AIRGATE PCS INC /DE/
Form 10-Q
February 14, 2003

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 DECEMBER 31, 2002.

OR

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

Commission File Number: 027455

AirGate PCS, Inc.
(Exact name of registrant as specified in its charter)

Delaware	58-2422929
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Harris Tower, 233 Peachtree St. NE, Suite 1700, Atlanta, Georgia	30303
(Address of principal executive offices)	(Zip code)

(404) 525-7272
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities and 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

25,944,903 shares of common stock, $0.01 par value per share, were outstanding as of February 10, 2003.

AIRGATE PCS, INC.
THIRD QUARTER REPORT

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PART I. FINANCIAL INFORMATION

Item 1. -- FINANCIAL STATEMENTS

AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except share amounts)

Assets

Current assets:

Cash and cash equivalents..

Accounts receivable, net of allowance for doubtful accounts of $11,455 and $11,256, respectively...

Receivable from Sprint...

Inventories..

Prepaid expenses...

Other current assets...

Total current assets...

Property and equipment, net of accumulated depreciation of $133,262 and $112,913, respectively..

Financing costs..

Intangible assets, net of accumulated amortization of $21,856 and $17,592, respectively.........

Direct subscriber activation costs...

Other assets...

Total assets...

Liabilities and Stockholders' Equity (Deficit)

Current liabilities:

Accounts payable...

Accrued expenses...

Payable to Sprint..

Deferred revenue...

Current maturities of long-term debt and capital lease obligations..........................

Total current liabilities	
Deferred subscriber activation fee revenue	
Other long-term liabilities	
Long-term debt and capital lease obligations, excluding current maturities	
Total liabilities	
Commitments and contingencies	
Stockholders' equity (deficit):	
Preferred stock, par value, $.01 per share; 5,000,000 shares authorized; no shares issued and outstanding	
Common stock, par value, $.01 per share; 150,000,000 shares authorized; 25,836,520 and 25,806,520 shares issued and outstanding at December 31, 2002 and September 30, 2002, respectively	
Additional paid-in-capital	
Unearned stock compensation	
Accumulated deficit	
Total stockholders' equity (deficit)	
Total liabilities and stockholders' equity (deficit)	

See accompanying notes to the unaudited consolidated financial statements.

AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(dollars in thousands, except share and per share amounts)

	Three Months Ended December 31, 2002	2001
Revenues:		
Service revenues	$ 96,328	$ 55
Roaming revenues	31,991	21
Equipment revenues	4,782	4
Total revenues	133,101	81
Operating Expenses:		
Cost of services and roaming (exclusive of depreciation, and amortization as shown separately below)	(88,006)	(57
Cost of equipment	(12,127)	(9
Selling and marketing	(28,903)	(29
General and administrative expenses	(7,408)	(5

Non-cash stock compensation expense	(176)	
Depreciation and amortization of property and equipment	(20,626)	(11
Amortization of intangible assets	(4,264)	(4
Total operating expenses	(161,510)	(118
Operating loss	(28,409)	(36
Interest income	40	
Interest expense	(19,305)	(10
Other expense	--	
Loss before income tax benefit	(47,674)	(47
Income tax benefit	--	17
Net loss	$ (47,674)	$ (29
Basic and diluted net loss per share of common stock	$ (1.85)	$ (
Basic and diluted weighted-average outstanding common shares	25,824,149	17,675

See accompanying notes to the unaudited consolidated financial statements.

AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

Net loss..
Adjustments to reconcile net loss to net cash used in operating activities:
Depreciation and amortization of property and equipment....................................
Amortization of intangible assets..
Amortization of financing costs into interest expense...
Provision for doubtful accounts..
Interest expense associated with accretion of discounts..
Non-cash stock compensation..
Deferred income tax benefit..
Changes in assets and liabilities:
Accounts receivable..
Receivable from Sprint..
Inventories..

Prepaid expenses, other current and non-current assets..................................
Accounts payable, accrued expenses and other long term liabilities....................

Payable to Sprint
Deferred revenue

Net cash used in operating activities

Cash flows from investing activities:
Capital expenditures
Cash acquired from iPCS, Inc
Purchase of business assets

Net cash (used in) provided by investing activities

Cash flows from financing activities:
Proceeds from borrowings under senior credit facilities
Payments for credit facility borrowings
Proceeds from exercise of employee stock options

Net cash provided by financing activities

Net (decrease) increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Supplemental disclosure of cash flow information - cash paid for interest
Supplemental disclosure for non-cash investing activities:
Capitalized interest

See accompanying notes to the unaudited consolidated financial statements.

AIRGATE PCS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002
(unaudited)

(1) Business, Basis of Presentation and Liquidity

(a) Business and Basis of Presentation

The accompanying unaudited quarterly financial statements of AirGate PCS, Inc. (the "Company") are presented in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America. In the opinion of management, these statements reflect all adjustments, including recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements for the interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 2002, which is filed with the SEC and may be accessed via EDGAR on the SEC's website at http://www.sec.gov. The results of operations for the quarter ended

December 31, 2002 are not necessarily indicative of the results that can be expected for the entire fiscal year ending September 30, 2003. Certain prior year amounts have been reclassified to conform to the current year's presentation. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated balance sheets and revenues and expenses during the reporting periods to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

AirGate PCS, Inc. and its restricted and unrestricted subsidiaries were created for the purpose of providing wireless Personal Communication Services ("PCS"). AirGate PCS, Inc. and its restricted subsidiaries ("AirGate") collectively are a network partner of Sprint with the exclusive right to market and provide Sprint PCS products and services in a defined network territory. AirGate is licensed to use the Sprint brand names in its original 21 markets located in the southeastern United States.

On November 30, 2001, AirGate acquired iPCS, Inc. (together with its subsidiaries, "iPCS"), a network partner of Sprint with 37 markets in the midwestern United States. The accompanying consolidated financial statements include the accounts of AirGate PCS, Inc. and its wholly-owned restricted subsidiaries, AGW Leasing Company, Inc., AirGate Service Company, Inc., and AirGate Network Services, LLC, and its unrestricted subsidiary iPCS since its acquisition. All significant intercompany accounts and transactions have been eliminated in consolidation.

The PCS market is characterized by significant risks as a result of rapid changes in technology, intense competition and the costs associated with the build-out of a PCS network. The Company's operations are dependent upon Sprint's ability to perform its obligations under the agreements between the Company and Sprint (see note 3) under which the Company has agreed to construct and manage its Sprint PCS networks (the "Sprint Agreements"). Additionally, the Company's ability to attract and maintain a subscriber base of sufficient size and credit quality is critical to achieving sufficient positive cash flow to meet its financial covenants under its credit agreements. Changes in technology, increased competition, economic conditions or inability to achieve sufficient positive cash flow to meet its financial covenants under its credit agreements, among other factors, could have an adverse effect on the Company's financial position, results of operations, and liquidity.

(b) Liquidity

The Company has generated significant net losses since inception. For the quarter ended December 31, 2002 and the year ended September 30, 2002, the Company's net loss amounted to $47.7 million and $996.6 million, including goodwill and asset impairment charges of $817.4 million. As of December 31, 2002, the Company had a working capital deficit of $379.7 million, and AirGate had available credit of $12.0 million under its $153.5 million senior secured credit facility (the "AirGate credit facility"). The majority of the Company's working capital deficit is attributable to the classification of iPCS' debt described below totaling $359.8 million as current.

iPCS has ceased making interest payments on its $130.0 million senior secured credit facility (the "iPCS credit facility") and is not in compliance with certain provisions of the iPCS credit facility or the indenture under which its $300.0 million senior subordinated discount notes (the "iPCS notes") were issued. iPCS has no remaining credit availability under its credit facility. As a result of these defaults, substantially all of iPCS' debt is classified as a current liability. The lenders under the iPCS credit facility and the trustee for the iPCS notes are entitled to accelerate the iPCS debt, subject to the forbearance agreement described in Note 10.

iPCS has also incurred significant net losses during the quarter ended December 31, 2002 and the year ended September 30, 2002, which are included in the accompanying consolidated financial statements. Because current conditions in the capital markets make additional financing unlikely, iPCS has undertaken efforts to restructure its relationship with its secured lenders, its public noteholders and Sprint. To date, iPCS has been unable to restructure its debt or secure additional financing necessary to fund its operations and, accordingly, iPCS expects to file for reorganization and protection from its creditors under Chapter 11 of the United States Bankruptcy Code in early 2003 either as part of a consensual restructuring or in an effort to effect a court administered reorganization.

Because iPCS is an unrestricted subsidiary, under AirGate's debt agreements AirGate is generally unable to provide capital or other financial support to iPCS. Further, iPCS lenders, noteholders and creditors do not have a lien on or encumbrance on assets of AirGate. We believe AirGate operations will continue independent of the outcome of the iPCS restructuring. However, it is likely that AirGate's ownership interest in iPCS will have no value after the restructuring is complete.

The carrying value of iPCS' long-lived assets in these consolidated financial statements (principally property and equipment, goodwill and intangible assets) was written down during the year ended September 30, 2002 to reflect impairment charges as required by Statement of Financial Accounting Standards ("SFAS") No. 144 and SFAS No. 142.

While the ultimate and long-term affect on AirGate of iPCS' proposed bankruptcy proceedings cannot be determined, management believes that AirGate and its restricted subsidiaries will continue to operate and that iPCS' bankruptcy proceedings, and related outcomes, will not have a material adverse effect on the liquidity of AirGate.

In addition to its capital needs to fund operating losses, the Company has invested large amounts to build-out its networks and for other capital assets. For the quarter ended December 31, 2002 and the three years ended September 30, 2002, the Company invested $14.1 million and $320.7 million respectively to purchase property and equipment. While much of the Company's networks are now complete, and capital expenditures are expected to decrease significantly in the future, such expenditures will continue to be necessary.

AirGate had only $12 million remaining available under the AirGate credit facility as of December 31, 2002. AirGate currently has no additional sources of working capital other than EBITDA. If AirGate's actual revenues are less than expected or operating or capital costs are more than expected, AirGate's financial condition and liquidity may be materially adversely affected. In such event, there is substantial risk that the Company could not access the credit or capital markets for additional capital.

AirGate's ability to borrow funds under the AirGate credit facility may be terminated if it is unable to maintain or comply with the restrictive financial and operating covenants contained in the AirGate credit facility. The AirGate credit facility contains covenants specifying the maintenance of certain financial ratios, reaching defined subscriber growth and network covered population goals, minimum service revenues, maximum capital expenditures, and the maintenance of a ratio of total debt to annualized EBITDA, as defined in the AirGate credit facility.

If the Company is unable to operate the AirGate business within the covenants specified in the AirGate credit facility, and is unable to obtain future amendments to such covenants, AirGate's ability to make borrowings required to operate the AirGate business could be restricted or terminated. Such a restriction or termination would have a material adverse affect on AirGate's liquidity and capital resources.

AirGate has initiated a number of action steps to lower its operating costs and capital needs. The following are some of the more significant steps:

o a plan to improve the credit quality of new subscribers and its subscriber base and reduce churn by restricting availability of programs for sub-prime subscribers;

o the elimination of certain personnel positions;

o a significant reduction in capital expenditures; and

o a reduction in spending for advertising and promotions.

In addition to these steps, AirGate is initiating or investigating a number of other actions that could further reduce operating expenses and capital needs. These include additional reductions in staff; the outsourcing of certain functions now performed by AirGate; further deferrals or reductions in capital spending and seeking ways to lower fees and charges from services now provided by Sprint. Although there can be no assurances, AirGate management believes that existing cash, expected results of operations and cash flows, and amounts available under the AirGate credit facility will provide sufficient resources to fund AirGate's activities through at least the end of calendar year 2003.

The following reflects condensed balance sheet information and statement of operations information of AirGate and its unrestricted subsidiary, iPCS, separately identifying the investment in iPCS including the effects of purchase accounting as of December 31, 2002 and September 30, 2002 and the historical equity basis loss of iPCS, the related effects of purchase accounting, and income tax benefit for the quarters ended December 31, 2002 and 2001.

	As of December 31, 2002	September
Condensed Balance Sheet Information:		
Cash and cash equivalents................................	$ 944	$
Other current assets.....................................	63,650	
Total current assets.............................	64,594	
Property and equipment, net..............................	203,644	
Investment in iPCS	(169,789)	
Other noncurrent assets..................................	14,226	
	$ 112,675	$
Current liabilities......................................	$ 76,036	$
Long-term debt...	366,728	
Other long-term liabilities..............................	10,356	
Total liabilities.................................	453,120	
Stockholders' deficit....................................	(340,445)	
	$ 112,675	$

	For the Three Months Ende	
	December 31, 2002	December
Condensed Statement of Operations Information:		
Revenues	$ 81,865	$
Costs of revenues	(58,278)	
Selling and marketing expenses	(16,798)	
General and administrative expenses	(4,077)	
Depreciation and amortization	(11,619)	
Other expense, net (principally interest)	(10,521)	
Total expenses	(101,293)	
Loss before equity in loss of iPCS and effects of purchase accounting, and income tax benefit	(19,428)	
Historical equity basis loss of iPCS	(25,763)	
Effects of purchase accounting	(2,483)	
Income tax benefit	--	
Net loss	$ (47,674)	$

(c) Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Potentially dilutive securities of 41,790 for the quarter ended December 31, 2002 and 704,876 for the quarter ended December 31, 2001 have been excluded from the computation of dilutive net loss per share for the periods presented because their effect would have been antidilutive.

(2) New Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting, and has adopted the disclosure requirements of SFAS No. 123. The Company currently does not anticipate adopting the provisions of SFAS No. 148.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (the "Interpretation"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

The Interpretation requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

The Company guarantees certain lease commitments of its restricted subsidiaries. The maximum amount of these guarantees is included in the consolidated operating lease disclosure commitment footnote included in the Company's Form 10-K/A. Also, the handsets sold by the Company are under a one-year warranty from Sprint. If a customer returns a handset for warranty, the Company sends the handset to Sprint for repair. Sprint provides a credit to the Company equal to the price of the refurbished handset, which is generally what is returned to the customer. The Company will apply the recognition and measurement provisions for all guarantees and warranties entered into or modified after December 31, 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides new guidance on the recognition of costs associated with exit or disposal activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. SFAS No. 146 supercedes previous accounting guidance provided by the EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." EITF Issue No. 94-3 required recognition of costs at the date of commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Early application is permitted. The adoption of SFAS No. 146 by the Company on October 1, 2002 is not expected to have a material impact on the Company's financial position, results of operations, or cash flows as the Company has not recorded any significant restructurings in the past periods, but the adoption may impact the timing of charges in future periods. As discussed in Note 6, during the three months ended December 31, 2002 the Company recorded $0.7 million of costs related to staff reductions and retail store closings.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, this statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. The adoption of SFAS No. 145 by the Company on October 1, 2002 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period that it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 by the Company on October 1, 2002 did not have a material impact on the Company's financial position, results of operations or cash flows.

(3) Sprint Agreements

Under the Sprint Agreements, Sprint provides the Company significant support services such as billing, collections, long distance, customer care, network operations support, inventory logistics support, use of Sprint brand names, national advertising, national distribution and product development. Additionally, the Company derives substantial roaming revenue and expenses when Sprint's and Sprint's network partners' wireless subscribers incur minutes of use in the Company's territories and when the Company's subscribers incur minutes of use in Sprint and other Sprint network partners' PCS territories. These transactions are recorded in roaming revenue, cost of service and roaming, cost of equipment and selling and marketing expense captions in the accompanying consolidated statements of operations. Cost of service and roaming transactions include the 8% affiliation fee, long distance charges, roaming expense and the costs of services such as billing, collections, customer service and pass-through expenses. Cost of equipment transactions relate to inventory purchased by the Company from Sprint under the Sprint Agreements. Selling and marketing transactions relate to subsidized costs on handsets and commissions paid by the Company under Sprint's national distribution programs. Amounts recorded relating to the Sprint Agreements for the quarters ended December 31, 2002 and 2001 are as follows (dollars in thousands):

	For the Three Mo Ended December 2002	
Amounts included in the Consolidated Statement of Operations:		
AirGate roaming revenue	$ 17,829	$
AirGate cost of service and roaming:		
Roaming	$ 14,685	$
Customer service	11,303	
Affiliation fee	4,836	
Long distance	2,785	
Other	494	
AirGate cost of service and roaming:	$ 34,103	$
AirGate purchased inventory	$ 5,650	$
AirGate selling and marketing	$ 3,101	$
iPCS roaming revenue	$ 10,663	$
iPCS cost of service and roaming		
Roaming	$ 8,362	$
Customer service	7,526	
Affiliation fee	3,106	
Long distance	2,150	
Other	1,696	
iPCS cost of service and roaming	$ 22,840	$
iPCS purchased inventory	$ 6,175	$
iPCS selling and marketing	$ 3,014	$

Amounts included in the Consolidated Balance Sheet:

As of

	December 31, 2002	September 30, 2002
Receivable from Sprint	$ 42,334	$ 44,953
Payable to Sprint	(82,011)	(88,360)

Because approximately 96% of our revenues are collected by Sprint and 65% of costs of service and roaming in our financial statements are derived from fees and charges, including pass-through charges, from Sprint, we have a variety of settlement issues open and outstanding from time to time. These include, but are not limited to, the following items, all of which for accounting purposes have been reserved or otherwise provided for:

- Sprint PCS sought to recoup $4.9 million in long-distance access revenues previously paid by Sprint PCS to the Company, of which $3.9 million related to AirGate and $1.0 million related to iPCS. We have disputed these amounts (see Note 5).

- Sprint charged the Company approximately $1.2 million with respect to calendar year 2002 to reimburse Sprint for certain 3G related development expenses. We have disputed Sprint's right to collect these fees.

- In connection with the review of accounts receivable at September 30, 2002, the Company reclassified approximately $10.0 million of subscriber accounts receivable allowance for the fiscal year ended September 30, 2002 to a receivable from Sprint. We believe at least $10.0 million is payable from Sprint, but Sprint has acknowledged and paid only $5.1 million.

- We continue to discuss with Sprint whether we owe software maintenance fees to Sprint of approximately $3.0 million, of which $1.6 million relates to AirGate and $1.4 million relates to iPCS through December 31, 2002.

- Sprint asserted that iPCS owed $2.2 million in various fees, charges and revenue adjustments, which iPCS disputed. Sprint set-off $1.8 million with respect to these charges against other amounts owed to iPCS in the quarter ended December 31, 2002.

In addition, monthly Sprint service charges are set by Sprint at the beginning of each calendar year. Sprint takes the position that at the end of each year, it can determine its actual costs to provide these services to its network partners and require a final settlement against the charges actually paid. If the costs to provide these services are less than the amounts paid by Sprint's network partners, Sprint will issue a credit for these amounts. If the costs to provide the services are more than the amounts paid by Sprint's network partners, Sprint will debit the network partners for these amounts. Sprint notified us that a credit would be issued to the Company in a net amount of $2.0 million ($1.3 million for AirGate and $0.7 million for iPCS). This amount has been recorded as of December 31, 2002 as a reduction to the consolidated balance for Receivable from Sprint and a reduction of operating loss.

The Sprint Agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. AirGate was in compliance in all material respects with these requirements at December 31, 2002.

(4) Intangible Assets

The following table reflects the components of intangible assets at December 31, 2002:

	Amortization Period	Gross Carrying Amount	Ac Am
Non-compete agreements, AirGate store acquisitions	24 months	$ 159	$
Acquired subscriber base	30 months	45,760	(
Total		$ 45,919	$ (

(5) Litigation

On July 3, 2002 the Federal Communications Commission (the "FCC") issued an order in Sprint PCS v. AT&T for declaratory judgment holding that PCS wireless carriers could not unilaterally impose terminating long distance access charges pursuant to FCC rules. This FCC order did not preclude a finding of a contractual basis for these charges, nor did it rule whether or not Sprint PCS had such a contract with carriers such as AT&T. AirGate and iPCS have previously received $3.9 and $1.0 million, respectively, from Sprint PCS. This is comprised of $4.3 and $1.1 million, respectively, of terminating long distance access revenues, less $0.4 and $0.1 million, respectively, of associated affiliation fees held by Sprint PCS, and Sprint PCS has asserted its right to recover these revenues net of the affiliation fees. As a result of this ruling, and our assessment of this contingency under SFAS No. 5, "Accounting for Contingencies," the Company recorded a charge to revenues during the quarter ended June 30, 2002 to accrue for these amounts. However, we have not paid such amounts and have disputed the ability of Sprint PCS to recover these revenues.

In May 2002, putative class action complaints were filed in the United States District Court for the Northern District of Georgia against AirGate PCS, Inc., Thomas M. Dougherty, Barbara L. Blackford, Alan B. Catherall, Credit Suisse First Boston, Lehman Brothers, UBS Warburg LLC, William Blair & Company, Thomas Wiesel Partners LLC and TD Securities. The complaints do not specify an amount or range of damages that the plaintiffs are seeking. The complaints seek class certification and allege that the prospectus used in connection with the secondary offering of Company stock by certain former iPCS shareholders on December 18, 2001 contained materially false and misleading statements and omitted material information necessary to make the statements in the prospectus not false and misleading. The alleged omissions included (i) failure to disclose that in order to complete an effective integration of iPCS, drastic changes would have to be made to the Company's distribution channels, (ii) failure to disclose that the sales force in the acquired iPCS markets would require extensive restructuring and (iii) failure to disclose that the "churn" or "turnover" rate for subscribers would increase as a result of an increase in the amount of sub-prime credit quality subscribers the Company added from its merger with iPCS. On July 15, 2002, certain plaintiffs and their counsel filed a motion seeking appointment as lead plaintiffs and lead counsel. On November 26, 2002, the Court entered an Order requiring the Plaintiffs to provide additional information in connection with their Motion for Appointment as Lead Plaintiff and in December 2002, Plaintiffs submitted Declarations in Support of Motion for Appointment of Lead Plaintiff. The Company believes the plaintiffs' claims are without merit and intends to vigorously defend against these claims. However, no assurance can be given as to the outcome of the litigation.

(6) Staff Reduction and Retail Store Closings

As discussed in Note 1, the Company has initiated a number of actions in an attempt to lower its operating costs and capital needs. During the quarter ended December 31, 2002 the Company decided to reduce its workforce and to close a number of retail stores. Collectively, these actions, which took place in the quarter ended December 31, 2002 and are expected to continue in the quarter that will end on March 31, 2003, are referred to as the 2003 Plan.

During the quarter ended December 31, 2002, AirGate costs associated with termination benefits and contract terminations were $0.5 million and $0.04 million, respectively, and were associated principally with involuntary employee terminations and store closures. In the quarter that will end March 31, 2003, AirGate expects additional termination benefits and contract terminations to be at least $.05 million and $0.1 million, respectively. These charges are expected to result from additional involuntary employee terminations and store closures. Further charges may be necessary as AirGate services are terminated under the services agreement with iPCS as described in Note 8.

During the quarter ended December 31, 2002, iPCS costs associated with termination benefits were $0.1 million and were associated principally with involuntary employee terminations. In the quarter that will end March 31, 2003, iPCS expects additional termination benefits and contract terminations to be at least $0.5 million and $0.7 million respectively. These charges are expected to result from additional involuntary employee terminations and store closures (See Note 10).

A summary of the aforementioned costs is as follows:

	Termination Benefits	Contract Termination Costs	Total
Liability at October 1, 2002	$ 0	$ 0	$ 0
Total charges	610	43	653
Cash paid	379	0	379
Liability at December 31, 2002	231	43	274

The Company determined the above costs in accordance with SFAS No. 146, "Accounting for Cost Associated with Exit or Disposal Activities."

There were no asset impairment charges associated with the 2003 Plan. However, during the fiscal year ended September 30, 2002, the Company reported impairment charges for iPCS' assets of $460.9 million for goodwill, $44.4 million for property and equipment, and $312.1 million for intangible assets.

(7) Income Taxes

The Company recorded an income tax benefit of $17.4 million during the quarter ended December 31, 2001. No such amounts were recorded in the quarter ended December 31, 2002, nor will amounts be recognized in the future unless management believes the recoverability of deferred tax assets is more likely than not.

(8) Transactions Between AirGate and iPCS

The Company formed AirGate Service Company, Inc. ("ServiceCo") to provide management services to both AirGate and iPCS. ServiceCo is a wholly-owned restricted subsidiary of AirGate. Personnel who provide general management services to AirGate and iPCS have been leased to ServiceCo, which includes 176 employees at December 31, 2002. Generally, the management personnel include the corporate staff in the Company's principal corporate offices in Atlanta and the accounting staff in Geneseo, Illinois. ServiceCo expenses are allocated between

AirGate and iPCS based on the percentage of subscribers they contribute to the total number of Company subscribers (the "ServiceCo Allocation"), which is currently 60% AirGate and 40% iPCS. Expenses that are related to one company are allocated to that company. Expenses that are related to ServiceCo or both companies are allocated in accordance with the ServiceCo Allocation. For the quarter ended December 31, 2002, iPCS recorded a net total of $1.0 million for ServiceCo expenses.

To facilitate the orderly transition of management services, the boards of AirGate and iPCS have authorized an amendment to the Services Agreement that would allow individual services to be terminated by either party upon prior notice. This amendment requires the consent of each of the administrative agents for the AirGate and iPCS credit facilities and a request for these consents has been made. This could result in a significant change in the allocation of expense to AirGate and iPCS.

AirGate has completed transactions at arms-length in the normal course of business with its unrestricted subsidiary iPCS. These transactions are comprised of roaming revenue and expenses, inventory sales and purchases and sales of network operating equipment.

(9) Condensed Consolidating Financial Statements

AGW Leasing Company, Inc. ("AGW") is a wholly-owned restricted subsidiary of AirGate. AGW has fully and unconditionally guaranteed the AirGate notes and the AirGate credit facility. AGW was formed to hold the real estate interests for the Company's PCS network and retail operations. AGW also was a registrant under the Company's registration statement declared effective by the Securities and Exchange Commission on September 27, 1999.

AirGate Network Services LLC ("ANS") was created as a wholly-owned restricted subsidiary of AirGate. ANS has fully and unconditionally guaranteed the AirGate notes and AirGate credit facility. ANS was formed to provide construction management services for AirGate's PCS network.

AirGate Service Company, Inc. ("Service Co") is a wholly-owned restricted subsidiary of AirGate. Service Co has fully and unconditionally guaranteed the AirGate notes and the AirGate credit facility. Service Co was formed to provide management services to AirGate and iPCS.

iPCS is a wholly-owned unrestricted subsidiary of AirGate and operates as a separate business. As an unrestricted subsidiary, iPCS provides no guarantee to either the AirGate notes or the AirGate credit facility and AirGate and its restricted subsidiaries provide no guarantee to the iPCS notes or the iPCS credit facility.

Unaudited Condensed Balance Sheets of AirGate and iPCS
As of December 31, 2002

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate Consolidated(1)	iP No Guar Subsi
Cash and cash equivalents...........	$ 954	$ (10)	$ --	$ 944	$
Other current assets....	124,078	529	(60,957)	63,650	3

Total current assets....	$ 125,032	519	(60,957)	64,594	3
Property and equipment, net..................	159,941	43,703	--	203,644	18
Intangible assets, net..	(1,457)	--	--	(1,457)	2
Investment in subsidiaries..........	(217,631)	--	92,656	(124,975)	
Other noncurrent assets.	5,705	--	--	5,705	11
Total assets...........	$ 71,590	$ 44,222	$ 31,699	$ 147,511	$ 253
Current liabilities.....	43,201	136,878	(60,957)	119,122	361
Long-term debt..........	366,728	--	--	366,728	
Other long-term liabilities...........	2,106	--	--	2,106	16
Total liabilities.......	$ 412,035	$136,878	$(60,957)	$ 487,956	$ 378
Stockholders' equity....	(340,445)	(92,656)	92,656	(340,445)	(124
Total liabilities and stockholders' equity (deficit)...........	$ 71,590	$ 44,222	$ 31,699	$ 147,511	$ 253

Unaudited Condensed Consolidating Balance Sheet of AirGate and iPCS
As of September 30, 2002

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate(1) Consolidated	iPCS Non-Guarant Subsidiar
Cash and cash equivalents...........	$ 4,769	$ 118	$ --	$ 4,887	$ 27,588
Other current assets....	122,869	529	(60,579)	62,819	35,593
Total current assets....	127,638	647	(60,579)	67,706	63,181
Property and equipment, net.................	168,163	45,614	--	213,777	185,378
Intangible assets, net..	1,428	--	--	1,428	26,899
Investment in subsidiaries..........	(183,718)	--	84,506	(99,212)	
Other noncurrent assets.	4,924	--	--	4,924	12,115
Total assets...........	$ 118,435	$ 46,261	$ 23,927	$188,623	$ 287,573
Current liabilities.....	$ 55,535	$ 60,579	$(60,579)	$125,723	$ 369,564
Long-term debt..........	354,264	--	--	354,264	564
Other long-term liabilities..........	1,583	--	--	1,583	16,657

Total liabilities.......	411,382	60,579	(60,579)	481,570	386,785
Stockholders' equity....	(292,947)	(14,318)	84,506	(292,947)	(99,212)
Total liabilities and stockholders' equity (deficit)............	$ 118,435	$ 46,261	$ 23,927	$188,623	$ 287,573

(1) Amounts in the column for AirGate consolidated include the effects of purchase accounting related to the iPCS acquisition. Balance sheet information includes $43 million of debt and $1 million of net liabilities as of December 31, 2002, and $44 million of debt and $1 million of net assets as of September 30, 2002. The net loss of AirGate includes $2.5 million and $4.1 million of expenses related to the effects of purchase accounting for iPCS for the quarters ended December 31, 2002 and 2001, respectively. The quarter ended December 31, 2001 include a tax benefit of $17.4 million related to the iPCS acquisition.

Unaudited Condensed Statement of Operations of AirGate and iPCS
For the Three Months Ended December 31, 2002

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate Consolidated	iPCS Non-Guarantor Subsidiar
Total revenues..........	$ 81,865	$ --	$ --	$ 81,865	$ 51,534
Cost of revenues.........	(53,945)	(4,333)	--	(58,278)	(42,153)
Selling and marketing....	(16,040)	(758)	--	(16,798)	(12,105)
General and administrative.	(3,347)	(730)	--	(4,077)	(3,331)
Depreciation and amortization...........	(12,041)	(2,443)	--	(14,484)	(10,406)
Other, net...............	(10,253)	114	--	(10,139)	(9,302)
Total expenses...........	(95,626)	(8,150)	--	(103,776)	(77,297)
Loss in subsidiaries......	(33,913)	--	8,150	(25,763)	--
Loss before income tax benefit................	(47,674)	(8,150)	8,150	(47,674)	(25,763)
Income tax benefit........	--	--	--	--	--

Net loss.................	$ (47,674)	$ (8,150)	$8,150	$ (47,674)	$ (25,763)

Unaudited Condensed Consolidating Statement of Operations of AirGate and iPCS
For the Three Months Ended December 31, 2001

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate Consolidated	iPCS Non-Guarantor Subsidiary
Total revenues..........	$ 67,671	$ --	$ --	$ 67,671	$ 14,026
Cost of revenues........	(49,498)	(3,745)	--	(53,243)	(14,097)
Selling and marketing...	(24,621)	(468)	--	(25,089)	(4,756)
General and administrative........	(3,677)	(299)	--	(3,976)	(1,224)
Depreciation and amortization..........	(11,941)	(1,541)	--	(13,482)	(2,323)
Other, net.............	(8,565)	--	--	(8,565)	(1,945)
Total expenses..........	(98,302)	(6,053)	--	(104,355)	(24,345)
Loss in subsidiaries......	(16,372)	--	6,053	(10,319)	--
Loss before income tax benefit..............	(47,003)	(6,053)	6,053	(47,003)	(10,319)
Income tax benefit......	17,359	--	--	17,359	--
Net loss................	$ (29,644)	$ (6,053)	$ 6,053	$(29,644)	$ (10,319)

Unaudited Condensed Statement of Cash Flow of AirGate and iPCS
For the Three Months Ended December 31, 2002

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate Consolidated	iPCS Non-Guarantor Subsidiary

Operating activities, net..................	$ (2,683)	$ (128)	$ --	$ (2,811)	$ (17,098)
Investing activities, net..................	(5,626)	--	--	(5,626)	(8,424)
Financing activities, net.................	4,494	--	--	4,494	
Decrease in cash and cash equivalent......	$ (3,815)	$ (128)	$ --	$ (3,943)	$ (25,522)
Cash at beginning of period..............	4,769	118	--	4,887	27,588
Cash at end of period...	954	(10)	--	944	2,066

Unaudited Condensed Consolidating Statement of Cash Flows
For the Three Months Ended December 31, 2001

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations	AirGate Consolidated	iPCS Non-Guarantor Subsidiar
Operating activities, net..................	$ (21,736)	$ 1,193	$ --	$ (20,543)	$ (10,578)
Investing activities, net..................	16,335	(1,061)	--	15,274	(3,879)
Financing activities, net..................	30,585	--	--	30,585	--
Increase in cash and cash equivalent.......	25,184	132	--	25,316	(14,457)
Cash at beginning of period...............	14,447	(157)	--	14,290	24,401
Cash at end of period...	$ 39,631	$ (25)	$ --	$ 39,606	$ 9,944

(10) Subsequent Events

iPCS

iPCS has continued to work with its lenders and noteholders on a restructuring and in connection with these efforts appointed Timothy M. Yager as the Chief Restructuring Officer of iPCS. Mr. Yager will be responsible for leading continued restructuring efforts and managing the day-to-day affairs of iPCS. Mr. Yager was the president and chief executive officers of iPCS prior to its acquisition by AirGate and was formerly a director of AirGate.

Since December 31, 2002, iPCS has (i) closed 16 retail locations and 6 administrative offices, reducing the number of retail locations from 27 to 11; (ii) reconfigured support for national third party and local distributors, reducing the total number of employees supporting these channels and (iii) reduced support for the business-to-business channel. These actions resulted in the termination of approximately 160 employees. Charges associated with these actions are expected to be at least $1.2 million. Furthermore, additional charges for iPCS are expected as iPCS restructures its business.

To facilitate the orderly transition of management services, the boards of AirGate and iPCS have authorized an amendment to the Services Agreement that would allow individual services to be terminated by either party upon 60 days prior notice. This amendment requires the consent of each of the administrative agents for the AirGate and iPCS credit facilities, and a request for these consents has been made. This could result in a significant change in the allocation of expense to AirGate and iPCS.

On January 23, 2003, Sprint set-off against required weekly payments of collected revenues to iPCS $1.8 million in unrelated disputed fees and charges.

Due to its liquidity issues, iPCS has delayed payments to many of its vendors, including Sprint. iPCS has delayed payments to Sprint of approximately $6.0 million.

On January 30, 2003, iPCS ceased paying interest on the iPCS credit facility. As a result, the lenders under the iPCS credit facility are entitled to accelerate payments due under the iPCS credit facility. The failure to pay interest on the iPCS credit facility is also a default under the iPCS notes. iPCS has entered into a forbearance agreement with its senior lenders under the terms of which the senior lenders have agreed not to exercise their rights under the iPCS credit facility, including the right to accelerate, until the earlier of (i) March 15, 2003, (ii) a subsequent default by iPCS or (iii) the election of the administrative agent after written notice to iPCS. Based on continuing discussions with an ad hoc committee holding in excess of 50% of the iPCS notes, iPCS expects to enter into a forbearance agreement with such committee shortly.

AirGate

On February 10, 2003, the Board of Directors approved new forms of severance agreements for each of our executive officers. These agreements provide two levels of severance benefits based upon whether the termination occurs in connection with a change of control or not. If the executive terminates employment for good reason or is terminated by the Company other than for cause or disability, as such terms are defined in the agreements, in connection with a change of control or for two years following a change of control, the Company will pay the executive his or her unpaid base salary through the date of termination, a pro rata payment of the executive's target bonus for the year in which the termination occurs, any compensation previously deferred by the executive and any accrued vacation pay. In addition, the Company will make a severance payment to the executive equal to two times his or her annual base salary and bonus at target, or 2.5 times in the case of the Chief Executive Officer. The Company will also continue benefits for the executive for a period after termination and provide limited outplacement services for a period of six months to one year.

If the executive terminates employment for good reason or is terminated by the Company other than for cause or disability and such termination is not in connection with a change of control or within two years following a change of control, the Company will pay the executive his or her unpaid base salary through the date of termination, any compensation previously deferred by the executive and any accrued vacation pay. In addition, the Company will make a severance payment to the executive equal to six months annual base salary, plus one month for each year of service. The Company will also continue benefits for the executive for a period after termination and provide limited outplacement services for the severance period.

The agreements provide that in consideration of the payments and promises in the agreement, the executive releases the Company from all claims, liabilities, contracts, contractual obligations, attorney's fees, demands and causes of action, whether known or unknown, fixed or contingent. In addition, the executive agrees not to directly or indirectly (1) perform services for a competitor of the Company in our territory, (2) solicit our employees to terminate their employment with us or solicit certain of our customers to purchase competing products or (3) disclose or use the Company's confidential information and trade secrets, for a period of from 6 months to two years after termination of employment.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") contains forward looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our liquidity, the wireless industry, our beliefs and management's assumptions. In addition, other written and oral statements that constitute forward looking statements may be made by us or on our behalf. Such forward looking statements include statements regarding expected financial results and other planned events, including but not limited to, anticipated liquidity, churn rates, ARPU, CPGA and CCPU (all as defined in the Key Operating Metrics), roaming rates, EBITDA (as defined in the Key Operating Metrics), and capital expenditures. Words such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "seek", "project," "target," "goal," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual future events or results may differ materially from these statements. These risks and uncertainties include:

- the impact of an iPCS insolvency;
- the competitiveness and impact of Sprint's pricing plans and PCS products and services;
- subscriber credit quality;
- the potential to experience a continued high rate of subscriber turnover;
- the ability of Sprint to provide back office billing, subscriber care and other services and the quality and costs of such services;
- inaccuracies in data provided by Sprint;
- new charges and fees, or increased charges and fees, charged by Sprint;
- rates of penetration in the wireless industry;
- our significant level of indebtedness;
- adequacy of bad debt and other allowances;
- the potential need for additional sources of liquidity;
- anticipated future losses;
- subscriber purchasing patterns;
- potential fluctuations in quarterly results;
- an adequate supply of subscriber equipment;

- risks related to future growth and expansion; and
- the volatility of the market price of AirGate's common stock.

These and other applicable risks and uncertainties are summarized under the captions "Future Trends That May Affect Operating Results, Liquidity and Capital Resources" included in this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this quarterly report on Form 10-Q and "Risk Factors" included in Part II under "Item 5 - Other Information" of this quarterly report on Form 10-Q and elsewhere in this report.

For a further list of and description of such risks and uncertainties, see the reports filed by us with the SEC. Except as required under federal securities law and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward looking statements after distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

Overview

On July 22, 1998, AirGate entered into management and related agreements with Sprint whereby it became the network partner of Sprint with the right to provide 100% digital PCS products and services under the Sprint brand names in AirGate's original territory in the southeastern United States. In January 2000, AirGate began commercial operations with the launch of four markets covering 2.2 million residents in AirGate's territory. By September 30, 2000, AirGate had launched commercial PCS service in all of the 21 basic trading areas, referred to as markets, which comprise AirGate's original territory. On November 30, 2001, AirGate acquired iPCS, a network partner of Sprint with 37 markets in the midwestern states of Michigan, Illinois, Iowa and Nebraska. The acquisition of iPCS increased the total resident population in the Company's markets from approximately 7.1 million to approximately 14.5 million. Additionally, iPCS served 149,119 subscribers as of November 30, 2001. At December 31, 2002, AirGate and iPCS provided Sprint PCS services to 352,809 and 236,628 subscribers, respectively. At December 31, 2002, AirGate had total network coverage of approximately 5.9 million residents and iPCS had total network coverage of approximately 5.6 million residents, of the 7.1 million and 7.4 million residents in its respective territory.

Under AirGate's and iPCS' long-term agreements with Sprint, we manage our networks on Sprint's licensed spectrum and have the right to use the Sprint brand names royalty-free during the respective company's PCS affiliation with Sprint. We also have access to Sprint's national marketing support and distribution programs and are generally entitled to buy network equipment and subscriber handsets at the same discounted rates offered by vendors to Sprint based on its large volume purchases. In exchange for these and other benefits, AirGate and iPCS each pay an affiliation fee of 8% of collected revenues to Sprint. We are entitled to 100% of revenues collected from the sale of handsets and accessories and on roaming revenues received when customers of Sprint and Sprint's other network partners make a wireless call on our PCS network.

iPCS is a wholly-owned, unrestricted subsidiary of AirGate. As required by the terms of AirGate's and iPCS' respective outstanding indebtedness, each of AirGate and iPCS conducts its business as a separate corporate entity from the other. AirGate's notes require subsidiaries of AirGate to be classified as either "restricted subsidiaries" or "unrestricted subsidiaries". A restricted subsidiary is defined generally as any subsidiary that is not an unrestricted subsidiary. An unrestricted subsidiary includes any subsidiary which:

- has been designated an unrestricted subsidiary by the AirGate board of directors,
- has no indebtedness which provides recourse to AirGate or any of its

restricted subsidiaries,

- is not party to any agreement with AirGate or any of its restricted subsidiaries, unless the terms of the agreement are no less favorable to AirGate or such restricted subsidiary than those that might be obtained from persons unaffiliated with AirGate,
- is a subsidiary with respect to which neither AirGate nor any of its restricted subsidiaries has any obligation to subscribe for additional equity interests, maintain or preserve such subsidiary's financial condition or cause such subsidiary to achieve certain operating results,
- has not guaranteed or otherwise provided credit support for any indebtedness of AirGate or any of its restricted subsidiaries, and
- has at least one director and one executive officer that are not directors or executive officers of AirGate or any of its restricted subsidiaries.

AirGate's notes impose certain affirmative and restrictive covenants on AirGate and its restricted subsidiaries and also include as events of default certain events, circumstances or conditions involving AirGate or its restricted subsidiaries. Because iPCS is an unrestricted subsidiary, the covenants and events of default under AirGate's notes do not apply to iPCS.

AirGate's credit facility also imposes certain restrictions on, and applies certain events of default to events, circumstances or conditions involving, AirGate and its subsidiaries. AirGate's senior credit facility, however, expressly excludes iPCS from the definition of "subsidiary." Therefore, these restrictions and events of default applicable to AirGate and its subsidiaries do not generally apply to iPCS.

CRITICAL ACCOUNTING POLICIES

The Company relies on the use of estimates and makes assumptions that impact its financial condition and results. These estimates and assumptions are based on historical results and trends as well as the Company's forecasts as to how these might change in the future. Several of the most critical accounting policies that materially impact the Company's results of operations include:

Allowance for Doubtful Accounts

Estimates are used in determining the allowance for doubtful accounts and are based on historical collection and write-off experience, current trends, credit policies and accounts receivable by aging category. In determining these estimates, the Company compares historical write-offs in relation to the estimated period in which the subscriber was originally billed. The Company also looks at the average length of time that elapses between the original billing date and the date of write-off in determining the adequacy of the allowance for doubtful accounts by aging category. From this information, the Company provides specific amounts to the aging categories. The Company provides an allowance for substantially all receivables over 90 days old. The provision for doubtful accounts as a percentage of service revenues for the three months ended December 31 was as follows:

Provision for Doubtful Accounts As % of Service Revenue	AirGate	iPCS	Combined Company
2002	3.7%	2.6%	3.3%
2001	11.9%	13.0%	12.1%

The allowance for doubtful accounts as of December 31, 2002 and September 30, 2002 was $11.5 million and $11.3 million, respectively. At December 31, 2002, $6.8 million and $4.7 million was attributable to AirGate and iPCS, respectively. If the allowance for doubtful accounts is not adequate, it could have a material adverse affect on our liquidity, financial position and results of operations.

The Company also reviews current trends in the credit quality of its subscriber base and periodically changes its credit policies. As of December 31, 2002, 34% of the combined Company's, 34% of AirGate's and 35% of iPCS' subscriber base consisted of sub-prime credit quality subscribers. Sprint has a program in which subscribers with lower quality credit or limited credit history may nonetheless sign up for service subject to certain account spending limits, if the subscriber makes a deposit ranging from $125 to $250. In May, 2001, Sprint introduced the no-deposit account spending limit program, in which the deposit requirement was waived except in very limited circumstances (the "NDASL program"). The NDASL program was replaced in late 2001 with the Clear Pay program. The Clear Pay program re-instituted the deposit for the lowest credit quality subscribers. The NDASL and Clear Pay programs and their associated lack of deposit requirements increased the number of the Company's sub-prime credit subscribers. At the end of February, 2002, Sprint allowed its network partners to re-institute deposits in a program called the Clear Pay II program. As described in our Annual Report on Form 10-K/A, the deposit was waived in the iPCS markets during certain times in 2002. The Clear Pay II program and its deposit requirements are currently in effect in most of AirGate's and iPCS' markets, which reinstates a deposit requirement of $125 for most sub-prime credit subscribers. In early February 2003, management began implementing a higher deposit threshold of $250 for all sub-prime customers in our markets.

Reserve for First Payment Default Subscribers, Late Payment Fees and Early Cancellation Fees

The Company reserves a portion of its new subscribers and provides a reduction in revenues from those subscribers that it anticipates will never pay a bill. Using historical information of the percentage of subscribers whose service was cancelled for non-payment without ever making a payment, the Company estimates the number of new subscribers activated in the current period that will never pay a bill. For these subscribers, the Company provides a reduction of revenue and removes them from subscriber additions and churn. As a result, these subscribers are not included in the churn statistics or subscriber count. The Company records reserves for late payment fees and early cancellation fees based on information about historical collection rates. The Company records the reserves for late payment fees and early cancellation fees as reductions of revenue.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable, and collectibility is reasonably assured. The Company's revenue recognition polices are consistent with the guidance in Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" promulgated by the Securities and Exchange Commission.

The Company records equipment revenue from the sale of handsets and accessories to subscribers in its retail stores and to local distributors in its territories upon delivery. The Company does not record equipment revenue on handsets and accessories purchased from national third-party retailers such as Radio Shack, Best Buy and Circuit City, or directly from Sprint by subscribers in its territories. The Company believes the equipment revenue and related cost of equipment associated with the sale of wireless handsets and accessories is a separate earnings process from the sale of wireless services to subscribers. For industry competitive reasons, the Company sells wireless handsets at a loss.

Because such arrangements do not require a customer to subscribe to the Company's wireless services and because the Company sells wireless handsets to existing customers at a loss, the Company accounts for these transactions separately from agreements to provide customers wireless service.

The Company's subscribers pay an activation fee to the Company when they initiate service. The Company defers activation fee revenue over the average life of its subscribers, which is estimated to be 30 months. The Company recognizes service revenue from its subscribers as they use the service. The Company provides a reduction of recorded revenue for billing adjustments, first payment default customers, late payment fees, and early cancellation fees. The Company also reduces recorded revenue for rebates and discounts given to subscribers on wireless handset sales in accordance with Emerging Issues Task Force ("EITF") Issue No. 01-9 "Accounting for Consideration Given by a Vendor to a Subscriber (Including a Reseller of the Vendor's Products)." The Company participates in the Sprint national and regional distribution programs in which national retailers such as Radio Shack, Best Buy and Circuit City sell Sprint PCS products and services. In order to facilitate the sale of Sprint PCS products and services, national retailers purchase wireless handsets from Sprint for resale and receive compensation from Sprint for Sprint PCS products and services sold. For industry competitive reasons, Sprint subsidizes the price of these handsets by selling the handsets at a price below cost. Under the Company's Sprint agreements, when a national retailer sells a handset purchased from Sprint to a subscriber in the Company's territories, the Company is obligated to reimburse Sprint for the handset subsidy. The Company does not receive any revenues from the sale of handsets and accessories by national retailers. The Company classifies these handset subsidy charges as a selling and marketing expense for a new subscriber handset sale and classifies these subsidies as a cost of service and roaming for a handset upgrade to an existing subscriber.

Sprint retains 8% of collected service revenues from subscribers based in the Company's markets and from non-Sprint subscribers who roam onto the Company's network. The amount of affiliation fees retained by Sprint is recorded as cost of service and roaming. Revenues derived from the sale of handsets and accessories by the Company and from certain roaming services (outbound roaming and roaming revenues from Sprint PCS and its PCS network partner subscribers) are not subject to the 8% affiliation fee from Sprint.

The Company defers direct subscriber activation costs when incurred and amortizes these costs using the straight-line method over 30 months, which is the estimated average life of a subscriber. Direct subscriber activation costs also include credit check fees and loyalty welcome call fees charged to the Company by Sprint and costs incurred by the Company to operate a subscriber activation center.

Impairment of Long-Lived Assets and Goodwill

The Company accounts for long-lived assets and goodwill in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. SFAS No. 142 requires annual tests for impairment of goodwill and intangible assets that have indefinite useful lives and interim tests when an event has occurred that more likely than not has reduced the fair value of such assets. As of September 30, 2002, the Company recorded substantial write-offs of long lived assets and goodwill. Management does not believe that any significant changes occurred since year end and thus no additional write-offs have been made. Management will continue to monitor any triggering events and perform re-evaluations, as necessary.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting, and has adopted the disclosure requirements of SFAS No. 123. The Company currently does not anticipate adopting the provisions of SFAS No. 148.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (the "Interpretation"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

The Interpretation requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

The Company guarantees certain lease commitments of its restricted subsidiaries. The maximum amount of these guarantees is included in the consolidated operating lease disclosure commitment footnoted included in the Company's Form 10-K/A. Also, the handsets sold by the Company are under a one-year warranty from Sprint. If a customer returns a handset for warranty, the Company sends the handset to Sprint for repair. Sprint provides a credit to the Company equal to the price of the refurbished handset, which is generally what is returned to the customer. The Company will apply the recognition and measurement provisions for all guarantees and warranties entered into or modified after December 31, 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides new guidance on the recognition of costs associated with exit or disposal activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. SFAS No. 146 supercedes previous accounting guidance provided by the EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." EITF Issue No. 94-3 required recognition of costs at the date of commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Early application is permitted. The adoption of SFAS No. 146 by the Company on October 1, 2002 is not expected to have a material impact on the Company's financial position, results of operations, or cash flows as the Company has not recorded any significant restructurings in the past periods, but the adoption may impact the timing of charges in future periods. As discussed in Note 6, during the quarter ended December 31, 2002 the Company recorded $0.7 million of costs related to staff reductions and retail location closings.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, this statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. The adoption of SFAS No. 145 by the Company on October 1, 2002 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period that it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 by the Company on October 1, 2002 did not have a material impact on the Company's financial position, results of operations or cash flows.

RESULTS OF OPERATIONS

The following discussion of the results of operations includes the results of operations of iPCS subsequent to November 30, 2001 and therefore iPCS' results of operation for the quarter ended December 31, 2001 only include one month's results.

Key Operating Metrics Defined

Terms such as subscriber net additions, average revenue per user, churn, cost per gross addition and cash cost per user are important operating metrics used in the wireless telecommunications industry. Terms such as EBITDA are financial measures used by many companies. None of these terms, including EBITDA, are measures of financial performance under accounting principles generally accepted in the United States ("GAAP"). The Company believes that EBITDA serves as an important financial analysis tool for measuring and comparing financial information such as liquidity, operating performance and leverage. EBITDA should not, however, be considered an alternative to, or more meaningful than, net income, cash flow or operating loss as determined in accordance with GAAP. EBITDA and these other terms as used by the Company may not be comparable to a similarly titled measure of another company. We have included below a reconciliation of EBITDA to operating loss.

The following terms used in this report have the following meanings:

"EBITDA" means earnings before interest, taxes, depreciation and amortization.

"ARPU" summarizes the average monthly service revenue per user, excluding roaming revenue. ARPU is computed by dividing service revenue for the period by the average subscribers for the period, which is net of an adjustment for first payment default subscribers.

"Churn" is the monthly rate of subscriber turnover that both voluntarily and involuntarily discontinued service during the month, expressed as a percentage of the total subscriber base. Churn is computed by dividing the number of subscribers that discontinued service during the month, net of 30 day returns and an adjustment for estimated first payment default subscribers, by the average total subscriber base for the period.

"CPGA" summarizes the average cost to acquire new subscribers during the period. CPGA is computed by adding the income statement components of selling and marketing, cost of equipment and activation costs (which are included as a component of cost of service) and reducing that amount by the equipment revenue recorded. That net amount is then divided by the total new subscribers acquired during the period, reduced by a provision for first payment default subscribers.

"CCPU" is a measure of the cash costs to operate the business on a per user basis consisting of subscriber support, network operations, service delivery, roaming expense, bad debt expense, wireless handset upgrade subsidies (but not commissions) and other general and administrative costs, divided by average subscribers for the period, which is net of an adjustment for first payment default subscribers.

For the three months ended December 31, 2002 compared to the three months ended December 31, 2001:

iPCS was acquired on November 30, 2001. In accordance with purchase accounting, iPCS' results of operations are included only for the month of December 2001. The table below sets forth below key operating metrics for the Company for the quarters ended December 31, 2002 and 2001.

	Quarter Ended December 31,				
	2002				
	AirGate	iPCS	Combined	AirGate	
Subscriber Gross Additions	55,621	45,299	100,920	83,012	
Subscriber Net Additions	13,670	20,934	34,604	54,820	
Total Subscribers	352,809	236,628	589,437	289,844	
ARPU	$58	$53	$56	$60	
Churn (with subscriber reserve)	3.78%	3.18%	3.54%	3.19%	
Churn (without subscriber reserve)	4.09%	3.62%	3.91%	4.40%	
CPGA	$369	$346	$359	$345	
CCPU	$54	$59	$56	$64	
Cap Ex (from cash flow statement)	$5,626,000	$8,424,000	$14,050,000	$3,246,000	$3
EBITDA	$2,536,000	$(6,055,000)	$(3,519,000)	$(14,868,000)	$(6

The reconciliation of EBITDA to our reported operating loss, as determined in accordance with GAAP, is as follows (in thousands):

Quarter Ended December 31,			
2002			
AirGate	iPCS	Combined	AirGate

EBITDA	$2,536	$(6,055)	$(3,519)	$(14,868)
Depreciation	(11,599)	(9,027)	(20,626)	(9,003)
Amortization of intangible assets	(2,885)	(1,379)	(4,264)	(4,479)
Operating Loss	$(11,948)	$(16,461)	$(28,409)	$(28,350)

Subscriber Net Additions

For AirGate, net subscriber additions are down for the quarter ended December 31, 2002, compared to the same quarter in 2001. This decline is due to the re-institution of the deposit for sub-prime credit quality customers, actions taken to reduce acquisition costs, the increased number of subscribers who churn and slowing wireless subscriber growth in our markets. For iPCS, net subscriber additions increased in the quarter ended December 31, 2002 compared to the same quarter in 2001. This increase is due to the inclusion of only one month's results for iPCS in the quarter ended December 31, 2001.

The Company does not include in its subscriber base an estimate of first payment default subscribers. At December 31, 2002 and 2001, the estimated first payment default subscribers were 7,597 and 10,055, respectively. Estimated first payment default subscribers at December 31, 2002 for AirGate and iPCS were 4,187 and 3,410, respectively.

Subscriber Gross Additions

For AirGate, gross subscriber additions were down for the quarter ended December 31, 2002 compared to the same quarter in 2001. This decline is due to the re-institution of the deposit for sub-prime credit quality customers, actions taken to reduce costs and slowing wireless subscriber growth in our markets. For iPCS, gross subscriber additions increased in the quarter ended December 31, 2002 compared to the same quarter in 2001. This increase is due to the inclusion of only one month's results for iPCS in the quarter ended December 31, 2001.

EBITDA

EBITDA losses for the quarter ended December 31, 2002 have decreased from the same period in 2001. This reduction in total losses is a result of a substantially larger subscriber base over the period and increased net roaming margin. On a standalone basis, AirGate had positive EBITDA in the quarter ended December 31, 2002. While all financial transactions and estimates affect EBITDA, EBITDA for AirGate was favorably impacted by $1.3 million in credits provided by Sprint as a result of the final settlement of service fees as described in Note 3. The impact of this final settlement of service fees on EBITDA for iPCS was approximately $700,000. The EBITDA loss for iPCS was adversely impacted by a $1.4 million charge for disputed cash adjustments with Sprint associated with iPCS' purchase of Cedar Rapids and Iowa City subscribers.

Average Revenue Per User

The decrease in ARPU for the Company for the quarter ended December 31, 2002 compared to the same quarter for 2001 is primarily the result of the acquisition of iPCS, cessation of recognizing terminating access revenue and declines in the average monthly recurring revenue per user. Until March 2002, the Company recorded terminating long-distance access revenues billed by Sprint PCS to long distance carriers.

Churn

Churn increased for the quarter ended December 31, 2002 compared to the same quarter in 2001 primarily as a result of increased competition among wireless carriers in our markets and the greater number of sub-prime credit quality subscribers in our subscriber base.

Cost Per Gross Addition

For AirGate, CPGA was higher for the quarter ended December 31, 2002 compared to the same quarter in 2001. The increase is due to greater handset sales incentives, rebates and marketing costs in 2002 than the prior year and fixed costs being spread over a fewer number of gross additions. For iPCS, CPGA was down for the quarter ended December 31, 2002, compared to the same quarter in 2001. This decrease is primarily attributable to fixed costs being spread over a larger number of gross subscriber additions as a result of having three months results included in the quarter ended December 31, 2002.

Cash Cost Per User

The decrease in CCPU for the quarter ended December 31, 2002 compared to the same quarter for 2001 is the result of the fixed network and administrative support costs being spread over a greater number of average subscribers, including, for the combined Company, those acquired in the merger with iPCS.

Revenues

	Quarter Ended December 31,				
	2002			2001	
	AirGate	iPCS	Combined	AirGate	iPCS
Service Revenue	$59,933	$36,395	$96,328	$47,240	$8,609
Roaming Revenue	18,910*	13,379*	31,991	16,618	4,685
Equipment Revenue	3,021	1,761	4,782	3,813	732
Total	$81,864*	$51,535*	$133,101	$67,671	$14,026

* Amounts are reflected prior to the elimination of intercompany transactions

We derive our revenue from the following sources:

Service. We sell wireless personal communications services. The various types of service revenue associated with wireless communications services include monthly recurring access and feature charges and monthly non-recurring charges for local, wireless long distance and roaming airtime usage in excess of the subscribed usage plan.

Equipment. We sell wireless personal communications handsets and accessories that are used by our subscribers in connection with our wireless services. Equipment revenue is derived from the sale of handsets and accessories from Company owned stores, net of sales incentives, rebates and an allowance for returns. The Company's handset return policy allows subscribers to return their handsets for a full refund within 14 days of purchase. When handsets are returned to the Company, the Company may be able to reissue the handsets to subscribers at little additional cost. However, when handsets are returned to Sprint for refurbishing, the Company receives a credit from Sprint, which is less than the amount originally paid for the handset.

Roaming. The Company receives roaming revenue at a per-minute rate from Sprint and other Sprint PCS network partners when Sprint PCS subscribers from outside of the Company's territory use the Company's network, which accounted for 89% of the roaming revenue recorded for the quarter ended December 31, 2002. The Company pays the same reciprocal roaming rate when subscribers from our territories use the network of Sprint or its other PCS network partners. The Company also receives non-Sprint roaming revenue when subscribers of other wireless service providers who have roaming agreements with Sprint roam on the Company's network.

Service revenue and equipment revenue for the quarter ended December 31, 2002 increased over the same period in the prior year. The increase in service revenue and equipment revenue for the combined Company reflect the substantially higher average number of subscribers using the Company's network, including subscribers acquired in the iPCS acquisition and the inclusion of only one month's activity for iPCS for the quarter ended December 31, 2001.

Roaming revenue for the quarter ended December 31, 2002 increased over the same period in the prior year. The increase is attributable to the larger wireless subscriber base for Sprint and other Sprint PCS network partners, the additional covered territory acquired with iPCS, increased roaming revenue to iPCS from Verizon Wireless and increased roaming revenue from other third-party carriers, and the inclusion of only one month's activity for iPCS for the quarter ended December 31, 2001, partially offset by a lower average roaming rate. For the quarter ended December 31, 2002, roaming revenue from Sprint and its PCS network partners was $28.5 million, or 89% of the roaming revenue recorded. For the quarter ended December 31, 2002, roaming revenue from Sprint and its PCS network partners attributable to AirGate and iPCS was $17.8 million and $10.7 million, respectively.

The reciprocal roaming rate among Sprint and its PCS network partners, including the Company, has declined over time, from $0.20 per minute of use (prior to June 1, 2001 for AirGate or January 1, 2002 for iPCS), to $0.10 per minute of use in calendar year 2002. Sprint has notified the Company that it intends to reduce the reciprocal roaming rate to $0.058 per minute of use in calendar year 2003. The Company is assessing its ability to dispute the reduction in this rate, but its remedies may be limited.

Cost of Service and Roaming

	Quarter Ended December 31, 2002			2001	
	AirGate	iPCS	Combined	AirGate	iPCS
Roaming expense	$ 15,668*	$9,430*	$ 24,800	$ 14,414	$ 3,898
Network operating costs	11,551	10,463	22,014	11,005	3,175
Bad debt expense	2,186	940	3,126	5,613	1,117
Wireless handset upgrades	1,583	1,047	2,630	--	--
Total cost of service and roaming	$ 51,431*	$ 36,874*	$88,006	$46,238	$11,519

*Amounts are reflected prior to the elimination of intercompany transactions

Cost of service and roaming principally consists of costs to support the Company's subscriber base including:

- Roaming expense,
- network operating costs (including salaries, cell site lease payments, fees related to the connection of the Company's switches to the cell sites that they support, inter-connect fees and other expenses related to network operations),
- back office services provided by Sprint such as customer care, billing and activation, 41 the 8% of collected service revenue representing the Sprint affiliation fee,
- long distance expense relating to inbound roaming revenue and the Company's own subscriber's long distance usage and roaming expense when subscribers from the Company's territory place calls on Sprint's network,
- bad debt related to estimated uncollectible accounts receivable, and
- wireless handset subsidies on existing subscriber upgrades through national third-party retailers.

The cost of service and roaming increased for the quarter ended December 31, 2002 compared to the same period in 2001. The increase in the cost of service and roaming is attributable to the increase in the number of subscribers due to the acquisition of iPCS and additional subscriber growth and the inclusion of only one month's costs for iPCS for the quarter ended December 31, 2001. Cost of service was reduced by approximately $0.9 million ($0.5 million for AirGate and $0.4 million for iPCS) for the quarter ended December 31, 2002 due to the final settlement of service bureau fees with Sprint (See Note 3). Cost of service was increased by $1.4 million for disputed cash adjustments with Sprint associated with iPCS' purchase of Cedar Rapids and Iowa City subscribers.

Roaming expense increased for the quarter ended December 31, 2002 compared to the same period in 2001 as a result of the substantial increase in the Company's subscriber base, including the acquired iPCS subscriber base and an increase in the average roaming minutes per mon