ILLINOIS TOOL WORKS INC
Form 10-Q
November 05, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2008
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from _______________ to _______________

Commission File Number: 1-4797

ILLINOIS TOOL WORKS INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-1258310**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
3600 West Lake Avenue, Glenview, IL	**60026-1215**
(Address of principal executive offices)	**(Zip Code)**

(Registrant s telephone number, including area code)847-724-7500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No **[ ]**

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

Large accelerated filer X
Accelerated filer ___
Non-accelerated filer ___ (Do not check if a smaller reporting company)
Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **[ ]** No **x**

The number of shares of registrant s common stock, $0.01 par value, outstanding at September 30, 2008: 511,162,698.

Part I Financial Information

Item 1 Financial Statements

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

FINANCIAL STATEMENTS

The unaudited financial statements included herein have been prepared by Illinois Tool Works Inc. and Subsidiaries (the Company). In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for interim periods. It is suggested that these financial statements be read in conjunction with the financial statements and notes to financial statements included in the Company s Annual Report on Form 10-K. Certain reclassifications of prior year data have been made to conform with current year reporting.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF INCOME (UNAUDITED)

(In thousands except for per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Operating Revenues	$ 4,147,757	$ 3,744,402	$ 12,190,960	$ 10,962,643
Cost of revenues	2,699,268	2,389,520	7,860,141	7,013,882
Selling, administrative, and research and development expenses	759,142	669,563	2,272,862	2,010,476
Amortization and impairment of goodwill and other intangible assets	50,384	35,762	133,834	108,109
Operating Income	638,963	649,557	1,924,123	1,830,176
Interest expense	(38,169)	(25,783)	(112,126)	(75,734)
Other income	15,899	23,024	20,059	53,582
Income from Continuing Operations Before Income Taxes	616,693	646,798	1,832,056	1,808,024
Income Taxes	173,404	182,697	522,100	539,616
Income from Continuing Operations	443,289	464,101	1,309,956	1,268,408
Income (Loss) from Discontinued Operations	10,229	26,987	(24,727)	130,721
Net Income	$ 453,518	$ 491,088	$ 1,285,229	$ 1,399,129
Income Per Share from Continuing Operations:				
Basic	$0.86	$0.84	$2.51	$2.28
Diluted	$0.85	$0.84	$2.49	$2.27
Income (Loss) Per Share from Discontinued Operations:				
Basic	$0.02	$0.05	$(0.05)	$0.24
Diluted	$0.02	$0.05	$(0.05)	$0.23
Net Income Per Share:				
Basic	$0.88	$0.89	$2.46	$2.52
Diluted	$0.87	$0.89	$2.45	$2.50
Cash Dividends:				
Paid	$0.28	$0.21	$0.84	$0.63
Declared	$0.31	$0.28	$0.87	$0.70
Shares of Common Stock Outstanding During the Period:				
Average	517,914	549,561	521,886	555,474
Average assuming dilution	521,086	554,255	525,326	559,949

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(In thousands)	**September 30, 2008**	**December 31, 2007**
ASSETS		
Current Assets:		
Cash and equivalents	$ 867,618	$ 827,524

Trade receivables	2,981,707	2,915,546
Inventories	1,835,525	1,625,820
Deferred income taxes	168,486	189,093
Prepaid expenses and other current assets	505,859	464,143
Assets held for sale	619,764	143,529
Total current assets	6,978,959	6,165,655
Plant and Equipment:		
Land	229,842	226,208
Buildings and improvements	1,418,336	1,476,673
Machinery and equipment	3,616,155	3,852,241
Equipment leased to others	164,888	154,111
Construction in progress	136,619	109,267
	5,565,840	5,818,500
Accumulated depreciation	(3,445,071)	(3,624,490)
Net plant and equipment	2,120,769	2,194,010
Investments	498,348	507,567
Goodwill	4,782,752	4,387,165
Intangible Assets	1,689,705	1,296,176
Deferred Income Taxes	74,210	61,416
Other Assets	874,848	913,873
	$ 17,019,591	$ 15,525,862
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	$ 2,197,110	$ 410,512
Accounts payable	845,634	854,148
Accrued expenses	1,395,273	1,335,973
Cash dividends payable	158,460	148,427
Income taxes payable	211,224	205,381
Liabilities held for sale	206,537	5,844
Total current liabilities	5,014,238	2,960,285
Noncurrent Liabilities:		
Long-term debt	1,398,165	1,888,839
Deferred income taxes	464,800	260,658
Other	1,046,468	1,064,755
Total noncurrent liabilities	2,909,433	3,214,252
Stockholders Equity:		
Common stock	5,314	5,625
Additional paid-in-capital	81,656	173,610
Income reinvested in the business	9,117,416	9,879,065
Common stock held in treasury	(991,583)	(1,757,761)
Accumulated other comprehensive income	883,117	1,050,786
Total stockholders equity	9,095,920	9,351,325
	$ 17,019,591	$ 15,525,862

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

STATEMENT OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 30	
	2008	**2007**
Cash Provided by (Used for) Operating Activities:		
Net income	$ 1,285,229	$ 1,399,129
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of businesses	(25,966)	(36,475)
Depreciation	284,600	263,736

Amortization and impairment of goodwill and other intangible assets	272,815	119,060
Change in deferred income taxes	27,236	2,738
Provision for uncollectible accounts	4,010	5,970
Loss on sale of plant and equipment	623	1,247
Income from investments	(27,800)	(43,973)
Stock compensation expense	31,950	22,775
Other non-cash items, net	11,161	(6,556)
Change in assets and liabilities:		
(Increase) decrease in--		
Trade receivables	(105,219)	(121,676)
Inventories	(131,583)	(55,409)
Prepaid expenses and other assets	(38,197)	(20,841)
Increase (decrease) in--		
Accounts payable	(35,389)	(49,262)
Accrued expenses and other liabilities	46,397	529
Income taxes receivable and payable	28,482	209,077
Other, net	4,438	829
Net cash provided by operating activities	1,632,787	1,690,898
Cash Provided by (Used for) Investing Activities:		
Acquisition of businesses (excluding cash and equivalents)	(1,324,239)	(619,509)
Additions to plant and equipment	(274,295)	(254,627)
Purchases of investments	(3,109)	(8,101)
Proceeds from investments	21,538	50,677
Proceeds from sale of plant and equipment	15,455	14,461
Proceeds from sale of businesses	106,364	160,348
Other, net	(4,679)	(6,859)
Net cash used for investing activities	(1,462,965)	(663,610)
Cash Provided by (Used for) Financing Activities:		
Cash dividends paid	(440,229)	(350,122)
Issuance of common stock	45,333	99,857
Repurchases of common stock	(991,583)	(958,911)
Net proceeds from short-term debt	1,275,667	196,912
Proceeds from long-term debt	1,824	108
Repayments of long-term debt	(4,875)	(11,267)
Excess tax benefits from share-based compensation	3,974	13,910
Repayment of preferred stock of subsidiary		(40,000)
Net cash used for financing activities	(109,889)	(1,049,513)
Effect of Exchange Rate Changes on Cash and Equivalents	(19,839)	34,122
Cash and Equivalents:		
Increase during the period	40,094	11,897
Beginning of period	827,524	590,207
End of period	$867,618	$602,104
Cash Paid During the Period for Interest	$65,974	$115,728
Cash Paid During the Period for Income Taxes	$491,820	$349,814
Liabilities Assumed from Acquisitions	$464,053	$387,672

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(1) COMPREHENSIVE INCOME

The Company s components of comprehensive income in the periods presented are:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Net Income	$453,518	$491,088	$1,285,229	$1,399,129
Other Comprehensive Income:				
Foreign currency translation adjustments	(313,175)	97,427	(171,236)	173,671
Pension and other postretirement benefit adjustments, net of tax	442	4,840	(6)	19,788
Comprehensive Income	$140,785	$593,355	$1,113,987	$1,592,588

(2) DISCONTINUED OPERATIONS

In August 2008, the Company s Board of Directors authorized the divestiture of the Decorative Surfaces segment and Click Commerce industrial software business which was previously reported in the All Other segment. The Company is actively marketing these businesses and expects to dispose of both businesses before the third quarter of 2009. Additionally, in the third quarter of 2008, the Company completed the sale of a certain consumer packaging business resulting in a gain from disposal. The consolidated statement of income for all periods have been restated to present the Decorative Surfaces segment and Click Commerce business, as well as certain other previously sold or held for sale businesses, as discontinued operations.

Results of the discontinued operations for the third quarter of 2008 and 2007 were as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Operating revenues	$342,284	$349,401	$1,054,214	$1,049,890
Income (loss) before taxes	$(2,452)	$43,393	$(6,140)	$135,414
Gain (loss) on sale of discontinued operations	25,062	(703)	25,062	34,091
Income tax expense	(12,381)	(15,703)	(43,649)	(38,784)
Income (loss) from discontinued operations	$10,229	$26,987	$(24,727)	$130,721

As of December 31, 2007, the Company had recorded the assets and liabilities of a certain consumer packaging business and a certain automotive components business as held for sale. The consumer packaging business was sold in the third quarter of 2008. As of September 30, 2008, the Company also recorded the assets and liabilities of the Decorative Surfaces segment and Click Commerce business as held for sale. The assets and liabilities held for sale at September 30, 2008 and December 31, 2007 were as follows:

(In thousands)	September 30, 2008	December 31, 2007
Trade receivables	$ 189,643	$ 14,790
Inventories	120,399	9,566
Net plant and equipment	148,983	16,266
Net goodwill and intangible assets	129,411	100,341
Other	31,328	2,566
Total assets held for sale	$ 619,764	$ 143,529
Accounts payable	$ 51,280	$ 3,903
Accrued expenses	92,132	1,941
Other	63,125	
Total liabilities held for sale	$ 206,537	$ 5,844

(3) INVENTORIES

Inventories at September 30, 2008 and December 31, 2007 were as follows:

(In thousands)

	September 30, 2008	December 31, 2007
Raw material	$594,800	$516,914
Work-in-process	191,267	182,990
Finished goods	1,049,458	925,916
	$1,835,525	$1,625,820

(4) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

On January 1, 2008, the Company adopted the measurement date provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158"), which required the Company to change its measurement date to correspond with the Company's fiscal year end. The Company previously used a September 30 measurement date. As allowed under SFAS 158, the Company elected to remeasure its plan assets and benefit obligations as of the beginning of the fiscal year. Upon adoption, the Company recorded an after-tax charge of $12,788,000 to beginning retained earnings and an after-tax gain to accumulated other comprehensive income of $3,573,000 related to the three months ended December 31, 2007.

Pension and other postretirement benefit costs related to both continuing and discontinued operations for the periods ended September 30, 2008 and 2007 were as follows:

(In thousands)	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	Pension		Other Postretirement Benefits		Pension		Other Postretirement Benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
Components of net periodic benefit cost:								
Service cost	$28,144	$28,833	$3,585	$3,697	$84,153	$86,198	$10,755	$11,261
Interest cost	30,042	26,737	8,091	8,008	90,361	79,699	24,524	24,124
Expected return on plan assets	(42,045)	(39,113)	(3,848)	(2,898)	(126,581)	(116,688)	(11,544)	(8,695)
Amortization of actuarial (gain) loss	649	5,041	(204)	489	1,938	15,024	(708)	1,500
Amortization of prior service cost (income)	(602)	(605)	1,565	1,565	(1,804)	(1,779)	4,695	4,695
Amortization of net transition amount	25	3			70	13		
Curtailment/settlement loss (gain)	12,900				12,900	6,000	(1,929)	(1,562)
Net periodic benefit cost	$29,113	$20,896	$9,189	$10,861	$61,037	$68,467	$25,793	$31,323

The Company expects to contribute $44,400,000 to its pension plans and $60,100,000 to its other postretirement plans in 2008. As of September 30, 2008, contributions of $30,800,000 to pension plans and $39,900,000 to other postretirement plans have been made.

(5) SHORT-TERM DEBT

The Company had outstanding commercial paper of $1,493,653,000 at September 30, 2008 and $200,977,000 at December 31, 2007.

In 1999, the Company issued $500,000,000 of 5.75% redeemable notes due March 1, 2009. The balance related to these notes outstanding at September 30, 2008 has been classified as short-term debt. The balance outstanding at December 31, 2007 was classified as long-term debt.

In June 2007, the Company entered into a $1,000,000,000 Line of Credit Agreement with a termination date of June 13, 2008. This line of credit was replaced on June 13, 2008 by a $1,500,000,000 Line of Credit Agreement with a termination date of June 12, 2009. In September 2008, the Company exercised a provision of the agreement allowing for an increase in the line of credit to $1,800,000,000. No amounts were outstanding under this facility at September 30, 2008.

On October 24, 2008, the Company amended the Line of Credit Agreement in order to increase the line of credit to $2,500,000,000.

(6) STOCKHOLDERS' EQUITY

Common Stock, Additional Paid-In-Capital, Income Reinvested in the Business and Common Stock Held in Treasury transactions during the first nine months of 2008 are shown below:

(In thousands)	**Common Stock**	**Additional Paid-In-Capital**	**Income Reinvested in the Business**	**Common Stock Held in Treasury**
Balance, December 31, 2007	$5,625	$ 173,610	$9,879,065	$(1,757,761)
During 2008 -				
Retirement of treasury shares	(324)	(173,610)	(1,583,827)	1,757,761
Shares issued for stock options and grants	13	45,320		
Stock compensation expense		31,950		
Tax benefits related to stock options		4,386		
Repurchases of common stock				(991,583)
Net income			1,285,229	
Cash dividends declared			(450,263)	
Adoption of SFAS 158, net of tax			(12,788)	
Balance, September 30, 2008	$5,314	$ 81,656	$9,117,416	$(991,583)

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to $3,000,000,000 of the Company s common stock over an open-ended period of time. In the first nine months of 2008, the Company repurchased 20,248,408 shares of its common stock at an average price of $48.97 per share. In February 2008, the Company retired 32,425,297 shares of common stock held in treasury.

(7) COMMITMENTS AND CONTINGENCIES

The Company has an estimated potential liability for European transfer taxes of up to approximately $54,000,000 related to legal entity reorganizations. The ultimate resolution of this liability will be dependent upon the determination of whether or not such transfers are deemed to have occurred and whether such taxes are applicable to transfers that occurred outside of Europe. As of September 30, 2008, a reserve of $14,900,000, net of $15,200,000 of deposits paid, has been recorded for this matter.

(8) INCOME TAXES

The Company and its subsidiaries file tax returns in the U.S. and in various state, local and foreign jurisdictions. These tax returns are routinely audited by the tax authorities in these jurisdictions and a number of these audits are currently ongoing.

As part of the Australia audit for 2003, the Australian Tax Office is reviewing an intercompany financing transaction between the U.S. and Australia. In the U.S., the Internal Revenue Service has completed its audits for the years 2001-2005 and has proposed several adjustments which the Company is protesting, the most significant of which is related to leveraged leases. The Company has recorded its best estimate of the exposure for these two audits; however, it is reasonably possible that the Company will resolve the Australian financing and leveraged lease issues within the next 12 months and that the amount of the Company s unrecognized tax benefits may change by a range of approximately a $124 million decrease to a $90 million increase.

(9) SEGMENT INFORMATION

See Management s Discussion and Analysis for information regarding operating revenues and operating income for the Company s segments.

Item 2 - Management s Discussion and Analysis

CONSOLIDATED RESULTS OF OPERATIONS

In 2007, the Company classified two consumer packaging businesses, an automotive machinery business and an automotive components business as discontinued operations. Additionally, in August 2008, the Company s Board of Directors authorized the divestiture of the Decorative Surfaces segment and Click Commerce industrial software business which was previously reported in the All Other segment. The consolidated statement of income for all periods has been restated to present the results related to these businesses as discontinued operations.

The Company s consolidated results of operations for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
Operating revenues	$ 4,147,757	$ 3,744,402	$ 12,190,960	$ 10,962,643

Operating income	638,963	649,557	1,924,123	1,830,176
Margin %	15.4%	17.3%	15.8%	16.7%

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			Nine Months Ended September 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	(0.8)%	(1.9)%	(0.2)%	(0.1)%	(0.4)%	%
Changes in variable margins and overhead costs		(6.1)	(1.1)		(1.5)	(0.3)
Total	(0.8)	(8.0)	(1.3)	(0.1)	(1.9)	(0.3)
Acquisitions and divestitures	6.9	1.9	(0.7)	6.0	1.8	(0.7)
Restructuring costs		0.3	0.1		0.1	
Impairment of goodwill & intangibles		0.1			0.1	
Translation	4.7	4.1		5.4	5.0	
Other				(0.1)		0.1
Total	10.8%	(1.6)%	(1.9)%	11.2%	5.1%	(0.9)%

Operating Revenues

Revenues increased 10.8% and 11.2% in the third quarter and year-to-date periods of 2008, respectively, versus 2007 primarily due to revenues from acquisitions and the favorable effect of currency translation. Total base revenues declined 0.8% and 0.1% in the third quarter and year-to-date periods, respectively, as price increases were more than offset by volume decreases. International base revenues increased 1.2% in the third quarter and 2.7% year-to-date, offset by a 2.1% and 2.4% decline, respectively, in North American base revenues. The Company s Asia-Pacific end markets continue to experience relatively strong growth while Europe showed weakening end markets. North American revenues continue to be negatively impacted by declines in the residential construction and automotive sectors as well as weak industrial production.

Operating Income

Operating income in the third quarter declined 1.6% and increased 5.1% year-to-date versus 2007 primarily due to the negative effect of lower sales and decreased variable margins, offset in the year-to-date-period by the positive effect of currency translation and income from acquired businesses. Total operating margins decreased 1.9% and 0.9% for the third quarter and year-to-date period, respectively, primarily due to lower margins of acquired companies and base businesses. Base margins declined 130 basis points and 30 basis points in the third quarter and year-to-date periods, respectively, mainly due to volume decreases and lower variable margins associated with raw material price increases. These decreases were partially offset by lower overhead expenses at base businesses due to tighter cost controls.

The reconciliation of segment operating revenues to total operating revenues is as follows:

(In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Industrial Packaging	$ 687,549	$ 599,655	$ 2,022,286	$ 1,775,801
Power Systems & Electronics	620,743	567,479	1,851,919	1,687,155
Transportation	581,865	534,494	1,806,776	1,647,255
Construction Products	525,005	516,432	1,575,211	1,532,195
Food Equipment	542,687	500,419	1,590,905	1,364,572
Polymers & Fluids	371,036	252,507	928,688	684,689
All Other	833,115	786,935	2,458,507	2,309,539
Intersegment revenues	(14,243)	(13,519)	(43,332)	(38,563)
Total operating revenues	$ 4,147,757	$ 3,744,402	$ 12,190,960	$ 10,962,643

INDUSTRIAL PACKAGING

Businesses in this segment produce steel, plastic and paper products used for bundling, shipping and protecting transported goods.

In the Industrial Packaging segment, products include:

- steel and plastic strapping and related tools and equipment;
- plastic stretch film and related equipment;
- paper and plastic products that protect goods in transit; and
- metal jacketing and other insulation products.

This segment primarily serves the primary metals, general industrial, construction, and food and beverage markets.

The results of operations for the Industrial Packaging segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Operating revenues	$ 687,549	$ 599,655	$ 2,022,286	$ 1,775,801
Operating income	76,247	78,532	237,229	221,936
Margin %	11.1%	13.1%	11.7%	12.5%

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

Three Months Ended September 30			Nine Months Ended September 30		
% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins

Base manufacturing business:						
Revenue change/Operating leverage	5.2 %	15.8 %	1.3 %	2.2 %	7.2 %	0.6 %
Changes in variable margins and overhead costs		(20.6)	(2.5)		(6.7)	(0.8)
Total	5.2	(4.8)	(1.2)	2.2	0.5	(0.2)
Acquisitions and divestitures	4.2	3.5		4.9	1.8	(0.3)
Restructuring costs		(5.2)	(0.6)		(1.3)	(0.2)
Impairment of goodwill & intangibles		0.5			0.2	
Translation	5.3	3.1	(0.2)	6.8	5.7	(0.1)
Other						
Total	14.7 %	(2.9)%	(2.0)%	13.9 %	6.9 %	(0.8)%

Operating Revenues

Revenues increased 14.7% and 13.9% in the third quarter and year-to-date-periods of 2008, respectively, over the same periods of 2007 due to the favorable effect of currency translation, increased base revenues and revenues from acquired companies. The increase in acquisition revenue was primarily related to the acquisition of a European industrial packaging business, a European stretch packaging business and a U.S. equipment business. Total base revenues increased for the current quarter and year-to-date periods as price increases and strong growth in the worldwide insulation businesses, due to penetration in emerging markets, were partially offset by volume declines in the strapping businesses.

Operating Income

Operating income decreased 2.9% in the third quarter of 2008 and increased 6.9% year-to-date over the same periods of 2007. In the third quarter, the positive leverage effect of the revenue increase, income from acquisitions and the favorable effect of currency translation was more than offset by decreased variable margins and higher restructuring expenses. Variable margins in the third quarter and year-to-date was negatively affected by increased raw material costs and unfavorable product mix. Year-to-date, lower overhead costs, as a result of tighter cost controls and the benefit of prior year restructuring projects, partially offset these increases.

POWER SYSTEMS & ELECTRONICS

Businesses in this segment produce equipment and consumables associated with specialty power conversion, metallurgy and electronics.

In the Power Systems & Electronics segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories;
- metal solder materials for PC board fabrication;
- equipment and services for microelectronics assembly;
- electronic components and component packaging; and
- airport ground support equipment.

This segment primarily serves the general industrial, electronics and construction markets.

The results of operations for the Power Systems & Electronics segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Operating revenues	$ 620,743	$ 567,479	$ 1,851,919	$ 1,687,155
Operating income	118,220	110,772	383,760	341,736
Margin %	19.0 %	19.5 %	20.7 %	20.3 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			Nine Months Ended September 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	3.1 %	6.1 %	0.6 %	3.9 %	7.3 %	0.7 %
Changes in variable margins and overhead costs		(1.1)	(0.2)		2.4	0.5
Total	3.1	5.0	0.4	3.9	9.7	1.2
Acquisitions and divestitures	3.7	(1.0)	(0.9)	3.2	0.4	(0.6)
Restructuring costs		0.9	0.2		0.3	0.1
Impairment of goodwill & intangibles					(0.2)	(0.1)
Translation	2.5	1.9	(0.1)	2.7	2.1	(0.1)
Other	0.1	(0.1)	(0.1)			(0.1)
Total	9.4 %	6.7 %	(0.5)%	9.8 %	12.3 %	0.4 %

Operating Revenues

Revenues increased 9.4% and 9.8% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to an increase in base revenues, revenues from acquired companies and the positive effect of currency translation. Base revenues grew 3.1% and 3.9% for the third quarter and year-to-date periods primarily due to a 26.4% and 23.3% increase in international welding businesses in third quarter and year-to-date periods, respectively, due to stronger Asian demand in energy and ship building end markets. The third quarter decline in North American welding base revenues of 0.9% is a result of the continued slowdown in U.S. industrial production and related end markets. Year-to-date North American welding revenues have increased 0.2%. The acquisition revenue was primarily due to the purchase of a PC board fabrication business and a welding accessories business.

Operating Income

Operating income increased 6.7% and 12.3% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to the positive leverage effect from the increase in base revenues and the favorable effect of currency translation. In the third quarter, these increases were partially offset by lower income from acquisitions and decreased variable margins. Base margins increased 40 basis points and 120 basis points for the third quarter and year-to-date periods, respectively, primarily due to leverage from the increase in revenue. Year-to-date margin gains from lower overhead expenses due to improved performance in the PC board businesses are a result of prior year restructurings.

TRANSPORTATION

Businesses in this segment produce components, fasteners, fluids and polymers for transportation-related applications.

In the Transportation segment, products include:

- metal and plastic components and assemblies for automobiles and trucks;
- metal and plastic fasteners for automobiles and trucks;
- fluids and polymers for maintenance and appearance;
- fillers and putties for auto body repair; and
- polyester coatings and patch and repair products for the marine industry.

This segment primarily serves the automotive original equipment manufacturers and tiers and automotive aftermarket markets.

The results of operations for the Transportation segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
Operating revenues	$ 581,865	$ 534,494	$ 1,806,776	$ 1,647,255
Operating income	68,941	88,859	260,724	279,054
Margin %	11.8 %	16.6 %	14.4 %	16.9 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			**Nine Months Ended September 30**		
	% Increase (Decrease)		**% Point Increase (Decrease)**	**% Increase (Decrease)**		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	(9.6)%	(22.5)%	(2.4)%	(4.4)%	(10.2)%	(1.0)%
Changes in variable margins and overhead costs		(10.3)	(1.9)		(4.9)	(0.9)
Total	(9.6)	(32.8)	(4.3)	(4.4)	(15.1)	(1.9)
Acquisitions	12.3	0.6	(1.5)	7.9	1.9	(0.9)
Restructuring costs		4.3	0.8		0.1	
Translation	6.1	5.5	0.2	6.3	6.5	0.2
Other	0.1			(0.1)		0.1
Total	8.9 %	(22.4)%	(4.8)%	9.7 %	(6.6)%	(2.5)%

Operating Revenues

Revenues increased 8.9% and 9.7% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to revenues from acquired companies and favorable currency translation, partially offset by declines in base revenue. Acquisition revenue increased primarily due to the purchase of a U.S. truck remanufacturing and parts business, a worldwide components business and two automotive aftermarket businesses. Base revenues for the North American automotive businesses declined 18.1% and 11.8% in the third quarter and year-to date periods, respectively, due to a 15.3% and 12.7% decline in automotive production in the third quarter and year-to-date periods, respectively. International automotive base revenues declined 7.3% in the third quarter due to a 1.2% decline in European automotive production and product mix. Year-to-date international base revenues decreased 0.6% despite a 3.3% increase in European production due to product mix. Base revenues for the automotive aftermarket businesses increased 2.8% and 4.2% for the third quarter and year-to-date periods, respectively, primarily due to growth in sales to Asian end markets and higher demand as consumers are maintaining existing vehicles longer.

Operating Income

Operating income decreased 22.4% and 6.6% third quarter and year to-date periods, respectively, over the same periods of 2007 primarily due to the negative leverage effect from the decrease in base business revenues described above and various one-time charges in operating expenses. These decreases were partially offset by the favorable effect of currency translation, lower restructuring expenses and income from acquired businesses. Base margins declined due to the decline in revenue and lower variable margins due to increases in raw material costs and operating expenses.

CONSTRUCTION PRODUCTS

Businesses in this segment produce tools, fasteners and other products for construction applications.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

This segment primarily serves the residential construction, renovation construction and commercial construction markets.

The results of operations for the Construction Products segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
Operating revenues	$ 525,005	$ 516,432	$ 1,575,211	$ 1,532,195
Operating income	73,423	77,027	202,485	209,339
Margin %	14.0 %	14.9 %	12.9 %	13.7 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			Nine Months Ended September 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	(4.4)%	(12.5)%	(1.3)%	(4.8)%	(14.5)%	(1.4)%
Changes in variable margins and overhead costs		0.3	0.1		(0.5)	(0.1)
Total	(4.4)	(12.2)	(1.2)	(4.8)	(15.0)	(1.5)
Acquisitions	0.3	(0.6)	(0.2)	0.5	(0.8)	(0.2)
Restructuring costs		1.7	0.3		4.1	0.6
Impairment of goodwill & intangibles					0.2	
Translation	5.8	6.4	0.2	7.1	8.2	0.2
Other						0.1
Total	1.7 %	(4.7)%	(0.9)%	2.8 %	(3.3)%	(0.8)%

Operating Revenues

Revenues increased 1.7% and 2.8% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to the favorable effect of currency translation partially offset by a decline in base revenues. Base revenues for the North American construction businesses decreased 6.2% and 12.3% in the third quarter and year-to-date periods, respectively, due to the ongoing weakness in the North American construction market. Notably, housing starts declined an annualized 31% and commercial construction fell 19%, on a square-footage basis, year-to-date. Internationally, base revenue decreased 3.2% and increased 0.7% for the third quarter and year-to-date, respectively, primarily due to growth in residential and commercial demand in the Australasian region offset by weaker European demand.

Operating Income

Operating income decreased 4.7% and 3.3% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to the negative leverage effect from the decline in base revenues described above, partially offset by lower restructuring expenses and the favorable effect of currency translation. Base margins declined in both periods primarily due to the revenue decreases.

FOOD EQUIPMENT

Businesses in this segment produce commercial food equipment and related service.

In the Food Equipment segment, products include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales; and
- kitchen exhaust, ventilation and pollution control systems.

This segment primarily serves the food institutional/restaurant, service and food retail markets.

The results of operations for the Food Equipment segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Operating revenues	$ 542,687	$ 500,419	$ 1,590,905	$ 1,364,572
Operating income	87,476	88,882	230,064	220,558
Margin %	16.1 %	17.8 %	14.5 %	16.2 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			Nine Months Ended September 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base manufacturing business:						
Revenue change/Operating leverage	(1.7)%	(4.1)%	(0.5)%	1.9 %	5.0 %	0.5 %
Changes in variable margins and overhead costs		(2.9)	(0.5)		(5.0)	(0.8)
Total	(1.7)	(7.0)	(1.0)	1.9		(0.3)
Acquisitions	5.8	2.4	(0.5)	9.7	3.4	(0.8)
Restructuring costs		(0.8)	(0.1)		(3.3)	(0.5)
Translation	4.4	3.8		5.0	4.2	
Other	(0.1)		(0.1)			(0.1)
Total	8.4 %	(1.6)%	(1.7)%	16.6 %	4.3 %	(1.7)%

Operating Revenues

Revenues increased 8.4% and 16.6% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to revenues from acquired companies, the favorable effect of currency translation and year-to-date base revenue growth. The acquired revenues are primarily attributable to the acquisition of a European food equipment business and two worldwide food processing equipment businesses. International base revenues declined 3.2% in the third quarter due to weakening European end market demand. For the year-to-date period, international base revenues increased 3.2% on the strength of strong Asian demand. North American base revenue declined 1.2% in the third quarter while increasing 0.3% year-to-date primarily due to increased service revenue offset by declines in the institutional/restaurant end market.

Operating Income

Operating income decreased 1.6% and increased 4.3% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007. In the third quarter, favorable effect of currency translation and income from acquisitions were offset by increased operating expenses and higher restructuring costs. Third quarter base income decreased primarily as a result of North American revenue declines. Despite the decline in International revenues for the third quarter, operating income was flat as a result of tight cost controls. Base margins declined in both the third quarter and year-to-date periods due to competitive price pressure and higher warranty expenses in the food processing equipment businesses, increased operating expenses in the service business and new product introduction costs.

POLYMERS & FLUIDS

Businesses in this segment produce adhesives, sealants, lubrication and cutting fluids, and janitorial and sanitation supplies.

In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications;
- hand wipes and cleaners for industrial applications; and
- pressure sensitive adhesives and components for telecommunications, electronics, medical and transportation applications.

This segment primarily serves the general industrial, construction, maintenance, repair and operations and automotive aftermarket markets.

The results of operations for the Polymers & Fluids segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Operating revenues	$ 371,036	$ 252,507	$ 928,688	$ 684,689
Operating income	53,400	43,785	142,603	114,979
Margin %	14.4 %	17.3 %	15.4 %	16.8 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			Nine Months Ended September 30		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	3.5 %	8.9 %	0.9 %	3.3 %	8.7 %	0.9 %
Changes in variable margins and						

overhead costs		(4.4)	(0.7)		0.3	
Total	3.5	4.5	0.2	3.3	9.0	0.9
Acquisitions	36.2	10.8	(3.2)	25.3	8.1	(2.4)
Restructuring costs		0.6	0.1		(0.2)	
Impairment of goodwill & intangibles					0.7	0.1
Translation	7.2	6.1		7.0	6.4	
Other						
Total	46.9%	22.0%	(2.9)%	35.6%	24.0%	(1.4)%

Operating Revenues

Revenues increased 46.9% and 35.6% for the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 due to acquisitions, the favorable effect of currency translation and base revenue growth. Acquisition revenue was primarily the result of the purchase of three polymers and industrial adhesives businesses, an international fluid products business, an Australian polymers business, two North American construction adhesives businesses and a South American sealant business. Base revenues increased primarily due to growth in North American polymers businesses of 15.4% and 9.1% for the third quarter and year-to-date periods, respectively, mainly in specialty adhesives and epoxy products, partially offset by a decline in demand in the European fluids and construction polymers businesses.

Operating Income

Operating income increased 22.0% and 24.0% in the third quarter and year-to-date periods of 2008, respectively, over the same periods of 2007 primarily due to income from acquisitions, the favorable effect of currency translation and the positive effect of leverage from the increase in base revenues. Total operating margins decreased for both periods primarily due to lower margins of acquired companies, which was partially offset by higher base margins.

ALL OTHER

This segment contains all other operating segments.

In the All Other segment, products include:

- plastic reclosable packaging for consumer food storage;
- plastic reclosable bags for storage of clothes and home goods;
- plastic consumables that multi-pack cans and bottles and related equipment;
- plastic fasteners and components for appliances, furniture and industrial uses;
- metal fasteners and components for appliances and industrial applications;
- equipment and related software for testing of materials and structures;
- swabs, wipes and mats for clean room usage;
- foil and film and related equipment used to decorate consumer products;
- product coding and marking equipment and related consumables;
- paint spray equipment; and
- static and contamination control equipment.

This segment primarily serves the general industrial, consumer durables and food and beverage markets.

The results of operations for the All Other segment for the third quarter and year-to-date periods of 2008 and 2007 were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Operating revenues	$ 833,115	$ 786,935	$ 2,458,507	$ 2,309,539
Operating income	161,256	161,700	467,258	442,574
Margin %	19.4 %	20.5 %	19.0 %	19.2 %

In the third quarter and year-to-date periods of 2008, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	Three Months Ended September 30			**Nine Months Ended September 30**		
	% Increase (Decrease)		**% Point Increase (Decrease)**	**% Increase (Decrease)**		**% Point Increase (Decrease)**
	Operating Revenues	**Operating Income**	**Operating Margins**	**Operating Revenues**	**Operating Income**	**Operating Margins**
Base manufacturing business:						
Revenue change/Operating leverage	(0.7)%	(1.6)%	(0.2)%	(1.0)%	(2.5)%	(0.3)%
Changes in variable margins and overhead costs		(5.3)	(1.1)		1.6	0.3
Total	(0.7)	(6.9)	(1.3)	(1.0)	(0.9)	
Acquisitions and divestitures	2.9	2.5		3.4	1.6	(0.4)
Restructuring costs		0.1			0.4	0.1
Impairment of goodwill & intangibles					0.1	
Translation	3.7	4.1	0.1	4.1	4.5	0.1
Other		(0.1)	0.1		(0.1)	
Total	5.9 %	(0.3)%	(1.1)%	6.5 %	5.6 %	(0.2)%

Operating Revenues

Revenues increased 5.9% and 6.5% in the third quarter and year-to-date periods of 2008, respectively, versus the same periods of 2007 primarily due to the favorable effect of currency translation and revenues from acquired companies. The increase in acquisition revenue was primarily due to the purchase of three test and measurement businesses, two worldwide decorating and graphics businesses and a label business. In the third quarter of 2008, base revenues decreased 4.0% and 2.4% for the worldwide industrial and appliance businesses and consumer packaging businesses, respectively, partially offset by an increase of 11.2% and 0.8% in the worldwide test and measurement and finishing businesses, respectively. The 1.0% decline in the year-to-date period was primarily due to a 9.9% increase in the test and measurement businesses, offset by declines of 5.6%, 1.7%, and 1.0% in the industrial appliance, consumer packaging and finishing businesses, respectively.

Operating Income

Operating income decreased 0.3% in the third quarter of 2008 primarily due to increased raw material costs and the negative leverage effect from the decrease in base revenues discussed above, partially offset by the favorable effect of currency translation and income from acquisitions. Year-to-date operating income increased 5.6% primarily due to the favorable effect of currency translation, income from acquisitions and lower operating expenses resulting from tight cost control measures. Base margins declined in the third quarter as a result of lower revenues and lower variable margins due to increased raw material costs and operating expenses. Year-to-date base margins were flat as the impact of revenue declines were offset by lower operating expenses.

INTEREST EXPENSE

Interest expense increased to $112.1 million in the first nine months of 2008 from $75.7 million in the first nine months of 2007 primarily due to interest on the 5.25% Euro notes issued in October 2007.

OTHER INCOME

Other income decreased to $20.1 million for the first nine months of 2008 versus income of $53.6 million in 2007, primarily due to a first quarter 2008 charge for European transfer taxes related to legal entity structuring transactions and lower investment income in 2008. These amounts were partially offset by gains on currency translation in 2008 versus losses in 2007 and higher interest income in 2008 earned on short-term investments.

INCOME TAXES

The effective tax rate for the first nine months of 2008 was 28.5% compared to 29.8% for the first nine months of 2007. The reduction in the effective tax rate resulted primarily from a higher proportionate share of income in foreign jurisdictions with lower tax rates.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations of $1.31 billion ($2.49 per diluted share) in the first nine months of 2008 was 3.3% higher than the 2007 income from continuing operations of $1.27 billion ($2.27 per diluted share).

FOREIGN CURRENCY

The weakening of the U.S. dollar against foreign currencies in 2008 increased operating revenues for the first nine months of 2008 by approximately $576 million and increased income from continuing operations by approximately 12 cents per diluted share. The weakening of the U.S. dollar against foreign currencies in 2007 increased operating revenues for the first nine months of 2007 by approximately $315 million and increased income from continuing operations by approximately 7 cents per diluted share.

DISCONTINUED OPERATIONS

Income (loss) from discontinued operations was a loss of $24.7 million in the first nine months of 2008 versus income of $130.7 million in 2007, primarily due to goodwill impairment charges and lower gains on sales of discontinued operations.

NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2008, the Company adopted the measurement date provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158"), which required the Company to change its measurement date to correspond with the Company's fiscal year end. The Company previously used a September 30 measurement date. As allowed under SFAS 158, the Company elected to remeasure its plan assets and benefit obligations as of the beginning of the fiscal year. Upon adoption, the Company recorded an after-tax charge of $12.8 million to beginning retained earnings and an after-tax gain to accumulated other comprehensive income of $3.6 million, related to the three months ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company s primary sources of liquidity are its free operating cash flow and short-term credit facilities, which management continues to believe will be adequate to service debt and to continue to pay dividends that meet its dividend payout guideline of 25% to 35% of the last two years average income from continuing operations. In addition, free operating cash flow and short-term credit facilities are expected to be adequate to finance internal growth, acquisitions and share repurchases.

Free operating cash flow is used to measure normal cash flow generated by operations that is available for dividends, acquisitions, share repurchases and debt repayment. Free operating cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies.

Summarized cash flow information for the third quarter and year-to-date periods of 2008 and 2007 was as follows:

(In thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
Net cash provided by operating activities	$ 688,759	$ 736,441	$ 1,632,787	$ 1,690,898
Additions to plant and equipment	(89,308)	(80,298)	(274,295)	(254,627)
Free operating cash flow	$ 599,451	$ 656,143	$ 1,358,492	$ 1,436,271
Acquisitions	$ (646,045)	$ (195,089)	$ (1,324,239)	$ (619,509)
Proceeds from investments	7,114	25,805	21,538	50,677
Cash dividends paid	(145,423)	(115,874)	(440,229)	(350,122)
Proceeds from sale of businesses	105,358	10,588	106,364	160,348
Issuance of common stock	10,138	22,756	45,333	99,857
Repurchases of common stock	(406,009)	(479,038)	(991,583)	(958,911)
Net proceeds of debt	737,040	182,831	1,272,616	185,753
Repayment of preferred stock of subsidiary				(40,000)
Other	(34,180)	12,474	(8,198)	47,533
Net increase in cash and equivalents	$ 227,444	$ 120,596	$ 40,094	$ 11,897

On August 20, 2007 the Company's Board of Directors authorized a stock repurchase program, which provides for the buyback of up to $3.0 billion of the Company s common stock over an open-ended period of time. In the first nine months of 2008, the Company repurchased 20.2 million shares of its common stock at an average price of $48.97 per share. There are approximately $1.6 billion of authorized repurchases remaining under this program.

Return on Average Invested Capital

The Company uses return on average invested capital (ROIC) to measure the effectiveness of its operations use of invested capital to generate profits. ROIC for the third quarter and year-to-date periods of 2008 and 2007 was as follows:

(Dollars in thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
Operating income after taxes	$459,287	$466,057	$1,375,748	$1,283,868
Invested capital:				
Trade receivables	$2,981,707	$2,842,414	$2,981,707	$2,842,414
Inventories	1,835,525	1,607,759	1,835,525	1,607,759
Net plant and equipment	2,120,769	2,120,571	2,120,769	2,120,571
Investments	498,348	546,342	498,348	546,342
Goodwill and intangible assets	6,472,457	5,594,394	6,472,457	5,594,394
Accounts payable and accrued expenses	(2,240,907)	(2,027,204)	(2,240,907)	(2,027,204)
Net assets held for sale	413,227		413,227	
Other, net	(257,549)	(225,354)	(257,549)	(225,354)
Total invested capital	$11,823,577	$10,458,922	$11,823,577	$10,458,922
Average invested capital	$11,805,462	$10,425,272	$11,382,516	$10,202,949
Annualized return on average invested capital	15.6%	17.9%	16.1%	16.8%

The 230 basis point decrease in ROIC in the third quarter of 2008 was the result of average invested capital increasing 13.2% while after-tax operating income decreased 1.5%. Average invested capital increased primarily due to acquisitions. Operating income decreased primarily due to negative effect of lower sales and decreased variable margins partially offset by the positive effect of currency translation and increased income from acquired businesses.

The 70 basis point decrease in ROIC for year-to-date 2008 was the result of average invested capital increasing 11.6% while after-tax operating income increased only 7.2%. Average invested capital increased primarily due to acquisitions while operating income also increased due to the positive effect of translation and income from acquired businesses, slightly offset by decreased base income.

Working Capital

Net working capital at September 30, 2008 and December 31, 2007 is summarized as follows:

(Dollars in thousands)	**September 30, 2008**	**December 31, 2007**	**Increase/(Decrease)**

Current assets:			
Cash and equivalents	$ 867,618	$ 827,524	$ 40,094
Trade receivables	2,981,707	2,915,546	66,161
Inventories	1,835,525	1,625,820	209,705
Other	674,345	653,236	21,109
	6,359,195	6,022,126	337,069
Current liabilities:			
Short-term debt	2,197,110	410,512	1,786,598
Accounts payable and accrued expenses	2,240,907	2,190,121	50,786
Other	369,684	353,808	15,876
	4,807,701	2,954,441	1,853,260
Net working capital	$ 1,551,494	$ 3,067,685	$ (1,516,191)
Current ratio	1.32	2.04	

Inventories increased primarily as a result of acquisitions. Short-term debt increased due to an increase in commercial paper to fund stock repurchases, as well as the 5.75% redeemable notes becoming current.

Debt

Total debt at September 30, 2008 and December 31, 2007 was as follows:

(Dollars in thousands)	**September 30, 2008**	**December 31, 2007**
Short-term debt	$ 2,197,110	$ 410,512
Long-term debt	1,398,165	1,888,839
Total debt	$ 3,595,275	$ 2,299,351
Total debt to capitalization	28.3 %	19.7 %

The Company had outstanding commercial paper of $1,493.7 million at September 30, 2008 and $201.0 million at December 31, 2007.

In 1999, the Company issued $500.0 million of 5.75% redeemable notes due March 1, 2009. The balance related to these notes outstanding at September 30, 2008 was classified as short-term debt. The balance outstanding at December 31, 2007 was classified as long-term debt.

In June 2007, the Company entered into a $1.0 billion Line of Credit Agreement with a termination date of June 13, 2008. This line of credit was replaced on June 13, 2008 by a $1.5 billion Line of Credit Agreement with a termination date of June 12, 2009. In September 2008, the Company exercised a provision of the agreement allowing for an increase in the line of credit to $1.8 billion. No amounts were outstanding under this facility at September 30, 2008.

On October 24, 2008, the Company amended the Line of Credit Agreement in order to increase the line of credit to $2.5 billion.

Stockholders Equity

The changes to stockholders equity during 2008 were as follows:

(In thousands)	
Total stockholders equity, December 31, 2007	$ 9,351,325
Net income	1,285,229
Cash dividends declared	(450,263)
Repurchases of common stock	(991,583)
Stock option activity	81,669
Pension and other postretirement benefit adjustments, net of tax	(6)
Adoption of SFAS 158, net of tax	(9,215)
Currency translation adjustments	(171,236)
Total stockholders equity, September 30, 2008	$ 9,095,920

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that may be identified by the use of words such as believe, expect, plans, strategy, prospects, estimate, project, target, anticipate, guidance, words, including, without limitation, statements regarding the timing of disposal of businesses held for sale, expected contributions to the Company s pension and postretirement plans, potential liability for European transfer taxes, the adequacy of internally generated funds and its credit facilities, the meeting of dividend payout objectives, and the estimated amount of unrecognized tax benefits. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that may influence future results include (1) a downturn or further downturn in the construction, general industrial, automotive, or food institutional/restaurant and service markets, (2) deterioration in international and domestic business and economic conditions, particularly in North America, Europe, Asia or Australia, (3) the unfavorable impact of foreign currency fluctuations and costs of raw materials, (4) an interruption in, or reduction in, introducing new products into the Company s product lines, (5) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates, and (6) unfavorable tax law changes and tax authority rulings. The risks covered here are not all inclusive and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The Company practices fair disclosure for all interested parties. Investors should be aware that while the Company regularly communicates with securities analysts and other investment professionals, it is against the Company s policy to disclose to them any material non-public information or other confidential commercial information. Shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report.

Item 4 Controls and Procedures

The Company s management, with the participation of the Company s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rule 13a 15(e)) as of September 30, 2008. Based on such evaluation, the Company s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer, have concluded that, as of September 30, 2008, the Company s disclosure controls and procedures were effective.

In connection with the evaluation by management, including the Company s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer, no changes in the Company s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f))

during the quarter ended September 30, 2008 were identified that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

Part II Other Information

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program, which provides for the buyback of up to $3.0 billion of the Company s common stock over an open-ended period of time.

Share repurchase activity under this program for the third quarter was as follows:

Major Customers

The following table summarizes the percentage of the consolidated revenues for those customers accounting for more than 10% of the consolidated revenues (all of such customer revenues relate to our CCUSA segment). The following table is after giving effect to the T-Mobile's acquisition of MetroPCS (completed in April 2013), and Sprint's acquisition of Clearwire (completed in July 2013).

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CROWN CASTLE INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-Unaudited (Continued)
(Tabular dollars in thousands, except per share amounts)

	Six Months Ended June 30,			
	2013		2012	
Sprint	30	%	23	%
T-Mobile	21	%	10	%
AT&T	17	%	21	%
Verizon Wireless	16	%	18	%
Total	84	%	72	%

12. Supplemental Cash Flow Information

	Six Months Ended June 30,	
	2013	2012
Supplemental disclosure of cash flow information:		
Interest paid	$212,592	$234,862
Income taxes paid	10,242	2,556
Supplemental disclosure of non-cash financing activities:		
Increase (decrease) in liabilities for purchases of property and equipment	15,927	11,837
Conversion of redeemable convertible preferred stock	—	305,180

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the response to Part I, Item 1 of this report and the consolidated financial statements of the Company including the related notes and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") included in our 2012 Form 10-K. Capitalized terms used but not defined in this Item have the same meaning given to them in our 2012 Form 10-K. Unless this Form 10-Q indicates otherwise or the context requires, the terms "we," "our," "our company," "the company," or "us" as used in this Form 10-Q refer to Crown Castle International Corp. and its subsidiaries.

General Overview

Overview

We own, operate or lease shared wireless infrastructure, including: (1) towers, (2) distributed antenna systems, a type of small cell network, and (3) third party land interests. Our core business is providing access, including space or capacity, to our towers, and to a lesser extent, to our small cell networks and third party land interests via long-term contracts in various forms. Site rental revenues represented 84% of our second quarter 2013 consolidated net revenues, of which 95% was attributable to our CCUSA operating segment. The vast majority of our site rental revenues is of a recurring nature and has been contracted for in a prior year. See our 2012 Form 10-K for a further discussion of our business, including our long-term strategy, growth trends in the wireless communications industry and our wireless infrastructure portfolio.

The following are certain highlights of our business fundamentals and results as of and for the six months ended June 30, 2013.

- Potential growth resulting from wireless network expansion and new entrants

We expect wireless carriers will continue their focus on improving network quality and expanding capacity by adding additional antennas and other equipment on our wireless infrastructure.

We expect existing and potential new wireless carrier demand for our wireless infrastructure will result from (1) next generation technologies, (2) continued development of mobile internet applications, (3) adoption of other emerging and embedded wireless devices, (4) increasing smartphone penetration, (5) wireless carrier focus on expanding coverage and (6) the availability of additional spectrum.

Substantially all of our wireless infrastructure can accommodate additional tenancy, either as currently constructed or with appropriate modifications to the structure.

U.S. wireless carriers continue to invest in their networks.

Our site rental revenues grew $217.1 million, or 21%, from the six months ended June 30, 2012 to the six months ended June 30, 2013. Our site rental revenue growth during the six months ended June 30, 2013 was impacted by:

Our acquisitions in 2012 ("Item 2. MD&A—Consolidated Results of Operations" and note 3 in our 2012 Form 10-K).

The fact that we have effectively pre-sold via a firm contractual commitment a significant portion of the modification of the existing installations relating to certain 4G upgrades. We have done so by increasing the future contracted revenue above that of a typical escalation over a period of time, typically a three to four year period. As a result, for any given period, the increase in cash revenue may not translate into a corresponding increase in reported revenues from the application of straight-line revenue recognition.

We expect that our full year 2013 site rental revenues growth will also be impacted by both of these same items that impacted our 2012 site rental revenue growth, including a substantial expected contribution from the 2012 acquisitions. See note 3 to our condensed consolidated financial statements for further discussion of our acquisitions.

Additionally, we do not expect that any of the customers' network enhancement deployments, recent customer consolidations, and any related non-renewal of customer contracts anticipated in 2014 and 2015, including Sprint's Network Vision and any corresponding non-renewal of iDEN leases, will have a material adverse effect on our operations and cash flows for 2013 and subsequent periods.

- Site rental revenues under long-term customer contracts with contractual escalations

Initial terms of five to 15 years with multiple renewal periods at the option of the tenant of five to ten years each.

Weighted-average remaining term of approximately eight years, exclusive of renewals at the customer's option, representing approximately $19 billion of expected future cash inflows.

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- Revenues predominately from large wireless carriers

Sprint, T-Mobile, AT&T and Verizon Wireless accounted for 84% of consolidated revenues, after giving effect to T-Mobile's acquisition of MetroPCS (completed in April 2013), and Sprint's acquisition of Clearwire (completed in July 2013). See "Item 1A. Risk Factors" of our 2012 Form 10-K and note 11 to our condensed consolidated financial statements.

In July, AT&T entered into a definitive agreement to acquire Leap Wireless International, Inc. ("Leap Wireless"). As of June 30, 2013, AT&T and Leap Wireless represented approximately 17% and 3%, respectively, of our consolidated site rental revenues. Further, there are approximately 1,300 towers on which both carriers currently reside. Our revenue from Leap Wireless on these 1,300 towers represents approximately 2% of consolidated site rental revenues.

- Majority of land interests under our towers under long-term control

Approximately nine-tenths and three-fourths of the site rental gross margin derived from our towers has land interests that we own or control for greater than ten and 20 years, respectively. The aforementioned amounts include towers that reside on land interests that are owned in fee or where we have perpetual or long-term easement, which represents more than one-third of such site rental gross margin.

- Relatively fixed wireless infrastructure operating costs

Our wireless infrastructure operating costs tend to increase at approximately the rate of inflation and are not typically influenced by new tenant additions.

- Minimal sustaining capital expenditure requirements

Sustaining capital expenditures were $17.0 million, which represented approximately 1% percent of net revenues.

- Debt portfolio with long-dated maturities extended over multiple years, with the majority of such debt having a fixed rate (see "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for a further discussion of our debt)

71% of our debt has fixed rate coupons.

Our debt service coverage and leverage ratios were comfortably within their respective financial maintenance and cash trap covenants. See "Item 2. MD&A—Liquidity and Capital Resources" for a further discussion of our debt covenants.

- Significant cash flows from operations

Net cash provided by operating activities was $560.0 million.

We believe our core business of providing access to our wireless infrastructure can be characterized as a stable cash flow stream, which we expect to grow as a result of future demand for our wireless infrastructure.

We currently pay minimal cash income taxes as a result of our net operating loss carryforwards. We have approximately $2.7 billion of federal net operating losses to offset future taxable income. See "Item 2. MD&A—Liquidity and Capital Resources."

- Capital allocated to drive long-term shareholder value (per share) (see also "Item 2. MD&A—Liquidity and Capital Resources")

Historical discretionary investments include (in no particular order): purchasing our common stock, acquiring or constructing wireless infrastructure, acquiring land interests under our towers, improving and structurally enhancing our existing wireless infrastructure, and purchasing, repaying or redeeming our debt.

Discretionary investments included:

The purchase of 1.4 million shares of common stock for $98.9 million at an average price per share of $69.56.

Discretionary capital expenditures of $237.9 million, including wireless infrastructure improvements in order to support additional site rentals, construction of wireless infrastructure and land purchases.

In April 2013, we refinanced all of the outstanding term loan B, which effectively lowered the interest rate margin by 75 basis points See note 4 to our condensed consolidated financial statements.

In January 2013, we completed the repurchase and redemption of all the outstanding 9% senior notes and 7.75% secured notes. In addition, we repaid a net $207.0 million on our 2012 revolver.

Consolidated Results of Operations

The following discussion of our results of operations should be read in conjunction with our condensed consolidated financial statements and our 2012 Form 10-K. The following discussion of our results of operations is based on our condensed consolidated financial statements prepared in accordance with GAAP, which requires us to make estimates and judgments that affect the reported amounts (see "Item 2. MD&A—Accounting and Reporting Matters—Critical Accounting Policies and Estimates" and note 2 to our consolidated financial statements on our 2012 Form 10-K).

Comparison of Consolidated Results

The following information is derived from our historical consolidated statements of operations for the periods indicated.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	
	Amount	Amount	Percent Change(b)
	(Dollars in thousands)		
Net revenues:			
Site rental	$616,849	$517,588	19 %
Network services and other	118,079	67,923	74 %
Net revenues	734,928	585,511	26 %
Operating expenses:			
Costs of operations[(a)]:			
Site rental	179,015	131,571	36 %
Network services and other	70,199	40,262	74 %
Total costs of operations	249,214	171,833	45 %
General and administrative	54,790	47,078	16 %
Asset write-down charges	3,097	3,646	*
Acquisition and integration costs	7,215	7,495	*
Depreciation, amortization and accretion	190,651	152,482	25 %
Total operating expenses	504,967	382,534	32 %
Operating income (loss)	229,961	202,977	13 %
Interest expense and amortization of deferred financing costs	(140,256)	(144,940)	(3)%
Gains (losses) on retirement of long-term obligations	(577)	(7,518)	
Interest income	328	382	
Other income (expense)	507	(2,249)	
Income (loss) before income taxes	89,963	48,652	
Benefit (provision) for income taxes	(36,587)	68,432	
Net income (loss)	53,376	117,084	
Less: Net income (loss) attributable to the noncontrolling interest	1,017	1,071	
Net income (loss) attributable to CCIC stockholders	$52,359	$116,013	

* Percentage is not meaningful

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

(b) Inclusive of the impact of foreign exchange rate fluctuations. See "Item 2. MD&A—Comparison of Operating Segments—CCAL."

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	
	Amount	Amount	Percent Change(b)
	(Dollars in thousands)		
Net revenues:			
Site rental	$1,232,264	$1,015,117	21 %
Network services and other	242,724	122,139	99 %
Net revenues	1,474,988	1,137,256	30 %
Operating expenses:			
Costs of operations[(a)]:			
Site rental	356,621	254,442	40 %
Network services and other	147,576	71,783	106 %
Total costs of operations	504,197	326,225	55 %
General and administrative	113,035	98,079	15 %
Asset write-down charges	6,812	6,690	*
Acquisition and integration costs	8,817	9,175	*
Depreciation, amortization and accretion	377,110	291,882	29 %
Total operating expenses	1,009,971	732,051	38 %
Operating income (loss)	465,017	405,205	15 %
Interest expense and amortization of deferred financing costs	(304,625)	(282,412)	8 %
Gains (losses) on retirement of long-term obligations	(36,486)	(14,586)	
Interest income	625	736	
Other income (expense)	(122)	(3,326)	
Income (loss) before income taxes	124,409	105,617	
Benefit (provision) for income taxes	(54,295)	61,737	
Net income (loss)	70,114	167,354	
Less: Net income (loss) attributable to the noncontrolling interest	2,293	1,310	
Net income (loss) attributable to CCIC stockholders	$67,821	$166,044	

* Percentage is not meaningful
(a) Exclusive of depreciation, amortization and accretion shown separately.
(b) Inclusive of the impact of foreign exchange rate fluctuations. See "Item 2. MD&A—Comparison of Operating Segments—CCAL."

Second Quarter 2013 and 2012. Our consolidated results of operations for the second quarter of 2013 and 2012, respectively, consist predominately of our CCUSA segment, which accounted for (1) 95% and 94% of consolidated net revenues, (2) 95% and 94% of consolidated gross margins, and (3) 93% and 97% of net income (loss) attributable to CCIC stockholders. Our operating segment results, including CCUSA, are discussed below (see "Item 2. MD&A—Comparison of Operating Segments"). The NextG acquisition and T-Mobile acquisition impacted our consolidated results of operations from the second quarter of 2012 to the second quarter of 2013 by (1) increasing consolidated net revenues by $75.5 million and (2) reducing net income by $7.6 million (exclusive of the interest expense associated with the financing to fund each of these acquisitions).

First Half 2013 and 2012. Our consolidated results of operations for the first half of 2013 and 2012, respectively, consist predominately of our CCUSA segment, which accounted for (1) 95% and 94% of consolidated net revenues, (2) 95% and 94% of consolidated gross margins, and (3) 88% and 97% of net income (loss) attributable to CCIC stockholders. Our operating segment results, including CCUSA, are discussed below (see "Item 2. MD&A—Comparison of Operating Segments"). The WCP acquisition, NextG acquisition and T-Mobile acquisition impacted our

consolidated results of operations from the second quarter of 2012 to the second quarter of 2013 by (1) increasing consolidated net revenues by $195.5 million and (2) reducing net income by $6.6 million (inclusive of the impact of debt assumed in the WCP acquisition, but exclusive of the interest expense associated with the financing to fund each of these acquisitions).

Comparison of Operating Segments

Our reportable operating segments for the second quarter of 2013 are (1) CCUSA, consisting of our U.S. operations, and (2) CCAL, our Australian operations. Our financial results are reported to management and the board of directors in this manner.

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See note 10 to our condensed consolidated financial statements for segment results, our definition of Adjusted EBITDA, and a reconciliation of net income (loss) attributable to CCIC stockholders to Adjusted EBITDA (defined below).

Our measurement of profit or loss currently used to evaluate our operating performance and operating segments is earnings before interest, taxes, depreciation, amortization and accretion, as adjusted ("Adjusted EBITDA"). Our measure of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in the tower sector and other similar providers of wireless infrastructure, and is not a measure of performance calculated in accordance with GAAP. Adjusted EBITDA is discussed further under "Item 2. MD&A—Accounting and Reporting Matters—Non-GAAP Financial Measures."

We define Adjusted EBITDA as net income (loss) plus restructuring charges (credits), asset write-down charges, acquisition and integration costs, depreciation, amortization and accretion, amortization of prepaid lease purchase price adjustments, interest expense and amortization of deferred financing costs, gains (losses) on retirement of long-term obligations, net gain (loss) on interest rate swaps, impairment of available-for-sale securities, interest income, other income (expense), benefit (provision) for income taxes, cumulative effect of a change in accounting principle, income (loss) from discontinued operations and stock-based compensation expense (see note 10 to our condensed consolidated financial statements). The reconciliation of Adjusted EBITDA to our net income (loss) is set forth in note 10 to our condensed consolidated financial statements. Adjusted EBITDA is not intended as an alternative measure of operating results or cash flows from operations as determined in accordance with GAAP. Adjusted EBITDA is discussed further under "Item 2. MD&A—Accounting and Reporting Matters—Non-GAAP Financial Measures."

CCUSA—Second Quarter 2013 and 2012

Net revenues for the second quarter of 2013 increased by $146.8 million, or 27%, from the same period in the prior year. This increase in net revenues resulted from an increase from the same period in the prior year in (1) site rental revenues of $95.8 million, or 20%, and (2) network services and other revenues of $51.0 million, or 82%.

The increase in site rental revenues was impacted by the following items, inclusive of straight-line accounting, in no particular order: new tenant additions across our entire portfolio, renewals or extensions of customer contracts, escalations, acquisitions and cancellations of customer contracts. Tenant additions were influenced by the previously mentioned growth in the wireless communications industry. Site rental gross margins for the second quarter of 2013 increased by $49.7 million, or 14%, from the same period in the prior year. The increase in the site rental gross margins was related to the previously mentioned 20% increase in site rental revenues. Site rental gross margins for the second quarter of 2013 increased primarily as a result of acquisitions. The $49.7 million incremental margin represents 52% of the related increase in site rental revenues, inclusive of the impact of acquisitions.

Network services and other gross margin increased by $21.8 million, or 87%, from the same period in the prior year. The increase in our gross margin from our network services and other revenues is a reflection of the volume of activity from carrier network enhancements such as LTE upgrades and the general volatility in the volume and mix of network services work. Our network services business is of a variable nature as these revenues are not under long-term contracts.

General and administrative expenses for the second quarter of 2013 increased by $7.7 million, or approximately 18%, from the same period in the prior year. General and administrative expenses were 7% of net revenues for the second quarter of 2013 and the second quarter of 2012. The increase in general and administrative expenses in nominal dollars was commensurate with the growth in our business as a result of our acquisitions. Typically, our general and administrative expenses do not significantly increase as a result of new tenant additions on our wireless infrastructure.

Adjusted EBITDA for the second quarter of 2013 increased by $65.1 million, or 18%, from the same period in the prior year. Adjusted EBITDA was positively impacted by the growth in our site rental and network services activities and our acquisitions.

Depreciation, amortization and accretion for the second quarter of 2013 increased by $38.5 million, or 27%, from the same period in the prior year predominately as a result of the fixed asset and intangible asset additions related to the NextG acquisition and T-Mobile acquisition consummated in April 2012 and November 2012, respectively.

Interest expense and amortization of deferred financing costs decreased $4.7 million, or 3%, from the second quarter of 2012 to the second quarter of 2013, as a result of our refinancings during 2012 and 2013 partially offset by additional borrowings to fund acquisitions during 2012. During the full year 2012, we completed several debt transactions, resulting in (1) lowering our average cost of debt, (2) funding for the WCP acquisition, NextG acquisition and T-Mobile acquisition, (3) the refinancing of certain of our debt and (4) the extension of our debt maturities. During 2013, we redeemed and repaid the remaining outstanding

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7.75% secured notes and 9% senior notes. For a further discussion of our debt, see note 4 to our condensed consolidated financial and see note 6 to our consolidated financial statements in the 2012 Form 10-K.
The benefit (provision) for income taxes for the second quarter of 2013 was a provision of $34.3 million, compared to a benefit of $68.9 million for the second quarter of 2012. For the second quarter of 2013, the effective tax rate differs from the federal statutory rate predominately due to state taxes, including the impact of certain subsidiaries without state income tax filing requirements incurring taxable losses for which no state benefit could be recorded. For the second quarter of 2012, the effective tax rate differs from the federal statutory rate predominately due to our federal deferred tax valuation allowance, including the reversal of a total of $70.1 million of federal and $20.0 million of state valuation allowances to our benefit (provision) for income taxes. See also note 9 to our 2012 Form 10-K.
Net income (loss) attributable to CCIC stockholders for the second quarter of 2013 was net income of $48.7 million compared to net income of $112.0 million for the second quarter of 2012. The change in net income was predominately due to (1) a change in our benefit (provision) for income taxes, partially offset by (2) growth in our site rental and network service gross margins.
CCUSA—First Half 2013 and 2012
Net revenues for the first half of 2013 increased by $330.9 million, or 31%, from the same period in the prior year. This increase in net revenues resulted from an increase from the same period in the prior year in (1) site rental revenues of $209.0 million, or 22%, and (2) network services and other revenues of $121.9 million, or 112%.
The increase in site rental revenues was impacted by the following items, inclusive of straight-line accounting, in no particular order: new tenant additions across our entire portfolio, renewals or extensions of customer contracts, escalations, acquisitions and cancellations of customer contracts. Tenant additions were influenced by the previously mentioned growth in the wireless communications industry. Site rental gross margins for the first half of 2013 increased by $109.2 million, or 15%, from the same period in the prior year. The increase in the site rental gross margins was related to the previously mentioned 22% increase in site rental revenues. Site rental gross margins for the first half of 2013 increased primarily as a result of acquisitions. The $109.2 million incremental margin represents 52% of the related increase in site rental revenues, inclusive of the impact of acquisitions.
Network services and other gross margin increased by $47.7 million, or 105%, from the same period in the prior year. The increase in our gross margin from our network services and other revenues is a reflection of the volume of activity from carrier network enhancements such as LTE upgrades and the general volatility in the volume and mix of network services work. Our network services business is of a variable nature as these revenues are not under long-term contracts.
General and administrative expenses for the first half of 2013 increased by $16.6 million, or approximately 19%, from the same period in the prior year. General and administrative expenses were 7% of net revenues for the first half of 2013 and the first half of 2012. The increase in general and administrative expenses in nominal dollars was commensurate with the growth in our business as a result of our acquisitions. Typically, our general and administrative expenses do not significantly increase as a result of new tenant additions on our wireless infrastructure.
Adjusted EBITDA for the first half of 2013 increased by $143.9 million, or 20%, from the same period in the prior year. Adjusted EBITDA was positively impacted by the growth in our site rental and network services activities and our acquisitions.
Depreciation, amortization and accretion for the first half of 2013 increased by $86.0 million, or 31%, from the same period in the prior year. This increase predominately resulted from the fixed asset and intangible asset additions related to the NextG acquisition and T-Mobile acquisition consummated in April 2012 and November 2012, respectively.

Interest expense and amortization of deferred financing costs increased $22.2 million, or 8%, from the first half of 2012 to the first half of 2013, as a result of our refinancings during 2012 and 2013 partially offset by additional borrowings to fund acquisitions during 2012. During full year 2012, we completed several debt transactions, resulting in (1) lowering our average cost of debt, (2) funding for the WCP acquisition, NextG acquisition and T-Mobile acquisition, (3) the refinancing of certain of our debt and (4) the extension of our debt maturities. During the first half of 2013, we redeemed and repaid the remaining outstanding 7.75% secured notes and 9% senior notes. As a result of repurchasing and redeeming certain of our debt during the first half of 2013 and the first half of 2012, we incurred

losses of $36.5 million and $14.6 million, respectively. For a further discussion of our debt, see note 4 to our condensed consolidated financial and see note 6 to our consolidated financial statements in the 2012 Form 10-K.
The benefit (provision) for income taxes for the first half of 2013 was a provision of $49.9 million, compared to a benefit of $62.7 million for the first half of 2012. For the first half of 2013, the effective tax rate differs from the federal statutory rate predominately due to state taxes, including the impact of certain subsidiaries without state income tax filing requirements incurring

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taxable losses for which no state benefit could be recorded. For the first half of 2012, the effective tax rate differs from the federal statutory rate predominately due to the reversal of federal and state deferred tax valuation allowances, including the reversal of a total of $70.1 million of federal and $20.0 million of state valuation allowances to our benefit (provision) for income taxes. See also note 9 to our 2012 Form 10-K.

Net income (loss) attributable to CCIC stockholders for the first half of 2013 was net income of $59.7 million compared to net income of $160.3 million for the first half of 2012. The change in net income was predominately due to (1) a change in our benefit (provision) for income taxes, (2) the net impact of our financing activities, partially offset by (3) growth in our site rental and network service gross margins.

CCAL—Second Quarter 2013 and 2012

The increases and decreases between the second quarter of 2013 and the second quarter of 2012 were inclusive of exchange rate fluctuations. The average exchange rate of one Australian dollar expressed in U.S. dollars for the second quarter of 2013 was approximately 0.99, a decrease of 2% from approximately 1.01 for the same period in the prior year. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

Total net revenues for the second quarter of 2013 increased by $2.6 million, or 7%, from the same period in the prior year. Site rental revenues for the second quarter of 2013 increased by $3.4 million, or 12%, from the same period in the prior year. Site rental revenues were impacted by various factors, inclusive of straight-line accounting, including in no particular order: tenant additions on our wireless infrastructure, renewals of customer contracts, acquisitions, escalations, exchange rates, and cancellations of customer contracts.

Site rental gross margins increased by $2.2 million, or 10%, for the second quarter of 2013, from $21.3 million, for the second quarter of 2012. Adjusted EBITDA for the second quarter of 2013 increased by $0.7 million, or 4%, from the same period in the prior year. The increases in the site rental gross margin and Adjusted EBITDA were primarily due to the same factors that drove the increase in net revenues.

Net income (loss) attributable to CCIC stockholders for the second quarter of 2013 was net income of $3.6 million, compared to net income of $4.0 million for the second quarter of 2012.

CCAL—First Half 2013 and 2012

The increases and decreases between the first half of 2013 and the first half of 2012 were inclusive of exchange rate fluctuations. The average exchange rate of one Australian dollar expressed in U.S. dollars for the first half of 2013 was approximately 1.02, a decrease of 2% from approximately 1.03 for the same period in the prior year. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

Total net revenues for the first half of 2013 increased by $6.9 million, or 9%, from the same period in the prior year. Site rental revenues for the first half of 2013 increased by $8.2 million, or 14%, from the same period in the prior year. Site rental revenues were impacted by various factors, inclusive of straight-line accounting, including in no particular order: tenant additions on our wireless infrastructure, renewals of customer contracts, acquisitions, escalations, exchange rates, and cancellations of customer contracts.

Site rental gross margins increased by $5.8 million, or 14%, for the first half of 2013, from $41.8 million, for the first half of 2012. Adjusted EBITDA for the first half of 2013 increased by $2.7 million, or 8%, from the same period in the prior year. The increases in the site rental gross margin and Adjusted EBITDA were primarily due to the same factors that drove the increase in net revenues.

Net income (loss) attributable to CCIC stockholders for the first half of 2013 was net income of $8.2 million, compared to net income of $5.7 million for the first half of 2012. The increase in net income was primarily driven by the growth in the site rental business.

Liquidity and Capital Resources

Overview

General. We believe our core business can be characterized as a stable cash flow stream generated by revenues under long-term contracts (see "Item 2. MD&A—General Overview—Overview"). Since we became a public company in 1998, our cumulative net cash provided by operating activities (net of cash interest payments) has exceeded our sustaining capital expenditures and provided us with cash available for discretionary investments. For the foreseeable future, we expect to continue to generate net cash provided by operating activities that exceeds our capital expenditures and will be available for discretionary investments. In addition to investing net cash provided by operating activities, in certain circumstances, we may also use debt financings and issuances of equity or equity related securities to fund discretionary investments.

We seek to allocate the net cash provided by our operating activities in a manner that will enhance per share operating results. Our historical discretionary investments include (in no particular order): purchasing our common stock, acquiring or constructing wireless infrastructure, acquiring land interests under towers, improving and structurally enhancing our existing wireless infrastructure, and purchasing, repaying or redeeming our debt.

We seek to maintain a capital structure that we believe drives long-term stockholder value and optimizes our weighted-average cost of capital. We target a leverage ratio of approximately four to six times Adjusted EBITDA and interest coverage of approximately three times Adjusted EBITDA, subject to various factors such as the availability and cost of capital and the potential long-term return on our discretionary investments. We may choose to increase or decrease our leverage and coverage from these targets for periods of time. As a result of our financing and investing transactions during 2012, including the T-Mobile acquisition, our CCIC consolidated leverage ratio (see "Item 2. MD&A—Liquidity and Capital Resources—Debt Covenants") is 6.2 times at June 30, 2013. This current CCIC consolidated leverage ratio is below our restrictive covenant of 7.0 times.

We have never declared nor paid any cash dividend on our common stock. Currently, we endeavor to utilize our net cash provided by operating activities to engage in discretionary investments. We seek to maintain flexibility in our discretionary investments with both net cash provided by operating activities and cash available from financing capacity. Periodically, our board of directors assesses the advisability of declaring and paying cash dividends at some point in the future, based on the then-current and anticipated future conditions, including our earnings, net cash provided by operating activities, capital requirements, financial condition, our relative market capitalization, taxable income, taxpayer status, and other factors deemed relevant by the board of directors.

We pay minimal cash income taxes as a result of our net operating loss carryforwards. We have approximately $2.7 billion of federal net operating losses to offset future taxable income. We expect to utilize our federal net operating losses between now and 2017 based on current taxable income projections. We evaluate our options with respect to appropriately managing our tax position on an on-going basis. These options may include a potential conversion to a REIT, which we are exploring and which would require the payment of dividends on our common stock. If we were to convert to a REIT, we expect that certain subsidiaries may be treated as taxable REIT subsidiaries and would continue to be subject to corporate income taxes.

Liquidity Position. The following is a summary of our capitalization and liquidity position. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and note 4 to our condensed consolidated financial statements for additional information regarding our debt.

	June 30, 2013 (In thousands of dollars)
Cash and cash equivalents[(a)]	$126,886
Undrawn revolving credit facility availability[(b)]	434,000
Debt and other long-term obligations	10,788,522
Total equity	2,924,894

(a) Exclusive of restricted cash.

(b)

Availability at any point in time is subject to certain restrictions based on the maintenance of financial covenants contained in our credit agreement. See "Item 2. MD&A—Liquidity and Capital Resources—Financing Activities" and "Item 2. MD&A—Liquidity and Capital Resources—Debt Covenants."

Over the next 12 months:

- We expect that our cash on hand, undrawn revolving credit facility availability and net cash provided by operating activities (net of cash interest payments) should be sufficient to cover our expected (1) debt service obligations of $97.0 million (principal payments) and (2) capital expenditures in excess of $500 million (sustaining and discretionary). As CCIC and CCOC are holding companies, this cash flow from operations is generated by our operating subsidiaries.
- We have no debt maturities other than principal payments on amortizing debt. We do not anticipate the need to access the capital markets to refinance our existing debt until at least 2015. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for a tabular presentation of our debt maturities as of June 30, 2013.

Summary Cash Flow Information

	Six Months Ended June 30,		
	2013	2012	Change
	(In thousands of dollars)		
Net cash provided by (used for):			
Operating activities	$560,027	$324,342	$235,685
Investing activities	(275,456)	(1,357,825)	1,082,369
Financing activities	(596,097)	1,049,237	(1,645,334)
Effect of exchange rate changes on cash	(2,952)	301	(3,253)
Net increase (decrease) in cash and cash equivalents	$(314,478)	$16,055	$(330,533)

Operating Activities

The increase in net cash provided by operating activities for the first half of 2013 of $235.7 million, or 73%, from first half of 2012, was primarily due to growth in our core business, including through the aforementioned acquisitions that occurred in 2012. Changes in working capital, particularly changes in deferred site rental receivables, deferred rental revenues, prepaid ground leases, restricted cash and accrued interest, can have a significant impact on our net cash from operating activities, largely due to the timing of payments and receipts. We expect to grow our cash flow provided by operating activities in the future (exclusive of movements in working capital) if we realize expected growth in our core business.

Investing Activities

Capital Expenditures.

	Six Months Ended June 30,		
	2013	2012	Change
	(In thousands of dollars)		
Discretionary:			
Purchases of land interests	$42,896	57,056	$(14,160)
Wireless infrastructure construction and improvements	194,965	91,115	103,850
Sustaining	16,959	11,526	5,433
Total	$254,820	$159,697	$95,123

Other than sustaining capital expenditures, which we expect to be approximately $36 million to $40 million for the year ended December 31, 2013, our capital expenditures are discretionary and are made with respect to activities which we believe exhibit sufficient potential to improve our long-term results of operations on a per share basis. We expect to use in excess of $500 million of our cash flow on capital expenditures (sustaining and discretionary) for full year 2013, with approximately 40% of our total capital expenditures targeted for our existing wireless infrastructure related to customer installations and related capacity improvement. Our decisions regarding capital expenditures are influenced by the availability and cost of capital and expected returns on alternative investments.

Capital expenditures for wireless infrastructure improvements typically vary based on (1) the type of work performed on the wireless infrastructure, with initial installations of a new antenna typically requiring greater capital expenditures than a modification to an existing installation, (2) the existing capacity of the wireless infrastructure prior to installation, and (3) changes in structural engineering regulations and our internal structural standards. Wireless infrastructure construction capital expenditures increased from the first six months of 2012 to the same period in 2013 primarily as a result of improvements to towers to accommodate new tenant additions, and to a lesser extent additional

small cell network builds and improvements.

Acquisitions. See note 3 to our condensed consolidated financial statements and notes 3 and 5 to our 2012 Form 10-K for a discussion of our WCP acquisition, NextG acquisition and T-Mobile acquisition.
Financing Activities
We seek to allocate cash generated by our operations in a manner that will enhance per share operating results, which may include various financing activities such as (in no particular order) purchasing our common stock and purchasing or redeeming our debt.
Credit Facility. The proceeds of our revolving credit facility may be used for general corporate purposes, which may include the financing of capital expenditures, acquisitions and purchases of our common stock. Typically, we have used our revolving credit facility to fund discretionary investments and not for operating activities such as working capital, which are typically funded by net cash provided by operating activities. As of July 29, 2013, there was $1.1 billion outstanding under our revolving credit facility. During the six months ended June 30, 2013, we repaid a total of $255 million and borrowed $48 million under the 2012 Revolver. See also note 4 of our condensed consolidated financial statements, regarding the refinancing of our term loan B.
Debt Purchases and Repayments. See note 4 to our condensed consolidated financial statements for a summary of our debt purchases and repayments during the first half of 2013, including the gains (losses) on the redemption and repayment of the remaining 7.75% secured notes and the 9% senior notes. The redemption of the 7.75% secured notes was funded by the release of restricted cash.
Common Stock Activity. As of June 30, 2013 and December 31, 2012, we had 292.7 million and 293.2 million common shares outstanding, respectively. During the first six months of 2013, we purchased 1.4 million shares of common stock at an average price of $69.56 per share utilizing $98.9 million in cash.
Debt Covenants
We currently have no financial covenant violations, and based upon our current expectations, we believe our operating results will be sufficient to comply with our debt covenants. Certain of our debt agreements contain ratios relating to financial maintenance, restrictive and cash trap reserve covenants. See our 2012 Form 10-K for a further discussion of our debt covenants, certain restrictive covenants and factors that are likely to determine our subsidiaries' ability to comply with current and future debt covenants. There are no significant changes in the ratios since December 31, 2012.

Accounting and Reporting Matters
Critical Accounting Policies and Estimates
Our critical accounting policies and estimates are those that we believe (1) are most important to the portrayal of our financial condition and results of operations and (2) require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The critical accounting policies and estimates are not intended to be a comprehensive list of our accounting policies and estimates. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment. In other cases, management is required to exercise judgment in the application of accounting principles with respect to particular transactions. Our critical accounting policies and estimates as of December 31, 2012 are described in "Item 7. MD&A" and in note 2 of our consolidated financial statements in our 2012 Form 10-K. The critical accounting policies and estimates for the first half of 2013 have not changed from the critical accounting policies for the year ended December 31, 2012, although certain additional disclosure is provided below.
Accounting for Acquisitions—Leases
With respect to business combinations that include towers that we lease and operate, such as the T-Mobile towers and the Sprint towers, we evaluate such agreements to determine treatment as capital or operating leases. The evaluation of such agreements for capital or operating lease treatment includes consideration of each of the lease classification criteria under ASC 840-10-25, namely (a) the transfer of ownership provisions, (b) the existence of bargain purchase options, (c) the length of the remaining lease term and (d) the present value of the minimum lease payments. With respect to the business combinations related to the T-Mobile towers and Sprint towers, the Company determined that the tower leases were capital leases and the underlying land leases were operating leases based upon the lease term criterion, after considering the fragmentation criteria applicable under ASC 840-10-25 to leases involving both land and buildings (i.e., towers). The Company determined that the fragmentation criteria was met and the tower leases

could be accounted for as capital leases apart from the land leases, which are accounted for as operating leases,

since (a) the fair value of the land in both business combinations was greater than 25% of the total fair value of the leased property at inception and (b) the tower lease expirations occur beyond 75% of the estimated economic life of the tower assets.

Impact of Accounting Standards Issued But Not Yet Adopted and Those Adopted in 2013

No accounting pronouncements adopted during the six months ended June 30, 2013 had a material impact on our condensed consolidated financial statements. No new accounting pronouncements issued during the six months ended June 30, 2013 are expected to have a material impact on our condensed consolidated financial statements.

Non-GAAP Financial Measures

Our measurement of profit or loss currently used to evaluate the operating performance of our operating segments is earnings before interest, taxes, depreciation, amortization and accretion, as adjusted, or Adjusted EBITDA. Our definition of Adjusted EBITDA is set forth in "Item 2. MD&A—Results of Operations—Comparison of Operating Segments." Our measure of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in the tower sector and other similar providers of wireless infrastructure, and is not a measure of performance calculated in accordance with GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for operating income or loss, net income or loss, net cash provided by (used for) operating, investing and financing activities or other income statement or cash flow statement data prepared in accordance with GAAP.

We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is the primary measure used by our management to evaluate the economic productivity of our operations, including the efficiency of our employees and the profitability associated with their performance, the realization of contract revenues under our long-term contracts, our ability to obtain and maintain our customers and our ability to operate our site rental business effectively;
- it is the primary measure of profit and loss used by our management for purposes of making decisions about allocating resources to, and assessing the performance of, our operating segments;
- it is similar to the measure of current financial performance generally used in our debt covenant calculations;
- although specific definitions may vary, it is widely used in the tower sector and other similar providers of wireless infrastructure to measure operating performance without regard to items such as depreciation, amortization and accretion which can vary depending upon accounting methods and the book value of assets; and
- we believe it helps investors meaningfully evaluate and compare the results of our operations (1) from period to period and (2) to our competitors by removing the impact of our capital structure (primarily interest charges from our outstanding debt) and asset base (primarily depreciation, amortization and accretion) from our operating results.

Our management uses Adjusted EBITDA:

- with respect to compliance with our debt covenants, which require us to maintain certain financial ratios including, or similar to, Adjusted EBITDA;
- as the primary measure of profit and loss for purposes of making decisions about allocating resources to, and assessing the performance of, our operating segments;
- as a performance goal in employee annual incentive compensation;
- as a measurement of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges from our outstanding debt) and asset base (primarily depreciation, amortization and accretion) from our operating results;
- in presentations to our board of directors to enable it to have the same measurement of operating performance used by management;
- for planning purposes, including preparation of our annual operating budget;
- as a valuation measure in strategic analyses in connection with the purchase and sale of assets; and
- in determining self-imposed limits on our debt levels, including the evaluation of our leverage ratio and interest coverage ratio.

There are material limitations to using a measure such as Adjusted EBITDA, including the difficulty associated with comparing results among more than one company, including our competitors, and the inability to analyze certain significant items, including depreciation and interest expense, that directly affect our net income or loss. Management compensates for these limitations by considering the economic effect of the excluded expense items independently as

well as in connection with their analysis of net income (loss).

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following section updates "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Form 10-K and should be read in conjunction with that report as well as our condensed consolidated financial statements included in Part 1, Item 1 of this report.

Interest Rate Risk

Our interest rate risk relates primarily to the impact of interest rate movements on the following:

- the potential refinancing of our existing debt ($10.8 billion and $11.6 billion outstanding at June 30, 2013 and December 31, 2012, respectively);
- our $3.1 billion of floating rate debt at June 30, 2013; which represented approximately 29% of our total debt, as of both June 30, 2013 and as of December 31, 2012; and
- potential future borrowings of incremental debt.

We may refinance our current outstanding indebtedness on or prior to maturity at the then current prevailing market rates which may be higher than our current stated rates, including as a result of potential future increases in risk free rates. We currently have no interest rate swaps hedging any refinancings.

Sensitivity Analysis

We manage our exposure to market interest rates on our existing debt by controlling the mix of fixed and floating rate debt. As of June 30, 2013, we had $3.1 billion of floating rate debt, which included $1.6 billion of debt with a LIBOR floor of 75 basis points per annum. As a result, a hypothetical unfavorable fluctuation in market interest rates on our existing debt of 1/8 of a percent point over a 12 month period would increase our interest expense by approximately $2 million when giving effect to our LIBOR floor and would increase our interest expense by approximately $4 million exclusive of the impact of the LIBOR floor.

Tabular Information

The following table provides information about our market risk related to changes in interest rates. The future principal payments and weighted-average interest rates are presented as of June 30, 2013. These debt maturities reflect contractual maturity dates and do not consider the impact of the principal payments that commence if the applicable debt is not repaid or refinanced on or prior to the anticipated repayment dates on the tower revenue notes and the WCP Securitized Notes (see footnote (c)). The information presented below regarding the variable rate debt is supplementary to our sensitivity analysis regarding the impact of changes in the LIBOR rates. See note 4 to our condensed consolidated financial statements for additional information regarding our debt.

	Future Principal Payments and Interest Rates by the Debt Instruments' Contractual Year of Maturity							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value[(a)]
	(Dollars in thousands)							
Debt:								
Fixed rate[(c)]	$26,261	$51,731	$51,597	$49,310 [(c)]	$547,999 [(c)(e)]	$6,962,939 [(c)]	$7,689,837 [(c)]	$8,013,297
Average interest rate[(b)(c)]	4.8 %	4.9 %	4.9 %	6.9 %[(c)]	2.8 %[(c)]	7.8 %[(c)]	7.4 %[(c)]	
Variable rate	$20,400	$50,175	$62,675	$65,800	$1,386,800	$1,504,950	$3,090,800	$3,094,630
Average interest rate[(d)]	3.0 %	3.0 %	3.4 %	4.4 %	4.8 %	6.3 %	5.4 %	

(a) The fair value of our debt is based on indicative, non-binding quotes from brokers. Quotes from the brokers require judgment and are based on the brokers' interpretation of market information, including implied credit spreads for similar borrowings on recent trades or bid/ask offers. These fair values are not necessarily indicative of the amount which could be realized in a current market exchange.

(b) The average interest rate represents the weighted-average stated coupon rate (see footnote (c)).

(c) The impact of principal payments that commence if the applicable debt is not repaid or refinanced on or prior to the anticipated repayment dates are not considered. The January 2010 Tower Revenue Notes consist of three series of notes with principal amounts of $300.0 million, $350.0 million and $1.3 billion, having anticipated repayments dates in 2015, 2017, and 2020, respectively. The August 2010 Tower Revenue Notes consist of three series of notes with principal amounts of $250.0 million, $300.0 million and $1.0 billion, having anticipated repayment dates in 2015, 2017, and 2020, respectively. If the tower revenue notes are not repaid in full by their anticipated repayment dates, the applicable interest rate increases by an additional approximately 5% per annum and monthly principal payments commence using the Excess Cash Flow of the issuers of the tower revenue notes. The tower revenue notes are presented based on their contractual maturity dates between 2035 and 2040 and include the impact of an assumed 5% increase in interest rate that would occur following the anticipated repayment dates but exclude the impact of monthly principal payments that would commence using Excess Cash Flow of the issuers of the tower revenue notes. The full year 2012 Excess Cash Flow of the issuers was approximately $482 million. If the WCP Securitized Notes with a current face value of $287.5 million are not repaid in full by their anticipated repayment dates in 2015, the applicable interest rate increases by an additional approximately 5% per annum. If the WCP Securitized Notes are not repaid in full by their rapid amortization date of 2017, monthly principal payments commence using the Excess Cash Flow of the Issuers of the WCP Securitized Notes. The WCP Securitized Notes are presented based on their contractual maturity dates in

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2040. The full year 2012 Excess Cash Flow of Issuers of the WCP Securitized Notes was approximately $17 million. We currently expect to refinance these notes on or prior to the respective anticipated repayment dates.

(d) The average variable interest rate is based on the currently observable forward rates. The 2012 Revolver and the Term Loan A bear interest at a per annum rate equal to LIBOR plus 2.0% to 2.75%, based on CCOC's total net leverage ratio. The Term Loan B bears interest at a per annum rate equal to LIBOR (with LIBOR subject to a floor of 75 basis points per annum) plus 2.25% to 2.5%, based on CCOC's total net leverage ratio.

(e) Predominantly consists of a portion of the 2012 secured notes in an aggregate principal amount of $500 million of 2.381% secured notes due 2017.

Foreign Currency Risk

Foreign exchange markets have recently been volatile, and we expect foreign exchange markets to continue to be volatile over the near term. The vast majority of our foreign currency risk is related to the Australian dollar which is the functional currency of CCAL. CCAL represented 5% of our consolidated net revenues and 5% of our operating income for the six months ended June 30, 2013. Over the past year, the Australian dollar has decreased approximately 10% in value compared to the U.S. dollar. We believe the risk related to our financial instruments (exclusive of inter-company financing deemed a long-term investment) denominated in Australian dollars should not be material to our financial condition. A hypothetical increase or decrease of 25% in the Australian dollar to U.S. dollar exchange rate would increase or decrease the fair value of our Australian dollar denominated financial instruments by approximately $13 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in alerting them in a timely manner to material information relating to the Company required to be included in the Company's periodic reports under the Securities Exchange Act of 1934.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See the disclosure in note 8 to our condensed consolidated financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, which disclosure is hereby incorporated herein by reference.

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors discussed in "Item 1A—Risk Factors" in our 2012 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes information with respect to purchase of our equity securities during the second quarter of 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
	(In thousands)			
April 1 - April 30, 2013	—	$—	—	—
May 1 - May 31, 2013	3	73.67	—	—
June 1 - June 30, 2013	1,077	69.72	—	—
Total	1,080	$69.73	—	—

We paid $75.3 million in cash to effect these purchases, of which 1.1 million were purchased in the open market utilizing $75.0 million in cash (an average price of $69.72 per share).

ITEM 6. EXHIBITS

The list of exhibits set forth in the accompanying Exhibit Index is incorporated by reference into this Item 6.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CROWN CASTLE INTERNATIONAL CORP.
Date: August 6, 2013	By: /s/ Jay A. Brown Jay A. Brown Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: August 6, 2013	By: /s/ Rob A. Fisher Rob A. Fisher Vice President and Controller (Principal Accounting Officer)

Exhibit Index

Exhibit No.	Description
(c) 3.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Crown Castle International Corp., effective May 24, 2013
3.2	Composite Certificate of Incorporation of Crown Castle International Corp.
(a) 3.3	Composite By-laws of Crown Castle International Corp.
(b) 10.1	Amendment No. 3 to Credit Agreement dated as of April 19, 2013, among Crown Castle International Corp. ("Company"), Crown Castle Operating Company ("Borrower"), certain subsidiaries of the Borrower, the lenders party thereto and The Royal Bank of Scotland plc ("RBS"), as administrative agent, to the Credit Agreement dated as of January 31, 2012, among the Company, the Borrower, the lenders and issuing banks from time to time party thereto, RBS, as administrative agent, and Morgan Stanley Senior Funding Inc., as co-documentation agent
(d) 10.2	2013 Long Term Incentive Plan
(c) 10.3	Amendment to 2004 Stock Incentive Plan, as amended
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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(a) Incorporated by reference to the exhibit previously filed by the Registrant on Form S-3 (Registration No. 333-180526) on April 3, 2012.

(b) Incorporated by reference to the exhibit previously filed by the Registrant on Form 8-K (File No. 001-16441) on April 24, 2013.

(c) Incorporated by reference to the exhibit previously filed by the Registrant on Form 8-K (File No. 001-16441) on May 28, 2013.

(d) Incorporated by reference to the exhibit previously filed by the Registrant as Appendix A to the Definitive Schedule 14A Proxy Statement (File No. 001-16441) on April 8, 2013.

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