CROWN CASTLE INTERNATIONAL CORP
Form 10-Q
November 06, 2006

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 of incorporation or organization)	**(I.R.S. Employer Identification No.)**
510 Bering Drive	**77057-1457**

Suite 600

Houston, Texas
(Address of principal executive offices) **(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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

Number of shares of common stock outstanding at October 31, 2006: 201,935,236

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

INDEX

Cautionary Language Regarding Forward-Looking Statements

This Quarterly Report on 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. Such statements include plans, projections and estimates contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk herein. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including prevailing market conditions, the risk factors described under Part II Other Information, 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, 2005 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.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands of dollars, except share amounts)

	December 31, 2005	September 30, 2006 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,408	$ 66,084
Restricted cash	91,939	88,669
Receivables:		
Trade, net of allowance for doubtful accounts of $2,968 and $3,220, respectively	13,054	16,265
Other	3,776	5,607
Deferred site rental receivable	9,307	12,282
Prepaid expenses and other current assets	37,811	42,405
Total current assets	221,295	231,312
Restricted cash	3,814	5,021
Deferred site rental receivable	87,392	94,853
Available-for-sale securities		249,035
Property and equipment, net of accumulated depreciation of $1,611,312 and $1,809,944, respectively	3,294,333	3,260,049
Goodwill	340,412	390,365
Other intangible assets	70,872	229,519
Deferred financing costs and other assets, net of accumulated amortization of $5,083 and $9,809, respectively	113,199	59,449
	$ 4,131,317	$ 4,519,603
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,230	$ 16,667
Accrued interest	8,281	8,627
Deferred rental revenues and other accrued liabilities	148,703	152,243
Short-term debt and current maturities of long-term debt	295,000	10,000
Total current liabilities	464,214	187,537
Long-term debt, less current maturities	1,975,686	2,953,915
Deferred ground lease payable	118,747	132,087
Other liabilities	55,559	57,978
Total liabilities	2,614,206	3,331,517
Commitments and contingencies (note 8)		
Minority interests	26,792	27,879
Redeemable preferred stock	311,943	312,639
Stockholders equity:		
Common stock, $.01 par value; 690,000,000 shares authorized; shares issued and outstanding: December 31, 2005 214,188,524 and September 30, 2006 201,890,480	2,142	2,019
Additional paid-in capital	3,172,211	2,869,172
Accumulated other comprehensive income	41,937	149,498
Accumulated deficit	(2,037,914)	(2,173,121)

Total stockholders equity	1,178,376	847,568
	$ 4,131,317	$ 4,519,603

See condensed notes to consolidated financial statements.

2

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands of dollars, except per share amounts)

	Three Months Ended September 30, 2005 (As restated see note 1)	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2005 (As restated see note 1)	Nine Months Ended September 30, 2006
Net revenues:				
Site rental	$ 152,802	$ 178,995	$ 441,679	$ 510,052
Network services and other	19,457	21,944	56,454	67,328
	172,259	200,939	498,133	577,380
Operating expenses:				
Costs of operations (exclusive of depreciation, amortization and accretion):				
Site rental	50,671	55,261	147,396	155,878
Network services and other	13,333	14,735	39,204	44,401
General and administrative	33,977	22,958	80,458	72,946
Corporate development	1,172	2,475	2,456	6,839
Restructuring charges			8,477	
Asset write-down charges	1,161	948	2,152	2,805
Depreciation, amortization and accretion	70,215	72,161	211,132	213,626
	170,529	168,538	491,275	496,495
Operating income (loss)	1,730	32,401	6,858	80,885
Other income (expense):				
Losses on purchases and redemptions of debt	(2,676)	(437)	(283,797)	(1,177)
Interest and other income (expense)	3,293	(985)	(1,238)	(4,520)
Interest expense and amortization of deferred financing costs	(28,600)	(46,450)	(103,262)	(116,165)
Income (loss) from continuing operations before income taxes and minority interests	(26,253)	(15,471)	(381,439)	(40,977)
Benefit (provision) for income taxes	(117)	(575)	(408)	(1,698)
Minority interests	834	485	2,765	1,400
Income (loss) from continuing operations	(25,536)	(15,561)	(379,082)	(41,275)
Income (loss) from discontinued operations, net of tax			848	5,657
Net income (loss)	(25,536)	(15,561)	(378,234)	(35,618)
Dividends on preferred stock	(9,429)	(5,201)	(28,650)	(15,604)
Net income (loss) after deduction of dividends on preferred stock	$ (34,965)	$ (20,762)	$ (406,884)	$ (51,222)
Net income (loss)	$ (25,536)	$ (15,561)	$ (378,234)	$ (35,618)
Other comprehensive income (loss):				
Foreign currency translation adjustments	409	747	(3,825)	2,162

Derivative instruments, net of tax:				
Net change in fair value of cash flow hedging instruments		(51,391)	21	(8,089)
Amounts reclassified into results of operations		286	1,070	160
Unrealized gains (losses) on available-for-sale securities, net of tax		113,328		113,328
Comprehensive income (loss)	$ (25,127)	$ 47,409	$ (380,968)	$ 71,943
Per common share basic and diluted:				
Income (loss) from continuing operations	$ (0.16)	$ (0.10)	$ (1.86)	$ (0.27)
Income (loss) from discontinued operations				0.03
Net income (loss)	$ (0.16)	$ (0.10)	$ (1.86)	$ (0.24)
Weighted average common shares outstanding basic and diluted (in thousands)	215,664	201,070	219,167	209,406

See condensed notes to consolidated financial statements.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands of dollars)

	Nine Months Ended September 30,	
	2005 (As restated see note 1)	2006
Cash flows from operating activities:		
Net income (loss)	$ (378,234)	$ (35,618)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation, amortization and accretion	211,132	213,626
Losses on purchases and redemptions of debt	283,797	1,177
Amortization of deferred financing costs	4,174	6,070
Stock-based compensation expense	22,424	13,623
Asset write-down charges	2,152	2,805
Minority interests	(2,765)	(1,400)
Equity in losses and write-downs of unconsolidated affiliates	3,365	9,573
(Income) loss from discontinued operations	(848)	(5,657)
Deferred income tax (benefit) expense		(1,738)
Interest rate swap (income) expense	941	476
Changes in assets and liabilities:		
Increase (decrease) in accrued interest	(36,985)	346
Increase (decrease) in accounts payable	(1,080)	2,911
Increase (decrease) in deferred rental revenues, deferred ground lease payable and other liabilities	(408)	(2,293)
Decrease (increase) in receivables	12,984	(4,796)
Decrease (increase) in inventories, prepaid expenses, deferred site rental receivable and other assets	(11,911)	(20,182)
Net cash provided by (used for) operating activities	108,738	178,923
Cash flows from investing activities:		
Proceeds from investments and disposition of property and equipment	1,968	2,235
Acquisitions of assets	(144,580)	(303,611)
Capital expenditures	(38,799)	(79,926)
Investments, loans and other	(55,034)	(6,350)
Net cash provided by (used for) investing activities	(236,445)	(387,652)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,900,000	1,000,000
Proceeds from issuance of capital stock	37,044	43,854
Purchases and redemptions of long-term debt	(1,848,222)	(12,108)
Borrowing under revolving credit agreements	145,000	
Payments under revolving credit agreements	(180,000)	(295,000)
Purchases of capital stock	(292,718)	(517,963)
Incurrence of financing costs	(31,973)	(7,888)
Initial funding of restricted cash	(48,873)	
Net decrease (increase) in restricted cash	(31,823)	2,063
Interest rate swap receipts (payments)	(6,381)	5,915
Dividends on preferred stock	(13,220)	(14,907)
Net cash provided by (used for) financing activities	(371,166)	203,966

Effect of exchange rate changes on cash	(457)	(218)
Cash flows from discontinued operations:		
Net cash provided by (used for) operating activities	(3,531)	5,657
Net cash provided by (used for) investing activities	7,062	
Net cash provided by (used for) financing activities		
Net increase (decrease) in cash and cash equivalents	442	
Net cash provided by (used for) discontinued operations	3,973	5,657
Net increase (decrease) in cash and cash equivalents	(495,357)	676
Cash and cash equivalents at beginning of period	566,707	65,408
Cash and cash equivalents at end of period	$ 71,350	$ 66,084

See condensed notes to consolidated financial statements.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited

1. General

The information contained in the following notes to the consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2005, and related notes thereto, included in the Annual Report on Form 10-K for the year ended December 31, 2005 (Form 10-K) filed by Crown Castle International Corp. (CCIC) with the Securities and Exchange Commission (SEC). All references to the Company include CCIC and its subsidiary companies unless otherwise indicated or the context indicates otherwise.

The consolidated financial statements included herein are unaudited; however, they include all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2006, the consolidated results of operations for the three and nine months ended September 30, 2005 and 2006, and the consolidated cash flows for the nine months ended September 30, 2005 and 2006. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year.

In January 2005, the Company adopted a plan to exit the business of OpenCell Corp. (OpenCell). For all periods presented, the assets, liabilities, results of operations and cash flows of the business of OpenCell are classified as amounts from discontinued operations. On May 9, 2005, the Company completed the sale of OpenCell and recognized a gain of $2,801,000 for the three months ended June 30, 2005.

During the three months ended March 31, 2006, the Company reversed $5,500,000 into net gain on disposal of discontinued operations related to liabilities previously established in conjunction with the sale of the Company s former UK operations, as a result of the termination of related contingencies during the three months ended March 31, 2006.

Certain reclassifications have been made to the financial statements for prior periods in order to conform to the presentation for the three and nine months ended September 30, 2006.

Effects of Restatement

In 2005, as part of the Company s 2005 control procedures, the Company engaged in a lease by lease review of the Company s tenant leases and ground leases. The Company completed this review in the first quarter of 2006 and determined that the required non-cash adjustments, as a result of this review, would be material to the results of the fourth quarter of 2005 if recorded as a single adjustment in the fourth quarter of 2005. Therefore, the Company determined that the errors were most appropriately corrected through the restatement of previously issued financial statements for the years ended December 31, 2003 and 2004, for each of the quarters of 2004 and for the first three quarters of 2005 to reflect these non-cash adjustments in the proper periods. The restatement of the third quarter 2005 results decreased net loss by $2,530,000, comprised of an increase in site rental revenues of $542,000, an increase in site rental costs of operations of $642,000, an increase in general and administrative expense of $774,000, a decrease in depreciation expense of $1,977,000, a decrease in minority interests of $70,000, and a decrease in loss from discontinued operations of $1,497,000. The restatement of the results for the nine months ended September 30, 2005 decreased net loss by $6,044,000, comprised of an increase in site rental revenues of $1,626,000, an increase in site rental costs of operations of $1,928,000, an increase in general and administrative expense of $883,000, a decrease of depreciation expense of $5,944,000, a decrease in minority interests of $212,000 and a decrease in loss from discontinued operations of $1,497,000. These adjustments have no effect on the Company s benefit (provision) for income taxes since the net impact on deferred tax assets and liabilities is offset by changes in valuation allowances. The adjustments do not affect historical net cash flows from operating, investing or financing activities, future cash flows or the timing of payments under related leases.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

Moreover, the corrections do not have any impact on cash balances, compliance with any financial covenants or debt instruments, or the current economic value of the Company s leaseholds and its tower assets.

The adjustments to amounts previously presented in the consolidated statement of operations for the three months ended September 30, 2005 were reported in the Company s Form 10-K and are summarized as follows for the convenience of the reader:

	As Previously Stated	Restatement Adjustments	As Restated	Reclassification	As Currently Stated
	(In thousands of dollars, except per share amounts)				
Three months ended September 30, 2005:					
Site rental revenues	$ 152,260	$ 542	$ 152,802		$ 152,802
Site rental costs of operations	50,029	642	50,671		50,671
General and administrative	33,484	774	34,258	(281)	33,977
Corporate development	891		891	281	1,172
Depreciation, amortization and accretion expense	72,192	(1,977)	70,215		70,215
Operating income (loss)	627	1,103	1,730		1,730
Minority interests	904	(70)	834		834
Income (loss) from discontinued operations, net of tax	(1,497)	1,497			
Net income (loss)	(28,066)	2,530	(25,536)		(25,536)
Net income (loss) per common share basic and diluted	(0.17)	0.01	(0.16)		(0.16)

The adjustments to amounts previously presented in the consolidated statement of operations for the nine months ended September 30, 2005 are summarized as follows:

	As Previously Stated	Restatement Adjustments	As Restated	Reclassification	As Currently Stated
	(In thousands of dollars, except per share amounts)				
Nine months ended September 30, 2005:					
Site rental revenues	$ 440,053	$ 1,626	$ 441,679	$	$ 441,679
Site rental costs of operations	145,468	1,928	147,396		147,396
General and administrative	79,921	883	80,804	(346)	80,458
Corporate development	2,110		2,110	346	2,456
Depreciation, amortization and accretion expense	217,076	(5,944)	211,132		211,132
Operating income (loss)	2,099	4,759	6,858		6,858
Minority interests	2,977	(212)	2,765		2,765
Income (loss) from discontinued operations, net of tax	(649)	1,497	848		848
Net income (loss)	(384,278)	6,044	(378,234)		(378,234)
Net income (loss) per common share basic and diluted	(1.88)	0.02	(1.86)		(1.86)

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The following tables describe the effects of the restatement on net loss and the related per share amounts for the three and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(In thousands of dollars, except per share amounts)	
Net income (loss), as previously stated	$ (28,066)	$ (384,278)
Adjustments to site rental revenues	542	1,626
Adjustments to site rental costs of operations	(642)	(1,928)
Adjustments to general and administrative	(774)	(883)
Adjustments to depreciation expense	1,977	5,944
Adjustments to minority interests	(70)	(212)
Adjustments to income (loss) from discontinued operations, net of tax	1,497	1,497
Net income (loss), as restated	$ (25,536)	$ (378,234)
Per common share basic and diluted:		
Net income (loss), as previously stated	$ (0.17)	$ (1.88)
Adjustments to site rental revenues		0.01
Adjustments to site rental costs of operations		(0.01)
Adjustments to general and administrative		
Adjustments to depreciation expense	0.01	0.02
Adjustments to minority interests		
Adjustments to income (loss) from discontinued operations, net of tax		
Net income (loss), as restated	$ (0.16)	$ (1.86)

The following table describes the effects of the restatement on comprehensive income (loss) for the three and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(In thousands of dollars)	
Comprehensive income (loss), as previously stated	$ (27,677)	$ (386,904)
Adjustments to net income (loss)	2,530	6,044
Adjustments to foreign currency translation adjustments	20	(108)
Comprehensive income (loss), as restated	$ (25,127)	$ (380,968)

Revision to Presentation of Cash Flows Relating to Discontinued Operations

The Company separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations which, prior to December 31, 2005, were reported on a combined basis as a single amount.

Review of Non-Cash Equity-Based Compensation

As previously disclosed in the quarterly report on Form 10-Q for the period ended June 30, 2006 (June 30, 2006 10-Q), the Company conducted a detailed review of its equity-based compensation practices, including a review of its underlying stock option and restricted stock grant documentation and procedures and related accounting. During the review, the Company found no inappropriate actions relating to the administration of its equity-based compensation plans and, further, that grants were made under its equity-based plans and approved by the board of directors.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

As previously disclosed in the June 30, 2006 10-Q, the Company discovered certain errors in its accounting for equity-based compensation. The Company had previously determined that it had certain unrecorded non-cash equity-based compensation charges associated with stock option grants; however, the Company determined in the second quarter of 2006 that these prior period accounting errors were immaterial to its financial statements pursuant to the rollover approach historically used by the Company [see discussion of Staff Accounting Bulletin No. 108 (SAB 108) in note 2 for additional information]. In all periods effected, these errors would not have affected the Company s historical revenues, Adjusted EBITDA or compliance with its debt covenants.

On September 13, 2006, the SEC issued SAB 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective no later than the year ending December 31, 2006. The Company elected to early adopt SAB 108, as encouraged, as of September 30, 2006 (see note 2). Pursuant to SAB 108, the Company corrected the aforementioned cumulative error in its accounting for equity-based compensation by recording a non-cash offsetting cumulative effect adjustment of $83,985,000 within stockholders equity that increased additional paid-in capital and increased accumulated deficit. Approximately $70,640,000 of the cumulative effect adjustment relates to periods prior to January 1, 2001 and approximately $13,345,000 relates to the period from January 1, 2001 to December 31, 2005.

As previously disclosed in the June 30, 2006 10-Q, the Company received a letter dated July 17, 2006, from the SEC stating that the SEC is conducting an informal inquiry into various accounting matters related to the Company, including whether grants of stock options may have been backdated. The SEC s letter states that it should not be construed as an indication by the SEC or its staff that any violations of law have occurred. The Company has cooperated promptly and fully with the SEC in this matter.

Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of the Company s consolidated financial statements are disclosed in the Form 10-K. Additional significant accounting policies for fiscal 2006 are disclosed below.

Stock-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)) (revised 2004) using the modified prospective method. SFAS 123(R) requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) relating to the application of SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Prior to adopting SFAS 123(R), the Company had applied the fair value method of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, using the prospective method of transition under Statement of Financial Accounting Standards No. 148 (SFAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure.* See notes 2 and 10.

Restricted Stock Awards. The Company records stock-based compensation expense only for those non-vested stock awards (restricted stock awards) that are expected to vest. The Company uses historical data to estimate pre-vesting forfeitures. The fair value of restricted stock awards without market conditions is determined based on the number of shares granted and the quoted price of the Company s stock at the date of grant. Upon adoption of SFAS 123(R), the Company began using a Monte Carlo simulation as the method of valuation for the Company s restricted stock awards with market conditions. The Company s determination of the fair value of restricted stock awards with market conditions on the date of grant is affected by its stock price as well as assumptions regarding a number of highly complex and subjective variables. Although the fair value of restricted stock awards with market conditions is determined in accordance with SFAS 123(R) and SAB 107, a Monte Carlo simulation requires the input of highly subjective assumptions; and other reasonable assumptions could provide differing results. The key assumptions are summarized as follows:

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

Valuation and Amortization Method. The Company estimates the fair value of restricted stock awards with market conditions granted using a Monte Carlo simulation. It amortizes the fair value of all restricted stock awards on a graded vesting schedule over the requisite service periods. In the case of accelerated vesting based on the market performance of the Company s common stock, the compensation costs related to the vested awards that have not previously been amortized are recognized upon vesting.

Expected Volatility. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock and implied volatility on publicly traded options on the Company s common stock.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Monte Carlo simulation on implied yield currently available on U.S. Treasury issues with an equivalent remaining term equal to the expected life of the award.

CCIC Stock Option Plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Company has not granted CCIC stock options since 2003 and has not granted options to the executive management since September 2001. See note 10.

Investments in Equity Securities

In accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), *Accounting for Certain Investments in Debt and Equity Securities*, investments classified as available-for-sale are carried at fair value on the consolidated balance sheet. The net unrealized gains or losses on the available-for-sale securities, net of tax, are reported as accumulated other comprehensive income unless such changes are deemed other than temporary. The Company periodically reviews the value of available-for-sale securities and will record impairment charges in the consolidated statement of operations and comprehensive income (loss) for any decline in value that is determined to be other-than-temporary. The Company does not have any investments classified as trading. See note 3.

Sale of Stock of Subsidiaries or Equity Method Investments

The effects of any changes in the Company s ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or investments accounted for under the equity method are accounted for as capital transactions pursuant to the SEC s Staff Accounting Bulletin No. 51 (SAB 51), *Accountings for the Sale of Stock of a Subsidiary*. See note 3.

2. New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123(R), which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements based on fair value. The Company adopted the provisions of SFAS 123(R) on January 1, 2006. The adoption of SFAS 123(R) will increase stock-based compensation expense by approximately $450,000 for the year ending December 31, 2006.

In March 2005, the SEC staff issued SAB 107 to assist preparers by simplifying some of the implementation challenges of SFAS 123(R) while enhancing the information that investors receive. The Company applied the principles of SAB 107 in conjunction with its adoption of SFAS 123(R).

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations an Interpretation of FASB Statement No. 143*, which clarifies the term conditional asset retirement obligation as used in FAS 143. The Company adopted FIN 47 on December 31, 2005. The adoption of FIN 47 resulted in the recognition of liabilities amounting to $13,948,000 for contingent retirement obligations

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

under certain tower site land leases, asset retirement costs amounting to $4,917,000, and the recognition of a charge for the cumulative effect of the change in accounting principle amounting to $9,031,000. Accretion expense related to liabilities for contingent retirement obligations (included in depreciation, amortization and accretion on the Company s consolidated statement of operations and comprehensive income (loss)) amounted to $1,018,000 for the nine months ended September 30, 2006. At September 30, 2006, liabilities for contingent retirement obligations amounted to $18,153,000.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (SFAS 154), *Accounting Changes and Error Corrections*. SFAS 154 replaces Accounting Principles Board Opinion No. 20 (APB 20), *Accounting Changes*, and Statement of Financial Accounting Standards No. 3 (SFAS 3), *Reporting Accounting Changes in Interim Financial Statements*. The provisions of SFAS 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In October 2005, the FASB issued FSP FAS 13-1 (FAS 13-1), *Accounting for Rental Costs Incurred During a Construction Period*, which requires rental costs associated with ground or building operating leases that are incurred during a construction period to be recognized as rental expense. FAS 13-1 is effective for reporting periods beginning after December 15, 2005; and retrospective application was permitted but not required. The adoption of FAS 13-1 did not have a significant effect on the Company s consolidated financial statements.

In 2005, the FASB issued FASB Staff Position FSP FAS 123(R)-1 (FAS 123(R)-1), *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R),* FSP FAS 123(R)-2 (FAS 123(R)-2), *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)*, FSP FAS 123(R)-3 (FAS 123(R)-3), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards,* and FSP FAS 123(R)-4 (FAS 123(R)-4), *Classification of Options and Similar Instruments Issued as Employee Compensation that Allow for Cash Settlement upon the Occurrence of a Contingent Event*. The Company adopted these FSP s in conjunction with the adoption of FAS 123(R) on January 1, 2006. The adoption of these FSP s did not have a material impact on the Company s consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize in its financial statements the impact of a tax position, if it is more likely than not that the position will be sustained on audit based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company s 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company will adopt FIN 48 on January 1, 2007. The Company believes the adoption of FIN 48 will not have a material impact on the Company s consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for the Company in the beginning of the Company s 2008 fiscal year. The requirements of SFAS 157 will be applied prospectively except for certain derivative instruments that would be adjusted through the opening balance of retained earnings in the period of adoption. The Company is evaluating the impact of the adoption of SFAS 157 on the Company s consolidated financial statements.

In September 2006, the SEC staff issued SAB 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires the use of both the iron curtain and rollover approach in quantifying the materiality of misstatements. SAB 108 provides transitional guidance for the correction of errors in prior periods.

SAB 108 is effective for the Company no later than the year ending December 31, 2006. The Company adopted SAB 108 as of September 30, 2006. Upon initial application of SAB 108, the Company evaluated the

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

uncorrected financial statement misstatements that were previously considered immaterial under the rollover method using the dual methodology required by SAB 108. As a result of this dual methodology approach of SAB 108, the Company corrected the cumulative error in its accounting for equity-based compensation for periods prior to January 1, 2006 (discussed more fully above under *Review of Non-Cash Equity-Based Compensation.*) in accordance with the transitional guidance in SAB 108, by recording a non-cash offsetting cumulative effect adjustment of $83,985,000 within stockholders equity that increased additional paid-in capital and increased accumulated deficit. The adjustment is summarized as follows:

	Accumulated Deficit	Additional Paid-In Capital
	(In thousands of dollars)	
Balance as of January 1, 2006, as previously reported	$ (2,037,914)	$ 3,172,211
Adjustment for non-cash equity-based compensation	(83,985)	83,985
Balance as of January 1, 2006, as adjusted	$ (2,121,899)	$ 3,256,196

In October 2006, the FASB issued FASB Staff Position FAS 123(R)-5 (FAS 123(R)-5), *Amendments of FASB Staff Positions FAS 123(R)-1* and FASB Staff Position FAS 123(R)-6 (FAS 123(R)-6), *Technical Connections of FASB Statement No. 123 (R)*. FAS 123(R)-5 addresses whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FAS 123(R)-1. FAS 123(R)-5 and FAS (R)-6 are effective for the Company on January 1, 2007. The adoption of FAS 123(R)-5 and FAS (R)-6 will not have a material impact on the Company s consolidated financial statements.

3. Long-term Assets

Goodwill

As of December 31, 2005 and September 30, 2006, the Company had consolidated goodwill of $340,412,000 and $390,365,000, respectively, all of which was at CCUSA.

Other Intangible Assets

The value of site rental contracts from acquisitions included in CCUSA is accounted for as other intangible assets with finite useful lives, and is included in deferred financing costs and other assets on the Company s consolidated balance sheet.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

A summary of other intangible assets with finite useful lives is as follows:

	Nine Months Ended September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(In thousands of dollars)		
Balance at beginning of period	$ 97,050	$ (26,178)	$ 70,872
Other intangible assets acquired	166,801		166,801
Amortization expense		(8,154)	(8,154)
Balance at end of period	$ 263,851	$ (34,332)	$ 229,519
Estimated annual amortization expense:			
Years ending December 31, 2007 through 2010		$ 16,896	

Mountain Union Acquisition

On July 1, 2006, the Company acquired over 98% of the outstanding equity interests of Mountain Union Telecom, LLC (Mountain Union) for $305,258,000 and has a right to call the remaining equity interests for approximately $5,000,000 commencing on January 1, 2007. In connection with the purchase price allocation for this transaction, the Company recorded goodwill of $49,953,000 and other intangible assets of $166,801,000. The other intangible assets will be amortized using an estimated useful life of 20 years. See note 13.

Investment in FiberTower Corporation

On August 29, 2006, FiberTower and First Avenue Networks, Inc. completed an all-stock merger transaction (FiberTower Merger) contemplated by the merger agreement dated May 14, 2006. Prior to the FiberTower Merger, the Company owned approximately a 36% minority interest position in FiberTower Corporation, which was accounted for under the equity method. Following the FiberTower Merger, the Company owns 26,352,956 shares of common stock of FiberTower or approximately 18.7% of the outstanding equity interest in the combined company. The Company s investment in FiberTower is subject to certain transfer restrictions for a limited period of time that will not exceed one year. As a result of the FiberTower Merger, the Company wrote up the carrying value of its investment by $144,645,000 and recorded (1) an increase in additional paid-in capital of $76,381,000 in accordance with SAB 51 and (2) an adjustment of $68,264,000 to accumulated other comprehensive income in accordance with SFAS 115. After the FiberTower Merger, the investment in FiberTower has been classified as an available-for-sale equity security in accordance with SFAS 115. See note 1.

As of September 30, 2006, the fair value of the investment in FiberTower was $249,035,000 (at a per share price of $9.45). As of September 30, 2006, the unrealized investment gain included in accumulated other comprehensive income totaled $113,328,000.

For the three and nine months ended September 30, 2006, losses from the investment in FiberTower under the equity method were $2,334,000 and $9,660,000, respectively, and are included in interest and other income (expense) on the Company s consolidated statement of operations and comprehensive income (loss). These losses resulted from the accounting for the minority interest position in FiberTower under the equity method that was applied by the Company prior to the FiberTower Merger.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

4. Long-term and Short-term Debt

Long-term debt consists of the following:

	December 31, 2005	September 30, 2006
	(In thousands of dollars)	
Senior Secured Tower Revenue Notes due 2035	$ 1,900,000	$ 1,900,000
2006 Credit Facility		1,000,000
4% Convertible Senior Notes due 2010	63,964	63,864
10 3/4% Senior Notes due 2011	9,976	
9 3/8% Senior Notes due 2011	1,695	
7.5% Senior Notes due 2013	51	51
	1,975,686	2,963,915
Less: current maturities		(10,000)
	$ 1,975,686	$ 2,953,915

Short-term debt consists of the following:

	December 31, 2005	September 30, 2006
	(In thousands of dollars)	
2005 Credit Facility	$ 295,000	$

Senior Secured Tower Revenue Notes

On June 8, 2005, Crown Castle Towers LLC (Issuer Entity) and certain of its direct wholly owned subsidiaries (collectively, the Issuers) issued $1.9 billion aggregate principal amount of Senior Secured Tower Revenue Notes, Series 2005-1 (Tower Revenue Notes), pursuant to an indenture (Indenture) dated as of June 1, 2005, by and among the Issuers and JPMorgan Chase Bank, N.A., as trustee (Indenture Trustee), and an indenture supplement (Indenture Supplement) dated as of June 1, 2005, by and among the Issuers and the Indenture Trustee. All of the Issuers are indirect wholly owned subsidiaries of the Company. The Tower Revenue Notes were issued in five separate classes, each investment grade, as indicated in the table below. Each of the Class B, Class C and Class D Tower Revenue Notes are subordinated in right of payment to any other Class which has an earlier alphabetical designation.

Class	Initial Class Principal Balance (in thousands of dollars)
Class A FX	$ 948,460
Class A FL	250,000
Class B	233,845
Class C	233,845
Class D	233,850
	$ 1,900,000

Interest due to the holders of the Tower Revenue Notes is payable on the 15^{th} of each month (each, a Payment Date). The notes are fixed rate obligations of the Company with interest rates ranging from 4.643% to 5.612%. The weighted average interest rate on the classes is 4.890%.

Payment in full is expected to occur on the Anticipated Repayment Date in June of 2010. Material penalties are imposed if the Issuers fail to repay the Tower Revenue Notes on the Anticipated Repayment Date, including a significant increase in the interest rate and the application of all excess cash flows, after the payment of principal, interest, reserves and certain operating expenses, to repay the Tower Revenue Notes.

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

On September 26, 2006, the Issuer Entity entered into an indenture supplement (2006 Indenture Supplement) setting forth amendments to the Indenture dated as of June 1, 2005, pursuant to which the Tower Revenue Notes were issued. The 2006 Indenture Supplement, among other things, reduces the debt service coverage ratio that is required after giving effect to the issuance of additional notes under the Indenture in the future from (i) 3.28 to 1.00, to (ii) 2.00 to 1.00. The 2006 Indenture Supplement was entered into following the successful completion of the Issuers solicitation of consents from the holders of the Tower Revenue Notes to the above described amendments to the Indenture.

2006 Credit Facility

On June 1, 2006, certain subsidiaries (Borrowers) of the Company, including Crown Castle Operating Company (CCOC), entered into a credit agreement (Credit Agreement) with a syndicate of lenders (2006 Credit Facility), pursuant to which such lenders agreed to provide the Borrowers with a $1.25 billion credit facility, consisting of a $1.0 billion senior secured term loan maturing on June 1, 2014 (Term Loan) and a $250,000,000 senior secured revolving credit facility maturing May 31, 2007 (Revolver). The Company is required to make principal payments on the Term Loan in the amount of $2,500,000 at the end of each calendar quarter. On October 2, 2006, the Company made the first principal payment of $2,500,000. In addition, beginning in 2007, 50% of the excess cash flow (as defined) of CCOC shall be applied to the prepayment of the term loan. As of September 30, 2006, there were no amounts drawn under the Revolver.

The 2006 Credit Facility is secured by pledges of the equity interests of CCUSA and CCAL, as well as a security interest in CCOC s deposit accounts and securities accounts. The 2006 Credit Facility is guaranteed by the Company and certain of its existing and future subsidiaries.

A portion of the proceeds of the Term Loan was used to repay CCOC s previously existing revolving 2005 Credit Facility, under which $295,000,000 was outstanding at the time of repayment and to fund the acquisition of Mountain Union with approximately $305,000,000 (see notes 3 and 13). The remaining proceeds of the 2006 Credit Facility were utilized to purchase the Company s common stock in public market transactions. See note 6. Availability under the Revolver at any time will be determined by certain financial ratios.

Borrowings under the Term Loan bear interest at a rate per annum, at the Borrowers election, equal to the prime rate of The Royal Bank of Scotland plc plus 1.25% or Eurodollar interbank offered rate (LIBOR) plus 2.25%. Borrowings under the Revolver bear interest at a rate per annum, at the Borrowers election, equal to the prime rate of The Royal Bank of Scotland plc plus 1.00% or LIBOR plus 2.0%. For both the Revolver and the Term Loan, interest on prime rate loans are due monthly, while interest on LIBOR loans are due at the end of the interest period (one, two, three or nine months) for which such LIBOR rate is in effect up to a period not exceeding three months. As of September 30, 2006, the interest rate in effect for the Term Loan is 7.65%.

The 2006 Credit Facility requires the Company and the Borrowers to maintain compliance with certain financial covenants and places certain restrictions in the event of default on the ability of the Company and/or certain of its subsidiaries to, among other things, incur debt and liens, purchase Company securities, make capital expenditures, dispose of assets, undertake transactions with affiliates, make other investments and pay dividends. In particular, the 2006 Credit Facility does not permit CCIC or CCOC, either individually or collectively, nor any of CCOC s subsidiaries to have:

- a consolidated leverage ratio, defined as the ratio of the aggregate indebtedness of the Company to consolidated Adjusted EBITDA, in excess of 8.25 to 1.00 through June 30, 2007, in excess of 7.50 to 1.00 from July 1, 2007 through June 30, 2008, and in excess of 7.00 to 1.00 thereafter;

- a consolidated interest coverage ratio, defined as the ratio of consolidated Adjusted EBITDA for the most recently completed quarter multiplied by four to the amount of interest that will be required to pay over the succeeding twelve months on the then outstanding Tower Revenue Notes, of less than 1.75 to 1.00 through June 30, 2007, or less than 2.00 to 1.00 thereafter; or

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

a securitization debt service coverage ratio, defined as the ratio as of the end of any fiscal quarter of net cash flow of the Asset Entities (as defined in the Credit Agreement), for the twelve month period then ended to the amount of interest that will be required to pay over the succeeding twelve months on the then outstanding Tower Revenue Notes of less than 2.25 to 1.00 as of the last day of any fiscal quarter.

The 2006 Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other indebtedness (including defaults under the Indenture between the Issuers and the Indenture Trustee), and certain events of bankruptcy and insolvency.

2005 Credit Facility

On June 1, 2006, the Company terminated the 2005 Credit Facility and repaid the $295,000,000 outstanding balance. The termination of the 2005 Credit Facility resulted in a loss of $740,000 relating to the write off of deferred financing costs. Such loss is included in interest and other income (expense) on the Company s consolidated statement of operations and comprehensive income (loss) for the nine months ended September 30, 2006.

10 $^{3}/4$% Senior Notes and 9 $^{3}/8$% Senior Notes

On August 1, 2006, the Company (1) utilized $10,870,000 to redeem the $9,976,000 of outstanding 10 $^{3}/4$% Senior Notes, including accrued interest of $536,000 and (2) utilized $1,854,000 to redeem the $1,695,000 of outstanding 9 $^{3}/8$% Senior Notes, including accrued interest of $80,000. The redemptions resulted in losses of $437,000 for the three and nine months ended September 30, 2006.

Interest Rate Swap Agreements

The Company has entered into forward starting interest rate swap agreements to fix its future interest cash outflows. The forward starting interest rate swap agreements call for the Company to receive interest at a variable rate equal to LIBOR and pay interest at a fixed rate plus the applicable margin. Generally, the Company s debt instruments bear interest coupons based on a credit spread plus LIBOR. The forward starting interest rate swap agreements entered into during the nine months ended September 30, 2006 were as follows:

On January 27, 2006, the Company terminated the December 2005 Interest Rate Swaps. No settlement payment was required to terminate such swaps. Two new interest rate swaps (January 2006 Interest Rate Swaps) with similar terms were entered into on January 27, 2006 to fix the Company s interest cash outflows, in contemplation of refinancing the 2005 Credit Facility in June 2006. The terms of the January 2006 Interest Rate Swaps called for the Company to receive interest at a variable rate equal to LIBOR and to pay interest at a weighted average fixed annual rate of 4.9045% (plus the applicable margin). On the effective date of the interest rate swap agreements (the projected issuances date of June 30, 2006), the interest rate swaps were to be terminated and settled in cash. During the second quarter of 2006, the Company de-designated the January 2006 Interest Rate Swaps as cash flow hedges in accordance with SFAS 133 and terminated the swaps. The increase in the fair value of the January 2006 Interest Rate Swaps, from January 27, 2006 to the date of de-designation, totaled $6,231,000 and is recorded as a net change in fair value of cash flow hedging instruments in other comprehensive income. As a result of the de-designation, $699,000 previously recorded in accumulated other comprehensive income as of the date of the de-designation was reclassified into income in the second quarter of 2006. The remaining $5,532,000 recorded in accumulated other comprehensive income as of the date of de-designation will be reclassified into interest expense as a yield adjustment in the same periods in which the related interest on the forecasted transaction impacts earnings.

On March 1, 2006, the Company entered into three five-year forward starting interest rate swap agreements (March 2006 Interest Rate Swaps) with a combined notional amount of $1.9 billion to fix its interest cash outflows, in contemplation of the expected future refinancing in June 2010 of the $1.9 billion Tower Revenue Notes issued in June 2005. The terms of the March 2006 Interest Rate Swaps call for the Company to receive interest at a variable rate equal to LIBOR and to pay interest at a fixed annual rate of 5.18% (plus the applicable margin). On the

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

effective date of the March 2006 Interest Rate Swaps (the projected issuance date of June 15, 2010), the March 2006 Interest Rate Swaps will be terminated and settled in cash. The decrease in the fair value of the March 2006 Interest Rate Swaps, from March 1, 2006 to September 30, 2006, totaled $673,000 and is recorded as a net change in fair value of cash flow hedging instruments in accumulated other comprehensive income for the nine months ended September 30, 2006.

In conjunction with the termination of the January 2006 Interest Rate Swaps, the Company entered into two five-year forward starting interest rate swap agreements (June 2006 Interest Rate Swaps) on June 14, 2006 with a combined notional amount of $250,000,000 to fix its interest cash outflows, in contemplation of the expected future refinancing of the 2006 Credit Facility issued in June 2006. The terms of the June 2006 Interest Rate Swaps call for the Company to receive interest at a variable rate equal to LIBOR and pay interest at a fixed annual rate of 5.464% (plus the applicable margin). On the effective date of the June 2006 Interest Rate Swaps (the projected issuance date of January 31, 2007), the June 2006 Interest Rate Swaps will be terminated and settled in cash. The decrease in fair value of the June 2006 Interest Rate Swaps, from June 14, 2006 to September 30, 2006, totaled $5,341,000 and is recorded as a net change in fair value of cash flow hedging instruments in accumulated other comprehensive income for the nine months ended September 30, 2006.

On August 17, 2006, the Company entered into two five-year forward starting interest rate swap agreements (August 2006 Interest Rate Swaps) with a combined notional amount of $750,000,000 to fix its interest cash outflows, in contemplation of the expected future refinancing of the 2006 Credit Facility issued in June 2006. The terms of the August 2006 Interest Rate Swaps call for the Company to receive interest at a variable rate equal to LIBOR and pay interest at a fixed annual rate of 5.227% (plus the applicable margin). On the effective date of the August 2006 Interest Rate Swaps (the projected issuance date of January 31, 2007), the August 2006 Interest Rate Swaps will be terminated and settled in cash. Through the June 2006 Interest Rate Swaps and the August 2006 Interest Rate Swaps, the Company has effectively fixed the interest rate on the expected future $1.0 billion of borrowings at a combined locked in rate of 5.286% (plus the applicable margin). The decrease in fair value of the August 2006 Interest Rate Swaps, from August 17, 2006 to September 30, 2006, totaled $8,306,000 and is recorded as a net change in fair value of cash flow hedging instruments in accumulated other comprehensive income for the nine months ended September 30, 2006.

Letters of Credit

The Company has issued letters of credit to various landlords, insurers and other parties in connection with certain contingent retirement obligations under various tower site land leases and certain other contractual obligations. The letters of credit were issued through the Company s lenders in amounts aggregating $5,290,000 and expire on various dates through October 2007.

5. Redeemable Preferred Stock

Redeemable preferred stock ($.01 par value, 20,000,000 shares authorized) consists of the following:

	December 31, 2005	September 30, 2006
	(In thousands of dollars)	
6.25% Convertible Preferred Stock; shares issued and outstanding: 6,361,000 (stated net of unamortized issue costs; mandatory redemption and aggregate liquidation value of $318,050)	$ 311,943	$ 312,639

6.25% Convertible Preferred Stock

The Company also has the option to pay dividends on the 6.25% Convertible Preferred Stock in cash or shares of common stock (valued at 95% of the current market value of the common stock, as defined). For the nine months ended September 30, 2006, dividends on the 6.25% Convertible Preferred Stock were paid with $14,907,000 in cash. The Company may choose to continue cash payments of the dividends in the future in order to avoid dilution caused by the issuance of common stock as dividends on its preferred stock.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The Company is required to redeem all outstanding shares of the 6.25% Convertible Preferred Stock on August 15, 2012 at a price equal to the liquidation preference plus accumulated and unpaid dividends. The shares of 6.25% Convertible Preferred Stock are convertible, at the option of the holder, in whole or in part at any time, into shares of the Company s common stock at a conversion price of $36.875 per share of common stock. Under certain circumstances, the Company generally has the right to convert the 6.25% Convertible Preferred Stock, in whole or in part, into shares of the Company s common stock at 120% of the conversion price, or $44.25.

6. Stockholders Equity

Purchases and Issuances of the Company s Common Stock

During the nine months ended September 30, 2006, the Company purchased 15,866,600 shares of the Company s common stock (common stock) in public market transactions. The Company utilized $517,963,000 in cash to affect these purchases.

In February 2006, the Company issued 24,120 shares of common stock to the non-employee members of its Board of Directors. These shares have a grant-date fair value of $30.89 per share. In connection with the shares, the Company recognized stock-based compensation expense of $745,000 for the three months ended March 31, 2006.

Stock Options

During the nine months ended September 30, 2006, 2,350,774 options were exercised. The Company received cash of $43,854,000 from the exercise of these options. See notes 7 and 10.

Convertible Senior Notes

On January 27, 2006, a holder converted $100,000 of the 4% Convertible Senior Notes into 9,233 shares of common stock. Conversion of the remaining outstanding 4% Convertible Senior Notes would result in the issuance of approximately 5,897,000 shares of common stock.

Restricted Common Stock

During the nine months ended September 2006, the Company issued 1,218,553 shares of restricted common stock to certain of its executives and non-executive employees. See note 10.

Stock Warrants

On May 10, 2006, the Company issued an aggregate 38,196 shares of common stock to two holders that exercised an aggregate 50,270 stock warrants at an exercise price of $7.508 per share.

7. Per Share Information

Per share information is based on the weighted-average number of shares of common stock outstanding during each period for the basic computation and, if dilutive, the weighted-average number of potential shares of common stock resulting from the assumed conversion of outstanding stock options, warrants, convertible preferred stock, restricted common stock and convertible senior notes for the diluted computation.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

A reconciliation of the numerators and denominators of the basic and diluted per share computations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
	(In thousands of dollars, except per share amounts)			
	(As restated)		(As restated)	
Income (loss) from continuing operations	$ (25,536)	$ (15,561)	$ (379,082)	$ (41,275)
Dividends on preferred stock	(9,429)	(5,201)	(28,650)	(15,604)
Income (loss) from continuing operations applicable to common stock for basic and diluted computations	(34,965)	(20,762)	(407,732)	(56,879)
Income (loss) from discontinued operations, net of tax			848	5,657
Net income (loss) applicable to common stock for basic and diluted computations	$ (34,965)	$ (20,762)	$ (406,884)	$ (51,222)
Weighted-average number of common shares outstanding during the period for basic and diluted computations (in thousands)	215,664	201,070	219,167	209,406
Per common share basic and diluted:				
Income (loss) from continuing operations	$ (0.16)	$ (0.10)	$ (1.86)	$ (0.27)
Income (loss) from discontinued operations				0.03
Net income (loss)	$ (0.16)	$ (0.10)	$ (1.86)	$ (0.24)

The calculations of common shares outstanding for the diluted computations exclude the following potential common shares. The inclusion of such potential common shares in the diluted per share computations would be anti-dilutive since the Company incurred net losses from continuing operations for all periods presented.

	September 30,	
	2005	2006
	(In thousands)	
Options to purchase shares of common stock	10,633	6,230
Warrants to purchase shares of common stock at an exercise price of $7.50 per share	640	590
Shares of 8 1/4% Cumulative Convertible Redeemable Preferred Stock	7,442	
Shares of 6.25% Convertible Preferred Stock which are convertible into shares of common stock at a conversion price of $36.875 per share	8,625	8,625
Shares of restricted common stock	265	1,235
4% Convertible Senior Notes which are convertible into shares of common stock at a conversion price of $10.83 per share	5,906	5,897
Total potential common shares	33,511	22,577

As of September 30, 2006, outstanding stock options include (1) 83,313 options at exercise prices ranging from $1.74 to $5.00 per share and a weighted-average exercise price of $3.36 per share, (2) 6,094,952 options at exercise prices ranging from $5.01 to $35.00 per share and a weighted-average exercise price of $17.48 per share, and (3) 52,101 options at exercise prices ranging from $35.01 to $39.75 per share and a weighted-average exercise price of $38.35 per share. The options outstanding as of September 30, 2006 have an average remaining life of 3.7 years.

8. Commitments and Contingencies

The Company is involved in various claims, lawsuits and proceedings arising in the ordinary course of business along with several shareholder derivative lawsuits as described below. While there are uncertainties inherent in the ultimate outcome of such matters and it is impossible to presently determine the ultimate costs that may be incurred, management believes the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company s consolidated financial position or results of operations.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

The Company knows of four shareholder derivative lawsuits filed in August and September 2006 in Texas state courts against various current and former directors and officers of the Company. The lawsuits all make allegations relating to the Company s historic stock option practices and allege claims for breach of fiduciary duty and other similar matters. Among the forms of relief, the lawsuits seek alleged monetary damages sustained by the Company. The plaintiffs have named the Company as nominal defendant and ostensibly bring the lawsuits on the Company s behalf. The Company plans to file a motion to consolidate these cases into a single action under the first filed case, *Lynch v. Miller, et al.,* No. 2006-49592; in the 234th Judicial District Court, Harris County, Texas.

See also note 14 for a discussion of our commitment related to the definitive agreement (Merger Agreement) to acquire Global Signal Inc. (Global Signal).

9. Operating Segments

The Company s reportable operating segments for 2006 are (1) CCUSA, the Company s US tower operations, (2) CCAL, the Company s Australian tower operations, (3) Emerging Businesses, the Company s Modeo business, and (4) Corporate Office and Other. Financial results for the Company are reported to management and the Board of Directors in this manner.

Prior to January 1, 2006, Modeo and Crown Castle Solutions were included in the segment Emerging Businesses. Effective January 1, 2006, Crown Castle Solutions became part of CCUSA, an operational change that reflects the Company s belief that a distributed antenna system can be an alternative to traditional tower leasing in circumstances in which a tower or other structure is not available or cannot be built due to zoning or other impediments. These changes in reportable segments were effective as of January 1, 2006; and segment information for all periods presented has been reclassified.

The measurement of profit or loss currently used by management to evaluate the results of operations for the Company and its operating segments is earnings before interest, taxes, depreciation, amortization and accretion, as adjusted (Adjusted EBITDA). The Company defines Adjusted EBITDA as net income (loss) plus cumulative effect of change in accounting principle, income (loss) from discontinued operations, minority interests, benefit (provision) for income taxes, interest expense and amortization of deferred financing costs, losses on purchases and redemptions of debt, interest and other income (expense), depreciation, amortization and accretion, operating stock-based compensation expense, asset write-down charges and restructuring charges (credits). Adjusted EBITDA is not intended as an alternative measure of operating results or cash flow from operations (as determined in accordance with U.S. generally accepted accounting principles), and the Company s measure of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is discussed further under *Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting and Reporting Matters Non-GAAP Financial Measures* . There are no significant revenues resulting from transactions between the Company s operating segments.

Table of Contents

CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)

	Three Months Ended September 30, 2005				
	CCUSA	CCAL	Emerging Businesses	Corporate Office and Other	Consolidated Total
	(In thousands of dollars)				
	(As restated)	(As restated)		(As restated)	(As restated)
Net revenues:					
Site rental	$ 140,358	$ 12,444	$	$	$ 152,802
Network services and other	17,519	1,938			19,457
	157,877	14,382			172,259
Costs of operations (exclusive of depreciation, amortization and accretion)	58,851	5,068	85		64,004
General and administrative	19,921	2,835		11,221	33,977
Corporate development			1,172		1,172
Restructuring charges					
Asset write-down charges	806	355			1,161
Depreciation, amortization and accretion	63,527	6,606	20	62	70,215
Operating income (loss)	14,772	(482)	(1,277)	(11,283)	1,730
Losses on purchases and redemptions of debt				(2,676)	(2,676)
Interest and other income (expense)	931	204		2,158	3,293
Interest expense and amortization of deferred financing costs	(26,288)	(924)		(1,388)	(28,600)
Benefit (provision) for income taxes		(117)			(117)
Minority interests					