

CROWN CASTLE INTERNATIONAL CORP
Form 10-Q
August 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period _____ to _____

Commission File Number 001-16441

CROWN CASTLE INTERNATIONAL
CORP.

(Exact name of registrant as specified in its charter)

Delaware	76-0470458
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)

1220 Augusta Drive, Suite 500, Houston, Texas 77057-2261

(Address of principal executives office) (Zip Code)

(713) 570-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Number of shares of common stock outstanding at July 29, 2013: 292,683,852

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

INDEX

	Page
<u>PART I—FINANCIAL INFORMATION</u>	<u>2</u>
ITEM 1. <u>FINANCIAL STATEMENTS</u>	<u>2</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEET</u>	<u>2</u>
<u>CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND</u>	
<u>COMPREHENSIVE INCOME (LOSS) (Unaudited)</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)</u>	<u>4</u>
<u>CONDENSED CONSOLIDATED STATEMENT OF REDEEMABLE</u>	
<u>CONVERTIBLE PREFERRED STOCK AND EQUITY (Unaudited)</u>	<u>5</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL</u>	
<u>STATEMENTS—Unaudited</u>	<u>7</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u>	
<u>AND RESULTS OF OPERATIONS</u>	<u>17</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>28</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>29</u>
<u>PART II—OTHER INFORMATION</u>	<u>30</u>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	<u>30</u>
ITEM 1A. <u>RISK FACTORS</u>	<u>30</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES</u>	<u>30</u>
ITEM 6. <u>EXHIBITS</u>	<u>30</u>
<u>SIGNATURES</u>	<u>31</u>
<u>EXHIBIT INDEX</u>	<u>32</u>

Cautionary Language Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements that are based on our management's expectations as of the filing date of this report with the SEC. Statements that are not historical facts are hereby identified as forward-looking statements. In addition, words such as "estimate," "anticipate," "project," "plan," "intend," "believe," "expect," "likely," "predicted," forms of these words and similar expressions are intended to identify forward-looking statements. Such statements include plans, projections and estimates contained in "Part I—Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part I—Item 3. Quantitative and Qualitative Disclosures About Market Risk" herein. Such forward-looking statements include (1) expectations regarding anticipated growth in the wireless communication industry, carriers' investments in their networks, new tenant additions, cancellations of customer contracts, customer consolidation or ownership changes, and demand for our towers and small cell networks, (2) availability of cash flows and liquidity for, and plans regarding, future discretionary investments including capital expenditures, (3) anticipated growth in our future revenues, margins, Adjusted EBITDA and operating cash flows, (4) expectations regarding the credit markets, our availability and cost of capital, and our ability to service our debt and comply with debt covenants, and (5) our potential conversion to a REIT, including the impact and timing thereof.

Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including prevailing market conditions, risk factors described under "Part II—Item 1A. Risk Factors" herein and in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("2012 Form 10-K") and other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected. As used herein, the term "including," and any variation of thereof, means "including without limitation." The use of the word "or" herein is not exclusive.

PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands of dollars, except share amounts)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126,886	\$ 441,364
Restricted cash	161,541	575,938
Receivables, net	201,028	192,833
Prepaid expenses	124,395	103,808
Deferred income tax assets	182,053	193,420
Other current assets	84,163	73,961
Total current assets	880,066	1,581,324
Deferred site rental receivables, net	977,498	864,819
Property and equipment, net of accumulated depreciation of \$4,464,861 and \$4,249,183, respectively	6,892,277	6,917,531
Goodwill	3,138,018	3,119,957
Other intangible assets, net	2,852,434	2,941,696
Deferred income tax assets	26,059	33,914
Long-term prepaid rent, deferred financing costs and other assets, net	626,233	629,468
Total assets	\$ 15,392,585	\$ 16,088,709
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 112,160	\$ 115,999
Accrued interest	87,154	52,592
Deferred revenues	242,420	241,127
Other accrued liabilities	105,451	140,084
Current maturities of debt and other obligations	97,013	688,056
Total current liabilities	644,198	1,237,858
Debt and other long-term obligations	10,691,509	10,923,186
Deferred income tax liabilities	110,756	65,830
Below-market tenant leases, deferred ground lease payable and other liabilities	1,021,230	910,571
Total liabilities	12,467,693	13,137,445
Commitments and contingencies (note 8)		
CCIC stockholders' equity:		
Common stock, \$.01 par value; 600,000,000 shares authorized; shares issued and outstanding: June 30, 2013—292,685,462 and December 31, 2012—293,164,786	2,927	2,932
Additional paid-in capital	5,544,205	5,623,595
Accumulated other comprehensive income (loss)	(77,491)	(61,791)
Accumulated deficit	(2,558,169)	(2,625,990)
Total CCIC stockholders' equity	2,911,472	2,938,746
Noncontrolling interest	13,420	12,518
Total equity	2,924,892	2,951,264
Total liabilities and equity	\$ 15,392,585	\$ 16,088,709

See notes to condensed consolidated financial statements.

2

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands of dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net revenues:				
Site rental	\$616,849	\$517,588	\$1,232,264	\$1,015,117
Network services and other	118,079	67,923	242,724	122,139
Net revenues	734,928	585,511	1,474,988	1,137,256
Operating expenses:				
Costs of operations ^(a) :				
Site rental	179,015	131,571	356,621	254,442
Network services and other	70,199	40,262	147,576	71,783
General and administrative	54,790	47,078	113,035	98,079
Asset write-down charges	3,097	3,646	6,812	6,690
Acquisition and integration costs	7,215	7,495	8,817	9,175
Depreciation, amortization and accretion	190,651	152,482	377,110	291,882
Total operating expenses	504,967	382,534	1,009,971	732,051
Operating income (loss)	229,961	202,977	465,017	405,205
Interest expense and amortization of deferred financing costs	(140,256)	(144,940)	(304,625)	(282,412)
Gains (losses) on retirement of long-term obligations	(577)	(7,518)	(36,486)	(14,586)
Interest income	328	382	625	736
Other income (expense)	507	(2,249)	(122)	(3,326)
Income (loss) before income taxes	89,963	48,652	124,409	105,617
Benefit (provision) for income taxes	(36,587)	68,432	(54,295)	61,737
Net income (loss)	53,376	117,084	70,114	167,354
Less: Net income (loss) attributable to the noncontrolling interest	1,017	1,071	2,293	1,310
Net income (loss) attributable to CCIC stockholders	52,359	116,013	67,821	166,044
Dividends on preferred stock	—	—	—	(2,629)
Net income (loss) attributable to CCIC stockholders after deduction of dividends on preferred stock	\$52,359	\$116,013	\$67,821	\$163,415
Net income (loss)	\$53,376	\$117,084	\$70,114	\$167,354
Other comprehensive income (loss):				
Interest rate swaps, net of taxes of \$5,685, \$5,712, \$11,376, and \$5,712, respectively:				
Amounts reclassified into "interest expense and amortization of deferred financing costs", net of taxes (see note 4)	10,557	10,609	21,127	26,947
Foreign currency translation adjustments	(37,827)	(6,645)	(38,218)	244
Total other comprehensive income (loss)	(27,270)	3,964	(17,091)	27,191
Comprehensive income (loss)	26,106	121,048	53,023	194,545
Less: Comprehensive income (loss) attributable to the noncontrolling interest	(798)	1,057	902	570
Comprehensive income (loss) attributable to CCIC stockholders	\$26,904	\$119,991	\$52,121	\$193,975
Net income (loss) attributable to CCIC common stockholders, after deduction of dividends on preferred stock, per common share:				

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Basic	\$0.18	\$0.40	\$0.23	\$0.57
Diluted	\$0.18	\$0.40	\$0.23	\$0.57
Weighted-average common shares outstanding (in thousands):				
Basic	291,225	290,649	291,164	287,781
Diluted	292,706	291,203	292,570	289,029

(a) Exclusive of depreciation, amortization and accretion shown separately.

See notes to condensed consolidated financial statements.

3

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands of dollars)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$70,114	\$167,354
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation, amortization and accretion	377,110	291,882
Gains (losses) on retirement of long-term obligations	36,486	14,586
Amortization of deferred financing costs and other non-cash interest	57,471	48,780
Stock-based compensation expense	19,472	17,105
Asset write-down charges	6,812	6,690
Deferred income tax benefit (provision)	50,143	(65,544)
Other adjustments	1,291	(41)
Changes in assets and liabilities, excluding the effects of acquisitions:		
Increase (decrease) in accrued interest	34,563	(1,950)
Increase (decrease) in accounts payable	2,727	(2,488)
Increase (decrease) in deferred revenues, deferred ground lease payables, other accrued liabilities and other liabilities	45,362	(3,145)
Decrease (increase) in receivables	(11,647)	(26,225)
Decrease (increase) in prepaid expenses, deferred site rental receivables, long-term prepaid rent, restricted cash and other assets	(129,877)	(122,662)
Net cash provided by (used for) operating activities	560,027	324,342
Cash flows from investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(27,280)	(1,199,316)
Capital expenditures	(254,820)	(159,697)
Other investing activities, net	6,644	1,188
Net cash provided by (used for) investing activities	(275,456)	(1,357,825)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	30,941	2,100,000
Proceeds from issuance of capital stock	—	238
Principal payments on debt and other long-term obligations	(51,085)	(34,744)
Purchases and redemptions of long-term debt	(675,480)	(699,486)
Purchases of capital stock	(98,867)	(35,673)
Borrowings under revolving credit facility	48,000	—
Payments under revolving credit facility	(255,000)	(251,000)
Payments for financing costs	(5,654)	(40,237)
Net (increase) decrease in restricted cash	411,048	12,620
Dividends on preferred stock	—	(2,481)
Net cash provided by (used for) financing activities	(596,097)	1,049,237
Effect of exchange rate changes on cash	(2,952)	301
Net increase (decrease) in cash and cash equivalents	(314,478)	16,055
Cash and cash equivalents at beginning of period	441,364	80,120
Cash and cash equivalents at end of period	\$126,886	\$96,175

See notes to condensed consolidated financial statements.

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND EQUITY

(In thousands of dollars, except share amounts) (Unaudited)

	CCIC Stockholders							
	Redeemable Convertible Common Stock Preferred Stock			AOCI				
	Shares	(\$01 Par)	Additional Paid-In Capital	Foreign Currency Translation Adjustments	Derivative Instruments, net of tax	Accumulated Deficit	Noncontrolling Interest	Rolling Total
Balance, April 1, 2013	\$ 293,771,206	\$ 2,938	\$ 5,610,039	\$ 101,310	\$ (153,346)	\$ (2,610,528)	\$ 14,218	\$ 2,964,631
Stock-based compensation related activity, net of forfeitures	(6,032)	—	9,443	—	—	—	—	9,443
Purchases and retirement of capital stock	(1,079,712)	(11)	(75,277)	—	—	—	—	(75,288)
Other comprehensive income (loss) ^(a)	—	—	—	(36,012)	10,557	—	(1,815)	(27,270)
Net income (loss)	—	—	—	—	—	52,359	1,017	53,376
Balance, June 30, 2013	\$ 292,685,462	\$ 2,927	\$ 5,544,205	\$ 65,298	\$ (142,789)	\$ (2,558,169)	\$ 13,420	\$ 2,924,892

	CCIC Stockholders							
	Redeemable Convertible Common Stock Preferred Stock			AOCI				
	Shares	(\$01 Par)	Additional Paid-In Capital	Foreign Currency Translation Adjustments	Derivative Instruments, net of tax	Accumulated Deficit	Noncontrolling Interest	Rolling Total
Balance, April 1, 2012	\$ 292,928,485	\$ 2,929	\$ 5,591,191	\$ 102,659	\$ (195,702)	\$ (2,764,543)	\$ 132	\$ 2,736,666
Stock-based compensation related activity, net of forfeitures	113,168	1	7,915	—	—	—	—	7,916
Purchases and retirement of	(3,640)	—	—	—	—	—	—	—

capital stock									
Other									
comprehensive income (loss) ^(a)	—	—	—	(6,631) 10,609	—	(14) 3,964	
Disposition of noncontrolling interest	—	—	—	—	—	—	368	368	
Net income (loss)	—	—	—	—	—	116,013	1,071	117,084	
Balance, June 30, 2012	—\$—293,038,013	\$2,930	\$5,599,106	\$96,028	\$(185,093)	\$(2,648,530)	\$1,557	\$2,865,998	

(a) See the statement of operations and other comprehensive income (loss) for the components of "other comprehensive income (loss)" and note 4 with respect to the reclassification adjustment.

See notes to condensed consolidated financial statements.

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	CCIC Stockholders								Controlling Total
	Redeemable Convertible Preferred Common Stock			AOCI					
	Shares	Amount (\$.01 Par)	Additional Paid-In Capital	Foreign Currency Translation Adjustments	Derivative Instruments, net of tax	Accumulated Deficit	Noncontrolling Interest		
Balance, January 1, 2013	\$ 293,164,786	\$ 2,932	\$ 5,623,595	\$ 102,125	\$(163,916)	\$(2,625,990)	\$ 12,518	\$ 2,951,264	
Stock-based compensation related activity, net of forfeitures	941,947	9	19,463	—	—	—	—	19,472	
Purchases and retirement of capital stock	(1,421,271)	(14)	(98,853)	—	—	—	—	(98,867)	
Other comprehensive income (loss) ^(a)	—	—	—	(36,827)	21,127	—	(1,391)	(17,091)	
Net income (loss)	—	—	—	—	—	67,821	2,293	70,114	
Balance, June 30, 2013	\$ 292,685,462	2,927	5,544,205	65,298	\$(142,789)	\$(2,558,169)	13,420	2,924,892	

	CCIC Stockholders								Controlling Total	
	Redeemable Convertible Preferred Stock			Common Stock		AOCI				
	Shares	Amount	Shares	Amount (\$.01 Par)	Additional Paid-In Capital	Foreign Currency Translation Adjustments	Derivative Instruments, net of tax	Accumulated Deficit		Noncontrolling Interest
Balance, January 1, 2012	6,111,000	\$ 305,032	\$ 284,449,372	\$ 2,844	\$ 5,312,342	\$ 95,044	(212,040)	\$(2,811,945)	\$ 619	\$ 2,300,000
Stock-based compensation related activity, net of forfeitures	—	—	997,109	10	17,333	—	—	—	—	17,343
Purchases and retirement of capital stock	—	—	(694,373)	(7)	(35,666)	—	—	—	—	(35,666)
Conversion of redeemable preferred stock into common stock	(6,111,000)	(305,180)	8,285,905	83	305,097	—	—	—	—	305,180

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Other comprehensive income (loss) ^(a)	—	—	—	—	984	26,947	—	(740)	27,19
Dividends on preferred stock and amortization of issue costs	148	—	—	—	—	—	(2,629)	—	(2,62
Disposition of noncontrolling interest	—	—	—	—	—	—	—	368	368
Net income (loss)	—	—	—	—	—	—	166,044	1,310	167,3
Balance, June 30, 2012	\$—	293,038,013	\$2,930						