CROWN CASTLE INTERNATIONAL, #4374729
CROWN CASTLE INTERNATIONAL Q3 2010 EARNINGS CALL
October 28, 2010, 10:30 AM ET
Chairperson: Jay Brown (Mgmt.)

Operator: Good morning, ladies and gentlemen. Thank you for standing by and welcome to the Crown Castle Q3 2010 Earnings Conference Call. During today's presentation, all participants 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'd like to withdraw your question, press the star, followed by the two, and if you are using speaker equipment, it will be necessary to lift the handset before making your selection.

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

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

This conference call will contain forward-looking statements and information based on management's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurances that 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 28, 2010, and we assume no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

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

Jay Brown: Thank you, Fiona, and good morning, everyone. Let me start with a few summary comments as outlined on slide three, and then I'll go through our results and outlook in greater detail. I'm very pleased with our third quarter results reflecting continued demand for wireless infrastructure. In the third quarter, we amended a contract with a US customer to primarily provide space on our towers for that customer's data deployment, which, together with the expected backend loaded nature of the year, resulted in a significant increase in third quarter site rental revenue compared to the second quarter of 2010. I will discuss this amendment further in a few minutes.

In addition to a great quarter in site rental revenue, our services business performed very well. Service revenues were up 37% and service gross margins were up 64% compared to the same quarter last year, posting the highest quarterly results in recent years, due in part to the increased take rates by our customers. The strong year-to-date results allow us to meaningfully increase our site rental revenue, site rental gross margin, adjusted EBITDA and recurring cash flow outlook for full year 2010. In addition, we are pleased to have completed over $6 billion in refinancing during the last six quarters, resulting in no maturities due before March 2014. This allows us to focus on investing the majority of our cash flow in activities such as share purchases, tower acquisitions, new site construction and land purchases that we believe will increase long-term recurring cash flow per share.

Getting into the details, I'd like to take you through the excellent results for the quarter, the increase in our 2010 outlook and our full year 20111 outlook. Turning to slide four, during the third quarter, we generated site rental revenue of 437 million, up 10% from the third quarter of 2009. The components of the 10% growth in site rental revenue from the third quarter 2009 to third quarter 2010 were as follows: 2% growth in the existing base of business through contracted escalators and renewal of tenant leases, net of any churn; and 8% growth attributable to the additional tenant equipment added to our sites, reflecting new leasing activity. Site rental gross margin, defined as site rental revenues less the cost of operations, was 321 million, up 14% from the third quarter of 2009. We continued to maintain a disciplined approach to operating cost, resulting in 97% of the growth in site rental revenue finding its way to site rental gross margin.

Adjusted EBITDA for the third quarter of 2010 was 306 million, up 18% from the third quarter of 2009. It is important to note that these growth rates were achieved almost entirely through organic growth on assets that we owned as of July 1, 2009, as revenue growth from acquisitions is negligible.

Turning to slide five, recurring cash flow, defined as adjusted EBITDA less interest expense less sustaining capital expenditures, increased 24% to 178 million compared to 144 million in the third quarter 2009. Recurring cash flow per share also increased 24% to $0.62 compared to $0.50 in the third quarter of 2009.

Before I turn to our outlook, let me make a few more comments about the amendment to the customer lease agreement that I mentioned earlier. As you know, there is a significant amount of activity in our industry currently as several carriers are deploying 4G data networks. In an effort to efficiently and expeditiously deploy this 4G equipment, we agreed with one of our customers to provide them with the ability to add equipment to its existing arrays on our towers without the need to negotiate pricing on individual amendments at each site. In exchange for this right, we increased the rent on 100% of its existing leases to incorporate a meaningful amendment to every site. In essence, the deal assumes an amendment on every tower on which the customer currently resides.

Further, the contract amendment does not provide rights to any other level on our towers. We are excited about the meaningful increase in rent that this amendment represents, and we will be working very hard to ensure that we achieve the operational efficiencies and speed that both parties intended through this agreement.

Moving to the outlook for the fourth quarter of 2010, as shown on slide six, we expect site rental revenue of between 442 and 447 million and adjusted EBITDA of between 302 and 307 million. Let me spend a minute walking you through the sequential growth in site rental revenue and adjusted EBITDA from the third quarter 2010 to our outlook for the fourth quarter of 2010. Site rental gross margin in the fourth quarter is negatively impacted by site rental operating expenses being higher by approximately 4 million than the third quarter. This includes repairs and maintenance activities which we previously expected to complete in the third quarter of this year.

Also, we are forecasting services margins to be lower by approximately 3 million from the third quarter of this year. This portion of our business is the most difficult to predict but I would note that we've been exceeding our expectations for the services group all year. Further, commensurate with the increasing in operating expenses related to repairs and maintenance, we expect sustaining capital expenditures to be approximately 2 million higher in the fourth quarter than the previous two quarters of 2010.

Our revised full year 2010 outlook, as shown on slide seven, suggests site rental revenue growth of over 10% and recurring cash flow growth of 21%, respectively. Substantially all of the anticipated growth is expected to come from the assets that we owned at the beginning of 2009 as we've made no significant tower acquisitions in the last year. The growth in site rental revenue from 2009 to 2010 is comprised of the following. A little less than 4% of the growth is from 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 any churn. And a little less than 7% growth attributable to the additional tenant equipment added to our sites, reflecting the significant leasing activity we have experienced since the beginning of 2010.

For the full year 2011, we expect site rental revenue growth of approximately 130 million or 8%. This outlook for revenue growth assumes approximately 2% growth in the existing base of business and the remaining 6% from expected additional tenant equipment to be added to our sites. Additionally, our 2011 outlook for site rental revenue has only a minimal benefit from leasing activity that is dependent on customers securing future funding. The 2011 outlook suggests site rental revenue incremental margins to be approximately 90% and we have assumed in our outlook, as is our normal practice, a significantly lower expected service margin contribution than our current run rate suggests.

Our 2011 outlook for service margin is approximately 14 million lower than our expectation for full year 2010. We have assumed in our outlook that our direct tower operating expenses will grow by approximately 3%. However, as you've seen in recent years, we have achieved incremental margins higher than the normal assumed 90% by holding these costs tighter, which provides some potential upside to our 2011 outlook. Furthermore, we expect the midpoint of interest expense in 2011 to be 504 million, an increase of approximately 14 million over 2010 from midpoint to midpoint.

As cash interest expense is expected to be approximately flat year-over-year, the increase in 2011 interest expense is predominantly driven by the amortization of our interest rate swaps. The refinancing of the 2006 tower revenue note that we completed in August will result in our amortizing the liability related to the 2006 note forward starting swaps over a five-year period. Year-over-year, we project that interest expense related to this particular swap will be $18 to $19 million higher. The increase in interest expense related to our interest rate swaps is expected to be partially offset by the lower cash interest due to our debt purchases during 2010 and our successful refinancing of the 2006 note, which lowered the weighted average coupon of the notes from 5.7% to 4.5%.

Finally, our outlook does not include the benefit from expected future investments around our core business, such as share purchases, tower acquisitions, new site construction and land purchases.

Turning to the balance sheet, the table on slide eight reflects our current debt balances and maturities, and on slide nine, we've shown total debt to last quarter annualized adjusted EBITDA as of September 30, 2010, at 5.5 times. Adjusted EBITDA to cash interest expense as of September 30, 2010, was approximately 3 times. Both our adjusted EBITDA leverage ratio and cash interest expense coverage ratio are comfortably within their respective debt covenant requirements.

Moving on to investments and liquidity, in August 2010, we issued 1.55 billion of notes to refinance 1.33 billion of our 2006 tower revenue notes. The notes were refinanced at a weighted average interest rate of 4.5% and a weighted average expected maturity of 8.7 years. During the last six quarters, we've refinanced over $6 billion of debt securities with an appropriate laddering of the maturities, and we now have no maturities before March 2014. This gives us tremendous flexibility as we focus on investing activities that we expect will enhance long-term recurring cash flow per share which we believe is the best long-term measure of shareholder value creation.

As you saw in the press release, the significant investment that we made in the third quarter was closing the NewPath acquisition. As is our practice, we evaluate purchasing our own stock against other alternatives in the market. Also, during the third quarter, there were a number of opportunities available in the M&A market that we were reviewing, and at the right price, we would be prepared to acquire.

As shown on slide 10, during the third quarter of 2010, we spent 57 million on capital expenditures, including 26 million on land purchases, as we continued spending on our land lease purchase program. Since the beginning of 2010, we have extended over 900 land leases and purchased land beneath over 330 of our towers. We had significant success with this program over the last several years. In fact, today, 34% of our site rental gross margin is generated from towers on land that we own.

Also as of today, we own or control for more than 20 years the land beneath towers representing approximately 70% of our gross margin. Further, the average term remaining on our ground leases is approximately 31 years. Having completed over 9,000 transactions, we believe this activity has resulted in the most secure land position in the industry based on land ownership and final ground lease expiration. We continue to believe this is an important long-term effort that provides a long-term benefit as it protects our margins and controls our largest operating expense.

After the third quarter, we spent 5.8 million to purchase our common shares at an average price of $42.42 per share. Since January 2003, we've spent $2.4 billion buying back 92.5 million shares or potential shares at an average price of just over $25. Without these purchases, our current share count would be nearly a third higher.

Lastly, I would note that during the third quarter and through October 26, 2010, we spent $52 million of cash to settle approximately $303 million of the notional 1.55 billion interest rate swaps due to be settled by February 2011. As we've shown on slide 11, our total current remaining swap liability is approximately 438 million, split between February 2011 and November 2011. As shown, we've also provided sensitivities of each swap to changes in interest rates. As of September 30, 2010, pro forma for the purchase of our common stock and partial settlement of the February 2011 swaps, we have approximately $279 million in cash and cash equivalents and $400 million of availability under our revolving credit facility.

In summary, we had a great quarter and I'm excited about the growth we expect for the balance of 2010 and continuing into 2011. And I am pleased that we are able to allocate capital in areas related to our core tower business to enhance long-term growth rates and recurring cash flow per share.

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

Ben Moreland: Thanks, Jay, and thank you to all of you for joining us this morning. As Jay just mentioned, we had a strong third quarter, exceeding our outlook for site rental revenue, site rental gross margin, adjusted EBITDA and recurring cash flow. This is an exciting time to be in our business as wireless broadband is a huge secular trend that we believe promises to drive growth for the company for a long time.

On that note, I would like to draw your attention to some of the important trends that continue to drive our business. Adoption rates for smartphones and, more recently, tablet devices such as the iPad continue to accelerate, driving wireless data traffic and increased tower demand from carriers striving to maintain a suitable level of network quality and reliability. Research firm, IDC, said it expects the smartphone market to grow 55% this year, a greater increase than its previous prediction. The new estimate is some 10 percentage points higher than IDC had previously estimated due to the introduction of several new smartphones, including the iPhone 4, RIM's new BlackBerry Torch, HTC Evo and more phones running on Google's Android platform.

To that end, Apple announced the iPhone sales in the U.S. of 5.2 million units in the third quarter up 63% from just the second quarter of this year. Similarly, devices running Google's Android mobile operating system now account for 25% of the North American mobile web consumption and 33% of the smartphone market share, nearly a 30 percentage point increase versus only a year ago. While these trends are compelling, it is important to note that data adoption is still in the early stages with only about 40% of wireless subscribers having a data-centric device, representing considerable upside still to come.

As has been well documented, all of these new devices consume enormous amounts of network capacity. In fact, a recent SEC report indicates wireless data consumption is up 450% just since the beginning of 2009. Looking ahead, industry analysts generally share the view that mobile network data traffic will continue this significant upward trend as smartphones, laptops and other devices become increasingly integral to consumers' mobile experiences. Mobile data demand is expected to grow from 2009 levels by a factor of five by 2011, to more than 20 times by 2013 and an astounding 35 times by 2014.

Mobile traffic demand is driven by data usage patterns of each device type and the quantity of devices in use. To give you some context, BlackBerry devices are consuming twice the amount of data at the typical feature phone. The iPhone user is typically consuming five times the amount of data as the BlackBerry device user, and AirCards in laptops consume five times more data than even the iPhone or 56 times more data than a feature phone. For example, the average monthly usage per subscriber on Clearwire, which many consumers use as a substitute for wireless broadband, is already seven gigabytes or 280 times the amount used by a regular cell phone in a given month. Continued growth of this device segment is likely to contribute significantly to the growth in mobile data traffic.

I saw a recent statistic and just to frame this for you by historical measures, as we all used to think about subscriber minutes of use, U.S. subscribers today are using just over 800 minutes of use per month in your historical measure of voice time. Thus, the phone, if you think about it, is dormant in this historical measurement 98% of the time. By contrast, with integrated devices, Internet applications are constantly running in the background, thus each device creates 24/7 demand on the network.

In the U.S., the FCC has projected the need for continued significant wireless network expansion between now and 2014 to even have a shot at keeping up with consumer demand. This underlies our thesis that our growth prospects in the U.S. are significant and the growth drivers for our business are likely to be long term. Currently, we are in the early stages of this high speed data network deployment. The wireless carriers are busy building out their 4G networks and we remain very excited to be partnering with them as we move to the next generation of wireless. We believe that our 2010 outlook and our 2011 outlook is consistent with the wireless carriers' recent comments on their expectations for the short term and reflects the launch and pre-launch activities surrounding these 4G buildouts into 2011.

Just to give you some specifics, Verizon has said it expects to launch LTE this year in a total of 38 cities and more than 60 airports, including Seattle, Denver and Boston, covering 110 million POPs. The carrier is expected to expand that figure to 200 million POPs by 2012 and to more than 285 million by 2013. Similarly, AT&T will launch commercial LTE service by mid-2011 and will cover between 70 and 75 million POPs by the end of next year. T-Mobile has also been rolling out HSPA+ with plans to cover 185 million POPs in 100 major markets by the end of 2010 this year. And further, Clearwire plans to continue their coverage plan of 120 million POPs by the end of 2010 and has a goal of reaching 200 million POPs by the end of next year. Clearly, a lot of activity with the current customer base.

Many of you have heard and we've spoken at conferences about LightSquared and LightSquared has been very active as the new entrant in the market, with plans to launch its wholesale LTE network in as many as nine markets in 2011, and that could expand to as many as 20 markets by 2012. The company, which has access to almost 60 megahertz of spectrum, has said its network will consist of around 40,000 cell sites covering 92% of the U.S. population by 2015. This is a very significant development for our company and the industry. These new 4G deployments, which are responsive to the mobile Internet demand we are all witnessing and driving, along with the ongoing activity from incumbent carriers, add confidence to our long-term growth prospects.

Our recent amendment to a customer lease agreement that Jay discussed earlier demonstrates the value of our sites for 4G services and our ability to monetize the space on our towers. In order to maximize our opportunity, it's important that we are recognized by our customers as a firm that is willing to roll up our sleeves with them and help them address the formidable network challenges they face. We seek to maintain our position as the best solutions provider in the U.S. by first, continuing to deliver industry-leading customer satisfaction, facilitating their desire to quickly deploy on our sites. Second, providing deployment services in greater scope with full accountability, enabling speed to market for our customers as you've seen with the continued expansion of our services business. And lastly, expanding our capability around distributed antenna systems which are part of an evolving wireless architecture to provide coverage and capacity solutions where towers are not feasible.

So to wrap up, I'd like to reiterate a few points from this morning. We are obviously very pleased with our results and believe they demonstrate the quality of our assets combined with our ability to execute for our customers. As always, we remain disciplined and focused on maximizing long-term recurring cash flow per share through opportunistic investment, the most recent of which we believe is demonstrated from NewPath Networks. Now on a macro level, we are incredibly excited about the trends we are seeing in wireless and our position to capture value from them. We are focused on the U.S. market, where the ability of the wireless carriers to make profitable investment is most apparent and barriers to entry remain high. We have the best located assets in the industry with significantly more towers in the top 100 markets than any of our peers. And our customer surveys continue to indicate that Crown Castle enjoys the highest level of customer satisfaction in the industry, something that is very important to us.

So in closing, we had an excellent third quarter and look forward to finishing the year strong. With that Operator, I'd be pleased to turn the call over for 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'd like to withdraw your question, press the star, followed by the two, and if you are using speaker equipment today, it will be necessary to lift the handset before making your selection.

And our first question comes from the line of Ric Prentiss with Raymond James. Please go ahead.

Ric Prentiss: Sorry, I guess, as opposed to the Gators and the Longhorns, it's nice to see somebody put up good numbers.

Ben Moreland: No comment.

Ric Prentiss: I know, me either. But I want to talk a little further on the modification here. I appreciate the extra color, Jay, you provided about its amendment revenue, if you will, accelerated on to 100% of their existing leases on the existing arrays. Just want to make sure, one, so if they go in other areas of the tower, there would be further amendment or if the demand that Ben talked to about, data causes cell splitting, they need to go to a cell site they're not on or a tower they're not on yet, that that would be extra revenue, correct?

Jay Brown: That's correct, Ric. If they go on any other level on a tower, then we would get additional rent for that, or if they were to cell split and go on to a tower that they're not currently located on, we would get additional revenue from that, just like we would in any other situation as you've seen historically. This is solely related to the level that they're on today and anticipates basically what they're going to be doing as they do their 4G deployment.

Ric Prentiss: Any change to whether this flows into escalator versus amendment revenue? Was there any change to the escalators with this amendment?

Jay Brown: Yes, Ric, I think both out of a desire to protect our own ability to negotiate with future terms of carriers and out of a respect for our carriers, I don't think we're going to get into the specifics of the contract negotiation and how we went about pricing that. But we've priced, as I mentioned in my comments, we priced it as an amendment to all of their sites and it was a meaningful amendment, which I think both parties assume they're going to be making over time.

Ric Prentiss: Yes, I guess the kind of the crux of that part of the question was just to understand any effect on straight-line revenue versus cash revenues that we need to consider with this new amendment.

Jay Brown: Yes, to help you there, I think I'd point out the three numbers that I mentioned. If you were looking at year-over-year change Q3 2009 to Q3 2010, the benefit that we received from contracted escalators for renewal of leases, which would include extending leases and picking up the straight-line benefit there, that was 2% from Q3 '09 to Q3 '10. If you were looking at the full year 2010 over full year 2009, we picked up a 4% benefit there and, in a normalized year, I would expect that we would probably get somewhere in the neighborhood of about 3% from either contracted escalators or renewal of leases, including straight line, and we'd have about 1% churn; that would be a normal year. So a normal year would look something in the neighborhood of about 2%. So for the full year, we may have picked up 100 to maybe 200 basis points in our full year number when comparing 2010 to 2009. And then I mentioned in 2011, the outlook that we're providing, the benefit from escalations net of churn is 2%. So it looks much more like what we saw in the third quarter than what we saw into the full year 2010.

Ric Prentiss: Great. And then on the guidance, speaking of the guidance of 8%, 2% escalators, 6% new tenants. I think you also mentioned that the minimum benefit from folks needing further or needing future funding. So I assume Clearwire has got some funding playing out through 2010, maybe a little into '11. LightSquared has received some funding, I guess, 850 million debt we saw the other day so should we assume if there's new announcements from Clearwire in the next week or month or new announcements from LightSquared on further funding beyond what they already have, that there could be some upside to that leasing guidance?

Jay Brown: That's right, Ric, there could be some upside and it will depend on when they get that funding and when they can actually get out and get those cell sites up on air and start to pay us lease revenues. To the extent that the timing moves into the latter half of next year, then obviously it certainly helps the run rate going into 2012 and may be less of a benefit to full year results in 2011 and we'll just have to kind of see when the timing of those fundings come about.

Ric Prentiss: Is it safe to say 2011 is more level-loaded than rear-end loaded then given the way you're giving the guidance?

Jay Brown: We are giving a more level-loaded year than what we saw in 2010.

Ric Prentiss: Great. Thanks.

Jay Brown: I would say there's always in the way that we give outlook a tendency to put more revenue growth in the back half of the year than the front half of the year. That's just traditionally how the carriers end up deploying the capital. The first quarter's generally a little lighter than the balance of the year but it's certainly not as significantly back-end loaded as 2010 was.

Ric Prentiss: Makes sense, 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: Thanks guys, for taking the question. The first question I guess, Jay is, just because of how this quarter got reported, you guys are saying you had a very good quarter but outside of this one-time kind of step-up, it's really hard to verify whether that in fact did happen for the core business relative to guidance. So could you comment about whether ex-ing out the impact of this event, would you have been below the revenue guidance that you put out last quarter, kind of in the guidance or above it so we can kind of get some comment about the core business growth there?

And I guess another kind of question on that topic is just, with respect to—well, let me say this; are you in negotiations with other carriers to complete transactions like this? Or do you think this is kind of more of a one-time event for a large customer? Thanks.

Jay Brown: Dave, on your first question, we would have been certainly within the range, I think, towards the higher end of the range if we had not been able to reach an agreement on the amendment that we discussed. So we had a very good quarter without this amendment; would have been at the high end but certainly would not have exceeded it anywhere close to the tune that we showed the numbers as a result of this modification. And you can see on a number of line items, not just at the site rental line, which I think you were specifically referring to, but with regards to cost containment, both at the site rental operating cost line, we held those costs basically flat year-over-year. This is the second straight year that we've done that. As I alluded to in my comments, I'm not sure that we can continue to hold costs completely flat. We're working hard to do that but we had another great quarter with regards to cost containment and you can see that same thing on the G&A line.

And then obviously, I spoke to the fact that our services business continues to significantly outperform our expectations, and I think we've done a very good job in that business, both building up a reputation with customers that we can get things on air and delivered on time as they would have expected and as we indicated we could. And the results of that, I think, is that we've seen an increase in the take rate for those services. So I think you could point to any line item of the items that we give outlook for and see that we had a really good quarter. And specifically at the revenue line, we would have been somewhere between the midpoint and the high-end ex the transaction that I spoke about.

David Barden: Okay, good.

Ben Moreland: And, Dave, with respect to other transactions, I guess what I'd say without commenting specifically on any conversations we may be having, just as we did in this one, we would look at facts and circumstances as they come up and make our best business judgment around what's fair economics for the transaction. And so whether or not there are others to come like this, I really couldn't say today but we would look at each one separately and see if we could come up with something that we thought was fair to us obviously that met the customers' need. I mean, the main takeaway from this agreement is that we've received a contractual commitment from a customer for really all their 4G amendments. As you can tell, bring forward the revenue on 100% of their sites in a meaningful way, and we've done this without economic concession when we compare it to our traditional sort of a la carte pricing model that we've been using for years. So it's simply a different way to price the activity.

And you might ask yourself—I think some may be asking, well why would either party or particularly the customer be interested in this? And I think it really goes to the pace with which our customers are finding the need to address the 4G build-out and accomplish this in the most expeditious manner, creating speed and ease around our sites as they deploy. So this process, as you can appreciate, streamlines their deployment cycle in getting on our sites and has eliminated some complexity around having to document every single site. And so that's really at the core of what we have accomplished here. And then as Jay mentioned in his comments, we're going to be working very hard to make certain that the benefit of the bargain arrives with both parties, that we actually get them on the air quickly.

David Barden: And so the bottom line there is that you're willing to basically front-end load cash that might result in kind of a lower relative growth rate in the future but, at the end of the day, the time value money tradeoff is positive?

Ben Moreland: Yes, and I think you bring up another point. You'd say, well then is there future growth with this particular customer around amendments, and I would have to concede, no, actually they've sort of bought out the shelf for amendment for this particular customer. It's limited in scope, as we've described, but with respect to amendments, they have pre-contracted for all of that capacity on that existing array associated with their 4G amendments going forward. So if you take that as— and park it, well then you can certainly assume that, for that particular customer on existing arrays, you're sort of sold out.

David Barden: Great. That's great color. 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, and I echo David's sentiments. That was great color that I think was missing. Just maybe one final question on that topic from my side, Ben, when you mentioned that this is done without economic concessions, just how do we think through that? Is the amendment rate the same as it would have been? Is it just front loaded? Or is this time value of money really is on your side here because you're getting this all up front as opposed to over multiple years and this still leaves room for maybe a little bit lower amendment rate but the time value's still on your side?

And then maybe a second question just on buybacks. We started to see them pick up in the fourth quarter. Absent larger deal activity, what do you think a reasonable run rate for buybacks is?

Ben Moreland: Sure. On your question on sort of time value money, what I'd suggest to you there is, it's contracted, and so what I would think about there is, we have previously, for years, priced amendments on a one-off basis and each one was a discrete transaction. Here you've got a contractual commitment over a period of time. It's not indefinite, by the way. I'm not going to get into the specific terms of the contract but it's not an indefinite length of time, there is an end date to it. But it gives you that contractual certainty of that commitment at a level of pricing if you bring it back to a per site basis that is very comparable to what we've seen around our amendment activity over the years. And then again, the main benefit for the customer and for us, both, is that it provides speed and ease and simplicity in the back office to get them on the air quickly, provides them certainty of what, you know, they're going to be paying for this additional capacity they're going to need on the site over this definite period of time and limited in scope as we've talked about.

The second question around capital allocation, I'll let Jay get into just around initiation of the buyback.

Jay Brown: Yes, Jason, I mean I think you're going to see us continue to do what we've done over the course of this year. As we look at what opportunities are in front of us, see those opportunities to invest in things like distributed antenna system, building on systems or acquisitions in that arena or tower acquisitions, land purchases, we're going to balance all of those against our ability to go out and purchase our own stock. I think you've heard us articulate that perspective for six or seven years here and we haven't changed our view. I think you will see us continue to look at the opportunities in the market and measure those against what we think the opportunity is as we buy our own towers via share purchases and think about that on a long-term recurring cash flow per share basis. And that's sort of how we evaluate those.

Now in the short term, I mentioned in the quarter what we spent capital on and NewPath consumed the majority of the capital that we spent in the third quarter. And then in the fourth quarter so far, we've spent some of our cash settling the interest rate swaps. So we need to settle those swaps going into 2011 and obviously we've got some flexibility around the balance sheet. We've got an undrawn revolver and have full availability there and then significant cash flow next year. So it's going to be a balance against settling the interest rate swap. We'll certainly do that over the balance of this year and into next year. And then beyond that, I think you'll see us continue to just evaluate opportunities as they become available and we'll be focused on trying to maximize recurring cash flow per share when we choose one activity over another.

Ben Moreland: I would just add to that. In the last quarter, as you mentioned Jay, in your comment, there were more than one significant sized opportunity that we were evaluating and we don't have anything to announce today but at the right price, we would be a buyer for any of the things that we looked at this last quarter. And so they were of significant size that we would have certainly been allocating our cash and potentially some borrowing capacity toward those opportunities and so that will happen from time to time and that's consistent with what we've talked about for a long time.

Jason Armstrong: Great. Thanks, guys.

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

James Ratcliffe: Good morning, guys. Thanks again for the color on the new contract. Two questions, I guess. One, would you expect NewPath to have any meaningful effect on revenue in 2011? And secondly, again looking for 4Q, are you seeing a pickup in M&A activity from potential small sellers or on the land acquisition side as people look to be motivated by potential tax increases in 2011? Thanks.

Ben Moreland: Sure, James, this is Ben. On NewPath, it's back-end loaded so by the time you get to the year end 2011 run rate, I would call it meaningful certainly against the purchase price that we paid. But as we mentioned I think when we announced it, a lot of what we purchased is under construction, it's contracted but in deployment and development so really it's the second half of 2011 before you'll see it start to kick in. And by year end run rate it becomes reasonably significant relative to the price we paid but that's still further out and more color on that as we go along.

Jay Brown: James, on your second question around M&A activity, I think certainly at the land purchase level, we're seeing landlords who are watching the current tax regime and thinking that this year is probably a better year to be a seller than next year, so we've seen a ramp in activity and I wouldn't be surprised if we don't spend a bit more capital in the fourth quarter around land purchases than we have in the first couple of quarters of this year or three quarters of this year. And that may continue into 2011. It's difficult to tell how much of that is macroeconomic conditions and people looking to sell assets to raise cash against what the benefit is maybe this year from executing on a transaction and potentially saving some taxes on that.

On the second part of the question around tower sales, as Ben mentioned, there were a couple and have been a couple this year of significant size tower acquisitions in the market. We have observed over a long period of time that private tower owners are generally pretty proud of their assets and expect a multiple oftentimes that exceeds the public multiple at which we're trading at. And I would go back to the comments that I made to Jason in the last question around how we evaluate purchases and to the extent that we see assets come available and we think the growth prospects of those assets against the required price in order to acquire them, if that beats what we think we can do by buying our own towers, absolutely interested in pursuing those kinds of transactions. But to the extent that it becomes just an opportunity to try to add more revenue or add more EBITDA and we end up paying a price on a growth adjusted basis that exceeds our own towers, we'll revert back to just buying our own shares rather than being an acquirer of towers. So I don't know that I would say that there's been a pickup of activity but certainly as all of our multiples have gotten into the higher teens or teens area, there have been more people that own towers in the private sector who have raised their head and started to look around and see if there is an opportunity to monetize.

Ben Moreland: I would say, just as you've heard us talk about for years and we continue to hear this from investors as an interesting part of the dialogue, we internally ascribe very serious opportunity cost analysis to the dollars that we would use in an M&A transaction and that opportunity cost, again as Jay mentioned, is always measured against our own growth prospects on the sites we currently own. As we've delivered growth this year, as we've been talking about on this call, very significant organic growth coming from this portfolio that you want to make sure you don't dilute by otherwise not appropriately sort of appreciating that the value we have resident in the current portfolio by going off and doing something else. And so that's always sort of the opportunity cost evaluation that we go through and it's pretty rigorous.

James Ratcliffe: Great. Thanks.

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

Clay Moran: Good morning, and it's Clay Moran. Couple of—really just one thing. The significant size portfolios you said you looked at, were those in the U.S.? And can you confirm that really any acquisitions you're looking to do is still in the U.S.? And I guess also, can you just talk about how important scale is when you look at these acquisitions and you compare it to your own stock? Is there some added value for increasing your scale? Thanks.

Ben Moreland: Sure, Clay. The large transactions that we've contemplated sort of in the last few months have been in the U.S. It doesn't mean we're not active and wouldn't look at other international markets and, as you recall, we are in Australia and are very optimistic about the long term prospects there and think we'll have more to talk about there in the coming months. But in terms of what's going on in terms of our real activity, it's continued to focus most of our attention on the U.S. And the reason that the opportunity cost analysis can be pretty pure at this level is because we don't think there's a lot of benefit from gaining scale through additional size. We think we are of a significant size. We are meaningful to our customers. They are obviously meaningful to us.

But I think we provide a meaningful impact on their ability to deploy and accomplish what they want to accomplish in the U.S. market, whether they be an incumbent carrier or a brand new entrant into the market and would never suggest that we can accomplish everything that they need to accomplish. They have to rely on some of our peers to do that and that's certainly the way the business works. But I think we are certainly of a size where we're meaningfully important to their deployment needs, and we're not disadvantaged in any respect. So if that's the case and we can continue to demonstrate that, it becomes a financial analysis or an opportunity cost analysis around which portfolio we want to acquire, whether it be external or internal, and that's the way we'll continue to operate.

Clay Moran: Okay. Thanks.

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

Gray Powell: Good morning, everyone. Thanks for taking the questions. I just had a couple. So on the outlook, I mean just at a really high level, does your guidance for 2011 imply that leasing demand next year is higher, lower or the same as 2010?

Jay Brown: Hi, Gray. Thanks for the question. On the outlook for 2011, it would be lower than what we're experiencing in 2010. Obviously, we don't have as much visibility into the year, sitting here in October so we're assuming that our new leasing activity in full year 2011, as I mentioned in my prepared comments, is about 6% growth and for the full year 2010, the new leasing activity was about a 7% growth rate and a little higher than that obviously in Q3 of this year. So we're assuming that next year is going to be a little lower than this year. Some of that, I would go back to my comments before on how we model tenants that do not have funding for future development and minimal impact there. We could get some benefit if we have some favorable funding announcements from some of our customers and they end up deploying next year. But the baseline is lower for organic revenue growth next year as compared to what we saw in 2010.

Gray Powell: Okay, so it sounds like sort of just the typical level of conservatism that you guys normally do at Q3 and then we can revisit things in January when you report Q4?

Jay Brown: We revisit it every quarter.

Gray Powell: Right. Okay. And then the color that you've given on this contract amendment's been very helpful. I just want to make sure that I understand it correctly from a timing perspective and then just a contribution to attachments going forward. So if I look at the upside to your Q3 results versus just kind of picking a point towards the high end of your guidance, I get roughly $12 million of additional revenue related to that contract modification. How should I think about the benefit of that modification to revenue in Q4 and in 2011?

Jay Brown: Two things there. I think Dave, earlier in the call, had asked a question about how did we do in the third quarter results related to if we excluded this contract or excluded this amendment that we were speaking to and we would have been sort of at the mid to high end if we were to have excluded it. In terms of the longer term, the longer term nature of the business here, this is a recurring number so if you were looking at 2011 revenue, this number would be recurring for four quarters in 2011.

Gray Powell: Okay. Okay, that makes sense. And then just lastly, was the contract amended, like at the beginning of the quarter, like middle or end?

Jay Brown: We got a full quarter benefit from it.

Gray Powell: Okay, great. Thank you very much. It's very helpful.

Jay Brown: You bet, Gray.

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

Tim Horan: Good morning, thanks, guys. Trying to understand maybe when new platforms will start getting built out for 4G on the timing on that? And, I guess, somewhat related to that in terms of just a pure engineering perspective, do you think data growth is still accelerating and how do you think the networks are kind of holding up and I guess the whole just engineering behind the new dynamics of being kind of 24/7, as you kind of alluded to? It seems like the 35-fold growth you're looking at in the next five years, to your point, would be extremely difficult to keep up with and do you think they're going to do things differently from an engineering perspective the next three years with 4G than we've seen kind of the last three or four years? Maybe just a little bit more color around that, thanks.

Ben Moreland: Yes, Tim, this is Ben. Great question and it's one, I think, all of us are sort of scratching our heads over how do the wireless networks of today, with the spectrum limitations that are there today accommodate this demand? And I think that probably the reality is, is that it's going to be sub-optimal for some time as this continued growth explodes. But at the same time, there are improvements underway and I would refer you to—there's a good paper out that the FCC put out last week around their expectations on wireless growth in data, the additional infrastructure that will be required to even begin to, you know, as I mentioned in my comments, you can have a shot at covering the demand and the additional spectrum that they need to make available to the industry and all those things go together to begin to satisfy this kind of growth.

The other thing I would mention is I think you're going to see, over time and it's, frankly, an inevitability, is that over time there's going to be multiple architectures that satisfy this demand. And so you'll have macro tower sites, as we certainly come to enjoy today, that'll continue to be very valuable, but you'll also have alternative architectures that are complementary in building, in high density urban areas, in venues that'll take the form of DAS systems or things that look like DAS systems. I think that's going to continue to grow and be more a meaningful part of the deployment solution going forward. I think you'll see WiFi offloading, which we already use. If you have an iPad, you probably do that; I know I do. And so you'll have a number of alternatives to a macro network running with spectrum that give us the ability to try to accommodate this untethered demand that we all see wirelessly.

But if you look at this FCC study, and it's a pretty concise report—it's one of the best I've seen recently—that tries to at least frame some of these variables and put some numbers around some of these things that are, no doubt, a very big challenge for our customers today to try to deal with all of this demand. And it's going to take, as it has already over the last 10 years, it's going to take efforts from a lot of different fronts and a number of solutions, things like spectral efficiency is in this report and continued improvements there. Additional spectrum certainly is contemplated over time, not in the short period but in the long period. Cell splitting, smaller cells, additional cell sites being deployed all of those things are going to be part and parcel of this sort of work to accommodate this demand and I don't think there's any one silver bullet. I think it's going to take all of us in the industry, ourselves, our customers, our peers working very hard to try to accommodate this in an efficient way, one that ultimately can remain profitable for the carrier and obviously for us.

Tim Horan: But more specifically on the 4G build-outs, when do you think the amendments won't be enough to really handle all the traffic? Is it three years from now, a year from now you'll start to see them putting new cell sites with separate platforms with a lot more antennas in place?

Jay Brown: Yes, Tim, I guess I would say to that, you never know because you don't what the demand is going to look like over the next couple of years from the consumer, which is ultimately going to be the driver of how many cell sites are needed and what does that architecture look like. But if history has taught us anything in the industry, you go through two or three years of activity where the carriers will go out and touch all of the sites that they're already on. It's obviously faster to do it that way because it they already have existing base stations and equipment there so it's relatively cheap to do that. And, typically, that's where the focus goes for a couple of years. And then once they get through that process, as they've acquired new spectrum, as I think all of the carriers have in the case of 4G, they've acquired additional spectrum in order to roll this out, then they go back and they look for sites that they need to go back and fill-in where they just put that new spectrum band specifically on, and we've seen that now through two or three cycles of—as they go from one generation to the next generation. So if I were guessing at this point, and again, a lot of this depends on what is the activity from the consumer, we're probably two to three years at least away from—before you would start to see the carriers take on brand new cell sites for deploying this data activity.

Now that's not to say that the carriers won't take on brand new leasing, and we've seen recently going into the third quarter and into the fourth quarter, and we think we'll this next year, that we'll actually see a higher percentage from brand new tenants going on towers as opposed to amendments, which has been very heavy for the first two thirds—three fourths of this year and was heavy at the end of last year. We're starting to see a trend back towards brand new tenant leases. Most of those, though, are probably related, best we can tell, on areas where they have holes in their network and they're trying to do things like cell split and then fill the resulting hole in the network rather than necessarily specifically related to just data traffic. So a lot of that is conjecture and we'll just kind of have to see how the consumer starts to take up the device and use the data and then we'll be ready to help our customers if they need it.

Tim Horan: Thanks, guys.

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

Edward Katz: Hey, guys, it's Edward Katz for Simon Flannery. I was just wondering if you could update us on what you're hearing surrounding the timing and impact from the operating lease reclassification proposed by FASB? When I think of PCIA, there was some talk of working with NAREIT to deal with some of the changes, specifically on the lessor side so any views there would be appreciated. Thanks.

Jay Brown: Sure, Edward, that's a riveting topic to end the call on. So there's been a lot of discussion around how to account for operating leases over the last couple of years and the FASB has taken this up, both in terms of how to account for a lessor, which would obviously be our revenue side, as well as how to account for leases under a lessee transaction, which would be all of our ground leases. I would say all of that literature right now is in discussion form and nothing has been settled. At the end of whatever they end up deciding, I think we'll be able to report metrics that look similar to what they do today in other words, be able to give you color around what's changing in the business and what the leasing activity is and what the results of that is in terms of cash flow being produced by the business. So I don't think it'll have any meaningful impact there. We don't have any covenants in any of our debt agreements that would tie us down or give us a problem if the literature came out one way versus another. So I think this is just going to be something that we'll see develop.

And in terms of timing, I think most believe that this is probably at least a 2013 and more likely to be 2014 or beyond before this new literature would be implemented. So in all likelihood, we're talking several years before it would actually be implemented and then, at that point, we would just have to take a look at how we report and how we account for those leases to comply with the new standard, if there is one. And then I think you would probably also see us, depending on how it goes, you'd see us add some supplemental disclosure in order to help everyone either get back to being able to calculate debt covenant or, alternatively, if you were trying to figure out the underlying performance of the leasing business, we should be able to report that. So much more to come there, probably in the coming days and maybe we'll have something more firm by the time we get into next year.

Edward Katz: So could we expect to see something in the Qs or Ks kind of going forward, either this quarter or early 2011?

Jay Brown: I think the—and, again, this is all preliminary so you don't know exactly when they're going to come out with a standard, but there's some discussion heading into the back half of this year so it's a possibility by the time we get to the filing of our K in the January or February timeframe that there may be some more color around this topic. If there is, we would either include it there, or we'd certainly disclose it in our press releases. But, again, this is not a change that's going to affect 2010 or 2011 results; we're probably talking many years out before it would actually be implemented.

Edward Katz: Okay, great. Thanks so much.

Ben Moreland: All right. Well, again, I want to thank everyone for joining us on the call today. We look forward to finishing the year strong and reporting those results to you. So we will, we'll reconnect probably toward the end of January. Thanks again.

Operator: Ladies and gentlemen, this does conclude the Crown Castle Q3 2010 Earnings Conference Call. If you would like to listen to a replay of today's conference, please dial 1-800-406-7325 or 1-303-590-3030 and enter the access code of 4374729, followed by the pound sign. Thank you for your participation. You may now disconnect.

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