NINETEEN 98

CROWN CASTLE INTERNATIONAL

Annual

Report

Crown Castle International
corporate profile

Crown Castle International Corp. develops, deploys, owns and operates technologically advanced shared wireless infrastructure including an extensive network of towers and rooftops as well as analog and digital audio and television broadcast transmission systems.

We offer near-universal broadcast coverage in the UK and significant wireless communication coverage to more than 95% of the UK population and in 18 of the top 40 cellular markets (including 15 of the top 24 markets east of the Mississippi River) in the United States. We also have tower clusters located in an additional eight of the top 50 markets (by population) in the United States.

Crown Castle is headquartered in Houston, Texas.

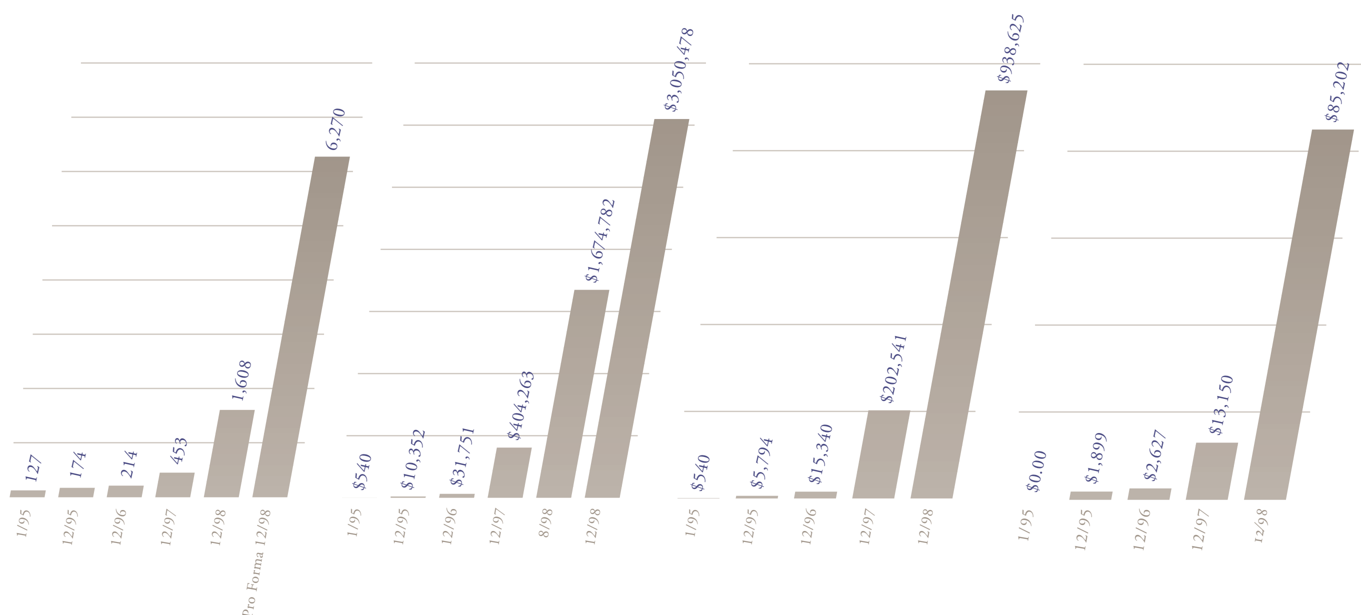
Technology leadership

Crown Castle aggregates 77 years of experience in designing and operating broadcast transmission networks and 20 years of experience in the ownership, leasing, design and deployment of wireless communications sites. We are recognized as the technology leader in our sector and are noted for our many corporate achievements:

- First tower company to offer a complete turnkey tower infrastructure service program.
- First tower company to establish an international presence.
- First major privatization of a national broadcast transmission network (with the British Broadcasting Corporation).
- First rollout of a digital audio broadcast system.
- First rollout of a commercial digitally transmitted terrestrial television service.
- First major wireless carrier deal in our industry (with Bell Atlantic Mobile).
- First major wireless carrier deal outside the United States (with One2One).
- First major PCS carrier deal in our industry (with Powertel).

Financial *highlights*

	Years Ended December 31,		
	1996	1997	1998
	(In thousands of dollars)		
Net revenues:			
Site rental and broadcast transmission	$ 5,615	$ 11,010	$ 75,028
Network services and other	592	20,395	38,050
	$ 6,207	$ 31,405	$ 113,078
EBITDA:			
Site rental and broadcast transmission	$ 3,555	$ 7,682	$ 44,661
Network services and other	(1,650)	(4,182)	(7,597)
	$ 1,905	$ 3,500	$ 37,064
Total sites owned and managed	214	453	1,608
Capital expenditures	$ 890	$ 18,035	$ 138,759
Total assets	41,226	371,391	1,523,230
Total debt	22,052	156,293	429,710
Redeemable preferred stock	15,550	160,749	201,063
Total stockholders' equity (deficit)	(210)	41,792	737,562



To our fellow *shareholders*

Although this is our first year reporting to you as a public company, Crown Castle International Corp. aggregates more than 77 years of experience at broadcast transmission and network management and 20 years of experience in the ownership, leasing and management of wireless communications sites. Because of this longstanding expertise at offering the broadcast and wireless telecommunications industries comprehensive, end-to-end transmission services, we have been able to turn our debut year as a public company into one of phenomenal success.

Continuing a long string of technological innovations, we launched the world's first commercial digital audio broadcast system and the world's first commercial digital terrestrial television (DTT) system. As part of our strategy to grow through acquisition and innovative partnerships, we announced a communications industry first — the formation of a joint venture to acquire the wireless communications towers of Bell Atlantic Mobile. We also increased our ownership interest in our United Kingdom (UK) operations to 80% through a share exchange agreement with Castle Transmission Services (Holdings) Ltd shareholders. Additionally, we acquired Millennium Communications Limited, increasing our site portfolio and strengthening our already formidable site acquisition and development expertise in the UK. Progressing toward our objective of owning the best portfolio of broadcast and wireless communications towers and rooftops, Crown Castle ended 1998 owning approximately 1,600 tightly clustered towers in major metropolitan areas throughout the United States and the UK.

Through these actions, we have positioned Crown Castle as the partner of choice globally for leaders in the broadcast and wireless telecommunications industries that are seeking to outsource the operation of their transmission towers and networks.

We believe that our ability to raise approximately $150 million in an initial public offering and then to raise another $200 million through the issuance of preferred stock shortly thereafter is Wall Street's tacit recognition of Crown Castle's premier positioning within its industry.

1998 EBITDA grows by 959%

The enthusiasm I am expressing to you throughout this letter is based on rock-solid financial performance. We ended 1998 with revenue growth of 260% and a pro forma revenue run rate of $210 million. This reflects both revenue growth of our existing operations as well as additional revenue through acquisition.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to a pro forma run rate of $85 million, showing that we have been able to manage our revenue growth effectively for profitability. Notably, EBITDA grew at a faster pace than revenues. We believe that healthy EBITDA growth is an important sign of Crown Castle's financial strength in 1998.

Ted B. Miller, Jr.
Chief Executive Officer of
Crown Castle International Corp.

Growth through acquisition in a consolidating industry

As their industries become increasingly competitive and global, broadcasters and wireless communications providers are seeking to focus resources on their customers and are looking to outsource the design, development, ownership and operation of their transmission infrastructure to third parties. With a proven track record of providing end-to-end services, including network design and site selection, site acquisition, development and construction, antenna installation, and network and site ownership and operation, Crown Castle is well positioned to meet this need. Our objective is to be the leading consolidator of wireless network infrastructure and the chosen partner of premier broadcasters and wireless service providers on a global basis.

Throughout 1998 and in the quarter immediately following the close of the fiscal year, Crown Castle entered into several significant transactions with industry leaders. In competitive bid situations, where expertise in ensuring network integrity was and is the differentiating factor, these world-class carriers chose Crown Castle as their transmission infrastructure partner of choice:

Bell Atlantic Mobile. We formed a joint venture to own and manage 1,458 of Bell Atlantic Mobile's towers. Additionally, we will construct 700 build-to-suit towers over the next five years.

BellSouth Mobility. Crown Castle signed a preliminary agreement with BellSouth Mobility to control and operate approximately1,850 wireless communications towers via a taxable sale through a master sublease. We also agreed to enter into a five-year, 500-tower build-to-suit contract.

One2One. Our UK operating subsidiary entered into an agreement to manage, operate, lease-up and ultimately own 821 communications towers. We also will manage and own, when completed, up to 500 build-to-suit towers planned over the next three years. This carrier transaction is the first of its kind in the UK and has doubled the size of our UK tower portfolio.

Powertel. We entered into a definitive agreement to acquire 650 communications sites from Powertel, Inc. Powertel has extensive coverage in the Southeast as well as more than 3,000 miles of highway coverage.

These acquisitions add a number of strategically important markets to our network of dense tower clusters, giving us significant wireless communications coverage in 18 of the top 40 cellular markets in the United States (including 15 of the top 24 markets east of the Mississippi River) and to over 95% of the population in the UK. On a pro forma basis reflecting these agreements, Crown Castle's communications portfolio now exceeds 7,000 total sites, including 1999's forecasted build-to-suits.

The British Broadcasting Corporation (BBC), Bell Atlantic Mobile, BellSouth Mobility, Powertel and One2One have shown their confidence in Crown Castle by voting with their entire networks. In the cases of Bell Atlantic Mobile and BellSouth Mobility, they also have chosen to take a significant equity interest in our Company.

CROWN CASTLE is the partner of choice for leaders in the broadcast and wireless telecommunications industry that are seeking to outsource the ownership and operation of their transmission networks.

INVESTING IN PEOPLE AND OPERATIONS TO SUPPORT RAPID GROWTH

To support this growth, we significantly strengthened our worldwide management team, especially in the areas of information technology, financial and legal controls, sales and marketing, and operations. Notably, we appointed a new president for our United States operating company who has longstanding experience in the wireless industry. We launched a series of major information technology initiatives to scale our infrastructure to support expected future growth, and we established development teams in targeted countries to set the stage for our continued global expansion.

Recognizing that a critical factor to our ongoing success will be our ability to assimilate significant new tower portfolios quickly and accurately, we implemented a new accelerated integration process. This procedure was the linchpin to our successful integration of more than 1,400 Bell Atlantic Mobile towers within 90 days of the start of the process, and it will be a model for future integrations.

Since year-end, we decentralized our delivery of sales, operations, maintenance and project/construction management in the United States. We created new regions that are aligned with how our key customers are organized so that we can establish close local relationships at the point where decisions are made. This structure is similar to the successful team-based approach used in our UK operations.

1999 IS SHAPING UP TO BE AN EQUALLY IMPRESSIVE YEAR

Today, Crown Castle is a leading domestic and international provider of wireless communications and broadcast transmission infrastructure and related services. We own, operate and manage towers, rooftop sites and broadcast transmission networks and provide a full range of complementary services. Virtually no other company in our industry comes close to matching our levels of service and expertise.

We enter 1999 with these key objectives:

> To maximize tower capacity utilization through significantly expanded, customer-focused sales and marketing programs.

> To acquire additional tower portfolios globally, working in partnership with wireless communications carriers to assume ownership of their existing towers.

> To leverage our transmission experience in order to acquire existing national broadcast transmission networks.

> To maintain technology leadership with expertise in the design and deployment of existing and emerging technologies.

Worldwide, we see several significant trends that make this a time of great opportunity for Crown Castle. Globally, carriers are becoming more receptive to the US/UK model of outsourcing their tower networks to competent partners. In addition, community opposition to new transmission tower

With the anticipated completion of our announced carrier agreements, and the construction of our forecasted build-to-suits, we will be the largest independent owner of tower and site infrastructure in the world as measured by revenue, EBITDA, and number of towers and rooftops owned, operated and managed.

construction, long present in the United States and UK, has begun to emerge globally. This will foster a global regulatory and zoning environment that encourages co-location, a particular business strength of Crown Castle.

In the broadcast area, we are pursuing opportunities in several countries where governments with national broadcast transmission networks, as well as commercial broadcasters, are exploring the outsourcing or privatization of their networks. Along with the global introduction of digital audio and digital terrestrial television broadcast networks, including high-definition television (HDTV) in the United States, these represent significant opportunities for Crown Castle to replicate its UK success in other countries.

In wireless telephony, current trends present tremendous opportunities for your Company. The introduction of "one-rate" all-inclusive and pre-paid pricing plans and continued strong subscriber growth have caused a tremendous increase in network usage and resulted in capacity roadblocks on carriers' networks. This creates demand for our towers and rooftops as carriers race to increase capacity and quality of coverage. The continued deployment and expansion of an increasing number of wireless systems each year also represent a strong opportunity for us to expand our global footprint.

We're particularly excited about the deployment of new technologies, including fixed wireless, wireless local loop, two-way paging and third-generation wireless mobile multimedia (which combines voice, messaging, video, data and wireless Internet access). These all represent significant new sources of demand for our tower and rooftop network. The auction of third-generation licenses is expected to begin in the UK in early 2000 and follow in Europe shortly thereafter. Some industry experts suggest that this represents an opportunity that will equal or exceed the entire wireless voice market. We are well positioned to participate as both an infrastructure provider and as a designer, owner and operator of third-generation networks.

In summary

We have come a long way since 1995 when we acquired our first 127 towers. We believe our Company and this industry still are in their infancy, with no finish line in sight. We thank you for choosing Crown Castle as your partner for participating in the future potential of this industry. We also would like to thank our many employees, whose dedication to growth and excellence has made this year such a success.

I look forward to reporting to you on our future progress.

Sincerely,

Ted B. Miller, Jr.
Chief Executive Officer

Rapid growth in wireless services has increased the need for less-obtrusive tower solutions. *The Unipole,* from our TeleStructures subsidiary, at the historic 1856 Poydrus Home in New Orleans represents the FUTURE of antenna design, delivering high-quality coverage with minimal visual impact.

Corporate
overview

The Nokia 9110,
an innovative wireless device with early third-generation features.

Crown Castle owns, operates and manages wireless communications and broadcast transmission infrastructure and networks. We are recognized as an industry leader because we provide high-quality, end-to-end network design, development and operational services.

The industries that we serve, wireless communications and broadcasting, have been experiencing explosive growth and technological change. As competition in the wireless telecommunications market has increased, the price to consumers for wireless services has been dropping while demand for higher-quality, uninterrupted coverage has been growing. This has led to increased need for communications towers throughout major markets and along major highway corridors. Because carriers have needed to commit precious capital to the acquisition and retention of customers and the development of new products, they have sought to outsource the design, development and management of their communications towers.

At the same time, the television broadcasting industry has been experiencing significant change. Digital terrestrial television (DTT) is to be deployed throughout the United States, the UK and countries in Europe and Asia over the next five years. To accommodate the rollout of DTT, broadcasters must enhance and expand their existing transmission networks significantly. As a result, broadcasters also have sought to outsource the design, development and ownership of their communications infrastructure to competent managers for turnkey network operations.

However, while the need for communications towers has grown dramatically, municipalities that view such towers as an eyesore have tried to slow their proliferation.

Providing solutions

This is where Crown Castle comes in. We have been a pioneer of co-location, where we place multiple forms of communications transmission on the same tower. This significantly reduces the need for individual towers and increases the revenue generated by each tower. Additionally, we have designed a series of virtually invisible or “hidden in plain sight” towers disguised as a functional lamppost, clock tower, flagpole or building attachment.

By clustering our towers densely throughout major metropolitan areas and on major highway corridors, we have been able to provide unparalleled signal coverage, ensuring that broadcasts are uninterrupted and that wireless phone calls stay connected.

The Crown Castle advantage

Crown Castle represents an effective solution to the dilemma faced by local officials who want to limit tower proliferation while also being responsive to communications industries that need more towers.

We are committed to co-location and to the transfer of ownership of proprietary one-carrier tower networks to a company dedicated to serving all wireless providers in the community on one shared network. While other companies in the

Third-generation wireless mobile multimedia will enable mobile users to access the Internet, make calls, check e-mail, transmit and receive data, and view video over a high - speed wireless connection. Third-generation networks may represent an opportunity larger than the current wireless voice market.

industry are trying to do this, they typically have towers that are scattered throughout the United States and are unable to offer the complete signal coverage throughout major markets that Crown Castle can provide.

However, Crown Castle is much more than a tower company providing co-location opportunities. We can manage fully the end-to-end transmission of a wireless provider's signal, supplying the type of technical management and consulting services that others cannot.

In the UK, we manage the transmission of the BBC's analog and digital audio and television broadcast signals and own the transmission network. We also provide end-to-end digital terrestrial television transmission services for the BBC and for commercial broadcaster OnDigital. We have a 67% market share of digital terrestrial television transmission services in the UK.

Strategic mission

Globally, our mission is to develop, deploy, own and operate technologically advanced wireless infrastructure. For Crown Castle, this means owning, managing and operating the right infrastructure around the world – infrastructure that covers significant population bases. It also means building world-class sales and marketing capabilities to lease the infrastructure and continuing to lead the industry in our ability to design, develop and deploy wireless networks for existing and emerging wireless technologies.

We're well on our way to achieving this goal. Including the completed One2One and Bell Atlantic Mobile transactions and the projected completion of transactions with BellSouth Mobility and Powertel during 1999, Crown Castle will be the largest independent owner of tower and site infrastructure in the world, as measured by revenue and EBITDA and by clusters of towers and rooftops owned, operated and managed. Since our first acquisition of 127 towers in 1995, we have grown our portfolio of high-quality, densely clustered towers and sites by more than 1,100%.

The core of this portfolio consists of tower clusters designed for 850 MHz coverage that enabled the initial cellular carriers to offer market coverage in major population centers. This type of tower cluster also is positioned ideally to serve as the core of a PCS or two-way paging network or for the deployment of new technology such as wireless data. We supplement this core with the construction of selective build-to-suit towers and the acquisition of PCS and other tower portfolios that merge nicely with the 850 MHz footprint without significant overlap.

In many of the markets we serve, it would be impossible for a carrier to build a new tower network today that offered comparable coverage, given the carrier's need to access the market quickly as well as the current regulatory and zoning environment. This is a significant barrier to entry that protects and maintains Crown Castle's position as a leader in the communications marketplace.

A history of *Crown Castle*

The Network Operations Center
monitors our tower network 24 hours a day.

Crown Castle was founded with a simple mission — to create the world's largest antenna site services company in alliance with wireless communications providers. We acquired our first tower portfolio in the Southwestern United States in 1995. We quickly learned that the business is not just about numbers of towers. To succeed, we also must deliver valuable markets to our broadcast and wireless communications customers with our towers, along with network services deployed on our towers that add value for our customers.

With the acquisition of the BBC's Home Service Broadcast Transmission Division in February 1997, Crown Castle became the owner and operator of both the towers and the transmission network that broadcast signals throughout the UK. We also recognized the hidden value of a tower network that can deliver significant coverage of important markets when it comes to rolling out new services. By owning the transmission network as well as the tower system and by offering end-to-end transmission management, we can offer significantly more value to our customers than our competitors can.

We demonstrated this by winning digital terrestrial television contracts in which we are responsible for designing, building, owning and operating the transmission network that carries the signal and the majority of the towers on which it broadcasts. This new service captured 67% of the market for digital terrestrial television transmission networks in the UK. We're much more than just a tower company—we're a wireless technology company.

When we acquired Crown Communications in August 1997, we added extensive construction and site acquisition expertise, a dense tower cluster covering the Pittsburgh marketplace, and towers in western Pennsylvania and the Northeastern United States. With its dense tower cluster, Crown Communications was able to help a number of carriers to deploy in the Pittsburgh market quickly. Rapid deployment has high value to a carrier in its race to acquire customers. Recognizing the value to our customers of our ability to deliver full market coverage of desirable populations, we have followed the strategy of acquiring and building dense tower clusters in important markets and corridors ever since. Our acquisitions in 1998 and 1999 show the success of this focused strategy.

We believe that all towers are not created equal and that our wireless carrier and broadcast customers, as well as emerging new technology players, value partners who quickly can deliver coverage and end-to-end services in important markets. As you examine our recent portfolio acquisitions (see maps on pages 18-19), you will see the impact we can deliver for our customers in the United States and UK with our tight tower clusters. It's an impact that reaches 99% of the population in the UK and offers significant coverage in 18 of the top 40 United States cellular markets (including 15 of the top 24 markets east of the Mississippi River). It's an impact measured by quality of coverage and speed of deployment of new technologies. And it's an impact that we believe would be impossible to recreate today in the current zoning and regulatory environment.

United States *operations*

In the United States, significant reductions in pricing and all-inclusive "one-rate" plans have made wireless services cost-competitive with traditional wireline services for long distance calls for the first time, causing users to shift to wireless communications. This shift, along with significant subscriber growth, is causing a rapid increase in demand for wireless communications services. We are investing more than $1.5 billion in the United States to expand our wireless infrastructure in order to help our customers meet this demand.

We offer full end-to-end service to our customers, whether they need tower locations or building rooftops. We also provide the expertise to perform turnkey network design where required. Typically, however, our customers design their own network and present us with a series of search rings – geographic areas where they desire an antenna site.

We first examine our existing site portfolio, as well as others, to identify potential co-location opportunities that will meet the customer's needs. For areas where we cannot offer an existing site, TEA Group, our site acquisition and development company, identifies potential raw land that can be acquired or leased for a tower site. Where the location will support a robust multi-tenant tower, we will build the tower for the customer on a build-to-suit basis, with the customer as an anchor tenant. TEA Group acquires the site and works with local government agencies to secure zoning approval and permits.

We often are able to offer sites where others cannot. For example, through exclusive arrangements with the State of New York, we are able to offer an extensive inventory of state-owned structures and rooftops, rights-of-way and land as potential site locations. In areas where a rooftop location is called for, Spectrum Site Management, Crown Castle's rooftop, building top and building riser management company, will locate or acquire an appropriate site for the customer.

For locations where the visual environment requires special consideration, Crown Castle's TeleStructures subsidiary offers "hidden in plain sight" tower solutions where multi-tenant antenna sites are camouflaged in clock towers, flagpoles, carriage light monopoles and other visually attractive structures, including building attachments.

Crown Communications oversees the civil, electrical and mechanical engineering of the site, the construction of the tower, and the installation of the customer's antenna. Crown Communications has its own construction capabilities and manages qualified in-market contractors to deliver a cost-effective tower solution, using our proprietary Project Tracking System to ensure that the project comes in on time and on budget. The sites then are linked to our Network Operations Center, where the towers are monitored around the clock for proper operation and compliance with FAA tower lighting regulations.

After careful evaluation of Crown Castle and our competitors, carriers choose us as the operator of choice because we are able to operate their critical tower assets in a high-quality, reliable way.

Major Site
Sharing
Service
vodafone
one 2 one
cellnet
1st in analogue
in digital

Headquarters of Castle Transmission International Ltd (CTI), our UK operations, in Warwick, England. CTI launched the **world's first** commercial digital audio broadcast and digital terrestrial television networks in 1998. Viewers can receive these high-quality digital signals over their *existing* antennas.

Global
scope

The Technical Operations Center *continuously monitors tower and transmitter operations to ensure uninterrupted universal broadcast coverage in the UK.*

1999 will be a year in which major transmission and carrier portfolios will come onto the global market. Crown Castle will be an active participant in the bidding process when we recognize a strategic fit at an attractive price.

In expanding our global portfolio, proprietary evaluation techniques enable us to assess accurately the underlying value in potential acquisitions. We drive test the markets to identify gaps in coverage for deployed carriers and assess demand for in-fill and dead zone coverage on their existing networks. We carefully examine licensed wireless operators' deployment plans to assess potential for new system build-out. This enables us to establish sound portfolio valuations based on realistic lease-up targets using existing licensed technologies.

Crown Castle started building its infrastructure portfolio in 1995 with the acquisition of 127 towers in the United States, followed shortly in 1996 by our first offshore acquisition in Puerto Rico. In 1997, we expanded to the UK, with the acquisition of the Home Service Broadcast Transmission Division of the BBC, and added to our United States portfolio with the acquisition of Crown Communications. In 1998, we significantly expanded our tower footprints in the United States and UK through additional acquisitions and our joint venture with Bell Atlantic Mobile. We also established development teams in Brazil, Mexico and Australia to seek out additional expansion opportunities.

So far in 1999, we have agreed to add three significant portfolios to the Crown Castle network. In March, we announced our second major United States carrier portfolio transaction with BellSouth Mobility, effectively adding 1,850 towers in major markets throughout the Southeastern United States. In addition, we announced our agreement to acquire Powertel's PCS portfolio of 650 towers, which added additional Southeastern markets. We also closed an agreement with One2One to acquire their portfolio of 821 towers in the UK, adding significant urban coverage as well as filling in our national UK portfolio.

We continue to pursue additional opportunities globally as governments begin to follow the UK's example of privatizing their national broadcast networks. Our demonstrated expertise in this area makes Crown Castle an ideal potential partner for governments seeking to privatize a national asset. We can ensure such governments that the critical communications functions that are so important to their citizens will continue to be managed professionally.

We also work closely with our existing customers and with infrastructure vendors to pursue global opportunities. Clients like Bell Atlantic and BellSouth also have significant international interests. Crown Castle do Brasil is working closely in Brazil with a major equipment vendor in order to provide site acquisition and project management support on a system build-out.

Crown Castle additionally is pursuing opportunities with international wireless providers that are considering outsourcing or expanding their networks in countries that have a high potential for successful co-location portfolio development.

United Kingdom *operations*

In February 1997, Crown Castle became the world's first global independent owner and provider of broadcast and telecommunications infrastructure and services by acquiring the Home Service Broadcast Transmission Division of the BBC. This acquisition gave us access to nearly 1,300 terrestrial broadcasting sites, the majority of which we own and manage, providing near-universal broadcast coverage to the UK.

As a result, Crown Castle now owns and operates one of the world's most established television and radio transmission networks. Since 1997, we have provided transmission services for two BBC television networks, six national BBC radio services (including the first digital audio broadcast service in the UK), 37 local BBC radio stations and two non-BBC national commercial radio services through our network of transmitters. Our network reaches 99.4% of the UK population.

Crown Castle continues to expand its presence in Britain and was chosen to design, build and operate a shared digital terrestrial television (DTT) network for four of the six national licenses awarded in the UK, including those for commercial broadcaster OnDigital. Launched in 1998, this initial DTT network represented the world's first digital transmission of television signals received through existing domestic television antennae. We currently plan to quadruple the size of our DTT network in 1999.

In October 1998, we acquired Millennium Communications Limited, adding 102 towers and significant site acquisition and development capabilities. This acquisition established the Company as a major provider of build-to-suit capabilities in the UK market.

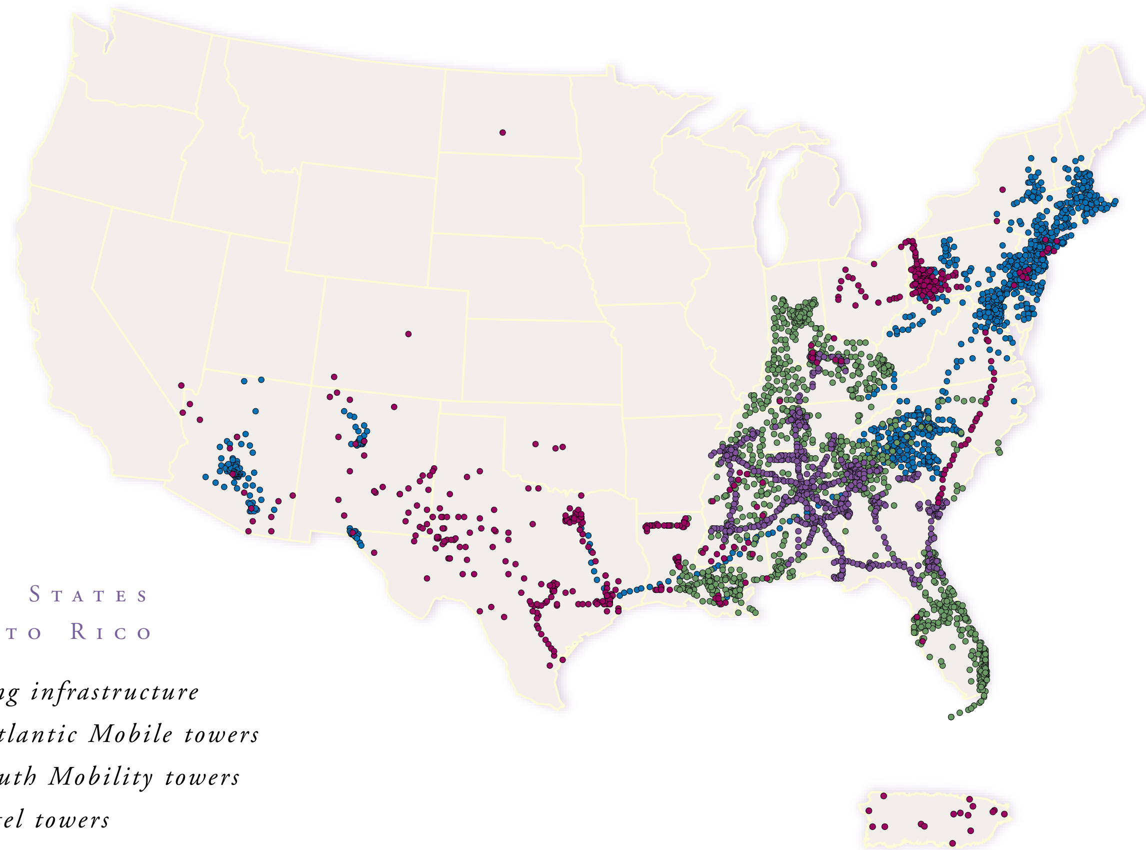
Recently, we closed an unprecedented agreement with the UK wireless carrier One2One for the management, operation, lease-up and ultimate ownership of 821 existing communications towers and up to 500 build-to-suit towers to be constructed at their expense. The first of its kind in the UK, this transaction makes One2One's portfolio of existing towers available to other telecommunications operators and broadcasters through Castle Transmission International Ltd, our UK subsidiary. This agreement doubles the size of our UK tower portfolio and further secures our position as the largest independent wireless infrastructure provider in the UK.

While the pace of activity in the UK is impressive, we believe that additional strategic acquisitions will become available within the UK throughout 1999.

Of particular interest is the upcoming auction in the UK of licenses for third-generation wireless mobile multimedia (Universal Mobile Telecommunications Service or UMTS). UMTS will enable mobile users to access the Internet, make calls, check e-mail, exchange data, and view video over a high-speed wireless connection. While a number of existing carriers are applying for UMTS licenses, we expect at least one new player to enter the market. Our expanded national network and extensive experience in designing, deploying and operating transmission networks makes us an ideal partner to participate in the implementation of this exciting technology.

Our Crystal Palace site reaches more than 11 million people with broadcast coverage. Our *largest revenue-producing tower* in the UK, it serves analog and digital television, digital radio, wireless telecom, point-to-point data and two-way radio tenants.

Global *presence*



Acquisition History

January 1995 Acquired Southwestern United States towers.

June 1996 Acquired Puerto Rico strategic cluster.

February 1997 Acquired BBC's Home Service Broadcast Transmission Division, including national broadcast network and RF-engineering and network design capabilities.

August 1997 Acquired Crown Communications with a strategic tower cluster in Pittsburgh, towers in western Pennsylvania and parts of the Northeast, and construction and site acquisition expertise.

October 1998 Acquired Millennium Communications Limited, adding 102 wireless towers and significant site acquisition and development expertise in the UK.

December 1998 Announced world's first carrier outsource deal with Bell Atlantic Mobile, establishing a majority-owned joint venture for the ownership, marketing, operation and maintenance of strategic clusters totaling 1,458 towers. These are located in the Northeastern and Southwestern United States and provide coverage in major markets including Boston, Charlotte, New York / New Jersey metro area, Philadelphia, Phoenix and Pittsburgh and throughout New England. The transaction closed in March 1999.

UNITED KINGDOM

- *Existing infrastructure*
- *Millennium towers*
- *One2One acquisition*

MARCH 1999 Announced our second United States carrier outsource deal with BellSouth Mobility, consisting of a master sale and lease-back of economic rights to approximately 1,850 towers covering major markets throughout Florida, Georgia, Tennessee, Kentucky, Alabama, Mississippi, Louisiana and Indiana.

MARCH 1999 Announced and closed the first non-United States carrier outsource deal with One2One, consisting of a management and marketing agreement and ultimate purchase of 821 communications towers throughout the UK, with extensive coverage of metropolitan areas.

MARCH 1999 Announced the first PCS outsource transaction, a definitive agreement for the acquisition from Powertel, Inc. of 650 communications towers located in strategic markets throughout the Southeastern United States, including Atlanta, Birmingham and Jacksonville, and along more than 3,000 miles of highway corridors.

Crown Castle *at a glance*

Crown Castle offers full end-to-end wireless and broadcast network design, deployment and management, using its extensive network of towers and rooftops offering coverage throughout the United States and the UK. Headquartered in Houston, Texas, Crown Castle and its operating companies provide a wide range of services to the broadcast, wireless communications and data industries:

Primary services

> Leasing Antenna Space on Wireless and Broadcast Multi-Tenant Towers and Rooftops.

> Designing, Developing and Operating Analog and Digital Broadcast Transmission Networks.

Related services capabilities

> Network/Site Management, Marketing and Maintenance.

> Network Design and Site Selection.

> Radio Frequency Engineering.

> Site Acquisition, Development and Construction.

> Antenna Installation.

We serve many types of customers, including:

> Cellular Carriers.

> PCS/PCN Carriers.

> Television and Radio Broadcasters.

> SMR/ESMR/PM /TETRA Operators.

> Governmental Agencies.

> Private Industrial Users.

> Wireless Data Networks.

> Traditional and Two-Way Paging System Operators.

> Utilities.

> Public Telecommunications Companies.

> Fixed Wireless and Wireless Local Loop System Operators.

Additional information about the Crown Castle International Corp. family of companies can be found at our web site, http://www.crowncastle.com.

Major companies and subsidiaries

Crown Castle International Corp. – Holding company provides due diligence, acquisition, financing, strategic planning and business development expertise.

Castle Transmission International Ltd – UK operating company offers broadcast transmission management, analog and digital broadcast network design services, and broadcast and wireless site sharing arrangements on a tower network that covers 99% of the UK for broadcast services and 95% of the UK for wireless communications.

Crown Communication Inc. – United States operating company manages and markets United States and Puerto Rico tower assets and provides end-to-end development, deployment and network management services.

Crown Atlantic Company LLC – Majority-owned joint venture formed with Bell Atlantic Mobile to own, operate and lease joint venture assets that initially include 1,458 towers in the Northeastern and Southwestern United States originally contributed by Bell Atlantic Mobile.

TEA Group Incorporated – Provides site acquisition and development services to Crown Communication Inc. and third-party customers globally.

TeleStructures, Inc. – Provides specialty applications towers, monopoles, building attachments and other structures designed to be "hidden in plain sight" for visually sensitive environments. TeleStructures operates in the United States, UK, Brazil and Mexico and serves markets worldwide.

Spectrum Site Management Corporation – Provides site acquisition, development and management services for rooftop sites as well as building riser management in the United States.

Millennium Communications Limited – Offers site acquisition and construction services throughout the UK.

Crown Castle do Brasil Ltda — Development company that seeks opportunities in Brazil.

Crown Castle de Mexico, S.A. de CV – Development company that seeks opportunities in Mexico.

Crown Castle Australia Limited – Development company that seeks opportunities in Australasia.

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The results of operations for the years ended December 31, 1995, 1996, 1997 and 1998 are not comparable as a result of business acquisitions. Results of operations of these acquired businesses are included in the Company's consolidated financial statements for the periods after the respective dates of acquisition. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements.

	Years Ended December 31,			
	1995	1996	1997	1998
	(In thousands of dollars, except per share amounts)			
Consolidated Statement of Operations Data:				
Net revenues:				
Site rental and broadcast transmission	$ 4,052	$ 5,615	$ 11,010	$ 75,028
Network services and other	6	592	20,395	38,050
Total net revenues	4,058	6,207	31,405	113,078
Costs of operations:				
Site rental and broadcast transmission	1,226	1,292	2,213	26,254
Network services and other	—	8	13,137	21,564
Total costs of operations	1,226	1,300	15,350	47,818
General and administrative	729	1,678	6,824	23,571
Corporate development	204	1,324	5,731	4,625
Non-cash compensation charges	—	—	—	12,758
Depreciation and amortization	836	1,242	6,952	37,239
Operating income (loss)	1,063	663	(3,452)	(12,933)
Equity in earnings (losses) of unconsolidated affiliate	—	—	(1,138)	2,055
Interest and other income (expense)	53	193	1,951	4,220
Interest expense and amortization of deferred financing costs	(1,137)	(1,803)	(9,254)	(29,089)
Loss before income taxes and minority interests	(21)	(947)	(11,893)	(35,747)
Provision for income taxes	—	(10)	(49)	(374)
Minority interests	—	—	—	(1,654)
Net loss	(21)	(957)	(11,942)	(37,775)
Dividends on preferred stock	—	—	(2,199)	(5,411)
Net loss after deduction of dividends on preferred stock	$ (21)	$ (957)	$ (14,141)	$ (43,186)
Loss per common share — basic and diluted	$ (0.01)	$ (0.27)	$ (2.27)	$ (1.02)
Common shares outstanding— basic and diluted (in thousands)	3,316	3,503	6,238	42,518
Other Consolidated Data:				
EBITDA*	$ 1,899	$ 1,905	$ 3,500	$ 37,064
Summary cash flow information:				
Net cash provided by (used for) operating activities	1,672	(530)	(624)	44,976
Net cash used for investing activities	(16,673)	(13,916)	(111,484)	(149,248)
Net cash provided by financing activities	15,597	21,193	159,843	345,248
Cash dividends declared	—	—	—	—
Consolidated Balance Sheet Data (at period end):				
Cash and cash equivalents	$ 596	$ 7,343	$ 55,078	$ 296,450
Property and equipment, net	16,003	26,753	81,968	592,594
Total assets	19,875	41,226	371,391	1,523,230
Total debt	11,182	22,052	156,293	429,710
Redeemable preferred stock	5,175	15,550	160,749	201,063
Total stockholders' equity (deficit)	619	(210)	41,792	737,562

**EBITDA is defined as operating income (loss) plus depreciation and amortization and non-cash compensation charges. EBITDA is presented as additional information because management believes it to be a useful indicator of the Company's ability to meet debt service and capital expenditure requirements. It is not, however, intended as an alternative measure of operating results or cash flow from operations (as determined in accordance with generally accepted accounting principles). Furthermore, the Company's measure of EBITDA may not be comparable to similarly titled measures of other companies.*

The following discussion sets forth separately the historical consolidated results of operations of Crown Castle International Corp. and subsidiaries (the "Company" or "CCIC") and Castle Transmission Services (Holdings) Ltd and subsidiaries ("CTSH") and is intended to assist in understanding (1) CCIC's consolidated financial condition as of December 31, 1998 and its consolidated results of operations for each year in the three-year period ended December 31, 1998 and (2) CTSH's consolidated results of operations for each twelve-month period in the two-year period ended March 31, 1998. This discussion should be read in conjunction with "Selected Financial Data" and the consolidated financial statements and related notes included elsewhere in this document. Results of operations of the acquired businesses that are wholly and majority owned are included in our consolidated financial statements for the periods subsequent to the respective dates of acquisition. As such, our results of operations for the year ended December 31, 1998 are not comparable to the year ended December 31, 1997, and the results for the year ended December 31, 1997 are not comparable to the year ended December 31, 1996.

Overview

The continued growth of our business depends substantially on the condition of the wireless communications and broadcast industries. We believe that the demand for communications sites will continue to grow and expect that, due to increased competition, wireless carriers will continue to seek operating and capital efficiencies by (1) outsourcing certain network services and the build-out and operation of new and existing infrastructure and (2) co-locating antennas and transmission equipment on multiple tenant towers. In addition, wireless carriers are beginning to seek to sell their wireless communications infrastructure to, or establish joint ventures with, experienced infrastructure providers, such as the Company, that have the ability to manage networks.

Further, we believe that wireless carriers and broadcasters will continue to seek to outsource the operation of their towers and, eventually, their transmission networks, including the transmission of their signals. Management believes that our ability to manage towers and transmission networks and our proven track record of providing services addressing all aspects of signaling systems from the originating station to the terminating receiver, or "end-to-end" services, to the wireless communications and broadcasting industries position us to capture such business.

The willingness of wireless carriers to utilize our infrastructure and related services is affected by numerous factors, including consumer demand for wireless services, interest rates, cost of capital, availability of capital to wireless carriers, tax policies, willingness to co-locate equipment, local restrictions on the proliferation of towers, cost of building towers and technological changes affecting the number of communications sites needed to provide wireless communications services to a given geographic area. Our revenues that are derived from the provision of transmission services to the broadcasting industry will be affected by the timing of the roll-out of digital terrestrial television broadcasts in both the United Kingdom and the United States, as well as in other countries around the world, consumer demand for digital terrestrial broadcasting, interest rates, cost of capital, zoning restrictions on towers and the cost of building towers.

As an important part of our business strategy, we will seek (1) to maximize utilization of our tower capacity, (2) to utilize the expertise of United States and United Kingdom personnel to capture global growth opportunities, (3) to partner with wireless carriers to assume ownership of their existing towers and (4) to acquire existing transmission networks globally as opportunities arise.

Results of Operations

Our primary sources of revenues are from (1) the rental of antenna space on towers and rooftop sites, (2) the provision of network services and (3) the provision of analog and digital broadcast transmission services.

CCIC

CCIC's primary sources of revenues are from (1) the rental of antenna space on towers and rooftop sites and (2) the provision of network services, which includes network design and site selection, site acquisition, site development and construction and antenna installation.

Site rental revenues are received primarily from wireless communications companies, including those operating in the following categories of wireless communications: cellular, personal communications services, paging, specialized mobile radio, enhanced specialized mobile radio and microwave. Site rental revenues are generally recognized on a monthly basis under lease agreements, which typically have original terms of five years (with three or four optional renewal periods of five years each). Average revenues for CCIC's managed rooftop sites are less than for the owned and managed towers because a substantial portion of the revenues from the tenants at rooftop sites is remitted to the building owner or manager.

Network services revenues consist of revenues from (1) network design and site selection, (2) site acquisition, (3) site development and construction, (4) antenna installation and (5) other services. Network services revenues are received primarily from wireless communications companies. Network services revenues are recognized under service contracts which provide for billings on either a fixed price basis or a time and materials basis. Demand for CCIC's network services fluctuates from period to period and within periods. Consequently, the operating results of CCIC's network services businesses for any particular period may vary significantly, and should not be considered as indicative of longer-term results. CCIC also derives revenues from the ownership and operation of microwave radio and specialized mobile radio networks in Puerto Rico where CCIC owns radio wave spectrum in the 2,000 MHz and 6,000 MHz range (for microwave radio) and the 800 MHz range (for specialized mobile radio). These revenues are generally recognized under monthly management or service agreements.

Costs of operations for site rental primarily consist of land leases, repairs and maintenance, utilities, insurance, property taxes and monitoring costs as well as, in the case of managed sites, rental payments. For any given tower, such costs are relatively fixed over a monthly or an annual time period. As such, operating costs for owned towers do not generally increase significantly as additional customers are added. However, rental expenses at certain managed towers increase as additional customer antennas are added, resulting in higher incremental revenues but lower incremental margins than on owned towers. Costs of operations for network services consist primarily of employee compensation and related benefits costs, subcontractor services, consulting fees, and other on-site construction and materials costs. CCIC incurs these network services costs (1) to support its internal operations, including construction and maintenance of its owned towers, and (2) to maintain the employees necessary to provide end-to-end services to third parties regardless of the level of such business at any time. We believe that our experienced staff enables us to provide the type of end-to-end services that enhance our ability to acquire access to the infrastructure of wireless carriers and to attract significant build-to-suit contracts.

General and administrative expenses consist primarily of employee compensation and related benefits costs, advertising, professional and consulting fees, office rent and related expenses and travel costs. Corporate development expenses represent costs incurred in connection with acquisitions and development of new business initiatives. These expenses consist primarily of allocated compensation, benefits and overhead costs that are not directly related to the administration or management of existing towers.

Depreciation and amortization charges relate to CCIC's property and equipment (primarily towers, construction equipment and vehicles), goodwill and other intangible assets recorded in connection with business acquisitions. Depreciation of towers and amortization of goodwill are computed with a useful life of 20 years. Amortization of other intangible assets (principally the value of existing site rental contracts at Crown Communications) is computed with a useful life of 10 years. Depreciation of construction equipment and vehicles are generally computed with useful lives of 10 years and 5 years, respectively.

In May 1997, we completed the acquisition of TEA Group and TeleStructures ("TEA"). In August 1997, we completed the acquisition of Crown Communications. In August 1998, we completed a share exchange with the shareholders of CTSH, under which our ownership of CTSH increased from approximately 34.3% to 80%. In October 1998, CTSH completed the acquisition of Millennium Communications Limited. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods subsequent to the respective dates of acquisition. As such, our results of operations for the year ended December 31, 1998 are not comparable to the year ended December 31, 1997, and the results for the year ended December 31, 1997 are not comparable to the year ended December 31, 1996. See "—CTSH" for a description of the revenues and operating expenses that are included in CCIC's consolidated results of operations subsequent to the completion of the share exchange in August 1998.

The following information is derived from CCIC's historical Consolidated Statements of Operations for the periods indicated.

	Year Ended December 31, 1996		Year Ended December 31, 1997		Year Ended December 31, 1998	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
			(In thousands of dollars)			
Net revenues:						
Site rental and broadcast transmission	$ 5,615	90.5%	$ 11,010	35.1%	$ 75,028	66.4%
Network services and other	592	9.5	20,395	64.9	38,050	33.6
Total net revenues	6,207	100.0	31,405	100.0	113,078	100.0
Operating expenses:						
Costs of operations:						
Site rental and broadcast transmission	1,292	23.0	2,213	20.1	26,254	35.0
Network services and other	8	1.4	13,137	64.4	21,564	56.7
Total costs of operations	1,300	21.0	15,350	48.9	47,818	42.3
General and administrative	1,678	27.0	6,824	21.7	23,571	20.8
Corporate development	1,324	21.3	5,731	18.3	4,625	4.1
Non-cash compensation charges	—	—	—	—	12,758	11.3
Depreciation and amortization	1,242	20.0	6,952	22.1	37,239	32.9
Operating income (loss)	663	10.7	(3,452)	(11.0)	(12,933)	(11.4)
Other income (expense):						
Equity in earnings (losses) of unconsolidated affiliate	—	—	(1,138)	(3.6)	2,055	1.8
Interest and other income (expense)	193	3.1	1,951	6.2	4,220	3.7
Interest expense and amortization of deferred financing costs	(1,803)	(29.0)	(9,254)	(29.5)	(29,089)	(25.7)
Loss before income taxes and minority interests	(947)	(15.2)	(11,893)	(37.9)	(35,747)	(31.6)
Provision for income taxes	(10)	(0.2)	(49)	(0.1)	(374)	(0.3)
Minority interests	—	—	—	—	(1,654)	(1.5)
Net loss	$ (957)	(15.4)%	$ (11,942)	(38.0)%	$ (37,775)	(33.4)%

Comparison of Years Ended December 31, 1998 and 1997

Consolidated revenues for 1998 were $113.1 million, an increase of $81.7 million from 1997. This increase was primarily attributable to (1) a $64.0 million, or 581.5%, increase in site rental and broadcast transmission revenues, of which $52.5 million was attributable to CTSH and $11.5 million was attributable to the Crown Communications operations; (2) an $11.4 million increase in network services revenues from the Crown Communications operations; and (3) $5.6 million in network services revenues from CTSH.

Costs of operations for 1998 were $47.8 million, an increase of $32.5 million from 1997. This increase was primarily attributable to (1) a $24.0 million increase in site rental and broadcast transmission costs, of which $20.1 million was attributable to CTSH and $3.9 million was attributable to the Crown Communications operations; (2) a $3.8 million increase in network services costs related to the Crown Communications operations; and (3) $4.2 million in network services costs from CTSH. Costs of operations for site rental and broadcast transmission as a percentage of site rental and broadcast transmission revenues increased to 35.0% for 1998 from 20.1% for 1997, primarily due to (1) higher costs attributable to the CTSH operations which are inherent with CTSH's broadcast transmission business; and (2) higher costs for the Crown Communications operations. Costs of operations for network services as a percentage of network services revenues decreased to 56.7% for 1998 from 64.4% for 1997, primarily due to improved margins from the Crown Communications operations. Margins from the Crown Communications network services operations vary from period to period, often as a result of increasingly competitive market conditions.

General and administrative expenses for 1998 were $23.6 million, an increase of $16.7 million from 1997. This increase was primarily attributable to (1) an $11.3 million increase in expenses related to the Crown Communications operations; (2) a $2.8 million increase in expenses at our corporate office; and (3) $2.4 million in expenses at CTSH. General and administrative expenses as a percentage of revenues decreased for 1998 to 20.8% from 21.7% for 1997 because of lower overhead costs as a percentage of revenues for CTSH, partially offset by higher overhead costs as a percentage of revenues for Crown Communications and the increase in costs at our corporate office.

Corporate development expenses for 1998 were $4.6 million, a decrease of $1.1 million from 1997. Corporate development expenses for 1997 included nonrecurring compensation charges associated with the CTSH investment of (1) $0.9 million for certain executive bonuses; and (2) the repurchase of shares of our common stock from a member of our board of directors, which resulted in compensation charges of $1.3 million. Corporate development expenses for 1998 included discretionary bonuses related to our performance totaling approximately $1.8 million for certain members of our management.

We have recorded non-cash compensation charges of $12.8 million related to the issuance of stock options to certain employees and executives. Such charges are expected to amount to approximately $1.6 million per year through 2002 and approximately $0.8 million in 2003. See "— Compensation Charges Related to Stock Option Grants."

Depreciation and amortization for 1998 was $37.2 million, an increase of $30.3 million from 1997. This increase was primarily attributable to (1) a $9.5 million increase in depreciation and amortization related to the property and equipment, goodwill and other intangible assets acquired in the Crown Communications acquisition; and (2) $20.3 million of depreciation and amortization related to the property and equipment and goodwill from CTSH.

The equity in earnings (losses) of unconsolidated affiliate represents our 34.3% share of CTSH's net earnings (losses) for the periods from March 1997 through August 1998 (at which time the share exchange with CTSH's shareholders was completed). For the eight months ended August 31, 1998, after making appropriate adjustments to CTSH's results of operations for such period to conform to generally accepted accounting principles of the United States, CTSH had net revenues, operating income, interest expense (including amortization of deferred financing costs) and net income of $97.2 million, $18.6 million, $13.4 million and $6.0 million, respectively. Included in CTSH's results of operations for such period are non-cash compensation charges for approximately $3.8 million related to the issuance of stock options to certain members of CTSH's management.

Interest and other income for 1997 includes a $1.2 million fee received in March 1997 as compensation for leading the investment consortium which provided the equity financing for CTSH. Interest income for 1998 resulted primarily from (1) the investment of excess proceeds from the sale of the 10⅝% discount notes in November 1997; and (2) the investment of the net proceeds from the initial public offering in August 1998. See "—Liquidity and Capital Resources."

Interest expense and amortization of deferred financing costs for 1998 was $29.1 million, an increase of $19.8 million, or 214.3%, from 1997. This increase was primarily attributable to amortization of the original issue discount on the 10⅝% discount notes and interest on CTSH's indebtedness.

Minority interests represent the minority shareholder's 20% interest in CTSH's operations.

Comparison of Years Ended December 31, 1997 and 1996

Consolidated revenues for 1997 were $31.4 million, an increase of $25.2 million from 1996. This increase was primarily attributable to (1) a $5.4 million, or 96.1%, increase in site rental revenues, of which $4.2 million was attributable to the Crown Communications operations and $0.7 million was attributable to the Puerto Rico operations; (2) $10.4 million in network services revenues from TEA; and (3) $7.2 million in network services revenues from the Crown Communications operations. The remainder of the increase was largely attributable to higher revenues from specialized mobile radio and microwave radio services in Puerto Rico and the monthly service fees received from CTSH beginning in March 1997.

Costs of operations for 1997 were $15.4 million, an increase of $14.1 million from 1996. This increase was primarily attributable to (1) $8.5 million of network services costs related to the TEA operations; (2) $3.9 million of network services costs related to the Crown Communications operations; and (3) $0.9 million in site rental costs attributable to the Crown Communications operations. Costs of operations for site rental as a percentage of site rental revenues decreased to 20.1% for 1997 from 23.0% for 1996 because of increased utilization of the towers located in the Southwestern United States and Puerto Rico. Costs of operations for network services as a percentage of network services revenues were 64.4% for 1997, reflecting lower margins that are inherent in the network services businesses acquired in 1997.

General and administrative expenses for 1997 were $6.8 million, an increase of $5.1 million from 1996. This increase was primarily attributable to $3.0 million of expenses related to the Crown Communications operations and $1.4 million of expenses related to the TEA operations, along with an increase in costs of $0.2 million at CCIC's corporate office. General and administrative expenses as a percentage of revenues decreased for 1997 to 21.7% from 27.0% for 1996 because of lower overhead costs as a percentage of revenues for the Crown Communications operations and TEA.

Corporate development expenses for 1997 were $5.7 million, an increase of $4.4 million from 1996. A substantial portion of this increase was attributable to nonrecurring compensation charges associated with the CTSH investment of (1) $0.9 million for certain executive bonuses and (2) the repurchase of shares of CCIC's common stock from a member of its board of directors, which resulted in compensation charges of $1.3 million. The remaining $2.2 million of the increase in corporate development expenses was attributable to a higher allocation of personnel costs, along with an overall increase in such costs, associated with an increase in acquisition and business development activities.

Depreciation and amortization for 1997 was $7.0 million, an increase of $5.7 million from 1996. This increase was primarily attributable to (1) $4.7 million of depreciation and amortization related to the property and equipment, goodwill and other intangible assets acquired in the Crown Communications acquisition; (2) $0.5 million of depreciation and amortization related to the property and equipment and goodwill acquired in the acquisitions of TEA Group and TeleStructures; and (3) $0.3 million resulting from twelve months of depreciation related to the property and equipment acquired in the Puerto Rico acquisition.

The equity in losses of unconsolidated affiliate of $1.1 million represents CCIC's 34.3% share of CTSH's net loss for the period from March through December 1997. After making appropriate adjustments to CTSH's results of operations for such period to conform to generally accepted accounting principles of the United States, CTSH had net revenues, operating income, interest expense (including amortization of deferred financing costs) and net losses of $103.5 million, $16.5 million, $20.4 million and $3.3 million, respectively.

Interest and other income for 1997 includes a $1.2 million fee received in March 1997 as compensation for leading the investment consortium which provided the equity financing for CTSH, the impact on earnings of which was partially offset by certain executive bonuses related to the CTSH investment and included in corporate development expenses. Interest income for 1997 resulted primarily from the investment of excess proceeds from the sale of CCIC's Series C convertible preferred stock in February 1997.

Interest expense and amortization of deferred financing costs for 1997 was $9.3 million, an increase of $7.5 million, or 413.3%, from 1996. This increase was primarily attributable to (1) commitment fees related to an unfunded interim loan facility related to the Crown Communications acquisition and an unfunded revolving credit facility; (2) interest on notes payable to the former stockholders of Crown Communications for a portion of the purchase price of that business; (3) amortization of the original issue discount on the 10⅝% discount notes; (4) interest and fees associated with borrowings under CCIC's bank credit facility which were used to finance the Crown Communications acquisition on an interim basis; (5) interest on outstanding borrowings assumed in connection with the Crown Communications acquisition; and (6) interest on borrowings under CCIC's bank credit facility which were used to finance the acquisition of the Puerto Rico system.

CTSH

CTSH's primary sources of revenues are from (1) the provision of analog and digital broadcast transmission services to the BBC and commercial broadcasters; (2) the rental of antenna space on towers; and (3) the provision of network services, which includes broadcast consulting, network design and site selection, site acquisition, site development and antenna installation and site management and other services.

Broadcast transmission services revenues are received for both analog and digital transmission services. Monthly analog transmission revenues are principally received from the BBC under a contract with an initial 10-year term through March 31, 2007. Digital transmission services revenues from the BBC and ONdigital are recognized under contracts with initial terms of 12 years through November 15, 2010. Monthly revenues from these digital transmission contracts increase over time as the network rollout progresses.

Site rental revenues are received from other broadcast transmission service providers (primarily NTL) and wireless communications companies, including all four UK cellular operators (Cellnet, Vodafone, One2One and Orange). As of December 31, 1998, approximately 200 companies rented space on approximately 514 of CTSH's 919 towers and rooftops. Site rental revenues are generally recognized on a monthly basis under lease agreements with original terms of three to twelve years. Such lease agreements generally require annual payments in advance, and include rental rate adjustment provisions between one and three years from the commencement of the lease. Site rental revenues are expected to become an increasing portion of CTSH's total UK revenue base, and we believe that the demand for site rental from communication service providers will increase in line with the expected growth of these communication services in the UK.

Network services revenues consist of (1) network design and site selection, site acquisition, site development and antenna installation (collectively, "network design and development"); and (2) site management and other services. Network design and development services are provided to (1) a number of broadcasting and related organizations, both in the UK and other countries; (2) all four UK cellular operators; and (3) a number of other wireless communications companies, including Dolphin and Highway One. These services are usually subject to a competitive bid, although a significant proportion result from an operator coming onto an existing CTSH site. Revenues from such services are recognized on either a fixed price or a time and materials basis. Site management and other services, consisting of both network monitoring and equipment maintenance, are carried out in the UK for a number of emergency service organizations. CTSH receives revenues for such services under contracts with original terms of between three and five years. Such contracts provide fixed prices for network monitoring and variable pricing dependent on the level of equipment maintenance carried out in a given period.

Costs of operations for broadcast transmission services consist primarily of employee compensation and related benefits costs, utilities, rental payments under the Site-Sharing Agreement with NTL, circuit costs and repairs and maintenance on both transmission equipment and structures.

Site rental operating costs consist primarily of employee compensation and related benefits costs, utilities and repairs and maintenance. The majority of such costs are relatively fixed in nature, with increases in revenue from new installations on existing sites generally being achieved without a corresponding increase in costs.

Costs of operations for network services consist primarily of employee compensation and related benefits costs and on-site construction and materials costs.

General and administrative expenses consist primarily of office occupancy and related expenses, travel costs, professional and consulting fees, advertising, insurance and employee training and recruitment costs. Corporate development expenses represent costs incurred in connection with acquisitions and development of new business initiatives. These expenses consist primarily of external professional fees related to specific activities and allocated compensation, benefits and overhead costs that are not directly related to the administration or management of CTSH's existing lines of business.

Depreciation and amortization charges relate to CTSH's property and equipment (primarily towers, broadcast transmission equipment and associated buildings) and goodwill recorded in connection with the acquisition of the home service transmission business from the BBC. Depreciation of towers is computed with useful lives of 20 to 25 years; depreciation of broadcast transmission equipment is computed with a useful life of 20 years; and depreciation of buildings is computed with useful lives ranging from 20 to 50 years. Amortization of goodwill is computed with a useful life of 20 years.

The following information is derived from the Consolidated Profit and Loss Accounts of (1) CTSH for periods subsequent to February 28, 1997 (the date of inception of CTSH's operations) and (2) the BBC home service transmission business for periods prior to that date. For purposes of the following discussion, CTSH's results for the month ended March 31, 1997 have been combined with the results of the BBC home service transmission business for the eleven months ended February 27, 1997, and CTSH's results for the nine months ended December 31, 1997 have been combined with its results for the three months ended March 31, 1998. The following discussion presents an analysis of such combined results for the twelve-month periods ended March 31, 1998 and 1997. Results for CTSH are not comparable to results from the BBC home service transmission business due to differences in the carrying amounts of property and equipment and goodwill. As of December 31, 1997, CTSH changed its fiscal year end for financial reporting purposes from March 31 to December 31; as such, the results for the three months ended March 31, 1998 are unaudited.

CTSH uses the British pound sterling as the functional currency for its operations. The following amounts have been translated to United States dollars using the average noon buying rate for each period. The following amounts reflect certain adjustments to present the results of operations in accordance with generally accepted accounting principles of the United States. For the results of the BBC home service transmission business, such adjustments affect depreciation and amortization expense as a result of differences in the carrying amounts for property and equipment; for CTSH, such adjustments affect (1) operating expenses as a result of differences in the accounting for pension costs, and (2) interest expense as a result of the capitalization of interest costs in connection with constructed assets.

	Twelve Months Ended March 31, 1997		Twelve Months Ended March 31, 1998	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
	(In thousands of dollars)			
Net revenues:				
Site rental and broadcast transmission	$112,122	91.7%	$113,558	89.2%
Network services and other	10,090	8.3	13,731	10.8
Total net revenues	122,212	100.0	127,289	100.0
Operating expenses:				
Costs of operations:				
Site rental and broadcast transmission	61,339	54.7	53,957	47.5
Network services and other	5,912	58.6	6,075	44.2
Total costs of operations	67,251	55.0	60,032	47.1
General and administrative	7,196	5.9	8,626	6.8
Corporate development	—	—	2,303	1.8
Depreciation and amortization	17,256	14.1	37,382	29.4
Operating income	30,509	25.0	18,946	14.9
Other income (expense):				
Interest and other income	79	0.1	746	0.6
Interest expense and amortization of deferred financing costs	(1,434)	(1.2)	(24,201)	(19.0)
Income (loss) before income taxes	29,154	23.9	(4,509)	(3.5)
Provision for income taxes	—	—	—	—
Net income (loss)	$ 29,154	23.9%	$ (4,509)	(3.5)%

Comparison of Twelve Months Ended March 31, 1998 and Twelve Months Ended March 31, 1997

Consolidated revenues for the twelve months ended March 31, 1998 were $127.3 million, an increase of $5.1 million from the twelve months ended March 31, 1997. This increase was primarily attributable to (1) a $1.4 million increase in broadcast transmission services and site rental revenues and (2) a $3.6 million increase in network services and other revenues. Revenues from the BBC for the twelve months ended March 31, 1998 amounted to $79.5 million, or 62.5% of total revenues, as compared to $85.5 million, or 70.0% of total revenues, for the twelve months ended March 31, 1997. Revenues from NTL for the twelve months ended March 31, 1998 amounted to $11.8 million, or 9.2% of total revenues. Network services revenues for the twelve months ended March 31, 1998 consisted of $10.6 million from network design and development services and $3.1 million from site management and other services.

Costs of operations for the twelve months ended March 31, 1998 were $60.0 million, a decrease of $7.2 million from the twelve months ended March 31, 1997. This decrease was primarily attributable to a $7.4 million decrease in broadcast transmission services and site rental costs, partially offset by a $0.2 million increase in network services and other costs. Costs of operations as a percentage of revenues for broadcast transmission services and site rental were 47.5% for the twelve months ended March 31, 1998, as compared to 54.7% for the twelve months ended March 31, 1997. This decrease was attributable to (1) increases in site rental revenues from existing sites with little change in site operating costs; and (2) the elimination, as of February 28, 1997, of certain costs recharged to the BBC home service transmission business by the BBC. Costs of operations as a percentage of revenues for network services and other were

44.2% for the twelve months ended March 31, 1998, as compared to 58.6% for the twelve months ended March 31, 1997. This decrease was attributable to (1) a higher proportion of broadcast consulting revenues, which result in higher margins than certain other network design and development services; and (2) the elimination, as of February 28, 1997, of certain costs recharged to the BBC home service transmission business by the BBC. Costs of operations for site rental and broadcast transmission for the twelve months ended March 31, 1998 includes non-cash compensation charges for $1.1 million related to the issuance of stock options to certain employees.

General and administrative expenses for the twelve months ended March 31, 1998 were $8.6 million, an increase of $1.4 million from the twelve months ended March 31, 1997. As a percentage of revenues, general and administrative expenses were 6.8% and 5.9% for the twelve months ended March 31, 1998 and 1997, respectively. This increase was attributable to costs incurred by CTSH as a separate enterprise which were not directly incurred by the BBC home service transmission business as a part of the BBC.

Corporate development expenses for the twelve months ended March 31, 1998 relate primarily to costs incurred in connection with certain projects in Australasia and non-cash compensation charges for $1.8 million related to the issuance of stock options to certain executives.

Depreciation and amortization for the twelve months ended March 31, 1998 was $37.4 million, an increase of $20.1 million from the twelve months ended March 31, 1997. Monthly charges for depreciation and amortization increased for periods subsequent to February 28, 1997 due to (1) a decrease in the estimated useful lives for certain transmission and power plant equipment from 25 to 20 years; and (2) the amortization of goodwill recorded in connection with the acquisition of the BBC home service transmission business.

Interest and other income for the twelve months ended March 31, 1998 resulted primarily from (1) the investment of excess proceeds from amounts drawn under CTSH's bank credit facilities in February 1997; and (2) the investment of cash generated from operations during the period.

Interest expense and amortization of deferred financing costs for the twelve months ended March 31, 1998 was $24.2 million. This amount was comprised of (1) $4.9 million related to amounts drawn under the CTSH credit facility; (2) $15.6 million related to the CTSH bonds; and (3) $3.7 million for the amortization of deferred financing costs. Interest expense and amortization of deferred financing costs of $1.4 million for the twelve months ended March 31, 1997 was attributable to amounts drawn under the CTSH credit facility. The BBC home service transmission business did not incur any financing costs as a part of the BBC prior to February 28, 1997.

Liquidity and Capital Resources

Our business strategy contemplates substantial capital expenditures (1) in connection with the expansion of our tower portfolios by partnering with wireless carriers to assume ownership or control of their existing towers, by pursuing build-to-suit opportunities and by pursuing other tower acquisition opportunities; and (2) to acquire existing transmission networks globally as opportunities arise. Since its inception, CCIC has generally funded its activities (other than acquisitions and investments) through excess proceeds from contributions of equity capital. CCIC has financed acquisitions and investments with the proceeds from equity contributions, borrowings under our senior credit facilities, issuances of debt securities and the issuance of promissory notes to sellers. Since its inception, CTSH has generally funded its activities (other than the acquisition of the BBC home service transmission business) through cash provided by operations and borrowings under CTSH's credit facility. CTSH financed the acquisition of the BBC home service transmission business with the proceeds from equity contributions and the issuance of the CTSH bonds.

For the years ended December 31, 1996, 1997 and 1998, our net cash provided by (used for) operating activities was ($0.5 million), ($0.6 million) and $45.0 million, respectively. For the years ended December 31, 1996, 1997 and 1998, our net cash provided by financing activities was $21.2 million, $159.8 million and $345.2 million, respectively. Our primary financing-related activities in 1998 included the following:

Exchangeable Preferred Stock Offering. On December 16, 1998, we privately placed 200,000 shares of our 12¾% Senior Exchangeable Preferred Stock due 2010, with a liquidation preference of $1,000 per share, resulting in net proceeds to us of approximately $193.0 million. We used a portion of the net proceeds of the exchangeable preferred stock offering to repay our outstanding indebtedness under Crown Communications' senior credit facility. We used the remainder of the net proceeds of the exchangeable preferred stock offering to finance a portion of our investment in the Bell Atlantic Mobile joint venture.

Initial Public Offering. On August 18, 1998, we completed our initial public offering at a price to the public of $13.00 per share. We sold 12,320,000 shares of our common stock and received proceeds of $151.0 million (after underwriting discounts of $9.1 million but before other expenses of our initial public offering, which totaled approximately $4.1 million). We used the net proceeds from our initial public offering to finance a portion of our investment in the Bell Atlantic Mobile joint venture.

Capital expenditures were $138.8 million for the twelve months ended December 31, 1998, of which $3.7 million were for CCIC, $84.9 million were for Crown Communications and $50.2 million were for CTSH. We anticipate that we will build, through the end of 1999, between 900 and 1,200 towers at an aggregate cost of between $170.0 million and $220.0 million. We also expect that the capital expenditure requirements related to the roll-out of digital broadcast transmission in the UK will be approximately £40.0 million ($66.5 million).

In addition to capital expenditures in connection with build-to-suits, we expect to apply a significant amount of capital to finance the cash portion of the consideration being paid in connection with the proposed transactions.

In connection with the Bell Atlantic Mobile joint venture, we issued approximately 15.6 million shares of our common stock and contributed $250.0 million in cash to the joint venture. The joint venture borrowed approximately $180.0 million under a committed $250.0 million revolving credit facility, following which the joint venture made a $380.0 million cash distribution to Bell Atlantic Mobile.

In connection with the proposed BellSouth transaction, we will issue approximately 9.1 million shares of our common stock and pay BellSouth $430.0 million in cash. We have deposited $50.0 million in an escrow account pending the first closing of the transaction, which we funded through a loan agreement we entered into on March 15, 1999. We expect to use a portion of the net proceeds from proposed underwritten public offerings of our common stock and debt securities to finance this transaction.

In connection with the proposed Powertel acquisition, we will pay Powertel $275.0 million in cash. We have deposited $50.0 million, which we funded through the March 15, 1999 loan agreement, in an escrow account to be applied to the purchase price at closing. We expect to use a portion of the net proceeds of our proposed offerings to finance this transaction.

We expect that the completion of the proposed transactions and the execution of our new tower build, or build-to-suit program, will have a material impact on our liquidity. We expect that once integrated, these transactions will have a positive impact on liquidity, but will require some period of time to offset the initial adverse impact on liquidity. In addition, we believe that as new towers become operational and we begin to add tenants, they should result in a long-term increase in liquidity.

Our liquidity may also be materially impacted if we fail to complete the BellSouth transaction or the Powertel acquisition. If we complete our offerings and subsequently fail to complete the BellSouth transaction or the Powertel acquisition, the proceeds of the offerings would no longer be required to be allocated to finance such transactions and would be available to us as additional liquidity. The increase in our liquidity, however, could be somewhat offset by any portion of the escrow payments made in connection with such transactions that we may forfeit as a result of not closing such transactions.

More importantly, if we fail to consummate the proposed offerings or to consummate them on terms that result in less net proceeds, we would have to seek alternative financing for the proposed transactions. In such event, there can be no assurance that we could obtain any such alternative financing and we may be forced to forego these transactions. If we forego either the proposed BellSouth transaction or the proposed Powertel acquisition, we would likely be forced to forfeit all or part of the related escrow payments. If we were to fail to consummate the proposed offerings, fail to consummate the proposed transactions and forfeit all or any significant portion of the $100.0 million in escrow payments made in connection with the proposed transactions, it would have a material adverse effect on the Company's financial condition, including its ability to implement its current business strategy.

To fund the execution of our business strategy, including the proposed transactions described in this document and the construction of new towers that we have agreed to build, we expect to use the net proceeds of our offerings and borrowings available under our United States and UK credit facilities. We will have additional cash needs to fund our operations in the future. We may also have additional cash needs in the near-term if additional tower acquisitions or build-to-suit opportunities arise. Some of the opportunities that we are currently pursuing could require significant additional capital. If we do not otherwise have cash available, or borrowings under our credit facilities have otherwise been utilized, when our cash need arises, we would be forced to seek additional debt or equity financing or to forego the opportunity. In the event we determine to seek additional debt or equity financing,

there can be no assurance that any such financing will be available, on commercially acceptable terms or at all, or permitted by the terms of our existing indebtedness.

As of December 31, 1998, assuming we had completed our proposed offerings, we would have had consolidated cash and cash equivalents of $1,108.5 million (including $6.5 million at CTSH), consolidated long-term debt of $879.7 million, consolidated redeemable preferred stock of $201.1 million and consolidated stockholders' equity of $1,114.6 million. As of December 31, 1998, assuming we had completed the offerings and the recent and proposed transactions described in this document, we would have had consolidated cash and cash equivalents of $195.5 million (including $6.5 million at CTSH and $45.9 million at the Bell Atlantic Mobile joint venture), consolidated long-term debt of $1,059.7 million, consolidated redeemable preferred stock of $201.1 million and consolidated stockholders' equity of $1,491.6 million.

As of March 1, 1999, Crown Communications and its subsidiaries had unused borrowing availability under its senior credit facility of approximately $54.0 million, and CTSH had unused borrowing availability under its credit facility of approximately £24.0 million ($39.9 million). As of December 31, 1998, Crown Communications and its subsidiaries and CTSH and its subsidiaries had approximately $77.6 million and £30.8 million ($51.2 million) of unused borrowing availability, respectively, under Crown Communications' senior credit facility and CTSH's credit facility. Upon its formation, the Bell Atlantic Mobile joint venture borrowed $180.0 million under a committed $250.0 million credit facility. Crown Communications' senior credit facility, CTSH's credit facility and the joint venture's credit facility require that the respective borrowers maintain certain financial covenants; in addition, all three credit facilities place restrictions on the ability of the borrower and its subsidiaries to, among other things, incur debt and liens, pay dividends, make capital expenditures, undertake transactions with affiliates and make investments. These facilities also limit the ability of the borrowing subsidiaries to pay dividends to CCIC.

If CCIC is unable to refinance its subsidiary debt or renegotiate the terms of such debt, CCIC may not be able to meet its debt service requirements, including interest payments on the 10⅝% discount notes, in the future. Prior to May 15, 2003, the interest expense on our 10⅝% discount notes will be comprised solely of the amortization of original issue discount. Thereafter, the 10⅝% discount notes will require annual cash interest payments of approximately $26.7 million. Prior to December 15, 2003, we do not expect to pay cash dividends on our exchangeable preferred stock or, if issued, cash interest on the exchange debentures. Thereafter, assuming all dividends or interest have been paid-in-kind, our exchangeable preferred stock or, if issued, the exchange debentures will require annual cash dividend or interest payments of approximately $47.8 million. Annual cash interest payments on the CTSH bonds are £11.25 million ($18.7 million). In addition, Crown Communications' senior credit facility and CTSH's credit facility will require periodic interest payments on amounts borrowed thereunder.

As a holding company, CCIC will require distributions or dividends from its subsidiaries, or will be forced to use capital raised in debt and equity offerings, to fund its debt obligations, including interest payments on the 10⅝% discount notes. As we described above, the terms of the indebtedness of CCIC's subsidiaries significantly limit such subsidiaries' ability to distribute cash to CCIC.

Our ability to make scheduled payments of principal of, or to pay interest on, our debt obligations, and our ability to refinance any such debt obligations, will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We anticipate that we may need to refinance all or a portion of our indebtedness (including our 10⅝% discount notes and the CTSH bonds) on or prior to its scheduled maturity. There can be no assurance that we will be able to effect any required refinancings of our indebtedness on commercially reasonable terms or at all.

Reporting Requirements Under the Indenture Governing the 10⅝% Discount Notes (the "Indenture")

The following information (as such capitalized terms are defined in the Indenture) is presented solely as a requirement of the Indenture; such information is not intended as an alternative measure of financial position, operating results or cash flow from operations (as determined in accordance with generally accepted accounting principles). Furthermore, our measure of the following information may not be comparable to similarly titled measures of other companies.

Upon consummation of the share exchange with CTSH's shareholders, which increased our ownership interest in CTSH to 80%, we designated CTSH as an Unrestricted Subsidiary. In addition, the net proceeds from our initial public offering were placed into a newly formed subsidiary that was also designated as an Unrestricted Subsidiary. Prior to these transactions, we did not have

any Unrestricted Subsidiaries. Summarized financial information for (1) the Company and its Restricted Subsidiaries and (2) the Company's Unrestricted Subsidiaries is as follows:

	December 31, 1998			
	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidation Eliminations	Consolidated Total
	(In thousands of dollars)			
Cash and cash equivalents	$ 41,785	$ 254,665	$ —	$ 296,450
Other current assets	19,585	26,081	—	45,666
Property and equipment, net	165,205	427,389	—	592,594
Investments in Unrestricted Subsidiaries	744,941	—	(744,941)	—
Goodwill and other intangible assets, net	143,729	426,011	—	569,740
Other assets, net	15,440	3,340	—	18,780
	$ 1,130,685	$ 1,137,486	$ (744,941)	$ 1,523,230
Current liabilities	$ 17,653	$ 75,234	$ —	$ 92,887
Long-term debt	173,599	256,111	—	429,710
Other liabilities	808	22,015	—	22,823
Minority interests	—	39,185	—	39,185
Redeemable preferred stock	201,063	—	—	201,063
Stockholders' equity	737,562	744,941	(744,941)	737,562
	$ 1,130,685	$ 1,137,486	$ (744,941)	$ 1,523,230

	Three Months Ended December 31, 1998			Year Ended December 31, 1998		
	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total
	(In thousands of dollars)					
Net revenues	$ 17,030	$ 43,787	$ 60,817	$ 55,023	$ 58,055	$ 113,078
Costs of operations (exclusive of depreciation and amortization)	7,069	18,117	25,186	23,446	24,372	47,818
General and administrative	6,883	1,666	8,549	21,153	2,418	23,571
Corporate development	1,787	—	1,787	4,625	—	4,625
Non-cash compensation charges	523	874	1,397	9,907	2,851	12,758
Depreciation and amortization	4,879	15,255	20,134	16,921	20,318	37,239
Operating income (loss)	(4,111)	7,875	3,764	(21,029)	8,096	(12,933)
Equity in earnings of unconsolidated affiliate	—	—	—	2,055	—	2,055
Interest and other income (expense)	(285)	2,212	1,927	1,101	3,119	4,220
Interest expense and amortization of deferred financing costs	(5,823)	(5,685)	(11,508)	(21,727)	(7,362)	(29,089)
Provision for income taxes	(156)	—	(156)	(374)	—	(374)
Minority interests	—	(1,326)	(1,326)	—	(1,654)	(1,654)
Net income (loss)	$ (10,375)	$ 3,076	$ (7,299)	$ (39,974)	$ 2,199	$ (37,775)

Tower Cash Flow and Adjusted Consolidated Cash Flow for the Company and its Restricted Subsidiaries is as follows:

	(In thousands of dollars)
Tower Cash Flow, for the three months ended December 31, 1998	$ 3,868
Consolidated Cash Flow, for the twelve months ended December 31, 1998	$ 6,001
Less: Tower Cash Flow, for the twelve months ended December 31, 1998	(14,811)
Plus: four times Tower Cash Flow, for the three months ended December 31, 1998	15,472
Adjusted Consolidated Cash Flow, for the twelve months ended December 31, 1998	$ 6,662

Compensation Charges Related to Stock Option Grants

During the period from April 24, 1998 through July 15, 1998, we granted options to employees and executives for the purchase of 3,236,980 shares of our common stock at an exercise price of $7.50 per share. Of such options, options for 1,810,730 shares vested upon completion of the initial public offering and the remaining options for 1,426,250 shares will vest at 20% per year over five years, beginning one year from the date of grant. In addition, we have assigned our right to repurchase 100,000 shares of our common stock from a stockholder (at a price of $6.26 per share) to two individuals (including a newly elected director). Since the granting of these options and the assignment of these rights to repurchase shares occurred subsequent to the date of the share exchange agreement with CTSH's shareholders and at prices substantially below the price to the public in the initial public offering, we have recorded a non-cash compensation charge related to these options and shares based upon the difference between the respective exercise and purchase prices and the price to the public in the initial public offering. Such compensation charge will total approximately $18.4 million, of which approximately $10.6 million was recognized upon completion of the initial public offering (for such options and shares which vested upon completion of the initial public offering), and the remaining $7.8 million is being recognized over five years (approximately $1.6 million per year) through the second quarter of 2003. An additional $1.6 million in non-cash compensation charges will be recognized through the third quarter of 2001 for stock options issued to certain members of CTSH's management prior to the completion of the share exchange.

Impact of Recently Issued Accounting Standards

In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities* ("SOP 98-5"). SOP 98-5 requires that costs of start-up activities be charged to expense as incurred and broadly defines such costs. We have deferred certain costs incurred in connection with potential business initiatives and new geographic markets, and SOP 98-5 will require that such deferred costs be charged to results of operations upon its adoption. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. We will adopt the requirements of SOP 98-5 as of January 1, 1999. The cumulative effect of the change in accounting principle for the adoption of SOP 98-5 will result in a charge to results of operations in our financial statements for the three months ending March 31, 1999; it is currently estimated that such charge will amount to approximately $2.3 million.

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 requires that derivative instruments be recognized as either assets or liabilities in the consolidated balance sheet based on their fair values. Changes in the fair values of such derivative instruments will be recorded either in results of operations or in other comprehensive income, depending on the intended use of the derivative instrument. The initial application of SFAS 133 will be reported as the effect of a change in accounting principle. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. We will adopt the requirements of SFAS 133 in our financial statements for the three months ending March 31, 2000. We have not yet determined the effect that the adoption of SFAS 133 will have on our consolidated financial statements.

Year 2000 Compliance

The year 2000 problem is the result of computer programs having been written using two digits (rather than four) to define the applicable year. Any of our computer programs that have date-sensitive software may recognize a date using "00" as 1900 rather

than the year 2000, or may not recognize the date at all. This could result in a system failure or miscalculations causing disruption of operations including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

In 1997 we established a year 2000 project to ensure that the issue received appropriate priority and that necessary resources were made available. This project includes the replacement of our worldwide business computer systems with systems that use programs primarily from J.D. Edwards, Inc. The new systems are expected to make approximately 90% of our business computer systems year 2000 compliant and are in production today. Remaining business software programs, including those supplied by vendors, will be made year 2000 compliant through the year 2000 project or they will be retired. None of our other information technology projects has been delayed due to the implementation of the year 2000 project.

Our year 2000 project is divided into the following phases: (1) inventorying year 2000 items; (2) assigning priorities to identified items; (3) assessing the year 2000 compliance of items determined to be material to us; (4) repairing or replacing material items that are determined not to be year 2000 compliant; (5) testing material items; and (6) designing and implementing contingency and business continuation plans for each organization and company location. We have completed the inventory and priority assessment phases and are 90% complete with the assessing compliance phase. The remaining items include various third party assurances regarding the year 2000 status of their operations. We are now continuing with the testing phase of the year 2000 project. All critical broadcast equipment and non-information technology related equipment has been tested and is either year 2000 compliant, has been designated as year 2000 ready, or will be repaired or replaced by June 1999. A year 2000 ready designation implies the equipment or system will function without adverse effects beyond year 2000 but may not be aware of the century. All critical information technology systems have been designated year 2000 compliant or are scheduled to be retired or remediated by July 1999. The testing phase is ongoing as hardware or system software is remediated, upgraded or replaced. Testing as well as remediation is scheduled for completion in July 1999. The final phase of our year 2000 project, contingency planning, will be completed and tested to the extent possible by September 1999.

We have expended $6.9 million on the year 2000 project through December 31, 1998, of which approximately $6.8 million related to the implementation of the J.D. Edwards Systems and related hardware. Funds for the year 2000 project are provided from a separate budget of $0.6 million for all items.

The failure to correct a material year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect our results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the year 2000 problem, resulting in part from the uncertainty of the year 2000 readiness of third-party suppliers and customers, we are unable to determine at this time whether the consequences of year 2000 failures will have a material impact on our results of operations, liquidity or financial condition. The year 2000 project is expected to significantly reduce our level of uncertainty about the year 2000 problem and, in particular, about the year 2000 compliance and readiness of our material business partners. We believe that, with the implementation of new business systems and completion of the project as scheduled, the possibility of significant interruptions of normal operations should be reduced.

Qualitative and Quantitative Disclosures about Market Risk

The Company, as a result of its international operating, investing and financing activities, is exposed to market risks, which include changes in foreign currency exchange rates and interest rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposure to changes in interest rates and foreign currency exchange rates.

Certain financial instruments used to obtain capital are subject to market risks from fluctuations in market rates. The majority of our financial instruments, however, are long-term fixed interest rate notes and debentures. Therefore, fluctuations in market interest rates of 1% in 1999 would not have a material effect on the Company's consolidated financial results.

The majority of our foreign currency transactions are denominated in the British pound sterling, which is the functional currency of CTSH. As these contracts are denominated and settled in the functional currency, risks associated with currency fluctuations are minimized to foreign currency translation adjustments. The Company does not currently hedge against foreign currency translation risks and believes that foreign currency exchange risk is not significant to its operations.

To the Board of Directors and Stockholders of
Crown Castle International Corp.:

We have audited the accompanying consolidated balance sheets of Crown Castle International Corp. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' equity (deficit) for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crown Castle International Corp. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Houston, Texas
February 24, 1999

Consolidated Balance Sheet
(In thousands of dollars)

	December 31,	
	1997	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 55,078	$ 296,450
Receivables:		
Trade, net of allowance for doubtful accounts of $177 and $1,535 at December 31, 1997 and 1998, respectively	9,264	32,130
Other	811	4,290
Inventories	1,322	6,599
Prepaid expenses and other current assets	681	2,647
Total current assets	67,156	342,116
Property and equipment, net	81,968	592,594
Investments in affiliates	59,082	2,258
Goodwill and other intangible assets, net of accumulated amortization of $3,997 and $20,419 at December 31, 1997 and 1998, respectively	152,541	569,740
Deferred financing costs and other assets, net of accumulated amortization of $743 and $1,722 at December 31, 1997 and 1998, respectively	10,644	16,522
	$ 371,391	$ 1,523,230
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,760	$ 46,020
Accrued interest	—	15,677
Accrued compensation and related benefits	1,792	5,188
Deferred rental revenues and other accrued liabilities	2,398	26,002
Total current liabilities	11,950	92,887
Long-term debt	156,293	429,710
Other liabilities	607	22,823
Total liabilities	168,850	545,420
Commitments and contingencies (Note 12)		
Minority interests	—	39,185
Redeemable preferred stock	160,749	201,063
Stockholders' equity	41,792	737,562
	$ 371,391	$ 1,523,230

See notes to consolidated financial statements.

Consolidated Statement of Operations and Comprehensive Loss

(In thousands of dollars, except per share amounts)

	Years Ended December 31,		
	1996	1997	1998
Net revenues:			
Site rental and broadcast transmission	$ 5,615	$ 11,010	$ 75,028
Network services and other	592	20,395	38,050
	6,207	31,405	113,078
Operating expenses:			
Costs of operations (exclusive of depreciation and amortization):			
Site rental and broadcast transmission	1,292	2,213	26,254
Network services and other	8	13,137	21,564
General and administrative	1,678	6,824	23,571
Corporate development	1,324	5,731	4,625
Non-cash compensation charges	—	—	12,758
Depreciation and amortization	1,242	6,952	37,239
	5,544	34,857	126,011
Operating income (loss)	663	(3,452)	(12,933)
Other income (expense):			
Equity in earnings (losses) of unconsolidated affiliate	—	(1,138)	2,055
Interest and other income (expense)	193	1,951	4,220
Interest expense and amortization of deferred financing costs	(1,803)	(9,254)	(29,089)
Loss before income taxes and minority interests	(947)	(11,893)	(35,747)
Provision for income taxes	(10)	(49)	(374)
Minority interests	—	—	(1,654)
Net loss	(957)	(11,942)	(37,775)
Dividends on preferred stock	—	(2,199)	(5,411)
Net loss after deduction of dividends on preferred stock	$ (957)	$ (14,141)	$ (43,186)
Net loss	$ (957)	$ (11,942)	$ (37,775)
Other comprehensive income:			
Foreign currency translation adjustments	—	562	1,128
Comprehensive loss	$ (957)	$ (11,380)	$ (36,647)
Loss per common share — basic and diluted	$ (0.27)	$ (2.27)	$ (1.02)
Common shares outstanding — basic and diluted (in thousands)	3,503	6,238	42,518

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows
(In thousands of dollars)

	Years Ended December 31,		
	1996	1997	1998
Cash flows from operating activities:			
Net loss	$ (957)	$ (11,942)	$ (37,775)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,242	6,952	37,239
Amortization of deferred financing costs and discounts on long-term debt	55	2,159	17,910
Non-cash compensation charges	—	—	12,758
Minority interests	—	—	1,654
Equity in losses (earnings) of unconsolidated affiliate	—	1,138	(2,055)
Changes in assets and liabilities, excluding the effects of acquisitions:			
Increase in accounts payable	323	1,824	15,373
Increase (decrease) in deferred rental revenues and other liabilities	219	(240)	5,847
Increase (decrease) in accrued interest	306	(396)	5,835
Decrease (increase) in receivables	(1,695)	1,353	(7,450)
Increase in inventories, prepaid expenses and other assets	(23)	(1,472)	(4,360)
Net cash provided by (used for) operating activities	(530)	(624)	44,976
Cash flows from investing activities:			
Capital expenditures	(890)	(18,035)	(138,759)
Acquisitions of businesses, net of cash acquired	(10,925)	(33,962)	(10,489)
Investments in affiliates	(2,101)	(59,487)	—
Net cash used for investing activities	(13,916)	(111,484)	(149,248)
Cash flows from financing activities:			
Proceeds from issuance of capital stock	10,503	139,867	339,929
Net borrowings (payments) under revolving credit agreements	11,000	(6,223)	9,212
Incurrence of financing costs	(180)	(7,798)	(3,010)
Purchase of capital stock	—	(2,132)	(883)
Proceeds from issuance of long-term debt	—	150,010	—
Principal payments on long-term debt	(130)	(113,881)	—
Net cash provided by financing activities	21,193	159,843	345,248
Effect of exchange rate changes on cash	—	—	396
Net increase in cash and cash equivalents	6,747	47,735	241,372
Cash and cash equivalents at beginning of year	596	7,343	55,078
Cash and cash equivalents at end of year	$ 7,343	$ 55,078	$ 296,450
Supplementary schedule of non-cash investing and financing activities:			
Conversion of stockholder's Convertible Secured Subordinated Notes to Series A Convertible Preferred Stock	$ —	$ 3,657	$ —
Amounts recorded in connection with acquisitions (see Note 2):			
Fair value of net assets acquired, including goodwill and other intangible assets	10,958	197,235	431,453
Issuance of common stock	—	57,189	420,964
Issuance of long-term debt	—	78,102	—
Assumption of long-term debt	—	27,982	—
Amounts due to seller	33	—	—
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,442	$ 7,533	$ 6,276
Income taxes paid	—	26	446

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity (Deficit)

(In thousands of dollars, except share amounts)

	Class A Common Stock		Class B Common Stock		Common Stock		Class A Common Stock		Additional Paid-In Capital	Cumulative Foreign Currency Translation Adjustment	Accumulated Deficit	Total
	Shares	($.01 Par)	Shares	($.01 Par)	Shares	($.01 Par)	Shares	($.01 Par)				
Balance, January 1, 1996	1,350,000	$ 3	1,433,330	$ 3	—	$ —	—	$ —	$ 634	$ —	$ (21)	$ 619
Issuances of capital stock	—	—	55,000	—	—	—	—	—	128	—	—	128
Net loss	—	—	—	—	—	—	—	—	—	—	(957)	(957)
Balance, December 31, 1996	1,350,000	3	1,488,330	3	—	—	—	—	762	—	(978)	(210)
Issuances of capital stock	—	—	8,228,835	17	—	—	—	—	57,696	—	—	57,713
Purchase of capital stock	(308,435)	(1)	(350,000)	(1)	—	—	—	—	(210)	—	(1,920)	(2,132)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	562	—	562
Dividends on preferred stock	—	—	—	—	—	—	—	—	—	—	(2,199)	(2,199)
Net loss	—	—	—	—	—	—	—	—	—	—	(11,942)	(11,942)
Balance, December 31, 1997	1,041,565	2	9,367,165	19	—	—	—	—	58,248	562	(17,039)	41,792
Conversion of preferred stock to Common Stock	—	—	—	—	38,517,865	385	—	—	164,712	—	—	165,097
Conversion of Class A Common Stock and Class B Common Stock to Common Stock	(1,041,565)	(2)	(9,367,165)	(19)	10,953,625	109	—	—	(88)	—	—	—
Issuances of capital stock	—	—	—	—	33,793,453	338	11,340,000	113	560,779	—	—	561,230
Purchase of capital stock	—	—	—	—	(141,070)	(1)	—	—	(882)	—	—	(883)
Non-cash compensation charges	—	—	—	—	—	—	—	—	12,384	—	—	12,384
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	1,128	—	1,128
Dividends on preferred stock	—	—	—	—	—	—	—	—	—	—	(5,411)	(5,411)
Net loss	—	—	—	—	—	—	—	—	—	—	(37,775)	(37,775)
Balance, December 31, 1998	—	$ —	—	$ —	83,123,873	$ 831	11,340,000	$ 113	$ 795,153	$ 1,690	$ (60,225)	$ 737,562

See notes to consolidated financial statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Crown Castle International Corp. and its majority and wholly owned subsidiaries, collectively referred to herein as the "Company." All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year's financial statements to be consistent with the presentation in the current year.

The Company owns, operates and manages wireless communications sites and broadcast transmission networks. The Company also provides complementary services to its customers, including network design, radio frequency engineering, site acquisition, site development and construction, antenna installation and network management and maintenance. The Company's communications sites are located throughout the United States, in Puerto Rico and in the United Kingdom. In the United States and Puerto Rico, the Company's primary business is the leasing of antenna space to wireless operators under long-term contracts. In the United Kingdom, the Company's primary business is the operation of television and radio broadcast transmission networks; the Company also leases antenna space to wireless operators in the United Kingdom.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed utilizing the straight-line method at rates based upon the estimated useful lives of the various classes of assets. Additions, renewals and improvements are capitalized, while maintenance and repairs are expensed. Upon the sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS 121 was effective for fiscal years beginning after December 15, 1995. The adoption of SFAS 121 by the Company in 1996 did not have a material impact on its consolidated financial statements.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets represents the excess of the purchase price for an acquired business over the allocated value of the related net assets (see Note 2). Goodwill is amortized on a straight-line basis over a twenty year life. Other intangible assets (principally the value of existing site rental contracts at Crown Communications) are amortized on a straight-line basis over a ten year life. The carrying value of goodwill and other intangible assets will be reviewed for impairment whenever events or changes in cir-

cumstances indicate that the carrying amount of the acquired assets may not be recoverable. If the sum of the estimated future cash flows (undiscounted) expected to result from the use and eventual disposition of an asset is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the asset.

Deferred Financing Costs

Costs incurred to obtain financing are deferred and amortized over the estimated term of the related borrowing. At December 31, 1997, other accrued liabilities includes $1,160,000 of such costs related to the issuance of the Company's 10⅝% Senior Discount Notes.

Revenue Recognition

Site rental revenues are recognized on a monthly basis under lease or management agreements with terms ranging from 12 months to 25 years. Broadcast transmission revenues are recognized on a monthly basis under transmission contracts with terms ranging from 8 years to 12 years.

Network services revenues from site development, construction and antennae installation activities are recognized under a method which approximates the completed contract method. This method is used because these services are typically completed in three months or less and financial position and results of operations do not vary significantly from those which would result from use of the percentage-of-completion method. These services are considered complete when the terms and conditions of the contract or agreement have been substantially completed. Costs and revenues associated with installations not complete at the end of a period are deferred and recognized when the installation becomes operational. Any losses on contracts are recognized at such time as they become known.

Network services revenues from design, engineering, site acquisition, and network management and maintenance activities are recognized under service contracts with customers which provide for billings on a time and materials, cost plus profit, or fixed price basis. Such contracts typically have terms from six months to two years. Revenues are recognized as services are performed with respect to the time and materials contracts. Revenues are recognized using the percentage-of-completion method for cost plus profit and fixed price contracts, measured by the percentage of contract costs incurred to date compared to estimated total contract costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Corporate Development Expenses

Corporate development expenses represent costs incurred in connection with acquisitions and development of new business initiatives.

Income Taxes

The Company accounts for income taxes using an asset and liability approach, which requires the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

Per Share Information

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

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

	Years Ended December 31,		
	1996	1997	1998
	(In thousands of dollars, except per share amounts)		
Net loss	$ (957)	$ (11,942)	$ (37,775)
Dividends on preferred stock	—	(2,199)	(5,411)
Net loss applicable to common stock for basic and diluted computations	$ (957)	$ (14,141)	$ (43,186)
Weighted-average number of common shares outstanding during the period for basic and diluted computations (in thousands)	3,503	6,238	42,518
Loss per common share — basic and diluted	$ (0.27)	$ (2.27)	$ (1.02)

The calculations of common shares outstanding for the diluted computations exclude the following potential common shares as of December 31, 1998: (i) options to purchase 16,585,197 shares of common stock at exercise prices ranging from $-0- to $17.625 per share; (ii) warrants to purchase 1,314,990 shares of common stock at an exercise price of $7.50 per share; and (iii) shares of Castle Transmission Services (Holdings) Ltd ("CTI") stock which are convertible into 17,443,500 shares of common stock. The inclusion of such potential common shares in the diluted per share computations would be antidilutive since the Company incurred net losses for each of the three years in the period ended December 31, 1998.

Foreign Currency Translation

CTI uses the British pound sterling as the functional currency for its operations. The Company translates CTI's results of operations using the average exchange rate for the period, and translates CTI's assets and liabilities using the exchange rate at the end of the period. The cumulative effect of changes in the exchange rate is recorded as a translation adjustment in stockholders' equity.

Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value for these instruments. The estimated fair value of the 10⅝% Senior Discount Notes and the 9% Guaranteed Bonds is based on quoted market prices, and the estimated fair value of the other long-term debt is determined based on the current rates offered for similar borrowings. The estimated fair value of the interest rate swap agreement is based on the amount that the Company would receive or pay to terminate the agreement at the balance sheet date. The estimated fair values of the Company's financial instruments, along with the carrying amounts of the related assets (liabilities), are as follows:

	December 31, 1997		December 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands of dollars)			
Cash and cash equivalents	$ 55,078	$ 55,078	$ 296,450	$ 296,450
Long-term debt	(156,293)	(161,575)	(429,710)	(443,379)
Interest rate swap agreement	—	(97)	—	(47)

The Company's interest rate swap agreement is used to manage interest rate risk. The net settlement amount resulting from this agreement is recognized as an adjustment to interest expense. The Company does not hold or issue derivative financial instruments for trading purposes.

Stock Options

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS 123 establishes alternative methods of accounting and disclosure for employee stock-based compensation arrangements. The Company has elected to continue the use of the "intrinsic value based method" of accounting for its employee stock option plans (see Note 9). This method does not result in the recognition of compensation expense when employee stock options are granted if the exercise price of the options equals or exceeds the fair market value of the stock at the date of grant. See Note 9 for the disclosures required by SFAS 123.

Recent Accounting Pronouncements

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* ("SFAS 130"). SFAS 130 establishes standards for the reporting and display of comprehensive income in a company's financial statements. Comprehensive income includes all changes in a company's equity accounts (including net income or loss) except investments by, or distributions to, the company's owners. Items which are components of comprehensive income (other than net income or loss) include foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The components of comprehensive income must be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 is effective for fiscal years beginning after December 15, 1997. The Company has adopted the requirements of SFAS 130 in its financial statements for 1998.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"). SFAS 131 establishes standards for the way that public companies report, in their annual financial statements, certain information about their operating segments, their products and services, the geographic areas in which they operate and their major customers. SFAS 131 also requires that certain information about operating segments be reported in interim financial statements. SFAS 131 is effective for periods beginning after December 15, 1997. The Company has adopted the requirements of SFAS 131 in its financial statements for the year ended December 31, 1998 (see Note 13).

In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities* ("SOP 98-5"). SOP 98-5 requires that costs of start-up activities be charged to expense as incurred and broadly defines such costs. The Company has deferred certain costs incurred in connection with potential business initiatives and new geographic markets, and SOP 98-5 will require that such deferred costs be charged to results of operations upon its adoption. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. The Company will adopt the requirements of SOP 98-5 as of January 1, 1999. The cumulative effect of the change in accounting principle for the adoption of SOP 98-5 will result in a charge to results of operations in the Company's financial statements for the three months ending March 31, 1999; it is currently estimated that such charge will amount to approximately $2,300,000.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 requires that derivative instruments be recognized as either assets or liabilities in the consolidated balance sheet based on their fair values. Changes in the fair values of such derivative instruments will be recorded either in results of operations or in other comprehensive income, depending on the intended use of the derivative instrument. The initial application of SFAS 133 will be reported as the effect of a change in accounting principle. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company will adopt the requirements of SFAS 133 in its financial statements for the three months ending March 31, 2000. The Company has not yet determined the effect that the adoption of SFAS 133 will have on its consolidated financial statements.

2. Acquisitions

During the three years in the period ended December 31, 1998, the Company consummated a number of business acquisitions which were accounted for using the purchase method. Results of operations and cash flows of the acquired businesses are included in the consolidated financial statements for the periods subsequent to the respective dates of acquisition.

Motorola, Inc. ("Motorola")

On June 28, 1996, the Company acquired 15 telecommunications towers and related assets, and assets related to specialized mobile radio and microwave services, from Motorola in Puerto Rico. The purchase price consisted of $9,919,000 in cash. Motorola provided certain management services related to these assets for a period of 90 days after the closing date. Management fees for such services amounted to $57,000 for the year ended December 31, 1996.

Other Acquisitions

During 1996, the Company acquired a number of other telecommunications towers and related equipment from various sellers. The aggregate total purchase price for these acquisitions of $1,039,000 consisted of $1,006,000 in cash and a $33,000 payable to a seller.

TEA Group Incorporated and TeleStructures, Inc. (collectively, "TEA")

On May 12, 1997, the Company acquired all of the common stock of TEA. TEA provides telecommunications site selection, acquisition, design and development services. The purchase price of $14,215,000 consisted of $8,120,000 in cash (of which $2,001,000 was paid in 1996 as an option payment), promissory notes payable to the former stockholders of TEA totaling $1,872,000, the assumption of $1,973,000 in outstanding debt and 535,710 shares of the Company's Class B Common Stock valued at $2,250,000 (the estimated fair value of such common stock on that date). The Company recognized goodwill of $9,568,000 in connection with this acquisition. The Company repaid the promissory notes with a portion of the proceeds from the issuance of its 10⅝% Senior Discount Notes (see Note 5).

Crown Communications ("CCM"), Crown Network Systems, Inc. ("CNS") and Crown Mobile Systems, Inc. ("CMS") (collectively, "Crown")

On July 11, 1997, the Company entered into an asset purchase and merger agreement with the owners of Crown. On August 15, 1997, such agreement was amended and restated, and the Company acquired (i) substantially all of the assets, net of outstanding liabilities, of CCM and (ii) all of the outstanding common stock of CNS and CMS. Crown provides network services, which includes site selection and acquisition, antenna installation, site development and construction, network design and site maintenance, and owns and operates telecommunications towers and related assets. The purchase price of $185,021,000 consisted of $27,843,000 in cash, a short-term promissory note payable to the former owners of Crown for $76,230,000, the assumption of $26,009,000 in outstanding debt and 7,325,000 shares of the Company's Class B Common Stock valued at $54,939,000 (the estimated fair value of such common stock on that date). The Company recognized goodwill and other intangible assets of $146,103,000 in connection with this acquisition. The Company financed the cash portion of the purchase price with proceeds from the issuance of redeemable preferred stock (see Note 8), and repaid the promissory note with proceeds from the issuance of additional redeemable preferred stock and borrowings under the Senior Credit Facility (see Note 5).

In 1997, the Company organized Crown Communication Inc. ("CCI," a Delaware corporation) as a wholly owned subsidiary to own the net assets acquired from CCM and the common stock of CNS and CMS. In January 1998, the Company merged Castle Tower Corporation ("CTC," a wholly owned operating subsidiary) with and into CCI, establishing CCI as the principal domestic operating subsidiary of the Company.

CTI

On April 24, 1998, the Company entered into a share exchange agreement with certain shareholders of CTI pursuant to which certain of CTI's shareholders agreed to exchange their shares of CTI for shares of the Company. On August 18, 1998, the exchange was consummated and the Company's ownership of CTI increased from approximately 34.3% to 80%. The Company issued 20,867,700 shares of its Common Stock and 11,340,000 shares of its Class A Common Stock, with such shares valued at an aggregate of $418,700,000 (based on the price per share to the public in the Company's initial public offering as discussed in Note 9). The Company recognized goodwill of $344,204,000 in connection with this transaction, which was accounted for as an acquisition using the purchase method. CTI's results of operations and cash flows are included in the consolidated financial statements for the period subsequent to the date the exchange was consummated.

Pro Forma Results of Operations (Unaudited)

The following unaudited pro forma summary presents consolidated results of operations for the Company as if (i) the TEA and Crown acquisitions had been consummated as of January 1, 1997 and (ii) the share exchange with CTI's shareholders had been consummated as of January 1 for both 1997 and 1998. Appropriate adjustments have been reflected for depreciation and amortization, interest expense, amortization of deferred financing costs, income taxes and certain nonrecurring income and expenses recorded by the Company in connection with the investment in CTI in 1997 (see Note 4). The pro forma information does not necessarily reflect the actual results that would have been achieved, nor is it necessarily indicative of future consolidated results for the Company.

	Years Ended December 31,	
	1997	1998
	(In thousands of dollars, except per share amounts)	
Net revenues	$ 180,936	$ 210,041
Net loss	(34,601)	(46,517)
Loss per common share — basic and diluted	(0.60)	(0.72)

Agreement with Nextel Communications, Inc. ("Nextel")

On July 11, 1997, the Company entered into an agreement with Nextel (the "Nextel Agreement") whereby the Company has the option to purchase up to 50 of Nextel's existing towers which are located in Texas, Florida and the metropolitan areas of Denver, Colorado and Philadelphia, Pennsylvania. As of February 24, 1999, the Company had purchased 49 of such towers for an aggregate price of $11,019,000 in cash.

Millennium Communications Limited ("Millennium")

On October 8, 1998, the Company acquired all of the outstanding shares of Millennium. Millennium develops, owns and operates telecommunications towers and related assets in the United Kingdom. On the date of acquisition, Millennium owned 102 tower sites. Millennium is being operated as a subsidiary of CTI. The purchase price of $14,473,000 consisted of $9,813,000 in cash, the repayment of $2,396,000 in outstanding debt and 358,678 shares of the Company's common stock valued at $2,264,000 (the market value of such common stock on that date).

Agreement with Bell Atlantic Mobile ("BAM")

On December 8, 1998, the Company entered into an agreement with BAM to form a joint venture ("Crown Atlantic") to own and operate a significant majority of BAM's towers. Upon formation of Crown Atlantic (which is currently expected to occur in March 1999), (i) the Company will contribute to Crown Atlantic $250,000,000 in cash and approximately 15.6 million shares of its Common Stock in exchange for a 62.3% ownership interest in Crown Atlantic, (ii) Crown Atlantic will borrow $180,000,000 under a committed $250,000,000 revolving credit facility, and (iii) BAM will contribute to Crown Atlantic approximately 1,427

towers in exchange for a cash distribution of $380,000,000 from Crown Atlantic and a 37.7% ownership interest in Crown Atlantic. Upon dissolution of Crown Atlantic, BAM would receive (i) the shares of the Company's Common Stock contributed to Crown Atlantic and (ii) a payment (either in cash or in shares of the Company's Common Stock, at the Company's election) equal to 14.0% of the fair market value of Crown Atlantic's other net assets; the Company would then receive the remaining assets and liabilities of Crown Atlantic. The Company will account for its investment in Crown Atlantic as an acquisition using the purchase method, and will include Crown Atlantic's results of operations and cash flows in the Company's consolidated financial statements for periods subsequent to formation.

3. Property and Equipment

The major classes of property and equipment are as follows:

	Estimated Useful Lives	December 31, 1997	December 31, 1998
		(In thousands of dollars)	
Land and buildings	0-50 years	$ 1,930	$ 58,767
Telecommunications towers and broadcast transmission equipment	5-20 years	76,847	532,907
Transportation and other equipment	3-10 years	4,379	11,452
Office furniture and equipment	5-7 years	3,664	12,248
		86,820	615,374
Less: accumulated depreciation		(4,852)	(22,780)
		$ 81,968	$ 592,594

Depreciation expense for the years ended December 31, 1997 and 1998 was $2,886,000 and $20,638,000, respectively. Accumulated depreciation on telecommunications towers and broadcast transmission equipment was $4,136,000 and $15,995,000 at December 31, 1997 and 1998, respectively. At December 31, 1998, minimum rentals receivable under existing operating leases for towers are as follows: years ending December 31, 1999 — $183,244,000; 2000 — $187,311,000; 2001 — $185,097,000; 2002 — $179,641,000; 2003 — $171,329,000; thereafter — $667,731,000.

4. Investments in Affiliates

On February 28, 1997, the Company used a portion of the net proceeds from the sale of the Series C Convertible Preferred Stock (see Note 8) to purchase an ownership interest of approximately 34.3% in CTI (a company incorporated under the laws of England and Wales). The Company led a consortium of investors which provided the equity financing for CTI. The funds invested by the consortium were used by CTI to purchase, through a wholly owned subsidiary, the domestic broadcast transmission division of the British Broadcasting Corporation (the "BBC"). The cost of the Company's investment in CTI amounted to approximately $57,542,000. The Company accounted for its investment in CTI utilizing the equity method of accounting prior to the consummation of the share exchange agreement with CTI's shareholders in August 1998 (see Note 2).

In March 1997, as compensation for leading the investment consortium, the Company received a fee from CTI amounting to approximately $1,165,000. This fee was recorded as other income by the Company when received. In addition, the Company received approximately $1,679,000 from CTI as reimbursement for costs incurred prior to the closing of the purchase from the BBC.

In June 1997, as compensation for the successful completion of the investment in CTI and certain other acquisitions and investments, the Company paid bonuses to two of its executive officers totaling $913,000. These bonuses are included in corporate development expenses on the Company's consolidated statement of operations.

Summarized financial information for CTI is as follows (for periods in which the Company accounted for CTI utilizing the equity method):

	December 31, 1997
	(In thousands of dollars)
Current assets	$ 37,510
Property and equipment, net	341,737
Goodwill, net	76,029
	$ 455,276
Current liabilities	$ 48,103
Long-term debt	237,299
Other liabilities	3,453
Redeemable preferred stock	174,944
Stockholders' equity (deficit)	(8,523)
	$ 455,276

	Ten Months Ended December 31, 1997	Eight Months Ended August 31, 1998
	(In thousands of dollars)	
Net revenues	$ 103,531	$ 97,228
Operating expenses	86,999	78,605
Operating income	16,532	18,623
Interest and other income	553	725
Interest expense and amortization of deferred financing costs	(20,404)	(13,378)
Provision for income taxes	—	—
Net income (loss)	$ (3,319)	$ 5,970

5. Long-term Debt

Long-term debt consists of the following:

	December 31,	
	1997	1998
	(In thousands of dollars)	
Senior Credit Facility	$ 4,700	$ 5,500
10⅝% Senior Discount Notes due 2007, net of discount	151,593	168,099
CTI Credit Facility	—	55,177
9% Guaranteed Bonds due 2007	—	200,934
	$ 156,293	$ 429,710

Senior Credit Facility

CTC had a credit agreement with a bank (as amended, the "Bank Credit Agreement") which consisted of secured revolving lines of credit (the "Revolving Credit Facility") and a $2,300,000 term note (the "Term Note"). On January 17, 1997, the Bank Credit Agreement was amended to: (i) increase the available borrowings under the Revolving Credit Facility to $50,000,000; (ii) repay the Term Note, along with accrued interest thereon, with borrowings under the Revolving Credit Facility; and (iii) extend the termination date for the Bank Credit Agreement to December 31, 2003. Available borrowings under the Revolving Credit Facility were generally to be used to construct new towers and to finance a portion of the purchase price for towers and related assets. The amount of available borrowings was determined based on the current financial performance (as defined) of: (i) the assets to be acquired; and (ii) assets acquired in previous acquisitions. In addition, up to $5,000,000 of borrowing availability under the Revolving Credit Facility could be used for letters of credit.

In October 1997, the Bank Credit Agreement was amended to (i) increase the available borrowings to $100,000,000; (ii) include the lending bank under Crown's bank credit agreement as a participating lender; and (iii) extend the maturity date to December 31, 2004 (as amended, the "Senior Credit Facility"). On October 31, 1997, additional borrowings under the Senior Credit Facility, along with the proceeds from the October issuance of Senior Preferred Stock (see Note 8), were used to repay (i) the promissory note payable to the former stockholders of Crown and (ii) the outstanding borrowings under Crown's bank credit agreement (see Note 2). In November 1997, the Company repaid all of the outstanding borrowings under the Senior Credit Facility with a portion of the proceeds from the issuance of its 10⅝% Senior Discount Notes (as discussed below). Upon the merger of CTC into CCI in January 1998, CCI became the primary borrower under the Senior Credit Facility. In December 1998, the Company again repaid all of the outstanding borrowings under the Senior Credit Facility with a portion of the proceeds from the issuance of its 12¾% Senior Exchangeable Preferred Stock (see Note 8). As of December 31, 1998, approximately $77,570,000 of borrowings was available under the Senior Credit Facility, of which $5,000,000 was available for letters of credit. There were no letters of credit outstanding as of December 31, 1998.

The amount of available borrowings under the Senior Credit Facility will decrease by $5,000,000 at the end of each calendar quarter beginning on March 31, 2001 until December 31, 2004, at which time any remaining borrowings must be repaid. Under certain circumstances, CCI may be required to make principal prepayments under the Senior Credit Facility in an amount equal to 50% of excess cash flow (as defined), the net cash proceeds from certain asset sales or the net cash proceeds from certain sales of equity or debt securities by the Company.

The Senior Credit Facility is secured by substantially all of the assets of CCI and the Company's pledge of the capital stock of CCI and its subsidiaries. In addition, the Senior Credit Facility is guaranteed by the Company. Borrowings under the Senior Credit Facility bear interest at a rate per annum, at the Company's election, equal to the bank's prime rate plus 1.5% or a Eurodollar interbank offered rate (LIBOR) plus 3.25% (9.25% and 8.32%, respectively, at December 31, 1998). The interest rate margins may be reduced by up to 2.25% (non-cumulatively) based on a financial test, determined quarterly. As of December 31, 1998, the financial test permitted a reduction of 1.5% in the interest rate margin for prime rate borrowings and 2.25% in the interest rate margin for LIBOR borrowings. Interest on prime rate loans is due quarterly, while interest on LIBOR loans is due at the end of the period (from one to three months) for which such LIBOR rate is in effect. The Senior Credit Facility requires CCI to maintain certain financial covenants and places restrictions on CCI's ability to, among other things, incur debt and liens, pay dividends, make capital expenditures, dispose of assets, undertake transactions with affiliates and make investments.

10⅝% Senior Discount Notes due 2007 (the "Notes")

On November 25, 1997, the Company issued $251,000,000 aggregate principal amount of the Notes for cash proceeds of $150,010,000 (net of original issue discount). The Company used a portion of the net proceeds from the sale of the Notes to (i) repay all of the outstanding borrowings, including accrued interest thereon, under the Senior Credit Facility; (ii) repay the promissory notes payable, including accrued interest thereon, to the former stockholders of TEA (see Note 2); (iii) repay certain indebtedness, including accrued interest thereon, from a prior acquisition; and (iv) repay outstanding installment debt assumed in connection with the Crown acquisition (see Note 2).

The Notes will not pay any interest until May 15, 2003, at which time semi-annual interest payments will commence and become due on each May 15 and November 15 thereafter. The maturity date of the Notes is November 15, 2007. The Notes are net of unamortized discount of $99,407,000 and $82,901,000 at December 31, 1997 and 1998, respectively.

The Notes are redeemable at the option of the Company, in whole or in part, on or after November 15, 2002 at a price of 105.313% of the principal amount plus accrued interest. The redemption price is reduced annually until November 15, 2005, after which time the Notes are redeemable at par. Prior to November 15, 2000, the Company may redeem up to 35.0% of the aggregate principal amount of the Notes, at a price of 110.625% of the accreted value thereof, with the net cash proceeds from a public offering of the Company's common stock.

The Notes are senior indebtedness of the Company; however, they are unsecured and effectively subordinate to the liabilities of the Company's subsidiaries, which include outstanding borrowings under the Senior Credit Facility, the CTI Credit Facility and the CTI Bonds. The indenture governing the Notes (the "Indenture") places restrictions on the Company's ability to, among other things, pay dividends and make capital distributions, make investments, incur additional debt and liens, issue additional preferred stock, dispose of assets and undertake transactions with affiliates. As of December 31, 1998, the Company was effectively precluded from paying dividends on its capital stock under the terms of the Indenture.

Reporting Requirements Under the Indenture (Unaudited)

The following information (as such capitalized terms are defined in the Indenture) is presented solely as a requirement of the Indenture; such information is not intended as an alternative measure of financial position, operating results or cash flow from operations (as determined in accordance with generally accepted accounting principles). Furthermore, the Company's measure of the following information may not be comparable to similarly titled measures of other companies.

Upon consummation of the share exchange with CTI's shareholders (see Note 2), which increased the Company's ownership interest in CTI to 80%, the Company designated CTI as an Unrestricted Subsidiary. In addition, the net proceeds from the Company's initial public offering of common stock (see Note 9) were placed into a newly formed subsidiary that was also designated as an Unrestricted Subsidiary. Prior to these transactions, the Company did not have any Unrestricted Subsidiaries. Summarized financial information for (i) the Company and its Restricted Subsidiaries and (ii) the Company's Unrestricted Subsidiaries is as follows:

	December 31, 1998			
	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidation Eliminations	Consolidated Total
	(In thousands of dollars)			
Cash and cash equivalents	$ 41,785	$ 254,665	$ —	$ 296,450
Other current assets	19,585	26,081	—	45,666
Property and equipment, net	165,205	427,389	—	592,594
Investments in Unrestricted Subsidiaries	744,941	—	(744,941)	—
Goodwill and other intangible assets, net	143,729	426,011	—	569,740
Other assets, net	15,440	3,340	—	18,780
	$ 1,130,685	$ 1,137,486	$ (744,941)	$ 1,523,230
Current liabilities	$ 17,653	$ 75,234	$ —	$ 92,887
Long-term debt	173,599	256,111	—	429,710
Other liabilities	808	22,015	—	22,823
Minority interests	—	39,185	—	39,185
Redeemable preferred stock	201,063	—	—	201,063
Stockholders' equity	737,562	744,941	(744,941)	737,562
	$ 1,130,685	$ 1,137,486	$ (744,941)	$ 1,523,230

	Three Months Ended December 31, 1998			Year Ended December 31, 1998		
	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total	Company and Restricted Subsidiaries	Unrestricted Subsidiaries	Consolidated Total
			(In thousands of dollars)			
Net revenues	$ 17,030	$ 43,787	$ 60,817	$ 55,023	$ 58,055	$ 113,078
Costs of operations (exclusive of depreciation and amortization)	7,069	18,117	25,186	23,446	24,372	47,818
General and administrative	6,883	1,666	8,549	21,153	2,418	23,571
Corporate development	1,787	—	1,787	4,625	—	4,625
Non-cash compensation charges	523	874	1,397	9,907	2,851	12,758
Depreciation and amortization	4,879	15,255	20,134	16,921	20,318	37,239
Operating income (loss)	(4,111)	7,875	3,764	(21,029)	8,096	(12,933)
Equity in earnings of unconsolidated affiliate	—	—	—	2,055	—	2,055
Interest and other income (expense)	(285)	2,212	1,927	1,101	3,119	4,220
Interest expense and amortization of deferred financing costs	(5,823)	(5,685)	(11,508)	(21,727)	(7,362)	(29,089)
Provision for income taxes	(156)	—	(156)	(374)	—	(374)
Minority interests	—	(1,326)	(1,326)	—	(1,654)	(1,654)
Net income (loss)	$ (10,375)	$ 3,076	$ (7,299)	$ (39,974)	$ 2,199	$ (37,775)

Tower Cash Flow and Adjusted Consolidated Cash Flow for the Company and its Restricted Subsidiaries is as follows:

	(In thousands of dollars)
Tower Cash Flow, for the three months ended December 31, 1998	$ 3,868
Consolidated Cash Flow, for the twelve months ended December 31, 1998	$ 6,001
Less: Tower Cash Flow, for the twelve months ended December 31, 1998	(14,811)
Plus: four times Tower Cash Flow, for the three months ended December 31, 1998	15,472
Adjusted Consolidated Cash Flow, for the twelve months ended December 31, 1998	$ 6,662

CTI Credit Facility

CTI has a credit agreement with a syndicate of banks (as amended, the "CTI Credit Facility") which consists of a £64,000,000 (approximately $106,419,000) secured revolving line of credit. Available borrowings under the CTI Credit Facility are generally to be used to finance capital expenditures and for working capital and general corporate purposes. As of December 31, 1998, approximately $51,243,000 of borrowings was available under the CTI Credit Facility.

The loan commitment under the CTI Credit Facility will be automatically reduced to zero in three equal semi-annual installments beginning on May 31, 2001 until May 31, 2002, when the CTI Credit Facility matures. Under certain circumstances, CTI may be required to make principal prepayments from the proceeds of certain asset sales.

The CTI Credit Facility is secured by substantially all of CTI's assets. Borrowings under the CTI Credit Facility bear interest at a rate per annum equal to a Eurodollar interbank offered rate (LIBOR) plus 0.85% (approximately 6.99% at December 31, 1998). Interest is due at the end of the period (from one to six months) for which such LIBOR rate is in effect. The CTI Credit Facility requires CTI to maintain certain financial covenants and places restrictions on CTI's ability to, among other things, incur debt and liens, pay dividends, make capital expenditures, dispose of assets, undertake transactions with affiliates and make investments.

9% Guaranteed Bonds due 2007 ("CTI Bonds")

CTI has issued £125,000,000 (approximately $207,850,000) aggregate principal amount of the CTI Bonds. Interest payments on the CTI Bonds are due annually on each March 30. The maturity date of the CTI Bonds is March 30, 2007. The CTI Bonds are stated net of unamortized discount.

The CTI Bonds are redeemable, at the option of CTI, in whole or in part at any time, at the greater of their principal amount and such a price as will provide a gross redemption yield 0.5% per annum above the gross redemption yield on the benchmark gilt plus, in either case, accrued and unpaid interest. Under certain circumstances, each holder of the CTI Bonds has the right to require CTI to repurchase all or a portion of such holder's CTI Bonds at a price equal to 101.0% of their aggregate principal amount plus accrued and unpaid interest.

The CTI Bonds are guaranteed by CTI; however, they are unsecured and effectively subordinate to the outstanding borrowings under the CTI Credit Facility. The trust deed governing the CTI Bonds places restrictions on CTI's ability to, among other things, pay dividends and make capital distributions, make investments, incur additional debt and liens, dispose of assets and undertake transactions with affiliates.

Restricted Net Assets of Subsidiaries

Under the terms of the Senior Credit Facility, the CTI Credit Facility and the CTI Bonds, the Company's subsidiaries are limited in the amount of dividends which can be paid to the Company. For CCI, the amount of such dividends is limited to (i) $6,000,000 per year until October 31, 2002, and $33,000,000 per year thereafter, and (ii) an amount to pay income taxes attributable to the Company's Restricted Subsidiaries. CTI is effectively precluded from paying dividends. The restricted net assets of the Company's subsidiaries totaled approximately $826,321,000 at December 31, 1998.

Interest Rate Swap Agreement

The interest rate swap agreement had an outstanding notional amount of $17,925,000 at January 29, 1997 (inception) and terminated on February 24, 1999. The Company paid a fixed rate of 6.28% on the notional amount and received a floating rate based on LIBOR. This agreement effectively changed the interest rate on $17,925,000 of borrowings under the Senior Credit Facility from a floating rate to a fixed rate of 6.28% plus the applicable margin. The Company does not believe there is any significant exposure to credit risk due to the creditworthiness of the counterparty. In the event of nonperformance by the counterparty, the Company's loss would be limited to any unfavorable interest rate differential.

6. Income Taxes

The provision for income taxes consists of the following:

	Years Ended December 31,		
	1996	1997	1998
	(In thousands of dollars)		
Current:			
State	$ —	$ —	$ 365
Puerto Rico	10	49	9
	$ 10	$ 49	$ 374

A reconciliation between the provision for income taxes and the amount computed by applying the federal statutory income tax rate to the loss before income taxes is as follows:

	Years Ended December 31,		
	1996	1997	1998
	(In thousands of dollars)		
Benefit for income taxes at statutory rate	$ (322)	$ (4,044)	$ (12,154)
Stock-based compensation	—	—	2,844
Amortization of intangible assets	—	478	604
State and foreign taxes, net of federal tax benefit	—	—	247
Expenses for which no federal tax benefit was recognized	5	28	151
Puerto Rico taxes	10	49	9
Acquisition costs	—	—	(675)
Foreign earnings not subject to tax	—	—	(584)
Changes in valuation allowances	315	3,650	9,944
Other	2	(112)	(12)
	$ 10	$ 49	$ 374

The components of the net deferred income tax assets and liabilities are as follows:

	December 31,	
	1997	1998
	(In thousands of dollars)	
Deferred income tax liabilities:		
Property and equipment	$ 2,487	$ 6,045
Puerto Rico earnings	75	84
Intangible assets	276	—
Other	38	—
Total deferred income tax liabilities	2,876	6,129
Deferred income tax assets:		
Net operating loss carryforwards	6,800	19,071
Noncompete agreement	37	464
Intangible assets	—	351
Accrued liabilities	—	68
Other	—	45
Receivables allowance	6	41
Valuation allowances	(3,967)	(13,911)
Total deferred income tax assets, net	2,876	6,129
Net deferred income tax liabilities	$ —	$ —

Valuation allowances of $3,967,000 and $13,911,000 were recognized to offset net deferred income tax assets as of December 31, 1997 and 1998, respectively.

At December 31, 1998, the Company has net operating loss carryforwards of approximately $56,000,000 which are available to offset future federal taxable income. These loss carryforwards will expire in 2010 through 2018. The utilization of the loss carryforwards is subject to certain limitations.

7. Minority Interests

Minority interests represent the minority stockholder's interest in CTI.

8. Redeemable Preferred Stock

Redeemable preferred stock ($.01 par value, 10,000,000 shares authorized) consists of the following:

	December 31,	
	1997	1998
	(In thousands of dollars)	
12¾% Senior Exchangeable Preferred Stock; shares issued: December 31, 1997 — none and December 31, 1998 — 200,000 (stated at mandatory redemption and aggregate liquidation value)	$ —	$ 201,063
Senior Convertible Preferred Stock; shares issued: December 31, 1997 — 657,495 and December 31, 1998 — none (stated at redemption value; aggregate liquidation value of $68,916)	67,948	—
Series A Convertible Preferred Stock; shares issued: December 31, 1997 — 1,383,333 and December 31, 1998 — none (stated at redemption and aggregate liquidation value)	8,300	—
Series B Convertible Preferred Stock; shares issued: December 31, 1997 — 864,568 and December 31, 1998 — none (stated at redemption and aggregate liquidation value)	10,375	—
Series C Convertible Preferred Stock; shares issued: December 31, 1997 — 3,529,832 and December 31, 1998 — none (stated at redemption and aggregate liquidation value)	74,126	—
	$ 160,749	$ 201,063

Exchangeable Preferred Stock

On December 16, 1998, the Company issued 200,000 shares of its 12¾% Senior Exchangeable Preferred Stock due 2010 (the "Exchangeable Preferred Stock") at a price of $1,000 per share (the liquidation preference per share). The net proceeds received by the Company from the sale of such shares amounted to approximately $193,000,000 (after underwriting discounts of $7,000,000 but before other expenses of the offering, which amounted to approximately $8,059,000). A portion of the net proceeds was used to repay outstanding borrowings under the Senior Credit Facility of $73,750,000, and the remaining net proceeds are currently invested in short-term investments.

The holders of the Exchangeable Preferred Stock are entitled to receive cumulative dividends at the rate of 12¾% per share, compounded quarterly on each March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 1999. On or before December 15, 2003, the Company has the option to pay dividends in cash or in additional shares of Exchangeable Preferred Stock. After December 15, 2003, dividends are payable only in cash.

The Company is required to redeem all outstanding shares of Exchangeable Preferred Stock on December 15, 2010 at a price equal to the liquidation preference plus accumulated and unpaid dividends. On or after December 15, 2003, the shares are redeemable at the option of the Company, in whole or in part, at a price of 106.375% of the liquidation preference. The redemption price is reduced on an annual basis until December 15, 2007, at which time the shares are redeemable at the liquidation preference. Prior to December 15, 2001, the Company may redeem up to 35.0% of the Exchangeable Preferred Stock, at a price of 112.75% of the liquidation preference, with the net proceeds from certain public equity offerings. The shares of Exchangeable Preferred Stock are exchangeable, at the option of the Company, in whole but not in part, for 12¾% Senior Subordinated Exchange Debentures due 2010.

The Company's obligations with respect to the Exchangeable Preferred Stock are subordinate to all indebtedness of the Company (including the Notes), and are effectively subordinate to all debt and liabilities of the Company's subsidiaries (including the Senior Credit Facility, the CTI Credit Facility and the CTI Bonds). The certificate of designations governing the Exchangeable Preferred Stock places restrictions on the Company's ability to, among other things, pay dividends and make capital distributions, make investments, incur additional debt and liens, issue additional preferred stock, dispose of assets and undertake transactions with affiliates.

Senior Preferred Stock

In August 1997, the Company issued 292,995 shares of its Senior Convertible Preferred Stock (the "Senior Preferred Stock") at a price of $100 per share. The net proceeds received by the Company from the sale of such shares amounted to approximately $29,266,000, most of which was used to pay the cash portion of the purchase price for Crown (see Note 2). In October 1997, the Company issued an additional 364,500 shares of its Senior Preferred Stock at a price of $100.00 per share. The net proceeds received by the Company from the sale of such shares amounted to $36,450,000. This amount, along with borrowings under the Senior Credit Facility, was used to repay the promissory note from the Crown acquisition (see Note 2).

The holders of the Senior Preferred Stock were entitled to receive cumulative dividends at the rate of 12.5% per share, compounded annually. At the option of the holder, each share of Senior Preferred Stock (plus any accrued and unpaid dividends) was convertible, at any time, into shares of the Company's common stock at a conversion price of $7.50 (subject to adjustment in the event of an underwritten public offering of the Company's common stock). At the date of issuance of the Senior Preferred Stock, the Company believes that its conversion price represented the estimated fair value of the common stock on that date. In July 1998, all of the shares of Senior Preferred Stock were converted into shares of common stock (see Note 9).

The purchasers of the Senior Preferred Stock were also issued warrants to purchase an aggregate 1,314,990 shares of the Company's common stock at an exercise price of $7.50 per share (subject to adjustment in the event of an underwritten public offering of the Company's common stock). The warrants are exercisable, in whole or in part, at any time until August and October of 2007. At the date of issuance of the warrants, the Company believes that the exercise price represented the estimated fair value of the common stock on that date. As such, the Company has not assigned any value to the warrants in its consolidated financial statements.

Series Preferred Stock

The holders of the Company's Series A Convertible Preferred Stock (the "Series A Preferred Stock"), the Series B Convertible Preferred Stock (the "Series B Preferred Stock") and the Series C Convertible Preferred Stock (the "Series C Preferred Stock") (collectively, the "Series Preferred Stock") were entitled to receive dividends, if and when declared, at the same rate as dividends were declared and paid with respect to the Company's common stock. Each of the outstanding shares of Series Preferred Stock was automatically converted into five shares of common stock upon consummation of the Company's initial public offering (see Note 9).

In February and April of 1997, the Company issued 3,529,832 shares of its Series C Preferred Stock at a price of $21.00 per share. The net proceeds received by the Company from the sale of the Series C Preferred Stock amounted to approximately $74,024,000. A portion of this amount was used to purchase the ownership interest in CTI (see Note 4).

9. Stockholders' Equity

Stockholders' equity consists of the following:

	December 31,	
	1997	1998
	(In thousands of dollars)	
Common stock, $.01 par value; 690,000,000 shares authorized:		
Class A Common Stock; shares issued:		
December 31, 1997 — 1,041,565 and December 31, 1998 — none	$ 2	$ —
Class B Common Stock; shares issued:		
December 31, 1997 — 9,367,165 and December 31, 1998 — none	19	—
Common Stock; shares issued:		
December 31, 1997 — none and December 31, 1998 — 83,123,873	—	831
Class A Common Stock; shares issued:		
December 31, 1997 — none and December 31, 1998 — 11,340,000	—	113
Additional paid-in capital	58,248	795,153
Cumulative foreign currency translation adjustment	562	1,690
Accumulated deficit	(17,039)	(60,225)
	$ 41,792	$ 737,562

Common Stock

On August 18, 1998, the Company consummated its initial public offering of common stock at a price to the public of $13.00 per share (the "IPO"). The Company sold 12,320,000 shares of its common stock and received proceeds of $151,043,000 (after underwriting discounts of $9,117,000 but before other expenses of the IPO, which amounted to approximately $4,116,000). The net proceeds from the IPO are currently invested in short-term investments.

In anticipation of the IPO, the Company (i) amended and restated the 1995 Stock Option Plan to, among other things, authorize the issuance of up to 18,000,000 shares of common stock pursuant to awards made thereunder and (ii) approved an amendment to its certificate of incorporation to increase the number of authorized shares of common and preferred stock to 690,000,000 shares and 10,000,000 shares, respectively, and to effect a five-for-one stock split for the shares of common stock then outstanding. The effect of the stock split has been presented retroactively in the Company's consolidated financial statements for all periods presented.

In July 1998, all of the holders of the Company's Senior Convertible Preferred Stock converted such shares into an aggregate of 9,629,200 shares of the Company's common stock. Upon consummation of the IPO, all of the holders of the Company's then-existing shares of Class A Common Stock, Class B Common Stock, Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock converted such shares into an aggregate of 39,842,290 shares of the Company's common stock.

In March 1997, the Company repurchased, and subsequently retired, 814,790 shares of its common stock from a member of the Company's Board of Directors at a cost of approximately $3,422,000. Of this amount, $1,311,000 was recorded as compensation cost and is included in corporate development expense on the Company's consolidated statement of operations. In August 1998, the Company repurchased, and subsequently retired, 141,070 shares of its common stock from a former employee at a cost of approximately $883,000.

Class A Common Stock

Upon consummation of the share exchange agreement with CTI's shareholders (see Note 2), an affiliate of CTI's remaining minority shareholder received all of the currently outstanding shares of the Company's Class A Common Stock. Each share of Class A Common Stock is convertible, at the option of its holder at any time, into one share of Common Stock. The holder

of the Class A Common Stock is entitled to one vote per share on all matters presented to a vote of the Company's shareholders, except with respect to the election of directors. The holder of the Class A Common Stock, voting as a separate class, has the right to elect up to two members of the Company's Board of Directors. The shares of Class A Common Stock also provide certain governance and anti-dilutive rights.

Compensation Charges Related to Stock Option Grants

During the period from April 24, 1998 through July 15, 1998, the Company granted options to employees and executives for the purchase of 3,236,980 shares of its common stock at an exercise price of $7.50 per share. Of such options, options for 1,810,730 shares vested upon consummation of the IPO and the remaining options for 1,426,250 shares will vest at 20% per year over five years, beginning one year from the date of grant. In addition, the Company has assigned its right to repurchase shares of its common stock from a stockholder (at a price of $6.26 per share) to two individuals (including a newly elected director) with respect to 100,000 of such shares. Since the granting of these options and the assignment of these rights to repurchase shares occurred subsequent to the date of the share exchange agreement with CTI's shareholders and at prices substantially below the price to the public in the IPO, the Company has recorded a non-cash compensation charge related to these options and shares based upon the difference between the respective exercise and purchase prices and the price to the public in the IPO. Such compensation charge will total approximately $18,400,000, of which approximately $10,600,000 was recognized upon consummation of the IPO (for such options and shares which vested upon consummation of the IPO), and the remaining $7,800,000 is being recognized over five years (approximately $1,600,000 per year) through the second quarter of 2003. An additional $1,600,000 in non-cash compensation charges will be recognized through the third quarter of 2001 for stock options issued to certain members of CTI's management prior to the consummation of the share exchange.

Stock Options

In 1995, the Company adopted the Crown Castle International Corp. 1995 Stock Option Plan (as amended, the "1995 Stock Option Plan"). Up to 18,000,000 shares of the Company's common stock were reserved for awards granted to certain employees, consultants and non-employee directors of the Company and its subsidiaries or affiliates. These options generally vest over periods of up to five years from the date of grant (as determined by the Company's Board of Directors) and have a maximum term of 10 years from the date of grant.

Upon consummation of the share exchange agreement with CTI's shareholders (see Note 2), the Company adopted each of the various CTI stock option plans. All outstanding options to purchase shares of CTI under such plans have been converted into options to purchase shares of the Company's common stock. Up to 4,392,451 shares of the Company's common stock were reserved for awards granted under the CTI plans, and these options generally vest over periods of up to three years from the date of grant.

A summary of awards granted under the various stock option plans is as follows for the years ended December 31, 1996, 1997 and 1998:

	1996		1997		1998	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	825,000	$ 0.53	1,050,000	$ 0.89	3,694,375	$ 4.69
Options granted	225,000	2.22	3,042,500	5.46	9,024,720	10.02
Options outstanding under CTI stock option plans	—	—	—	—	4,367,202	2.74
Options exercised	—	—	(363,125)	0.53	(216,650)	4.89
Options forfeited	—	—	(35,000)	1.20	(284,450)	5.72
Options outstanding at end of year	1,050,000	0.89	3,694,375	4.69	16,585,197	7.06
Options exercisable at end of year	721,250	0.43	728,875	2.49	7,615,649	4.75

In November 1996, options which were granted in 1995 for the purchase of 690,000 shares were modified such that those options became fully vested. In August 1998, certain outstanding options became fully or partially vested upon consummation of the IPO. A summary of options outstanding as of December 31, 1998 is as follows:

Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life	Number of Options Exercisable
$ -0- to $ 0.40	677,108	7.0 years	494,709
1.20 to 1.60	123,750	7.1 years	123,750
2.37 to 3.09	3,316,600	7.8 years	2,266,600
4.01 to 6.00	2,607,621	8.2 years	1,833,960
7.50 to 7.77	5,694,692	9.3 years	2,821,630
10.04 to 12.50	450,426	9.9 years	—
13.00	3,590,000	9.6 years	75,000
17.63	125,000	10.0 years	—
	16,585,197	9.1 years	7,615,649

The weighted-average fair value of options granted during the years ended December 31, 1996, 1997 and 1998 was $0.50, $1.30 and $4.54, respectively. The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions about the options (the minimum value method was used prior to the IPO):

	Years Ended December 31,		
	1996	1997	1998
Risk-free interest rate	6.4%	6.1%	5.38%
Expected life	4.0 years	4.5 years	3.6 years
Expected volatility	0%	0%	0% to 30%
Expected dividend yield	0%	0%	0%

The exercise prices for options granted during the years ended December 31, 1996 and 1997 were equal to or in excess of the estimated fair value of the Company's common stock at the date of grant. As such, no compensation cost was recognized for stock options during those years (see Note 1 and "Compensation Charges Related to Stock Option Grants"). If compensation cost had been recognized for stock options based on their fair value at the date of grant, the Company's pro forma net loss for the years ended December 31, 1996, 1997 and 1998 would have been $973,000 ($0.28 per share), $12,586,000 ($2.37 per share) and $75,660,000 ($1.91 per share), respectively. The pro forma effect of stock options on the Company's net loss for those years may not be representative of the pro forma effect for future years due to the impact of vesting and potential future awards.

Shares Reserved For Issuance

At December 31, 1998, the Company had the following shares reserved for future issuance:

Common Stock:	
Class A Common Stock	11,340,000
Shares of CTI stock which are convertible into common stock	17,443,500
Stock option plans	21,812,676
Warrants	1,314,990
	51,911,166

10. Employee Benefit Plans

The Company and its subsidiaries have various defined contribution savings plans covering substantially all employees. Depending on the plan, employees may elect to contribute up to 20% of their eligible compensation. Certain of the plans provide for partial matching of such contributions. The cost to the Company for these plans amounted to $98,000 and $197,000 for the years ended December 31, 1997 and 1998, respectively.

CTI has a defined benefit plan which covers all of its employees hired on or before March 1, 1997. Employees hired after that date are not eligible to participate in this plan. The net periodic pension cost attributable to this plan for the four months ended December 31, 1998 was $1,115,000. As of December 31, 1998, (i) the accumulated benefit obligation under this plan amounted to $13,635,000 (all of which was vested); (ii) the projected benefit obligation amounted to $15,298,000; (iii) the fair value of the plan's assets amounted to $15,848,000; and (iv) the prepaid pension cost attributable to this plan amounted to $1,704,000.

11. Related Party Transactions

The Company leases office space in a building formerly owned by its Chief Executive Officer. Lease payments for such office space amounted to $50,000 and $130,000 for the years ended December 31, 1996 and 1997, respectively.

Included in other receivables at December 31, 1997 and 1998 are amounts due from employees of the Company totaling $499,000 and $368,000, respectively.

12. Commitments and Contingencies

At December 31, 1998, minimum rental commitments under operating leases are as follows: years ending December 31, 1999 — $19,721,000; 2000 — $19,456,000; 2001 — $19,298,000; 2002 — $19,293,000; 2003 — $18,996,000; thereafter — $112,848,000. Rental expense for operating leases was $277,000, $1,712,000 and $9,620,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

The Company is involved in various claims, lawsuits and proceedings arising in the ordinary course of business. 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.

13. Operating Segments and Concentrations of Credit Risk

Operating Segments

The Company's reportable operating segments for 1998 are (i) the domestic operations of CCI and (ii) the United Kingdom operations of CTI. Financial results for the Company are reported to management and the Board of Directors in this manner, and much of the Company's current debt financing is structured along these geographic lines. In addition, the Company's financial performance is evaluated by outside securities analysts based on these operating segments. See Note 1 for a description of the primary revenue sources from these two segments.

As discussed in Note 2, CTI's results of operations are included in the Company's consolidated financial statements beginning in 1998. Prior to that time, the domestic operations of CCI represented the Company's only reportable segment.

The measurement of profit or loss currently used to evaluate the results of operations for the Company and its operating segments is earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company defines EBITDA as operating income (loss) plus depreciation and amortization and non-cash compensation charges. EBITDA is not intended as an alternative measure of operating results or cash flow from operations (as determined in accordance with generally accepted accounting principles), and the Company's measure of EBITDA may not be comparable to similarly titled measures of other companies. There are no significant revenues resulting from transactions between the Company's operating segments. Total assets for the Company's operating segments are determined based on the separate consolidated balance sheets for CCI and CTI. The results of operations and financial position for CTI reflect appropriate adjustments for their presentation in accordance with generally accepted accounting principles in the United States. The financial results for the Company's operating segments are as follows:

	Year Ended December 31, 1998			
	CCI	CTI	Corporate Office and Other	Consolidated Total
	(In thousands of dollars)			
Net revenues:				
Site rental and broadcast transmission	$ 22,541	$ 52,487	$ —	$ 75,028
Network services and other	31,471	5,568	1,011	38,050
	54,012	58,055	1,011	113,078
Costs of operations (exclusive of depreciation and amortization)	23,076	24,372	370	47,818
General and administrative	17,929	2,418	3,224	23,571
Corporate development	—	—	4,625	4,625
EBITDA	13,007	31,265	(7,208)	37,064
Non-cash compensation charges	132	2,851	9,775	12,758
Depreciation and amortization	16,202	20,318	719	37,239
Operating income (loss)	(3,327)	8,096	(17,702)	(12,933)
Equity in earnings of unconsolidated affiliate	—	—	2,055	2,055
Interest and other income (expense)	(253)	294	4,179	4,220
Interest expense and amortization of deferred financing costs	(4,476)	(7,362)	(17,251)	(29,089)
Provision for income taxes	(374)	—	—	(374)
Minority interests	—	(1,654)	—	(1,654)
Net loss	$ (8,430)	$ (626)	$ (28,719)	$ (37,775)
Capital expenditures	$ 84,911	$ 50,224	$ 3,624	$ 138,759
Total assets (at year end)	$ 332,555	$ 887,938	$ 302,737	$ 1,523,230
Investments in affiliates (at year end)	$ —	$ —	$ 2,258	$ 2,258

	Years Ended December 31,					
	1996			1997		
	CCI	Corporate Office and Other	Consolidated Total	CCI	Corporate Office and Other	Consolidated Total
			(In thousands of dollars)			
Net revenues:						
Site rental and broadcast transmission	$ 5,615	$ —	$ 5,615	$ 11,010	$ —	$ 11,010
Network services and other	592	—	592	20,066	329	20,395
	6,207	—	6,207	31,076	329	31,405
Costs of operations (exclusive of depreciation and amortization)	1,300	—	1,300	15,350	—	15,350
General and administrative	1,678	—	1,678	6,675	149	6,824
Corporate development	75	1,249	1,324	1,864	3,867	5,731
EBITDA	3,154	(1,249)	1,905	7,187	(3,687)	3,500
Depreciation and amortization	1,242	—	1,242	6,925	27	6,952
Operating income (loss)	1,912	(1,249)	663	262	(3,714)	(3,452)
Equity in earnings (losses) of unconsolidated affiliate	—	—	—	—	(1,138)	(1,138)
Interest and other income (expense)	22	171	193	(77)	2,028	1,951
Interest expense and amortization of deferred financing costs	(1,803)	—	(1,803)	(4,660)	(4,594)	(9,254)
Credit (provision) for income taxes	(59)	49	(10)	—	(49)	(49)
Net income (loss)	$ 72	$ (1,029)	$ (957)	$ (4,475)	$ (7,467)	$ (11,942)
Capital expenditures	$ 890	$ —	$ 890	$ 17,200	$ 835	$ 18,035
Total assets (at year end)				$ 250,911	$ 120,480	$ 371,391
Investments in affiliates (at year end)				$ —	$ 59,082	$ 59,082

Geographic Information

A summary of net revenues by country, based on the location of the Company's subsidiary, is as follows:

	Years Ended December 31,		
	1996	1997	1998
	(In thousands of dollars)		
United States	$ 5,050	$ 29,076	$ 51,807
Puerto Rico	1,157	2,329	2,470
Total domestic operations	6,207	31,405	54,277
United Kingdom	—	—	58,055
Other foreign countries	—	—	746
Total for all foreign countries	—	—	58,801
	$ 6,207	$ 31,405	$ 113,078

A summary of long-lived assets by country of location is as follows:

	December 31,	
	1997	1998
	(In thousands of dollars)	
United States	$ 237,125	$ 310,953
Puerto Rico	10,145	14,473
Total domestic operations	247,270	325,426
United Kingdom	56,965	855,560
Other foreign countries	—	128
Total for all foreign countries	56,965	855,688
	$ 304,235	$ 1,181,114

Major Customers

For the years ended December 31, 1996, 1997 and 1998, CCI had revenues from a single customer amounting to $2,634,000, $5,998,000 and $14,168,000, respectively. For the year ended December 31, 1998, consolidated net revenues includes $33,044,000 from a single customer of CTI.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and trade receivables. The Company mitigates its risk with respect to cash and cash equivalents by maintaining such deposits at high credit quality financial institutions and monitoring the credit ratings of those institutions.

The Company derives the largest portion of its revenues from customers in the wireless telecommunications industry. In addition, the Company has concentrations of operations in certain geographic areas (primarily the United Kingdom, Pennsylvania, Texas, New Mexico, Arizona and Puerto Rico). The Company mitigates its concentrations of credit risk with respect to trade receivables by actively monitoring the creditworthiness of its customers. Historically, the Company has not incurred any significant credit-related losses.

14. Quarterly Financial Information (Unaudited)

Summary quarterly financial information for the years ended December 31, 1997 and 1998 is as follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands of dollars, except per share amounts)			
1997:				
Net revenues	$ 1,994	$ 4,771	$ 11,481	$ 13,159
Operating income (loss)	(1,293)	(921)	61	(1,299)
Net loss	(443)	(1,706)	(4,001)	(5,792)
Loss per common share — basic and diluted	(0.13)	(0.51)	(0.62)	(0.69)
1998:				
Net revenues	$ 11,837	$ 11,530	$ 28,894	$ 60,817
Operating income (loss)	(2,494)	(2,197)	(12,006)	3,764
Net loss	(6,606)	(6,426)	(17,444)	(7,299)
Loss per common share — basic and diluted	(0.79)	(0.78)	(0.33)	(0.09)

15. Subsequent Events (Unaudited)

BellSouth Mobility Inc. and BellSouth Telecommunications Inc. ("BellSouth")

In March 1999, the Company entered into an agreement with BellSouth to acquire the operating rights for approximately 1,850 of their towers. The transaction is structured as a lease agreement and will be treated as a sale of the towers for tax purposes. The Company will pay BellSouth consideration of $610,000,000, consisting of $430,000,000 in cash and $180,000,000 in shares of its common stock. The Company will account for this transaction as a purchase of tower assets. The transaction is expected to close over a period of up to eight months beginning in the second quarter of 1999. Upon entering into the agreement, the Company placed $50,000,000 into an escrow account. In order to fund this escrow deposit, the Company borrowed $45,000,000 under the Senior Credit Facility.

Powertel, Inc. ("Powertel")

In March 1999, the Company entered into an agreement with Powertel to purchase approximately 650 of their towers and related assets. The purchase price for these towers will be $275,000,000 in cash. The Company will account for this transaction as an acquisition using the purchase method. Upon entering into the agreement, the Company placed $50,000,000 into an escrow account. The Company funded this escrow deposit with borrowings under a $100,000,000 loan agreement provided by a syndicate of investment banks. The remaining $50,000,000 of borrowings under this loan agreement were used to repay the amount drawn under the Senior Credit Facility in connection with the BellSouth escrow deposit.

Proposed Securities Offerings

The Company intends to offer shares of its common stock and debt securities in concurrent underwritten public offerings. The proceeds from such offerings would be used to repay amounts drawn under the loan agreement in connection with the BellSouth and Powertel transactions, and to pay the remaining purchase price for such transactions. Any securities will only be offered by means of a prospectus forming a part of a registration statement filed with the Securities and Exchange Commission. There can be no assurance that such securities offerings can be successfully completed.

Market for the Company's Common Equity
and Related Stockholder Matters

The Company's Common Stock was initially offered to the public on August 18, 1998 at a price of $13.00 per share. The Common Stock is listed and traded on The Nasdaq Stock Market's National Market℠ ("Nasdaq") under the symbol "TWRS." The following table sets forth for the calendar periods indicated the high and low sales prices per share of the Company's Common Stock as reported by Nasdaq.

1998	High	Low
Third Quarter	$ 13.31	$ 6.00
Fourth Quarter	23.50	9.87

On March 15, 1999, the last reported sale price of the Common Stock as reported by Nasdaq was $19.94. As of March 15, 1999, there were approximately 256 holders of record of the Company's Common Stock.

The Company has never declared or paid any cash dividends on its capital stock and does not anticipate paying cash dividends on its capital stock in the foreseeable future. It is the Company's current policy to retain earnings to finance the expansion of its operations. Future declaration and payment of cash dividends, if any, will be determined in light of the then-current conditions, including the Company's earnings, operations, capital requirements, financial condition and other factors deemed relevant by the Board of Directors. In addition, the Company's ability to pay cash dividends is limited by the terms of its debt instruments and the terms of the certificate of designations in respect of its Exchangeable Preferred Stock.

The Company could not have arrived at this point in its history without the support, guidance and dedication of its Board of Directors. We especially would like to thank Edward C. Hutcheson, Jr. and J. Landis Martin, who have left our Board in recent months to fulfill other obligations. Both have given generously of their time to help guide our Company. "Chap" Hutcheson was a co-founder of the Company in 1994, served as our CEO until 1996 and served as Chairman of the Board until March 1997.

Crown Castle International Corp. Board of Directors

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Chairman
Managing Director
Berkshire Partners LLC

Ted B. Miller, Jr.
Vice Chairman, Chief Executive Officer

Michel Azibert
Chief Executive Officer
TéléDiffusion de France International S.A.

Bruno Chetaille
Chairman and Chief Executive Officer
TéléDiffusion de France S.A.

Robert A. Crown
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William A. Murphy, IV
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Salomon Smith Barney

Jeffrey H. Schutz
General Partner
The Centennial Funds

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Chief Executive Officer

David L. Ivy
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Charles C. Green, III
Executive Vice President, Chief Financial Officer and Treasurer

John L. Gwyn
Executive Vice President

E. Blake Hawk
Executive Vice President and General Counsel

Wesley D. Cunningham
Senior Vice President, Chief Accounting Officer and Corporate Controller

Edward W. Wallander
Senior Vice President and Chief Information Officer

Alan Rees
Chief Operating Officer
Castle Transmission International Ltd

John P. Kelly
President and Chief Operating Officer
Crown Communication Inc.

George E. Reese
Chief Financial Officer and Corporate Secretary
Castle Transmission International Ltd

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Chairman

Michel Azibert
Chief Executive Officer
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Michel Combs
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TéléDiffusion de France International S.A.

Charles C. Green, III
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Crown Castle International Corp.

Alan Rees
Chief Operating Officer

George E. Reese
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David L. Ivy
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Crown Castle International Corp.

Ted B. Miller, Jr.
Vice Chairman and Chief Executive Officer
Crown Castle International Corp.

Stuart A. Williams
Partner
Eckert, Seamans, Cherin & Mellott

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Transfer Agent for Common Stock and 12¾% Senior Exchangeable Preferred Stock due 2010

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114 West 47th Street, 25th Floor
New York, New York 10036
1-212-852-1649
Trustee for 10⅝% Senior Discount Notes due 2007

The Law Debenture Trust Corporation p.l.c.
Princes House, 95 Gresham Street
London EC2V 7LY
Trustee for Castle Transmission (Finance) PLC £125 million 9%. Guaranteed Bonds due 2007

Independent Auditors

KPMG LLP
700 Louisiana, 30th Floor
Houston, Texas 77002
1-713-319-2000

General investor inquiries and correspondence

Investors with general questions about the Company are invited to call Easterly Investor Relations at 1-713-529-6600.

Investor correspondence should be directed to:
Kenneth S. Dennard
Easterly Investor Relations
2001 Kirby Drive, Suite 500
Houston, Texas 77019

The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available, without charge, on written request. In addition, a copy of any exhibit to the Form 10-K is available upon payment of a specified fee, which fee shall be limited to the Company's expenses in furnishing such exhibit(s). All requests should be directed to:

Crown Castle International Corp.
Corporate Secretary
510 Bering, Suite 500
Houston, Texas 77057

Annual meeting

Stockholders are invited to attend the 1999 Crown Castle International Corp. Annual Meeting of Stockholders, which will be held Tuesday, May 25, 1999, at 8:30 a.m. at the Omni Hotel, Four Riverway, Houston, Texas 77056.

Formal notice of the meeting, along with the proxy statement and proxy materials, will be mailed or otherwise made available on or about April 28, 1999, to stockholders of record as of April 16, 1999.

Web site

www.crowncastle.com

Common Stock Information

Crown Castle International Corp.'s common stock is traded on NASDAQ (stock symbol: TWRS).

Statements made by Crown Castle International Corp. in this annual report that are not historical facts, including those regarding future performance, are forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and assumptions and involve risks and uncertainties that could cause actual results to differ from expectations.

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