarter. We are thrilled with this transaction for a number of reasons.

Most importantly, consistent with our disciplined approach to maximizing long-term AFFO per share, I believe this transaction will be more accretive to our long-term growth rates and enhancing shareholder value relative to other potential investments such as even buying our own stock. As Jay mentioned, we expect this transaction to be accretive both to our 2013 expected AFFO per share and approximately 5% accretive to our long-term expected AFFO per share. We expect this transaction to close later in the fourth quarter and are very excited about the significant growth opportunity it provides.

Further, these towers are urban-centric, complementing our existing portfolio with 83% in the Top 100 markets and a significant concentration, 72%, in the Top 50 markets. As you know, the top U.S. markets are where wireless traffic is heaviest and where carriers traditionally focus their efforts on deploying new technology, upgrades to existing technologies such as the current LTE upgrade.

This transaction positions us as the pre-eminent wireless infrastructure provider in the U.S. with an unrivalled tower footprint and furthers our strategic objective of being the leader in shared wireless infrastructure in the U.S. which we believe is the fastest growing and most profitable wireless market in the world. In fact, the CEO of SoftBank echoed this sentiment during the recent press conference on SoftBank's investment in Sprint, citing the attractiveness of the U.S. wireless market due to rising ARPU, increasing smartphone and tablet penetration and growth of multiple subscriptions as key reasons for his $20 billion agreement with Sprint.

Similarly, T-Mobile's planned merger with Metro PCS further confirms out thesis that the U.S. wireless market has significant growth potential. We believe that both the SoftBank and T-Mobile investments in the U.S. wireless market will be very beneficial to our industry. We are pleased to see the recent SoftBank and T-Mobile actions endorsing our view of the U.S. wireless market.

To that end, we are investing in adding resources to take advantage of the market opportunity we see. Some of this can be seen in our Outlook. We are investing in the operation and installation of more small cells. I believe this investment decision wields significant benefits, not unlike when we invested years ago to build our own land lease acquisition capability.

Before I turn the call over for questions, I want to spend a minute on the trends that continue to drive the growth in our industry, particularly as it pertains to LTE deployments. Verizon reported on their recent earnings call that the influx of LTE smartphones increased the number of LTE devices on their network to almost 15 million devices from just over 3 million during the same period last year. Sales of LTE smartphones, tablets and modems are ramping quickly with a 44% increase between the second and third quarter of this year. LTE devices now comprise over 16% of Verizon's post-paid subscriber base.

AT&T further confirmed this trend stating that smartphone penetration had reached 64% of total subscribers.

As the number and adoption of LTE-enabled devices continues, we expect that it will provide a further catalyst for mobile data traffic growth. During the first quarter of 2012, only 5.6% of U.S. subscribers were on a 4G network and some research suggests or predicts a 16-fold increase in monthly mobile data traffic between 2011 and 2016 fuelled by the faster and more robust LTE networks being deployed.

Clearly, the mobile Internet is the most pervasive trend driving consumer behavior today and we are well-positioned to benefit from this growth in mobile data traffic. In fact, in 2012, this year, we have made over $4 billion in acquisitions pro forma for the T-Mobile towers, strengthening Crown Castle as the leader in shared wireless infrastructure like towers and small cells, where we believe our solution-based approach will be very attractive to carriers of today and tomorrow.

Today, we are the largest wireless infrastructure provider in the U.S. with an urban-centric portfolio where we expect capital spending activity to be the highest. We remain focused on the U.S. market, the largest and fastest growing market in the world where we see the ability of the wireless carriers to make profitable investments is most apparent and barriers to entry remain high.

We are thrilled with the T-Mobile tower transaction which reinforces our industry-leading position and we believe is accretive to both short-term and long-term AFFO per share. And leveraging our experienced management team, customer relationships and service offerings across our unrivalled power footprint, together with our leadership in small cell networks, positions us as the provider of choice as carriers continue to enhance their networks to meet ever-increasing wireless demand.

We can certainly see this occurring today in our results as we are very pleased to be acting as a critical partner in the LTE upgrades being executed by our customers and the growth in small cell commitments that we are seeing. We appreciate their confidence and are working very hard to meet their deployment timelines.

So to wrap up, as Jay mentioned, our initial outlook for AFFO growth for 2013 of $120 million is essentially the same as our expectations for completing 2012, before accounting for the expected benefit of the T-Mobile tower transaction and the prospective investment of our significant and growing free cash flow across the balance of next year. In other words, we see a path to AFFO growth accelerating next year.

So we look forward to finishing the year strong and we are committed to remain committed to delivering mid- to high-teens growth in AFFO per share, maybe even 20% as a stretch goal I'd like to pass along the office if things continue to go our way.

So with that, Operator, we'll be happy 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 touch-tone phone. To withdraw your question, press the star, followed by the two, and if you are using speaker equipment, you will need to lift the handset before making your selection.

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

James Ratcliffe: Good morning. Thanks for taking the question, two if I could. First of all, can you talk through a little bit now that you've had, I imagine, a further chance to look at the assets? What's your thoughts on the timeframe for lease-up for the T-Mo towers is and how you think about the long-term run rate? I mean the existing portfolio is about three tenants per tower; where do you think that can get to over time for the T-Mobile towers? And secondly, when you look at 2013, the available 530 or so million capital, have you seen anything changing in the environment that—regarding deployment of the capital in terms of purchasing assets versus investing in your own stock? Thanks.

Ben Moreland: James, I'll take the first one and let Jay take the second one on the deployment of cash. As we have worked now through and start preparing for closing on the T-Mobile assets, our level of enthusiasm has only grown. We continue to see and expect significant leasing opportunities as we bring those sites in and integrate them and market them and are able to provide the solutions-based approach both on services and the site leasing that those sites represent. As you know, it's a very significant increase in our footprint. It's about a 33% increase in our footprint with a very high concentration in the Top 100 markets and so based on very preliminary indications from customers, we are more enthusiastic I'll just say than we have even at the beginning and time will tell but we think we're going to be quite busy with those sites.

So Jay, I'll let you take a crack at how we'll invest…

Jay Brown: James, on the second question around the $530 million that we have to invest, our strategy is the same as we've had for a number of years which is we look to invest that cash flow in the opportunities that we think have the best chance to maximize long-term cash flow per share and on that list of things that we will look at is everything from buying back our own stock which we've done a significant amount of over the last decade, as well as doing things like tower acquisitions and building sites, particularly building small cell sites, the small cells that Ben talked about in his comments and I made some reference to in my comments. So I don't think there's any change in terms of how we look at investments and allocating that capital and we don't have any preconceived plan as to what the allocation among those will be. We'll look at investments as they come up and allocate them to maximize long-term cash flow per share.

One item I will note for you, to some degree we may use a relatively small portion of that cash flow to reduce the revolver borrowing. As you know, we're a little bit ahead of our targeted level of leverage range, about four to six times. So we'll have growth in EBITDA that will move us back into the range relatively quickly but we may use some relatively small portion of that cash flow to reduce the revolver balance, but we'll have to see how it goes into the course of the year, but really no change in the strategy.

James Ratcliffe: Thank you.

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

Simon Flannery: Thank you very much. Good morning. I wonder if you could just give a bit of color underneath the 2013 guidance. To what extent have you included any new activity from Clearwire or from DISH in there or would that all be incremental to what you disclosed last night? And also, we're hearing more about companies that may be exceeding the boundaries of their initial MLAs. They're needing to put more gear up quicker than expected. Is that something that's starting to become important and. again, to what extent are you baking some of that in as well? Thank you.

Ben Moreland: Sure Simon. On the first one it's pretty simple. There's really not anything included prospectively around Clearwire or around a prospective DISH network launch or sharing opportunity that they may avail themselves of with another carrier. We'll just have to—as we've said on prior calls, we're certainly open for business and open for dialogue there and we anticipate that will be a good outcome but that's certainly not in our Outlook so far.

And the second…

Simon Flannery: The second question was around the excess gear that we're seeing some of the carriers…

Ben Moreland: Oh yes, we are seeing some of that. We are seeing in various cases, and it's not insignificant but hard to forecast, where exceeding the original terms of the MLA and taking a second RAD center on an existing site to deal with the capacity challenges they're finding in that particular location. That's a hard thing to forecast, Simon, so we wouldn't try and quantify it for you but it's certainly something that we're seeing.

Simon Flannery: And is that a sense that the traffic is just a lot greater than their original plan suggested? Is this happening earlier than you or they expected?

Ben Moreland: Well I'd have to let them speak to the timing but it's generally the configurations ultimately exceeding the capacity on the existing RAD center and or the height distinction based upon different frequency that they're requiring and so we're seeing occasions where they are taking a second RAD center on the site.

Simon Flannery: Thank you.

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

David Barden: Hey guys, thanks for taking the question, just two if I could. First, maybe for Jay, just if I'm doing the math correct. So if I'm looking at AFFO guidance it starts with 14% growth in the 120 million which is coming from the core and then if you're talking kind of 125 to 130 for T-Mobile, 109 million of interest costs which are 5.25 on the 1.6 and 3% on the rest, that gives you about another 18 million on top of the 120, and then if you reinvest your existing cash flow, you get 4 to 6% growth on top of the base which is another 5% which is another 40 million, so if I add those up, 120, 18, 40 plus, I get something around 21% AFFO growth based on the comments on this call. I just wanted to kind of make sure I was looking at that correctly and that's all before anything else happens in terms of new demand. Is that fair, Jay?

Jay Brown: You've done it correctly, David.

David Barden: Okay, great. And so that's a—it sounds like a good news story. The thing I think the market is struggling a little bit with is trying to square that with the historical perception that the tower business is it's 5% cell site growth and 4% escalators minus 1% churn is 8% revenue growth and what it kind of sounds like you're baking into the model here is almost no new cell site growth at all, some escalators, some churn and you're netting out to a much smaller revenue number than people are used to seeing and I guess the question really is, is what you're telling us about the demand profile, is this a sea change in the evolution of the industry? Is this a conservatism? Is this something that is getting lost in the translation from GAAP accounting to cash accounting? Why doesn't this look like what we're used to seeing in terms of growth from this company?

Jay Brown: Sure. That's a great segue to go back to kind of what I was trying to step through in my prepared comments around the differences between the growth in Adjusted EBITDA versus as you've correctly laid out, the growth in AFFO. So we were expecting AFFO growth on a normalized or an apples-to-apples basis of about $120 million and if you go back up to the Income Statement and look at Adjusted EBITDA, about $65 million of Adjusted EBITDA growth, and the difference there is the function of really two things. First of all as you've highlighted, there are some differences in terms of the cash revenues that we're collecting and our GAAP revenue. So over the last several years as we've announced, we've done a number of agreements with carriers who are now pulling 4G activities and those agreements gave them certain rights to add additional equipment to our towers based on the contracted cash payments that they made with us. So under Generally Accepted Accounting Principles, we have to go in and go ahead and book that revenue because it's certain on the day at which we make the agreement with the customer and then when we receive the cash, over time. And so what's happening in our numbers now is you're seeing the significant uplift in the steps of cash payments from these customers associated with that activity. Now in the past, we didn't have certainty of the activity so as we would go into any given year and we added tenants to the towers that would represent both new revenue and new cash. In this case, because we have certainty of the activity, the revenue is already included in the run rate as we leave 2012 and then over the course of the year we get the contractual steps and cash payments from those leases. And so during the period of time—all that's to say during the period of time under which we're—the carriers are deploying the 4G equipment as permitted under their agreements with us, we don't expect to see a real large meaningful impact to site rental revenues but we do expect to continue to get the benefit of the contractual cash step in those payments. So that's the first reason.

The second reason is the comments that I made around our small cells business and we are making an investment, as you can see in the cost increase in 2013 from 2012, we're making an investment in operating costs and those operating costs are driving two things. One is giving us operational scale in the business so that we can continue to operate these systems, and the second one is deploying new systems and the combination of those two creates incremental margins that are lower than what we've seen in the past and that's all being driven by this investment of additional operating costs in the small cell business. So that's really the reason why you've got this separation which, as you correctly point out, is different than what we've seen in the past but at the same time, it's, I think, one of the reasons why we've tried over the last several years to focus our conversation on cash flow per share and this is long-term the best—as we believe, the best indication of what our capability is to issue a dividend over the long period of time. So that AFFO per share number reflects all of the changes in how we structure the customer agreements and we're seeing the benefit of big steps in cash.

David Barden: Got it. That's helpful. Thanks Jay.

Ben Moreland: I would just add one other thing to that. For example, the activity we've seen in the last quarter, in this third quarter, about 70% of the activity that we saw going on the towers was actually pre-sold, so it's important to remember that these contracts that we did were effectively pre-selling the 4G upgrade activity across the significant base of our customer base, and so we’re now collecting the cash for that and those are contracted cash payments over the term of those licenses, as Jay mentioned and we’ve talked about before, nine years of term and the graph shows from 2012 to 2020 that contracted escalator of about 4% across the entire book of business. And so that is sort of the all-inclusive number and so you see the cash going up but the run rate to a large degree related specifically to the 4G upgrades are already pre-sold. However, you do make a point which we certainly expect to see over time, it’s just hard to see at the moment, and that is increasing levels of leasing and sales beyond what’s already contracted and that would be from cell splitting, that would be from the second RAD center we talked about a minute ago, people taking more than is permitted under the current MLAs, the growth in the small cell business. All those things we think become more meaningful as we go through these LTE upgrades and that is incremental revenue and obviously cash flow over time but certainly not contemplated in the current agreements that are making up for the majority of our current revenue stream.

David Barden: Perfect. All right. Thanks Ben.

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

Marc Albanese: This is Marc Albanese on for Jonathan. Just around network services, when thinking about 2013, should I really be focusing on your run rate in the third quarter or more of a blended average on 2012? And also, when you do look to convert to REIT, are these going to be part of a TRS or QRS? Thanks.

Ben Moreland: Yes, the first question, with the big growth from all the Crown Castle people working on this, I'd say we're focused on sort of the current run rate and we are seeing a tremendous amount of activity. We've got a lot of people working very hard to deliver that, but that's basically our focus is sort of the second half of the year run rate.

Jay Brown: Marc, your second question, I would say we're still in the early days of preparing for a REIT reconversion. Obviously, we don't expect to exhaust our net operating losses until 2015, towards the end of 2015 or early 2016, so we're in the early days of beginning this work. However, I would tell you, from our initial look at it, the vast majority of the services work that we perform would qualify as REIT income and so we would expect, at least at this point, I would expect that our services business will not be in a separate taxable REIT subsidiary.

Marc Albanese: Great, thanks Ben.

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

Ric Prentiss, your line is open. Please go ahead.

Ric Prentiss: Yes, I'm here. Sorry, it's been a long day. I want to follow up on some of David's comments, maybe give you a couple of quick questions on the guidance front. First, when the T-Mobile deal closes, will you consider updating guidance at the closing or do we expect that that should come on the next quarterly call?

Jay Brown: I believe we'll update it when we get to January—at the end of January when we report our fourth quarter results.

Ric Prentiss: Okay. Second question, you've talked a lot about the spending on the—investing in the small cell side. Is that both—am I interpreting it correctly that that's both opex and capex? And if so, what line item in the opex area will that affect?

Jay Brown: Yes, it is some of both. And Ric, I think, as I articulated, the spending there on small cells, I think on the capital side we will continue over time to make investments in these to build additional systems. We believe that on the operating expense side, which is going to hit site rental direct operating costs, so as you look at the numbers, that would impact site rental gross margin for 2013. We believe that is a bit of a one-time step-up as we build scale into the—operating scale into the business, but that is affecting our direct site rental gross margins.

Ric Prentiss: Okay. And then on your capex budget that you gave towards the end of the presentation, can you break that down into the different categories of land and augmentation and small cells?

Jay Brown: Sure. On the—on land side, we'll spend in the neighborhood of about $100 million on land. We'll spend about $100 million on—$100 million to $150 million on distributed antenna systems or small cell activity, and then we'll spend most of the rest of the balance of that on upgrading existing sites for new tenants, and then there will be some small portion of that capex that will be spent on building new towers.

Ric Prentiss: Okay. And then probably the more interesting question, T-Mobile, when they made the announcement of buying Metro PCS, has mentioned that they want to keep the DAS network or DAS networks that Metro had built for them, and I think several of those were done by NextG. T-Mobile mentioned that they need to add not just—would have the CDMA network but they need to add the GSM, HSPA Plus, LTE. Is that in your guidance yet and what are your thoughts about that co-location opportunity on those DAS networks?

Ben Moreland: We've been a little gentle in our DAS guidance, Ric. We are tracking ahead of our original acquisition model on the NextG acquisition but, as you rightly point out, those amendments that would come across an existing base would be additional revenue opportunities and we look at it really as a total pot of new revenues. So we go through it at a line by line granular level and look at, okay, here's amendment opportunities, here's the additional co-location opportunities and then here's brand-new system opportunities to which we are, in fact, engaged by Metro PCS today on some systems which we're very pleased with. So we really build it from the ground up, and so we're not always sure as—we've been in this business a long time, it's not a perfect science. We get it about 60% to 70% right in terms of predicting exactly what the components of revenue are, because obviously, we can't completely predict customer behavior and timing, but I'd say all those factors are considered as we go into what are our lease-up expectation or revenue growth on small cells is. But taken in aggregate, we are certainly tracking above what we originally planned and I think there's probably a little upside left but we'll have to see how that goes.

Ric Prentiss: But explicitly, the T-Mobile/Metro one was probably not part of your process?

Ben Moreland: No, not really.

Ric Prentiss: Great. Thanks guys.

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

Jason Armstrong: Hey thanks guys, good morning. Maybe just one quick follow-up on the revenue growth question just because obviously it's important. You gave a lot of helpful qualitative comments but I think you've also given people a way to quantify all this. So when you talk about 1% revenue growth in existing tenant leases and if you sort of step back, your guidance actually implies 4.7% total site rental revenue growth but then if you remove the non-cash portion of this to the changes year-over-year, you're actually implying just above 7% cash revenue growth in 2013. So A, is that the way you guys see it? And then B, if so, how does that compare to what was implied in sort of the forward guide in previous years? Because it seems like it's probably not all that different. And then second quick question is just on churn. Last year, you sort of called out potential for lumpy Alltel-related churn. Are there any other big churn pools that you would call out that's included in the 2013 guide? Thanks.

Jay Brown: Sure. On the first question, Jason, I think you've described it correctly. There's about 5% revenue growth; 1% of that is coming from the base of business. It's 2% growth in escalators less about 1% of churn. And then the balance of it is coming from leasing-related activity on the portfolio. In the past, over the last couple of years on an organic basis, if you will, or a same-tower sales basis, we've been growing revenues about 8%—8% to 9% in total, about 1% to 2% out of the base, and then 6% to 7% out of the—out of organic leasing. So our leasing assumption is down but, to your point, if you were to adjust it and consider that we pre-sold a significant amount of the opportunity in 2013, we're looking at something that's relatively comparable to past years making that adjustment. And obviously as we look forward over the long-term, as Ben mentioned, we think there's opportunities for that number to go back up as the activity moves from just simply being amendment activity on related leases to going back and being infill sites or adding additional RAD centers to towers that they're already located on.

On your second question around churn, there's no significant items or meaningful items that I—individual customers that I would single out for 2013 in terms of churn. One percent churn is in line with our historical levels of churn and so it looks like a normal year. I would mention that on the horizon, although not in 2013, is obviously the changes that Sprint has looked at with regard to their iDen network. iDen makes up about 3% of our consolidated revenues and we would expect to the extent that they ultimately do decommission and don't redeploy those sites for CDMA or LTE, that we would see the churn of that revenue beginning at the beginning of 2014 and then see that 3% come off over the calendar year '14 and then the first half of 2015. So I don't have great clarity, obviously, at this point as to the exact timing of that but if you were to assume 3% over those 6 quarters, that's at least the book-end of where we think this thing plays out if ultimately they decommission that. But in the short-term, I don't have any visibility towards any specific events in calendar year '13.

Jason Armstrong: Okay, that’s helpful. Thanks guys.

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

Brett Feldman: Thanks for taking the question. I just wanted to clarify on the 2% escalator that's obviously lower than what we've historically seen, it's been more like 3.5%, is that a function of the way the revenue is being straight-lined under the MLAs?

Jay Brown: It is, Brett. So on the cash basis, the cash is growing about 4% and the benefit we're receiving on—in GAAP revenues is about 2%, so that is exactly the impact of straight-line.

Brett Feldman: And then speaking of master lease agreements, maybe I'm wrong here but I think that the way the Sprint agreement works is that you don't necessarily have the pre-sold capacity like you do with some other carriers. It was more a pricing structure where as they complete activity, you know in advance what you will get paid for it. Is that correct?

Ben Moreland: Yes, it's priced as a unit basis, as a price for a certain configuration on the site as you identify, Brett, but it is a commitment on their part. So it's in the run rate, okay? So again, these rules—we didn't make up the GAAP rules, but if it's a commitment then it's straight-line revenue and so it was based on a particular configuration on each individual site and a payment per site based on just as they would naturally have deployed but it was structured as a commitment such that we had to record the revenue when the commitment was made and so that's effectively going through the numbers today. But again, the cash, you'll now see the cash go consistent with their commitment plan in terms of how they're phasing their LTE upgrade, their network modernization plan, and that's, in fact a contributor to what we're seeing in AFFO.

Jay Brown: Brett, one thing that maybe just helpful is for us to just step back for a second and talk about the four big carriers at a high level in terms of what we've pre-sold versus what we haven't, because what's difficult for us, as we've talked about over time, is we've tried to get some clarity to what we've pre-sold and what we haven't pre-sold and how those contracts work in terms of our cash commitments. But each of those agreements are unique, and they're unique based on what the carriers believe their deployment schedule looks like. And so we've tried to be careful in terms of our description of these agreements to not give away what a particular carrier, an individual carrier is expecting to do or how many sites that they're going to do. So as we look at the big four carriers and the activity that's going on in the U.S. today for the deployment of 4G, there is some of that activity, and we would say the vast majority of that activity that's going on today, that is pre-sold, and that's a mix of things where carriers had rights to make—add equipment to existing levels and add the existing levels on the towers. Then other situations, there is specific equipment that they can add to towers at a specific—at the level that they're on currently. So there's a mix of—there's a mix of how each of these agreements are structured and the comments that we're trying to make in terms of giving you color around the 2013 Outlook is to tell you that what we're seeing in terms of the activity and what we expect in 2013, is that the vast majority of that activity is actually included—already included in the run rate of site rental revenues. Now as we move out the timeline to the right, and as the carriers—and we're seeing early signs of this—as the carriers look to add additional capacity to their 4G networks, there's a significant amount of that activity that's not pre-sold, and so our assumption in the Outlook for 2013 is that most of the activity is pre-sold but as we're seeing early signs of, we may get into the calendar year and find out that the phasing or deployment schedules of that activity may become sooner than what we had expected in our Outlook. So it's—when we start to ask about specific carriers, we want to be careful about how we answer the question, at the same time, trying to tie that back to the Outlook that we gave. The Outlook assumes the vast majority of the activity is in the current run rate.

Brett Feldman: I appreciate that. The reason I brought Sprint in is just because on their call this morning, they noted that Network Vision is maybe about a quarter behind schedule and I was just trying to understand if there is any meaningful sensitivity to your guidance based on a quarters of activity at Sprint.

Jay Brown: Not at this point.

Ben Moreland: No, because again, it's a committed payment structure so it's already in the revenue.

One other—one other point we didn't mention because, frankly, it's a little bit trivial. It's not trivial to us, but it may be trivial to you because you can't really see it in the revenue, is our Outlook internally for leasing is up about 10% over 2012. But you can't see much of that in the number because so much of what we already see is already pre-sold. So the amount then or new activity—new leasing activity ex what's already been sold, is actually up year-over-year. The reason we didn't really make a big deal of it is because you guys can't see it and we appreciate that. We understand that but it's ultimately cash and it's activity.

Brett Feldman: Great. Thanks for the extra color.

Ben Moreland: Mm-hmm.

Operator: Thank you. And our next question comes from the line of Batya Levi with UBS. Please go ahead.

Batya Levi: Great, thanks. One more follow-up on the '13 guidance, if I could. So you mentioned in the third quarter that 70% of the activity was pre-sold. So when we look at this 2013 guidance, should we assume a similar 70% pre-sold or is that number higher?

Jay Brown: It's about that level, yes, Batya.

Batya Levi: Okay. And just a couple of quick follow-ups. In—for the guidance straight-line revenue impact for 2012, I think you've lowered it a bit. Can you talk about why that reduction came in and if you could remind us how much of the straight-line impact T-Mo MLA added in the second half? And finally, just one question on the T-Mo towers. Can you quantify the exposure they have to iDen and what contract life they have?

Jay Brown: Okay. On the first question as I said, but I was kind of speaking over you, apologies for that, approximately 70% of the activity in 2012 was related to—was pre-sold. And in 2013, it's a similar level, about three-quarters of the amendment activity is really pre-sold.

With regards to the guidance—and we talked about this a little bit last quarter—we did—we do expect cash in this calendar year to be slightly ahead of what we had previously guided and I think as we get our sea legs under us and focus on cash, we'll probably continue to maybe be a tad conservative in terms of forecasting exactly where cash is in any given quarter. There's a few things that move around obviously, related to that—to the billings and receipts of cash and so I'll just let the guidance that we gave stand. With regards to iDen on the T-Mobile sites, it represents about 3% of the revenues—3% of the revenues there.

Batya Levi: And what's the average life of the contract?

Jay Brown: The average life of the contract is about 2.5 years, maybe a little less than 2.5 years.

Batya Levi: Okay. And the straight-line impact that you included from T-Mo in the second half, is that $20 million?

Jay Brown: We didn't give specific—a specific number on that, but it would be in the ballpark of about $20 million.

Batya Levi: Okay, thanks.

Operator: Thank you. Our next question comes from the line of Kevin Smithen with Macquarie. Please go ahead.

Kevin Smithen: Ben, you're now the Chairman of PCIA and in Orlando you mentioned you would be getting more involved in the process for the public safety network. Can you give us a few key events or milestones that you think we can look forward to, to get a sense if this is going to become reality over the next year or two for Crown in terms of a revenue driver?

Ben Moreland: Kevin, thanks for that. We are really excited about the progress that the FirstNet Board has—is already making and this is going to be a—it is going to be long-term and it's certainly not in our current Outlook. But the recognition that—as mandated by Congress that they, to the fullest extent possible, locate on shared infrastructure, ie. existing towers. co-location, we think is absolutely the right way to go. There's a lot of different potential architectures floating around about how this will actually get launched, whether it will be as part of a shared network with existing commercial carriers today where they would contribute their spectrum and then be hosted effectively on those networks, or whether it will be a separate network built across co-location on towers. I think it's too early to predict that outcome, but we're very pleased that they actually—there's 20 megahertz allocated, upwards of $7 billion depending upon how the auctions go, and obviously a very concerted effort on their part to get moving on a National Public Safety Network. Given our position, with—pro forma 30,000 sites most of which are in the Top 100 cities, you can bet we, as Crown Castle, will be very interested and engaged in that process of facilitating their deployment regardless of how they ultimately decide the architecture goes. Whether it's a shared deployment with existing commercial networks, we can certainly participate in that as we've talked about before, or whether it's a discrete new build, we obviously know how to price configurations on towers and have the capability to get them installed very rapidly. So it's very early days but there is progress being made and we're encouraged and engaged, honestly, engaged in the process and in the conversation, and stay tuned. We think it's a—maybe a '14 or '15 event.

Kevin Smithen: Great, thanks a lot.

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

Phil Cusick: Hey, thanks. A lot's been asked and I apologize if this is out there yet, but Ben, can you talk about your service revenue a little bit? A big number this quarter. It's been ramping pretty nicely and I know you typically guide fairly conservatively for it, but as you look at what you're doing for carriers and you look at the pace of their sort of updates of amending their networks, how do you see this trending not only in the fourth quarter? Does that look conservative or was there something in 3Q that was sort of a one-time? And then in '13, is there a point at which you see this sort of naturally flowing off unless something changes? Thanks.

Ben Moreland: Yes, what we have—what we basically have implied in the guidance is essentially the second half run rate of this year into '14—into 2013. But Phil, I appreciate the question because the crew doesn't get a lot of credit sometimes. We are—we've seen twice the application volume on our sites in the third quarter as we saw in the third quarter of '11. So two X the actual volume going through the door in terms of processing applications, and then an increasing level of those sites where we're actually handling the service, the installation work largely related to the LTE upgrade, and at the same time, we've increased the scope of services to include the site ac (ph) and zoning work in many cases. So we're typically handling more of the individual transaction and booking more revenue and margins accordingly. So it's been—it's been a great outcome for us. It gives us not only a revenue opportunity but it keeps us close to customers, it keeps us more in control of the deployment and helping them meet their deployment timelines, and obviously helps us control what's going on our assets. Because we do a lot of our own structural analysis in-house, we can—we just—you're closer to the asset which we think is the right thing to do.

Financially, it's very difficult to predict how it continues to grow. Obviously, we're going through a timeline right now where there's a huge bubble of activity around all four carriers doing LTE amendment. In fact, we're adding people in the company to support that work. We didn't really mention it on this call because it's being covered by margin, as you would hope it is, which it is, so you really won't be able to see, but in addition to adding resource and investment in the small cell business, we're doing the same to support the service level of activity, but again, it's self-funding covered by the margin. Undoubtedly, you can look forward and say, at some point in the future, you're going to see that start to tail off, obviously, mitigated by the additional 7,300 sites we're bringing in on T-Mobile, so we expect to have service opportunity there as well, which might mitigate that step down, but certainly, when you see the level of activity in '12, I don't think you can just forecast that out forever. But at the same time, we—we're carrying costs there that we think are variable costs in many respects and so you'd see the cost load come down as well.

Phil Cusick: That helps. Thanks, Ben.

Operator: Thank you.

Ben Moreland: I think we'll take—I think we'll take one more question since we're a little over time. I appreciate everybody's patience.

Operator: Our final question comes from the line of Tim Horan with Oppenheimer. Please go ahead.

Tim Horan: I guess a big question is when—how much capacity does the amendment activity give us and when does that run out? Do you think '14, we'll start to see the cell site splitting? Or '15? Do they have enough capacity to get through '13 year? And I guess related to that, when do you think we start to see the shutdown of the 2 and 3G networks? What year does that really start to impact things?

Ben Moreland: Yes, that's a tough one for us from our chair to address. I'd probably defer that to our customers. But in terms of as we see the deployment of LTE, we certainly see that continuing full-on '13 and '14. I mean we've looked at it carrier-by-carrier and we see a lot of activity full year '14, so I don't think that's closed down. The real question is when do you start to see the cell splitting and that incremental revenue coming? As we mentioned a minute ago, we're actually already seeing that and we're seeing that to the extent of marginal amount of incremental leasing on our sites in terms of new co-locations, both in new sites and second RAD centers on existing sites. So we're already seeing that to a point. Again, not really that material in the run rate yet but we're encouraged by what we see and I would expect you'll see that continuing gradually over time as we move out into second half of '13 and into '14. But right now, appreciate that everybody's pretty much every waking moment is being worked on—is consumed by LTE activity. Never have we seen four carriers each trying to overlay an LTE upgrade as we're seeing now with T-Mobile just getting started. And so the industry is very busy if you talk around—you can just talk to vendors and people that you might know in the market. There's a lot going on and we're very pleased to be participating in that at the service level and honestly ahead of plan in many respects in terms of the pre-sold revenue, but we'll get to a point where that has kind of run its course, and as we talk about public safety and potentially, the DISH Network spectrum coming into the market and additional co-location from cell splitting and things, there's plenty of upside long-term to what I would call organic revenue growth. And in the meantime, obviously cash pays the dividend one day and cash flow growth around here we continue to think is sort of mid-teens, as I mentioned, sort of stretched to 20% and we're going to work pretty hard to get that done.

Tim Horan: I guess then do the carriers think the amendments give them enough capacity for the next two years or they're not really sure at this point?

Ben Moreland: It certainly gives them more capacity. That's just a technology fact; however, nobody has ever been in this environment where we continue to use more data than people can ultimately produce. You see tablets—I mean literally every single morning on CNBC there's a new company talking about their mobile strategy and so that takes bandwidth, that takes sites and so it's a—we're in uncharted territory about how fast the data growth occurs and how fast that capacity gets consumed. Obviously, we're going to work very hard to keep up and we are thrilled with the position of the Company, which has been very deliberate. I'll again say, this year is, I think, going to turn out to be a watershed year for Crown Castle and how we have positioned the Company for the next 10 years in terms of assets. But we are working very hard to keep up and we got a lot on our plate.

Tim Horan: Thank you.

Ben Moreland: You bet. I would like to end the call. I appreciate everybody hanging with us a little longer than the hour. There's a lot going on in the industry. I know there’s another call today or two so thanks again and we’ll talk to you on the fourth quarter call.

END