AIRGATE PCS INC /DE/
Form 10-K/A
January 15, 2004

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

FORM 10-K/A

Amendment No. 2

For Annual and Transition Reports Pursuant to
Section 13 or 15(d) of the Securities Act of 1934

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended September 30, 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 (State other jurisdiction of incorporation or organization)	58-2422929 (I.R.S. Employer Identification Number)
Harris Tower, 233 Peachtree St. NE, Suite 1700, Atlanta, Georgia (Address of principal executive offices)	30303 (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes |_| No |X|

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the closing sale price on the Nasdaq Stock Market on March 29, 2002, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $322,982,898. (For purposes of determination of the foregoing amount, only our directors and executive officers have been deemed affiliates).

As of December 27, 2002, there were 25,836,520 shares of common stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed within 120 days after September 30, 2002 for the Registrant's Annual Shareholder Meeting are incorporated into Part III of this Report on Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A is being amended solely for the purpose of amending and restating in its entirety Item 14 of this Form 10-K/A2, and to update the signature page and the certifications required by the Sarbanes-Oxley Act of 2002 in Item 15 and Exhibits 99.1 and 99.2, and update KPMG LLP's report on the financial statement schedule to reference this 10-K/A2, and to update the consent of KPMG LLP in Exhibit 23. This Form 10-K/A2 does not reflect events occurring after the filing of Amendment No. 1 to Form 10-K, or modify or update the disclosures therein in any way other than as required to reflect these changes.

AIRGATE PCS, INC.

ANNUAL REPORT ON FORM 10-K
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ITEM NO.

PART I

ITEM 1. Business

Special Caution Regarding Forward-Looking Statements

This annual report on Form 10-K and other documents we file with the Securities and Exchange Commission ("SEC") contain 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 our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on our behalf. Words such as "anticipate," "believe," "estimate," "expect," "goal," "intend," "plan," "project," "seek," "target," 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 outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this annual report on Form 10-K, whether as a result of new information, future events, changes in assumptions, or otherwise.

Important factors that could cause our actual results to differ materially from the results contemplated by the forward-looking statements are contained in the "Risk Factors" section in this Item 1, in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report.

Certain Definitions

In this annual report on Form 10-K, we refer to AirGate PCS, Inc. and its subsidiaries, other than iPCS, Inc. and its subsidiaries, as "AirGate." We refer to iPCS, Inc. and its subsidiaries as "iPCS." Unless the context otherwise requires, the use of "we," "our," "us" or "the Company," refers to the combined company of AirGate and iPCS after giving effect to the merger. AirGate has three other wholly-owned subsidiaries, AGW Leasing Company, Inc., AirGate Network Services, LLC and AirGate Service Company, Inc. iPCS has two wholly-owned subsidiaries, iPCS Wireless, Inc. and iPCS Equipment, Inc.

"Sprint PCS" refers to Sprint Communications Company, L.P., Sprint Spectrum L.P. and WirelessCo, L.P. In this annual report on Form 10-K, we refer to Sprint Corporation and its affiliates, including Sprint PCS, as "Sprint". Statements in this report regarding Sprint are derived from information contained in our agreements with Sprint, periodic reports and other documents filed by Sprint with the Securities and Exchange Commission or press releases issued by Sprint.

BUSINESS OVERVIEW

Background

AirGate PCS, Inc. and its subsidiaries and predecessors were formed for the purpose of becoming a leading regional provider of wireless Personal Communication Services, or PCS. We are a network partner of Sprint PCS, a wholly owned subsidiary of Sprint Corporation, a diversified telecommunications service provider. On November 30, 2001, AirGate acquired iPCS, Inc., another Sprint network partner, by merging a wholly-owned subsidiary with and into iPCS. As required by the terms of our outstanding indebtedness, we conduct our business operations through two separate corporate entities: (i) AirGate and its wholly-owned unrestricted subsidiaries and (ii) iPCS and its wholly-owned subsidiaries.

Sprint operates a 100% digital PCS wireless network in the United States and holds the licenses to provide PCS nationwide using a single frequency band and a single technology. Sprint, directly and indirectly through network partners such as us, provides wireless services in more than 4,000 cities and communities across the country. Sprint directly operates its PCS network in major metropolitan markets throughout the United States. Sprint has also entered into independent agreements with various network partners, such as us, under which the network partners have agreed to construct and manage PCS networks in smaller metropolitan areas and along major highways.

Through AirGate's management agreement with Sprint, AirGate has the right to market and provide Sprint PCS products and services in a territory that covers almost the entire state of South Carolina, parts of North Carolina, and the eastern Georgia cities of Augusta and Savannah. AirGate's territory encompasses 21 markets and approximately 7.1 million residents. Through iPCS' management agreement with Sprint, iPCS has the right to market and provide Sprint PCS products and services in a territory that

covers mid-sized cities and rural areas in parts of Illinois, Michigan, Iowa and eastern Nebraska. iPCS' territory encompasses 37 markets with approximately 7.4 million residents.

As of September 30, 2002, AirGate had 339,139 subscribers and total network coverage of approximately 5.9 million residents, representing approximately 83% of the residents in its territory. For the year ended September 30, 2002, AirGate generated revenue of approximately $313.5 million.

As of September 30, 2002, iPCS had 215,694 subscribers and total network coverage of approximately 5.6 million residents, representing approximately 76% of the residents in its territory. For the year ended September 30, 2002, iPCS generated revenue of approximately $144.1 million.

As of September 30, 2002, the combined Company had 554,833 subscribers and total network coverage of approximately 11.5 million residents, representing approximately 79% of the residents in our territories. For the year ended September 30, 2002, the Company generated revenue of approximately $456.6 million.

Current Operating Environment and its Impact on the Company

Since the beginning of the year, the wireless communications industry, as well as the Company, has experienced significant declines in per share equity prices. We believe that this decline in wireless stocks results from a weaker outlook for the wireless industry than previously expected. Reasons for a weaker operating environment include:

- declining rates of subscriber growth in the United States as overall rates of penetration in the wireless industry approach and exceed 50%, which decline may have been exacerbated by a widespread economic slowdown;

- concerns that these declines, coupled with intense competition among wireless service providers in the United States, will continue to lead to service offerings of increasingly large bundles of minutes at lower prices;

- higher rates of churn resulting from intense competition and programs for sub-prime credit quality subscribers; and

- the highly leveraged capital structures of many wireless providers and a lack of viable financing alternatives.

Our business has been and continues to be affected by these market conditions. In addition, as a result of our dependence on Sprint, AirGate and iPCS are also confronted with additional factors that have had a negative impact on our operations such as:

- We offered a program that attracted sub-prime credit quality subscribers and contributed to high rates of churn. The introduction of this program was required under our agreements with Sprint until late February, 2002 (See "Marketing Strategy--Pricing" for a description of the program and "Sprint Relationship and Agreements");

- Over the past year, Sprint has taken a number of actions which resulted in unanticipated charges or increases in charges to the Company. Some of these charges resulted from errors by Sprint, while others were charges to which we had little or no advance notice. The effect of these actions was to reduce our liquidity and interject a greater degree of uncertainty to our business and financial planning (See "Sprint Relationship and Agreements");

- Our dependence on Sprint to provide customer care provides us limited tools to improve the quality of customer care, which may contribute to higher churn;

- Because 60% of our costs of service and roaming is paid to Sprint as service, affiliation, roaming, long-distance and other fees and expenses under our agreements, our ability to control costs through our own cost cutting measures is more limited (See "Related Party Transactions--Transactions with Sprint"); and

- a more limited control of our own working capital.

These factors and the lack of additional sources of capital led us to revise our business plans to reflect this less-favorable operating environment.

Over the near term, we have been and are managing both AirGate and iPCS to:

- restructure the organizations and eliminate positions to operate in the most cost efficient manner possible;

- significantly reduce capital expenditures;

- cut back on spending for advertising and promotions; and

- restrict availability of programs for sub-prime subscribers to reduce churn and improve the credit quality of our new subscribers and our subscriber base.

Despite these measures, liquidity is an issue for iPCS in the near term. We retained Houlihan Lokey Howard & Zukin Capital to review iPCS' revised long range business plan, the strategic alternatives available to iPCS and to assist iPCS in developing and

implementing a plan to improve its capital structure. 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, and we have begun restructuring discussions with informal committees of these creditors. While the lenders and noteholders have expressed willingness to work with iPCS, Sprint has informed us it is unwilling to restructure its agreements with iPCS. Because of its deteriorating financial condition, it is probable that iPCS will soon be required to seek protection under the federal bankruptcy laws in an effort to effect a court-administered reorganization. Even if a cooperative restructuring is possible, it is likely that a court-administered reorganization would be a part of that process.

As a result of the industry trends discussed above and the fact that wireless industry acquisitions subsequent to the Company's acquisition of iPCS have been valued substantially lower on a price per population and price per subscriber basis, the Company believed that the fair value of iPCS and its assets had been reduced. The Company engaged a nationally recognized valuation expert on two occasions during 2002 to perform fair value assessments of iPCS and its assets. The Company recorded a goodwill impairment of approximately $261.2 million during the quarter ended March 31, 2002. In the quarter ended September 30, 2002, the Company took total impairment charges of $556.2 million associated with the impairment of goodwill, tangible and intangible assets related to iPCS (See Note 2 to the consolidated financial statements).

Because iPCS is an unrestricted subsidiary, 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. It is also possible that AirGate will no longer provide management services to iPCS if ownership of iPCS changes. If this were to occur, AirGate would need to reduce operating costs in an amount sufficient to recover the general and administrative costs currently shared by both companies (estimated to be $4.6 million in fiscal 2003).

As described under "Liquidity and Capital Resources," as of December 30, 2002, iPCS was in default under certain covenants contained in its senior secured credit facility (the "iPCS credit facility") and indenture governing its notes (the "iPCS notes"). Because of these events of default, the senior lenders will have the ability to accelerate iPCS' payment obligations under the iPCS credit facility and the holders of iPCS notes will have the ability to accelerate iPCS' payment obligations under iPCS' indenture, after giving notice and the expiration of applicable cure periods. iPCS is working with its lenders and noteholders on a forbearance agreement, however there is no assurance that these negotiations will be successful. In any event, we anticipate that iPCS will default on certain financial covenants as of March 31, 2003 and iPCS expects to file for bankruptcy in the near term, and these events are also events of default under the iPCS credit facility.

While AirGate has also experienced a deterioration in its liquidity, it appears that it is in a better position to address the issues discussed above. It has a larger subscriber base than iPCS and, as a stand alone operation, AirGate's business is more mature. Based upon its current business plan, which continues to be revised and evaluated in light of evolving circumstances, we believe that AirGate will have sufficient funds from operations and amounts available under its senior secured credit facility (the "AirGate credit facility") to satisfy our working capital needs, capital expenditures and other liquidity requirements through fiscal 2003.

Business Strategy

Our goal is to become one of the most profitable regional wireless providers through a conservative growth strategy of adding higher credit quality subscribers with higher revenues while reducing costs. We believe the following elements are critical to enable us to achieve this goal:

- continue to take advantage of our strategic relationship with Sprint,
- maximize free cash flow by lowering our capital spending and operating costs,
- reduce churn and improve the credit quality of our new subscribers,
- work with Sprint to increase the predictability of costs and financial information, and
- in the longer term, take advantage of the Sprint brand recognition to capitalize on new growth initiatives, including data services and wireline-to-wireless migration opportunities.

Continue to capitalize on our strategic relationship with Sprint. The underlying premise of our business plan is to continue to capitalize on our strategic relationship with Sprint. We believe this relationship provides us with a significant competitive advantage over other regional wireless providers because of Sprint's:

- strong brand name recognition,
- all-digital nationwide coverage,

- quality products and services,
- advanced technology, and
- established distribution channels.

Maximize free cash flow by lowering capital spending and operating costs. We believe our success will depend in large part on our ability to lower our capital spending and operating costs and be cost competitive. With the primary build-out of our network complete, we are reducing capital spending. In addition, we have already taken a number of steps to lower our sales, marketing and network service costs, including the following:

- reductions in discretionary spending,
- tightening management of vendors,
- closely examining our spending in sales and marketing, including:
  - a management restructuring in our retail channel and closing our least productive retail stores,
  - a reduction in support to our indirect distribution channels to reflect reduced productivity in certain of these outlets, such as Radio Shack and Walmart,
  - a reduction in support to our business distribution channel.

As of January 10, 2003, these measures have resulted in a reduction in work force of 106 (72 at AirGate and 34 at iPCS).

We are continuing to re-examine our business processes to identify other cost savings opportunities and gain efficiencies. We are also undertaking a review of our corporate staff functions to determine their optimal structure, both with and without a management role with respect to iPCS.

Reduce churn and improve the credit quality of our subscribers. The high costs associated with subscriber churn makes reducing churn critical to our success. Currently, rates of churn, or customer turnover, are highest among sub-prime credit quality customers. As a result, we have eliminated the program features which were most attractive to sub-prime credit quality customers (See "Marketing Strategy--Pricing" for a discussion of these programs and features). During the last half of 2002, churn also increased in our prime credit quality customer segments. The Company has implemented a customer education program with the goal of both reducing churn in all customer segments and our exposure to non-paying customers. We are also dedicating resources to identify other avenues to reduce subscriber churn.

Work with Sprint to increase the predictability and accuracy of cost and financial information. As described in more detail under "Sprint Relationship and Agreements," over the past year, Sprint has taken actions which resulted in unanticipated charges. Some of these charges resulted from errors by Sprint, while others were charges to which we had little or no advance notice. The effect of these actions were to reduce our liquidity and interject a greater degree of uncertainty to our business and financial planning. We are working with Sprint to provide greater visibility and predictability and to improve accuracy of billing and other financial information.

In the longer term, take advantage of the Sprint brand recognition to capitalize on new growth initiatives, including data services and wireline-to-wireless migration opportunities.

Data Services and PCS Vision. The development of compelling data applications will be critical to the growth in usage of wireless data network services. In the third quarter of 2002, Sprint launched PCS Vision, a third generation technology. Vision-enabled PCS devices take and receive pictures, check personal and corporate e-mail, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds that equal or exceed a home computer's dial-up connection. At the same time, Sprint began to roll out a broad portfolio of Vision-enabled devices that incorporate voice and data functionality, expanded memory, high-resolution and larger color screens that allow greater mobility, convenience and productivity. While the uptake of these services has been slower than expected, we believe PCS Vision will provide a vehicle for growth for data and wireless internet services.

Targeted Marketing. In addition to Sprint's national marketing plans, we plan to develop local plans in conjunction with Sprint to target groups who share common characteristics or have common needs in our territory.

Wireline-to-Wireless Migration Opportunities. We believe wireless will continue to grow as a substitution for wireline services. Wireless internet access, wireless local loop and other wireless applications can spur this migration and increase sales of wireless services.

Other Recent Developments

AirGate's senior secured credit facility required that AirGate deliver audited financial statements accompanied by an unqualified opinion of its independent auditors by December 30, 2002, along with certain related documents. Similarly, AirGate's discount

notes (the "AirGate notes") required that AirGate deliver an audit opinion of its independent auditors, along with certain related documents, by December 30, 2002.

As described in this report under "Item 14. Controls and Procedures," we discovered inconsistencies between certain accounts receivable reports provided to us by Sprint. In early December, Sprint informed us that certain of these reports could not be relied on for financial reporting purposes. While Sprint and the Company worked diligently to resolve issues related to this discrepancy, we were unable to complete our financial statements by December 30, 2002.

Because AirGate did not deliver the required information on December 30, 2002, AirGate was in default under its credit facility and the indenture governing the AirGate notes. Under the AirGate credit facility and indenture governing the AirGate notes, the default did not constitute an event of default until the giving of notice and expiration of the applicable cure period.

On December 31, 2002, Standard & Poor's ("S&P") downgraded AirGate's corporate rating from CCC+ to CCC- and its rating of the AirGate notes from CCC- to CC. In addition, S&P downgraded iPCS' corporate rating from CCC- to CC. AirGate has also been placed on credit watch with negative implications pending the cure of the default under its credit facility and its notes.

AirGate has cured any defaults under its credit facility and indenture by delivery of the required information.

Risk Factors

We strongly encourage you to read the discussions under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and elsewhere in this report for a discussion of factors which could cause our results to differ materially from our expectations.

Markets

We believe that connecting Sprint's existing PCS markets with our PCS markets is an important part of Sprint's on-going strategy to provide seamless, nationwide PCS service to its subscribers. We believe our combined territories, with 14.5 million residents, have attractive demographic characteristics. AirGate's territory has many vacation destinations, covers substantial highway mileage and includes a large student population, with at least 27 colleges and universities. iPCS' territory includes markets that are adjacent to several major metropolitan operational markets in the Midwestern United States, including Chicago, Detroit, Des Moines, Indianapolis, Omaha and St. Louis, and also includes a large student population, with over 90 colleges and universities. The following table sets forth the location and estimated population in each of the markets that comprise the Company's territories:

AirGate Basic Trading Areas (1)	Population (2)
Greenville-Spartanburg, SC	897,700
Savannah, GA	737,100
Charleston, SC	686,800
Columbia, SC	657,000
Asheville-Hendersonville, NC	588,700
Augusta, GA	579,400
Anderson, SC	346,600
Hickory-Lenoir-Morganton, NC	331,100
Wilmington, NC	327,600
Florence, SC	260,200
Greenville-Washington, NC	245,100
Goldsboro-Kinston, NC	232,000
Rocky Mount-Wilson, NC	217,200
Myrtle Beach, SC	186,400
New Bern, NC	174,700
Sumter, SC	156,700
Jacksonville, NC	148,400
Orangeburg, SC	119,600
The Outer Banks, NC (3)	92,000
Roanoke Rapids, NC	76,800
Greenwood, SC	74,400

Total	7,135,500

(1) Each of the AirGate markets contains 10 MHz of spectrum.
(2) Based on 2000 estimates compiled by Kagan's Wireless Telecom Atlas & Databook, 2001 Edition, as reported per individual basic trading area.
(3) Territory covered by our Sprint PCS management agreements do not comprise a complete basic trading area.

iPCS Basic Trading Areas	MHz	Population(1)
Grand Rapids, MI	30	1,060,600
Saginaw-Bay City, MI	30	634,100
Peoria, IL	10	464,600
Davenport, IA and Moline, IL	30	430,500
Cedar Rapids, IA	30	285,700
Springfield, IL	10	267,200
Waterloo-Cedar Falls, IA	30	259,600
Omaha (Partial), NE (2)	30	248,800
Decatur-Effingham, IL	10	247,600
Traverse City, MI	30	241,000
Bloomington, IL	10	234,100
Muskegon, MI	30	223,100
Champaign-Urbana, IL	10	221,100
Dubuque, IA	30	177,800
Des Moines, IA (Partial) (2)	30	170,900
LaSalle-Peru-Ottawa-Streator, IL	20	152,300
Grand Island-Kearney, NE	30	147,100
Clinton, IA and Sterling, IL	30	146,600
Burlington, IA	30	136,400
Kankakee, IL	20	135,600
Mount Pleasant, MI	30	130,700
Fort Dodge, IA	30	126,400
Iowa City, IA	30	125,400
Ottumwa, IA	30	123,400
Mount Vernon-Centralia, IL	30	121,900
Mason City, IA	30	115,500
Danville, IL	20	110,700
Norfolk, NE	30	110,600
Lincoln, NE (Partial) (2)	30	98,300
Galesburg, IL	10	73,500
Hastings, NE	30	71,700
Jacksonville, IL	10	70,500
Matoon, IL	10	62,600
Lansing, MI (Partial) (2)	30	61,900
Marshalltown, IA	30	56,600
Battle Creek, MI (Partial) (2)	30	54,600
St. Louis, MO (Partial) (2)	30	46,700
Total		7,445,700

(1) Based on 2000 estimates compiled by Kagan's Wireless Telecom Atlas & Databook, 2001 Edition, as reported per individual basic trading area.
(2) Territory covered by iPCS' Sprint management agreement does not comprise a complete basic trading area.

AirGate's Sprint agreements required it to cover a specified percentage of the population at a range of coverage levels within each of the markets granted to it by those agreements by specified dates. AirGate is fully compliant with these build-out requirements. iPCS' Sprint agreements required it to launch certain markets by specified dates. We believe iPCS has satisfied these build-out requirements as of September 30, 2002. iPCS' agreement with Sprint requires iPCS to construct an additional four to five cell sites by December 31, 2004.

Products and Services

We offer Sprint PCS products and services throughout our territories. These PCS products and services are generally designed to mirror the services offered by Sprint.

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100% Digital Wireless Network with Service Across the Country. Our primary service is wireless mobility coverage. As Sprint network partners, our existing PCS network is part of the largest 100% digital wireless PCS network in the United States. Subscribers in our territory may use Sprint PCS services throughout our contiguous markets and seamlessly throughout the Sprint PCS network.

PCS Vision Service. In the third calendar quarter of 2002, Sprint launched PCS Vision, a third generation technology. Vision-enabled PCS devices take and receive pictures, check personal and corporate e-mail, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds that equal or exceed a home computer's dial-up connection. At the same time, Sprint began to roll out a broad portfolio of Vision-enabled devices that incorporate voice and data functionality, expanded memory, high-resolution and larger color screens that allow greater mobility, convenience and productivity. The Company supports and offers PCS Vision services and phones in the majority of its territories.

Wireless Internet Access. Wireless Internet access is available through both the new PCS Vision service and PCS Vision-enabled phones as well as the Sprint Wireless Web and other data capable PCS phones. PCS subscribers with web browser-enabled phones have the ability to receive information such as stock prices, airline schedules, sports scores and weather updates directly on their handsets. Subscribers with PCS Vision phones can browse full color, graphic versions of popular web sites. Those subscribers with other browser-enabled phones are able to browse specially designated text based sites.

CDMA and Dual Band/Dual Mode Handsets. We offer code division multiple access, or CDMA, digital technology handsets. These handsets range from full-featured models with special features such as Palm OS and built-in digital cameras to models with voice only capability. The phones can weigh as little as 2.65 ounces and can have standby times surpassing 300 hours. We offer dual band/dual mode handsets that allow subscribers to make and receive calls on both PCS and cellular frequency bands and both digital or analog technology.

Sprint and Non-Sprint Roaming. We provide roaming services to Sprint PCS subscribers that use a portion of our PCS network, and to non-Sprint subscribers when they use a portion of our PCS network pursuant to roaming agreements between Sprint and other wireless service providers. Sprint and other wireless service providers supply similar services to our subscribers when our subscribers use a portion of their networks.

Marketing Strategy

Our marketing and sales strategy generally uses the national advertising and marketing programs that have been developed by Sprint. We enhance the Sprint marketing strategy with strategies and tactics we have tailored to our specific markets.

Use Sprint's brand equity and marketing. We feature exclusively and prominently the nationally recognized Sprint brand in our marketing effort. From our subscribers' point of view, they use our network and the PCS national network seamlessly as a unified nationwide network.

Pricing. Our use of the Sprint national pricing strategy offers our subscribers simple, easy-to-understand service plans. Sprint's pricing plans are typically structured with monthly recurring charges, large local calling areas, bundles of minutes and service features such as voicemail, caller ID, call waiting, call forwarding and three-way calling. We also feature Sprint Free and Clear plans, which offer simple, affordable plans for consumer and business subscribers, and include long distance calling from anywhere on the Sprint PCS nationwide network.

A significant pricing plan for the Company is the Clear Pay program and its predecessors, the Account Spending Limit ("ASL") and no-deposit ASL ("NDASL") programs. Under these programs, subscribers who did not meet certain credit criteria could qualify for our digital wireless services. Subscribers were classified into prime and sub-prime credit quality, with those in the sub-prime category further designated into credit classes. Under the ASL program, sub-prime credit quality subscribers could select any plan offered subject to an account spending limit. Prior to May 2001, all of these subscribers were required to make a deposit ranging from $125 to $200 that could be credited against future billings. In May 2001, the NDASL program eliminated the deposit requirement on all credit classes. In November 2001, the NDASL program was replaced with a substantially similar program known as Clear Pay. The primary difference between the two programs was the re-introduction of a deposit requirement in the lowest credit class and an increased emphasis on collection processes. In late February 2002, the Clear Pay II Program replaced the Clear Pay Program for new subscribers in select PCS network partner markets, including the Company's territories. The Clear Pay II Program reinstates a $125 deposit for all sub-prime quality subscribers. A further, recent enhancement to the Clear Pay II Program requires a $250 deposit from those sub-prime subscribers in the lowest credit class. Although iPCS removed these deposit requirements in its territory for all sub-prime credit quality subscribers except for the lowest credit class at certain times between June 2002 and November 2002, the Clear Pay II Program and its deposit requirements are currently in effect in most of AirGate's and iPCS' respective markets. As a result, sub-prime credit quality subscribers accounted for 55% of our gross subscriber additions since the introduction of the NDASL program in May, 2001 and as of September 30, 2002, sub-prime credit quality subscribers accounted for 36% of AirGate subscribers and 35% of iPCS subscribers, or 35% of the combined Company subscribers.

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Local focus. Our local focus enables us to supplement Sprint's marketing strategies with our own strategy and tactics tailored to each of our specific markets. This focus can include local advertising, sponsorships and distribution. We also enhance our local focus with specific service plans called Area-wide Plans. These plans are designed for our territories to create a more competitive product to those offered by other regional or local providers.

Advertising and promotions. Sprint uses national as well as regional television, radio, print, outdoor and other advertising campaigns to promote its products. We benefit from this national advertising in our territory at no additional cost to us. Sprint also runs numerous promotional campaigns that provide subscribers with benefits such as additional features at the same rate, free minutes of use for limited time periods or special prices on handsets and other accessories.

Sponsorships. Sprint sponsors numerous national, regional and local events. These sponsorships provide Sprint with brand name and product recognition in high profile events, create a forum for sales and promotional events and enhance our promotional efforts in our territory.

Sales and Distribution

Our agreements with Sprint require us to use Sprint's and our own sales and distribution channels in our territories. Key elements of our sales and distribution plan consist of the following:

Sprint stores. AirGate currently operates 38 and iPCS currently operates 27 retail Sprint stores within its territory. These stores are located in metropolitan markets within our territories, providing us with a local presence and visibility. These stores have been designed to facilitate retail sales, bill collection and subscriber service.

Sprint store within a Radio Shack store. Sprint has an arrangement with RadioShack to install a "store within a store." Currently, RadioShack has 102 stores in AirGate's territory and 92 stores in iPCS' territory that are authorized to offer Sprint PCS products and services to potential subscribers.

Other national third-party retail stores. In addition to RadioShack, we benefit from the sales and distribution agreements established by Sprint with other national retailers, which currently include Best Buy, Circuit City, Staples, Target, Office Max, Wal-Mart, Office Depot and Ritz Camera. These retailers and others have approximately 243 retail stores in AirGate's territory and 218 retail stores in iPCS' territory.

Local third-party retail stores. We benefit from the sales and distribution agreements that we enter into with local retailers in our territory. We have entered into sales and distribution agreements related to approximately 47 local stores in AirGate's territory and 139 local stores in iPCS' territory.

National accounts and direct selling. We participate in Sprint's national accounts program. Sprint has a national accounts team which focuses on the corporate headquarters of large companies. Our direct sales force targets the employees of these companies in our territories and cultivates other local business subscribers. In addition, once a Sprint national account manager reaches an agreement with any company headquartered outside of our territory, we service the offices and subscribers of that company located in our territory.

Sprint Distribution Channels. Sprint directly controls various distribution channels that sell Sprint PCS products and services in our markets. These channels with significant activity in our markets include: Sprint Inbound Telemarketing, Sprint web-based electronic commerce, Sprint Local Telephone Division Retail, and Sprint Local Telephone Division Telemarketing. In addition to these channels, Sprint's retail and business sales activities often have some incidental overflow into our markets.

For the twelve months ended September 30, 2002, the following table sets forth the percentage of gross activations that certain of our distribution channels generated for each of AirGate and iPCS:

	iPCS	AirGate
Retail Sprint Stores	32%	33%
RadioShack	14	23

Other National Third-Party	15	11
Local Third-Party	26	7
National Accounts	3	10
Sprint	10	16
	100%	100%

Suppliers and Equipment Vendors

We do not manufacture any of the handsets or network equipment we use in our operations. We purchase our network equipment and handsets pursuant to various Sprint vendor arrangements that provide us with volume discounts. These discounts have significantly reduced the overall capital required to build our network.

Under such arrangements, AirGate currently purchases its network equipment from Lucent Technologies, Inc. ("Lucent") and iPCS currently purchases its network equipment from Lucent and Nortel Networks, Inc. In addition, we currently purchase our handsets directly from Sprint and our accessories from Sprint and certain other third-party vendors. Our agreements with Sprint require us to pay Sprint $4.00 for each 3G handset that we purchase either directly from Sprint or from a Sprint authorized distributor. We agreed to pay this fee starting with purchases on July 1, 2002 and ending on the earlier of December 31, 2004 or the date on which the cumulative 3G handset fees received by Sprint from all Sprint network partners equal $25,000,000. We further agreed to purchase 3G handsets only from Sprint or a Sprint authorized distributor during this period.

Seasonality

Our business is subject to seasonality because the wireless industry is heavily dependent on fourth calendar quarter results. Among other things, the industry relies on higher subscriber additions and handset sales in the fourth calendar quarter when compared to the other three calendar quarters. A number of factors contribute to this trend, including: the increasing use of retail distribution, which is heavily dependent upon the year-end holiday shopping season; the timing of new product and service announcements and introductions; competitive pricing pressures; and aggressive marketing and promotions. The increased level of activity requires a greater use of our available financial resources during this period. We expect, however, that fourth calendar quarter seasonality will have less impact in the future.

Employees and Labor Relations

As of September 30, 2002, AirGate and iPCS employed approximately 650 and 325 full-time employees, respectively. Of these, the service company formed to provide management services to AirGate and iPCS leases approximately 150 employees from AirGate and 40 employees from iPCS. None of our employees are represented by a labor union. We believe that we have good relations with our employees.

Competition

Competition in the wireless communications industry is intense. We operate in highly competitive markets, particularly in the southeast. In our territories, we compete with national and regional cellular, PCS and other wireless providers. We believe that our primary competition is with Verizon Wireless, Nextel, Cingular Wireless, AT&T Wireless and its affiliates, Alltel and US Cellular. These wireless service providers offer services that are generally comparable to our PCS service. Most of our competitors have financial resources and subscriber bases greater than ours.

Many of our competitors have access to more licensed spectrum than the 10 MHz licensed to Sprint in AirGate's territory and the 10 MHz or 20 MHz licensed to Sprint in parts of iPCS' territory. In addition, certain of our competitors may be able to offer coverage in areas not served by our PCS network, or, because of their calling volumes or their affiliations with, or ownership of, wireless providers, may be able to offer roaming rates that are lower than those we offer. PCS providers compete with us in providing some or all of the services available through the Sprint PCS network and may provide services that we do not. Additionally, we expect that existing cellular providers, some of whom have been operational for a number of years and have significantly greater financial and technical resources and subscriber bases than us, will continue to upgrade their systems to provide digital wireless communication services competitive with Sprint.

Our ability to compete effectively with these other providers will depend on a number of factors, including:

- the continued success of CDMA technology in providing competitive call clarity and quality;
- our ability to provide quality network service in a limited capital environment;
- the competitiveness of Sprint's pricing plans;
- our spending on marketing and promotions compared to our competitors;
- liquidity and capital resources;
- our ability to upgrade our networks to accommodate new technologies;
- the continued expansion and improvement of the Sprint PCS nationwide network;
- the quality of Sprint customer care systems; and
- our selection of handset options.

Our ability to compete successfully will also depend, in part, on the ability of Sprint and us to anticipate and respond to various competitive factors affecting the industry, including:

- new services that may be introduced;
- changes in consumer preferences;
- demographic trends;
- economic conditions; and

- discount pricing strategies by competitors.

NETWORK OPERATIONS

General

The effective operation of our portions of the Sprint PCS network require:

- public switched and long distance interconnection;
- the implementation of roaming arrangements; and
- the development of network monitoring systems.

We utilize Sprint's Network Operations Control Center for around-the-clock monitoring as well as our own switching centers' capabilities for our network base stations and switches.

Sprint developed the initial plan for the build-out of our Sprint networks. We have further enhanced this plan to provide better coverage for our territories. Pursuant to our network operations strategy, we have provided PCS service to the largest communities in our markets and have covered interstates and primary roads connecting these communities to each other and to the adjacent major markets owned and operated by Sprint.

As of September 30, 2002, AirGate's network consisted of four switches located at two switch centers and approximately 802 operating cell sites, and iPCS' network consisted of three switches located at three switch centers and approximately 633 operating cell sites. A switching center serves several purposes, including routing calls, managing call handoff, managing access to the public telephone network and providing access to voice mail. 99% of AirGate's and 86% of iPCS' operating cell sites are co-located. Co-location describes the strategy of leasing available space on a tower or cell site owned by another company rather than building and owning the tower or cell site directly.

Our networks connect to the public telephone network through local exchange carriers, which facilitate the origination and termination of traffic between our networks and both local exchange and long distance carriers. Through our management agreements with Sprint, we have the benefit of Sprint-negotiated interconnection agreements with local exchange carriers.

Under our management agreements with Sprint, we are required to use Sprint for long distance services and Sprint provides us with preferred rates for these services. Backhaul services are provided by other third-party vendors. These services carry traffic from our cell sites and local points of interconnection to our switching facilities.

TECHNOLOGY

General

In 1993, the FCC allocated the 1900 MHz frequency block of the radio spectrum for wireless PCS Systems. PCS networks operate at a higher frequency and employ more advanced digital technology than traditional analog cellular telephone service. The enhanced capacity of digital systems, along with enhancements in digital protocols, allows digital-based wireless technologies, whether using PCS or cellular frequencies, to offer new and enhanced services, including greater call privacy and more robust data transmission, such as facsimile, electronic mail and connecting notebook computers with computer/data networks.

Presently, wireless PCS systems operate under one of three principal air interface protocols: CDMA, time division multiple access (TDMA) or global system for mobile communications (GSM). Wireless PCS operators in the United States now have dual-mode or tri-mode handsets available so that their customers can operate on different networks that employ different protocols.

CDMA Technology

Sprint's network and Sprint's network partners' networks all use CDMA technology. CDMA technology is fundamental to accomplishing our business objective of providing high volume, high quality airtime at a low cost. We believe that CDMA provides important system performance benefits. CDMA systems offer more powerful error correction, less susceptibility to fading and reduced interference than analog systems. Using enhanced voice coding techniques, CDMA systems achieve voice quality that is comparable to that of the typical wireline telephone. This CDMA vocoder technology also employs adaptive equalization, which filters out annoying background noise more effectively than existing wireline, analog cellular or other digital PCS phones. CDMA technology also allows a greater number of calls within one allocated frequency and reuses the entire frequency spectrum in each cell. In addition, CDMA technology combines a coding scheme with a low power signal to enhance security and privacy. As a subscriber travels from one cell site to another cell site, the call must be "handed off" to the second cell site. CDMA systems transfer calls throughout the network using a technique referred to as soft hand-off, which connects a mobile subscriber's call with a new cell site while maintaining a connection with the cell site currently in use.

CDMA offers a cost effective migration to the next generation of wireless services. CDMA standards and products currently in place will allow existing CDMA networks to be upgraded in a cost efficient manner to the next generation of wireless technology. As of September 30, 2002, we have upgraded our network to the next generation of technology known as "one times radio transmission technology" or "1XRTT." This technology offers data speeds of up to 144 kilobits per second, voice capacity improvements of over 50% and improved battery life in the handset. Further standards are being developed for CDMA that will offer data speeds in excess of 2,000 kilo bits per second and additional improvements in voice capacity.

Research and Development

We currently do not conduct our own research and development. Instead we benefit from Sprint's and our vendors' extensive research and development effort, which provides us with access to new technological products and enhanced service features without significant research and development expenditures of our own.

We have been provided prompt access to any developments produced by Sprint for use in our network. We believe that new features and services will be developed for the Sprint PCS network to take advantage of CDMA technology. We may be required to incur additional expenses in modifying our network to provide these additional features and services.

Intellectual Property

Other than our corporate names, we do not own any intellectual property that is material to our business. "Sprint," the Sprint diamond design logo, "Sprint PCS," "Sprint Personal Communication Services," "The Clear Alternative to Cellular" and "Experience the Clear Alternative to Cellular Today" are service marks registered with the United States Patent and Trademark Office and owned by

Sprint or its affiliates. Pursuant to our management agreements with Sprint, we have the right to use, royalty-free, the Sprint and Sprint PCS brand names and the Sprint diamond design logo and certain other service marks of Sprint in connection with marketing, offering and providing licensed services to end-users and resellers, solely within our territories.

Except in certain instances, Sprint has agreed not to grant to any other person a right or license to provide or resell, or act as agent for any person offering, licensed services under the licensed marks in our territories, except as to Sprint's marketing to national accounts and the limited right of resellers of Sprint to inform their subscribers of handset operation on the Sprint PCS network. In all other instances, Sprint has reserved for itself and its network partners the right to use the licensed marks in providing its services, subject to its exclusivity obligations described above, whether within or without our territories.

Our agreements with Sprint contain numerous restrictions with respect to the use and modification of any of the licensed marks.

SPRINT RELATIONSHIP AND AGREEMENTS

The following includes a summary of the material terms and provisions of each of AirGate's and iPCS' separate Sprint agreements and the consent and agreements modifying the Sprint management agreements. The Sprint agreements and consent and agreements have been filed by each of AirGate and iPCS, as applicable, as exhibits to certain of their respective filings with the SEC. AirGate and iPCS urge you to carefully review the Sprint agreements and the consent and agreements.

Overview of Sprint Relationship and Agreements

Under their respective long-term agreements with Sprint, AirGate and iPCS market PCS products and services under the Sprint brand names in their territories. The agreements with Sprint require AirGate and iPCS to build-out their systems, platforms, products and services to seamlessly interface with the Sprint PCS wireless network. The Sprint agreements also give AirGate and iPCS access to Sprint's equipment discounts, roaming revenue from Sprint PCS and its PCS network partner subscribers traveling

into our territory, and various other back office services. AirGate's and iPCS' relationship and agreements with Sprint provide strategic advantages, including avoiding the need to fund up-front spectrum acquisition costs and the costs of establishing billing and other subscriber services infrastructure. The Sprint agreements have an initial term of 20 years with three 10-year renewals which can lengthen the contracts to a total term of 50 years. AirGate's Sprint agreements will automatically renew for the first 10-year renewal period unless AirGate is in material default on its obligations under the agreements. The Sprint agreements will automatically renew for two additional 10-year terms (and three additional 10-year terms in the case of iPCS) unless either AirGate or iPCS on the one hand, or Sprint on the other hand, provides the other with two years prior written notice to terminate the agreements.

Each of AirGate and iPCS has four major agreements with Sprint:

- the management agreement;
- the services agreements; and

- two separate trademark and service mark license agreements.

In addition, Sprint has entered into a consent and agreement with each of AirGate and iPCS that modifies the respective management agreements for the benefit of the lenders under AirGate's senior secured credit facility, in the case of AirGate, and for the benefit of the lenders under iPCS' senior secured credit facility, in the case of iPCS.

Dependence on Sprint

Approximately 60% of cost of service and roaming in our consolidated financial statements relate to charges from Sprint for its affiliation fee, roaming, long-distance, services provided such as billing, collections and customer care, pass-through and other fees and expenses (See "Related Party Transactions - Transactions with Sprint"). In addition, because Sprint provides billing and collection services for the Company, approximately 96% of our revenues are remitted to us by Sprint. As a result, we are dependent on Sprint to perform its obligations under its agreements with us, including payment of collected revenues, and on financial information provided by Sprint.

In addition, over the past year, our dependence on Sprint has interjected a greater degree of uncertainty to our business and financial planning. During this time:

- we agreed to a new $4 logistics fee for each 3G enabled handset to avoid a prolonged dispute over certain charges for which Sprint sought reimbursement;

- 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 (See "Legal Proceedings" herein);

- Sprint sought to charge in excess of $15 per month per 3G subscriber in 2002 (declining in 2003 and beyond) to reimburse Sprint for its 3G related expenses;

- Sprint informed the Company on December 23, 2002 that it had miscalculated software maintenance fees for 2002 and future years, which would result in an annualized increase of $2.0 million if owed by the Company;

- Sprint notified the Company that it intends to reduce the reciprocal roaming rate charged by Sprint and its network partners for use of our respective networks from $0.10 per minute of use to $0.058 per minute of use in 2003 (see "Sprint Agreements - The Management Agreement - Service pricing, roaming and fees" herein).

We have questioned whether certain of these charges and actions are appropriate and authorized under our Sprint agreements. We plan to work with Sprint to increase the predictability of fees, charges and revenues and to resolve open issues. We expect that it will take time to resolve these issues, and the ultimate outcome is uncertain. See "Risk Factors - Risks Particular to Our Relationship with Sprint."

Some of these items arose because of errors made by Sprint in billing the Company. As described herein under "Item 14. Controls and Procedures," we discovered that certain information previously provided to us by Sprint regarding our subscriber accounts receivable balances was not reliable for financial reporting purposes. We plan to strengthen our internal systems for verifying information provided by Sprint and to work cooperatively with Sprint to improve the accuracy of information we receive from Sprint for our financial reporting purposes.

The Management Agreements

Under AirGate's and iPCS' management agreements with Sprint, AirGate and iPCS have each agreed to:

- construct and manage a network in its territory in compliance with Sprint's PCS licenses and the terms of the management agreement;

- distribute during the term of the management agreement Sprint PCS products and services;
- use Sprint's and its own distribution channels in its territory;
- conduct advertising and promotion activities in its territory; and
- manage that portion of Sprint's subscriber base assigned to its territory.

Exclusivity. AirGate and iPCS are designated as the only person or entity that can manage or operate a PCS network for Sprint in their respective territories. Sprint is prohibited from owning, operating, building or managing another wireless mobility communications network in AirGate's or iPCS' territories while their respective management agreements are in place and no event has occurred that would permit the agreements to terminate. Under the iPCS agreement, a wireless mobility communications network is defined as one operating in the 1900 MHz spectrum. The AirGate agreement does not limit the definition of a wireless mobility communications network to a specific spectrum. Sprint is permitted under the agreements to make national sales to companies in the covered territories and, as required by the FCC, to permit resale of the Sprint PCS products and services in the covered territory.

Network build-out. The management agreements each specify the terms of the Sprint affiliation, including the required network build-out plan.

a) AirGate: AirGate agreed to cover a specified percentage of the population at coverage levels ranging from 39% to 86% within each of the 21 markets which make up its territory by specified dates. AirGate has satisfied these network build-out requirements. AirGate has agreed to operate its PCS network, if technically feasible and commercially reasonable, to provide for a seamless handoff of a call initiated in its territory to a neighboring Sprint PCS network. If Sprint decides to expand coverage within AirGate's territory, Sprint must provide AirGate with written notice of the proposed expansion. AirGate has 90 days to determine whether AirGate will build out the proposed area. If AirGate does not exercise this right, Sprint can build out the territory or permit another third-party to do so. Any new area that Sprint or a third-party builds out is removed from AirGate's territory.

b) iPCS: iPCS agreed to launch certain markets by specified dates. iPCS has satisfied these network build-out requirements. The management agreement also requires iPCS to reimburse Sprint for 50% of the microwave clearing cost for all of its territory except Champaign, Illinois, where iPCS is required to reimburse Sprint 100% of the microwave clearing costs. iPCS has agreed to operate its PCS network, if technically feasible and commercially reasonable, to provide for a seamless handoff of a call initiated in its territory to a neighboring Sprint PCS network. Sprint can decide to expand the coverage requirements of its territory by providing iPCS with written notice as long as the expanded coverage requirements are for proposed areas in which a tower would cover at least 10,000 residents. iPCS has 90 days after receiving notice from Sprint to determine whether it will build-out the proposed area. If iPCS does not exercise this right, Sprint can build out the territory or permit another third-party to do so. Any new area that Sprint or a third-party builds out is removed from iPCS' territory.

Products and services. The respective management agreements identify the products and services that AirGate and iPCS can offer in their respective territories. AirGate and iPCS may offer non-Sprint PCS products and services in their respective territories under limited circumstances and with Sprint's concurrence. Neither company may offer products and services that are confusingly similar to Sprint PCS products and services. AirGate and iPCS may cross-sell services such as Internet access, subscriber premises equipment and prepaid phone cards with Sprint and other Sprint network partners. If AirGate or iPCS decide to use third parties to provide these services, AirGate and iPCS must give Sprint an opportunity to provide the services on the same terms and conditions. AirGate and iPCS cannot offer wireless local loop services specifically designed for the competitive local exchange market in areas where Sprint owns the local exchange carrier without Sprint's consent, unless AirGate or iPCS, as the case may be, name the Sprint-owned local exchange carrier as the exclusive distributor.

AirGate and iPCS are required to participate in the Sprint sales programs for national sales to subscribers, and to pay the expenses related to sales from national accounts located in their respective territories.

Long distance service. AirGate and iPCS must use Sprint's long distance service which AirGate and iPCS can buy at the best prices offered to comparably situated Sprint customers, plus an additional administrative fee. Sprint has a right of last offer to provide backhaul and transport services.

Service pricing, roaming and fees. AirGate and iPCS must each offer Sprint subscriber pricing plans designated for regional or national offerings. AirGate and iPCS are to be paid 92% of collected revenues received by Sprint for Sprint PCS products and services from subscribers in their respective territories. Collected revenues exclude, among other things, outbound roaming revenues and related charges, roaming revenues from Sprint PCS and its PCS network partner subscribers, sales of handsets and accessories, proceeds from sales not in the ordinary course of business and amounts collected with respect to taxes. Except in the case of taxes, AirGate and iPCS retains 100% of these revenues. Although many Sprint subscribers purchase a bundled pricing plan that allows roaming anywhere on Sprint's and its network partners' networks without incremental roaming charges, AirGate and iPCS earn roaming revenues from every minute that a Sprint subscriber from outside the AirGate or iPCS territory is carried on their respective PCS networks. AirGate and iPCS earn revenues from Sprint based on an established per minute rate for Sprint's subscribers roaming in their territory. Similarly, AirGate and iPCS pay for every minute subscribers from their respective territories use the Sprint PCS nationwide network outside such territories. On April 27, 2001, AirGate and Sprint announced an agreement in principle to reduce the reciprocal roaming rate exchanged between Sprint and AirGate for PCS subscribers who roam into the other party's, or another network partner's, territory. The rate was reduced from $0.20 per minute of use to $0.15 per minute of use beginning June 1, 2001, and to $0.12 per minute of use beginning October 1, 2001. iPCS and Sprint had an agreement which fixed the reciprocal roaming rate exchanged between Sprint and iPCS for subscribers who roam into the other party's, or another network partner's, territory at $0.20 per minute of use through December 31, 2001. Under the agreement in principle, the roaming rate for both AirGate and iPCS with respect to calendar year 2002 is $0.10 per minute. The Company has been notified by Sprint that it intends to decrease the reciprocal roaming rate to $0.058 per minute in 2003.

On August 2, 2002, we entered into an agreement with Sprint, pursuant to which we agreed to pay Sprint an additional $4.00 logistics fee for each 3G handset that we purchased either directly from Sprint or from a Sprint authorized distributor. We agreed to pay this fee starting with purchases on July 1, 2002 and ending on the earlier of December 31, 2004 or the date on which the cumulative 3G handset fees received by Sprint from all Sprint network partners equal $25,000,000. We further agreed to purchase 3G handsets only from Sprint or a Sprint authorized distributor during this period.

Advertising and promotions. Sprint is responsible for all national advertising and promotion of the Sprint PCS products and services. AirGate and iPCS are responsible for advertising and promotion in their respective territories, including a portion of the cost of any promotion or advertising done by any third-party retailers in its territory pursuant to cooperative advertising agreements with Sprint based on per unit handset sales.

Program requirements. AirGate and iPCS are required to comply with Sprint's program requirements for technical standards, subscriber service standards, national and regional distribution and national accounts programs. Sprint can adjust the program requirements from time to time under the conditions provided in the management agreements. AirGate and iPCS each have the right to appeal Sprint's adjustments to the program requirements, if the adjustment: (1) causes AirGate or iPCS, as the case may be, to spend more than 5% of the sum of the applicable company's equity and long term debt, or (2) causes AirGate's or iPCS' operating expenses to increase by more than 10% on a net present value basis. If Sprint denies the company's appeal, then such company has 10 days after the denial to submit the matter to arbitration. If the company does not submit the matter to arbitration within the 10-day period or comply with the program adjustment, Sprint has the termination rights described below.

Non-competition. AirGate and iPCS may not offer Sprint PCS products and services outside their respective territories without the prior written approval of Sprint. Within their respective territories, AirGate and iPCS may offer, market or promote telecommunications products and services only under the Sprint brands, their own brands, brands of related parties of theirs or other products and services approved under the management agreements, except that no brand of a significant competitor of Sprint or its related parties may be used for those products and services. To the extent AirGate and iPCS have or obtain licenses to provide PCS services outside their respective territories, neither AirGate nor iPCS may use the spectrum to offer Sprint PCS products and services without prior written consent from Sprint.

Inability to use non-Sprint brand. AirGate and iPCS may not market, promote, advertise, distribute, lease or sell any of the Sprint PCS products and services on a non-branded, "private label" basis or under any brand, trademark or trade name other than the Sprint brand, except for sales to resellers approved by Sprint or required by law or as otherwise permitted under the trademark and service mark license agreements.

Rights of first refusal. Sprint has certain rights of first refusal to buy AirGate's and iPCS' assets upon a proposed sale of all or substantially all of their respective assets.

Termination of management agreements. Each management agreement can be terminated as a result of:

- termination of Sprint's PCS licenses in the related company's territory;
- failure by a party to pay any amount due under the management agreement or any other agreement between the parties or their respective related parties;
- any other uncured breach under the related management agreement;
- bankruptcy of a party to the related management agreement;
- subject to the limitations in the related management agreement, such management agreement not complying with any applicable law in any material respect; or
- the termination of either of the related trademark and service mark license agreements.

The termination or non-renewal of the management agreements triggers certain of AirGate's and iPCS' rights, as applicable, and those of Sprint.

If AirGate or iPCS has the right to terminate its management agreement because of an event of termination caused by Sprint, generally the affected party may:

- require Sprint to purchase all of its operating assets used in connection with its PCS networks for an amount equal to at least 80% of its entire business value as described below (88% in the case of AirGate, unless Sprint becomes the licensee for 20 MHz of spectrum in AirGate's territory);
- if Sprint is the licensee for 20 MHz or more of the spectrum on the date AirGate terminates the management agreement (or in the case of iPCS, the date the management agreement was executed), require Sprint to sell to AirGate or iPCS, as applicable, subject to governmental approval, up to 10 MHz of licensed spectrum for an amount equal to the greater of (1) the original cost to Sprint of the license plus any microwave relocation costs paid by Sprint or (2) 9% of its entire business value; or
- sue Sprint for damages or submit the matter to arbitration and

not terminate the related management agreement.

If Sprint has the right to terminate a management agreement because of an event of termination caused by AirGate or iPCS, as the case may be, generally Sprint may:

- require the defaulting party to sell its operating assets to Sprint for an amount equal to 72% of its entire business value;
- require the defaulting party to purchase, subject to governmental approval, the licensed spectrum in its territory for an amount equal to the greater of (1) the original cost to Sprint of the license plus any microwave relocation costs paid by Sprint or (2) 10% of its entire business value;
- take any action as Sprint deems necessary to cure the defaulting party's breach of its management agreement, including assuming responsibility for, and operating, the related PCS network; or
- sue the defaulting party for damages or submit the matter to arbitration and not terminate the related management agreement.

Non-renewal. If Sprint gives either AirGate or iPCS timely notice that it does not intend to renew such company's management agreement, AirGate or iPCS, as the case may be, may:

- require Sprint to purchase all of its operating assets used in connection with the PCS network for an amount equal to at least 80% of its entire business value (88% in the case of AirGate, unless Sprint becomes the licensee for 20 MHz of spectrum in AirGate's territory); or
- if Sprint is the licensee for 20 MHz or more of the spectrum on the date AirGate terminates the management agreement (or in the case of iPCS, the date the management agreement is executed), require Sprint to assign to it, subject to governmental approval, up to 10 MHz of licensed spectrum for an amount equal to the greater of (1) the original cost to Sprint of the license plus any microwave relocation costs paid by Sprint or (2) 10% of its entire business value.

If AirGate or iPCS gives Sprint timely notice of non-renewal of the related management agreement, or such company and Sprint both give notice of non-renewal, or the related management agreement can be terminated for failure to comply with legal requirements or regulatory considerations, Sprint may:

- purchase all of the related company's operating assets for an amount equal to 80% of its entire business value; or
- require the related company to purchase, subject to governmental approval, the licensed spectrum for an amount equal to the greater of (1) the original cost to Sprint of the license plus any microwave relocation costs paid by Sprint or (2) 10% of its entire business value.

Determination of Entire Business Value. If the entire business value is to be determined, AirGate or iPCS, as the case may be, and Sprint will each select one independent appraiser and the two appraisers will select a third appraiser. The three appraisers will determine the entire business value on a going concern basis using the following guidelines:

- the entire business value is based on the price a willing buyer would pay a willing seller for the entire on-going business;
- then-current customary means of valuing a wireless telecommunications business will be used;
- the business is conducted under the Sprint brands and the related Sprint agreements;
- that the related company owns the spectrum and frequencies presently owned by Sprint and subject to the related Sprint agreements; and
- the valuation will not include any value for businesses not directly related to the Sprint PCS products and services, and such businesses will not be included in the sale.

The rights and remedies of Sprint outlined in the respective management agreements resulting from an event of termination of the management agreement have been materially amended by the related consent and agreement as discussed below. However, until such time that there is no outstanding debt under the related consent and agreement, such amendments to the rights and remedies of Sprint reflected in the related consent and agreement will not be in effect.

Insurance. AirGate and iPCS are each required to obtain and maintain with financially reputable insurers, who are licensed to do business in all jurisdictions where any work is performed under the related management agreement and who are reasonably acceptable to Sprint, workers' compensation insurance, commercial general liability insurance, business automobile insurance, umbrella excess liability insurance and "all risk" property insurance.

Indemnification. AirGate and iPCS have each agreed to indemnify Sprint and its directors, employees and agents and related parties of Sprint and their directors, employees and agents against any and all claims against any of the foregoing arising from such company's violation of any law, a breach by such company of any representation, warranty or covenant contained in their respective management agreement or any other agreement between AirGate, iPCS or either of their related parties and Sprint, such company's ownership of the operating assets or the actions or the failure to act of anyone employed or hired by such company in the performance of any work under the related management agreement, except AirGate and iPCS will not indemnify Sprint for any claims arising solely from the negligence or willful misconduct of Sprint. Sprint has agreed to indemnify AirGate and iPCS, as the case may be, and their directors, employees and agents against all claims against any of the foregoing arising from Sprint's violation of any law and from Sprint's breach of any representation, warranty or covenant contained in the related management agreement or any other agreement between Sprint and its related parties and AirGate and iPCS or their related parties, except Sprint will not indemnify AirGate or iPCS for any claims arising solely from AirGate's or iPCS' negligence or willful misconduct.

The Services Agreements

The respective services agreements outline various back office services provided by Sprint and available to each of AirGate and iPCS at rates established by Sprint. Sprint can change any or all of the service rates one time in each 12-month period. Some of the available services include: billing, subscriber care, activation, credit checks, handset logistics, home locator record, voice mail, prepaid services, directory assistance, operator services, roaming fees, roaming clearinghouse fees, interconnect fees and inter-service area fees. Sprint may contract with third parties to provide expertise and services identical or similar to those to be made available or provided to AirGate and iPCS. AirGate and iPCS have agreed not to use the services received under their respective services agreement in connection with any other business or outside their respective territories. AirGate and iPCS may discontinue use of selected services upon three months' prior written notice. Sprint may discontinue a service upon nine months' prior written notice. The services agreements automatically terminate upon termination of the applicable management agreement. The services agreements may not be terminated for any reason other than the termination of the applicable management agreement.

AirGate or iPCS on the one hand and Sprint on the other hand have each agreed to indemnify each other as well as officers, directors, employees and certain other related parties and their officers, directors and employees for violations of law or the services agreement except for any liabilities resulting from the indemnitee's negligence or willful misconduct. The services agreement also provides that no party to the agreement will be liable to the other party for special, indirect, incidental, exemplary, consequential or punitive damages, or loss of profits arising from the relationship of the parties or the conduct of business under, or breach of, the services agreement except as may otherwise be required by the indemnification provisions.

The Trademark and Service Mark License Agreements

Both AirGate and iPCS have non-transferable, royalty-free licenses to use the following trademarks and service marks of Sprint: "Sprint," together with the related "Diamond" logo, "Sprint PCS" and "Sprint Personal Communications Services." In addition, we have licenses to use the following trademarks and service marks of Sprint: "The Clear Alternative to Cellular," "Experience the Clear Alternative to Cellular Today," and such other marks as may be adopted in the future. AirGate and iPCS believe that the Sprint brand names and symbols enjoy a very high degree of awareness, providing AirGate and iPCS an immediate benefit in the market place. AirGate's and iPCS' use of the licensed marks is subject to their adherence to quality standards determined by Sprint and use of the licensed marks in a manner which would not reflect adversely on the image of quality symbolized by the licensed marks. AirGate and iPCS have agreed to promptly notify Sprint of any infringement of any of the licensed marks within their respective territories of which AirGate and iPCS become aware and to provide assistance to Sprint in connection with Sprint's enforcement of its respective rights. AirGate and iPCS have agreed with Sprint to indemnify each other for losses incurred in connection with a material breach of the trademark license agreements. In addition, AirGate and iPCS have agreed to indemnify Sprint from any loss suffered by reason of its use of the licensed marks or marketing, promotion, advertisement, distribution, lease or sale of any Sprint PCS products and services other than losses arising solely out of its use of the licensed marks in compliance with certain guidelines.

Sprint can terminate the trademark and service mark license agreements if AirGate or iPCS, as the case may be, file for bankruptcy, materially breach the agreement or its management agreement is terminated. AirGate and iPCS can terminate their respective trademark and service mark license agreements upon

Sprint's abandonment of the licensed marks or if Sprint files for bankruptcy, or the related management agreement is terminated.

Consents and Agreements in Connection with the Senior Credit Facilities

Sprint has entered into a consent and agreement with the administrative agent under AirGate's credit facility, which AirGate has acknowledged, that modifies Sprint's rights and remedies under AirGate's management agreement for the benefit of the senior lenders and any refinancing of AirGate's credit facility. Lehman Commercial Paper, Inc., a subsidiary of Lehman Brothers, Inc., is the administrative agent under AirGate's credit facility.

Similarly, Sprint has entered into a consent and agreement with the administrative agent under the iPCS credit facility, which has been acknowledged by iPCS, and modifies Sprint's rights and remedies under iPCS' management agreement, for the benefit of the existing and future holders of indebtedness under iPCS' credit facility, and any refinancing thereof. Toronto Dominion (Texas), Inc. is the administrative agent under iPCS' credit facility.

The consent and agreement of one party and the rights and obligations of the parties thereunder, including its lenders, are independent of the consent and agreement of the other party and the rights and obligations of the parties under its consent and agreement.

Each consent generally provides, among other things, the following:

- Sprint's consent to the pledge of the respective company's subsidiary stock and the grant of a security interest in all of the respective company's assets including the Sprint agreements of such party;
- that the respective company's Sprint agreements may not be terminated by Sprint until the respective credit facility is satisfied in full pursuant to the terms of the respective consent, unless AirGate's or iPCS' assets, including stock or equity interests, as the case may be, are sold to a purchaser who does not continue to operate such business as a Sprint PCS network, which sale is at the discretion of the applicable administrative agent;
- a prohibition on competing Sprint PCS networks in AirGate's or iPCS' territory;
- for Sprint to maintain 10 MHz of PCS spectrum in all of either AirGate's or iPCS' markets;
- for redirection of payments from Sprint to the applicable administrative agent under specified circumstances;
- for Sprint and the applicable administrative agent to provide to each other notices of default;
- the ability to appoint an interim replacement, including Sprint, to operate AirGate's or iPCS', as applicable, PCS network under such party's Sprint agreements after an event of default of the respective credit facility or an event of termination under the respective Sprint agreements;
- the ability of the applicable administrative agent or Sprint to assign the Sprint agreements and sell AirGate's or iPCS' respective assets or the equity interests of iPCS' operating subsidiaries, as the case may be, to a qualified purchaser

other than a major competitor of Sprint;

- the ability to purchase spectrum from Sprint and sell AirGate's or iPCS' respective assets to any qualified purchaser; and
- the ability of Sprint to purchase AirGate's or iPCS' respective assets or debt.

Consent to security interest and pledge of stock. Sprint has consented to the grant of a first priority security interest in and lien on all of the applicable party's assets and property, including such party's Sprint agreements and the capital stock and equity interests of the applicable party's subsidiaries and future subsidiaries.

Agreement not to terminate Sprint agreements until the obligations under related financings are repaid. Sprint has agreed not to exercise its rights or remedies under the respective Sprint agreements, except its right to cure certain defaults, including its right to terminate the applicable Sprint agreements and withhold payments, other than rights of setoff, until the respective financing is satisfied in full pursuant to the terms of the respective consent. Sprint has also agreed that until such obligations are satisfied, a failure to pay any amount by any related party of AirGate or iPCS, as applicable, under any agreement with Sprint or with any of Sprint's related parties (other than AirGate's or iPCS' respective Sprint agreements) would not constitute a default under AirGate's or iPCS' respective management agreement.

No competition until obligations under the credit facilities are repaid. Sprint has agreed that it will not permit any person other than AirGate or iPCS, as applicable, or a successor manager to be a manager or operator for Sprint in AirGate's or iPCS' applicable territories, until that company's credit facility is satisfied in full pursuant to the terms of that company's consent. Consistent with the management agreements, while the applicable credit facility is outstanding, Sprint can sell PCS services

through its national accounts, permit resellers and build new geographical areas within AirGate's or iPCS', as applicable, territory for which the respective company has chosen not to exercise its rights of first refusal. Similarly, Sprint has agreed that it will not own, operate, build or manage another wireless mobility communications network in AirGate's or iPCS', as applicable, territory unless it is permitted under the applicable management agreement or such management agreement is terminated in accordance with the applicable consent, and, in each case, the applicable credit facility is satisfied in full pursuant to the terms of the applicable consent.

Maintain 10 MHz of spectrum. Sprint has agreed to own at least 10 MHz of PCS spectrum in each of AirGate's and iPCS' territories until the first of the following events occurs:

- the obligations under the applicable credit facility is satisfied in full pursuant to the terms of AirGate's or iPCS' respective consent;
- the sale of spectrum is completed under the applicable consent, as discussed below;
- the sale of operating assets is completed under the applicable

consent, as discussed below; or

- the termination of AirGate's or iPCS', as applicable, management agreement.

Restrictions on assignment and change of control do not apply to lenders and the administrative agent. Sprint has agreed not to apply the restrictions on assignment of the Sprint agreements and changes in control of AirGate's or iPCS' ownership to the lenders under the credit facilities or the administrative agents. The assignment and change of control provisions in the Sprint agreements will apply if the assignment or change of control is to someone other than the applicable administrative agent or a lender under the credit facilities, or is not permitted under the consents.

Redirection of payments from Sprint PCS to the applicable administrative agent. Sprint has agreed to make all payments due from Sprint to AirGate or iPCS under the respective Sprint agreements directly to the applicable administrative agent if such administrative agent provides Sprint with notice that an event of default has occurred and is continuing under the applicable credit facility. Payments to such administrative agent would cease upon the cure of the event of default.

Notice of defaults. Sprint has agreed to provide to the applicable administrative agent a copy of any written notice it sends to either AirGate or iPCS regarding an event of termination or an event that if not cured, or if notice is provided, would be an event of termination under the applicable Sprint agreements. Sprint also has acknowledged that an event of termination under the Sprint agreements constitutes an event of default under the credit facilities. The administrative agents have agreed to provide Sprint a copy of any written notice sent to either AirGate or iPCS, as applicable, regarding an event of default or default under the respective credit facility instruments.

Right to cure. Sprint and the respective applicable administrative agents have the right, but not the obligation, to cure a default under the respective Sprint agreements. During the first six months as interim manager Sprint's right to reimbursement of any expenses incurred in connection with the cure are subordinated to the satisfaction in full, pursuant to the terms of the consents, of the obligations under the applicable credit facility.

Modification of termination rights. The consents modify the rights and remedies under the management agreements provided in an event of termination and grant the providers of the credit facilities certain rights in the event of a default under the instruments governing the applicable senior debt. The rights and remedies of the administrative agent under each credit facility vary based on whether AirGate or iPCS, as applicable, has:

- defaulted under its debt obligations but no event of termination has occurred under its respective management agreement; or
- breached its respective management agreement.

Each consent generally permits the appointment of a person to run AirGate's or iPCS' business, as the case may be, under its Sprint agreements on an interim basis and establishes a process for sale of such business. The person designated to operate such business on an interim basis is permitted to collect a reasonable management fee. If Sprint or a related party is the interim operator, the amount of the fee is not to exceed the amount of direct expenses of its employees to operate such business plus out-of-pocket expenses. Sprint shall collect its fee by setoff against the amounts owed to the defaulting party under its Sprint agreements. In the event of an acceleration of obligations under the applicable credit facility and for up to two years thereafter, Sprint may retain only one-half of the 8% of collected revenues that it would otherwise be entitled to retain under the defaulting party's Sprint agreements. Sprint may retain the full 8% after the first anniversary of the date of acceleration if Sprint has not been appointed to run such business on an interim basis or earlier if such business is sold to a third-party, or after the second anniversary if Sprint is running such business. The defaulting party or the applicable administrative agent, as the case may be, is entitled to receive the remaining one-half of the collected revenues that Sprint would otherwise have retained. The amount advanced to the defaulting party or the applicable administrative agent is to be evidenced by an interest-bearing promissory note. The promissory note will mature on the earlier of (1) the date on which a successor manager is qualified and assumes the

defaulting party's rights and obligations, as the case may be, under its Sprint agreements or (2) the date on which such company's operating assets or equity are purchased by a third-party.

Default under the credit facility without a management agreement breach. If AirGate defaults on its obligations under its credit facility and there is no existing default under its management agreement with Sprint, Sprint has agreed to permit the administrative agent to elect to take any of the following actions:

- allow AirGate to continue to operate its business under its Sprint agreements;
- appoint Sprint to operate such business on an interim basis; or
- appoint a person other than Sprint to operate such business on an interim basis.

If iPCS defaults on its obligations under its credit facility and there is no existing default under its management agreement with Sprint, Sprint has agreed to permit the administrative agent to elect to take any of the following actions:

- allow iPCS to continue to operate its business under its Sprint agreements;
- after an acceleration of the debt payment or in the event iPCS is in bankruptcy, appoint Sprint to operate such business on an interim basis; or
- after an acceleration of the debt payment or in the event iPCS is in bankruptcy, appoint a person other than Sprint to operate such business on an interim basis.

Appointment of Sprint or third-party designee by applicable administrative agent to operate business. If an applicable administrative agent appoints Sprint to operate AirGate's or iPCS', as applicable, business, Sprint must accept the appointment within 14 days or designate to operate such business another person who also is a network partner of Sprint or is acceptable to such administrative agent. Sprint or its designated person must agree to operate the business for up to six months. At the end of the six months, the period may be extended by such administrative agent for an additional six months or an additional 12 months if the aggregate population served by all of Sprint's network partners is less than

40 million. If the term is extended beyond the initial six-month period, each administrative agent has agreed that Sprint or its designated person's right to be reimbursed by the defaulting party for amounts previously expended and to be incurred as interim manager to cure a default up to an aggregate amount that is equal to 5% of the sum of the defaulting party's stockholders' equity value plus the outstanding amount of the defaulting party's long term debt will no longer be subordinated to the defaulting party's obligations under our senior credit facility. Sprint or its designated person is not required to incur expenses beyond this 5% limit. At the end of the initial six-month interim term, the applicable administrative agent has the right to appoint a successor to the defaulting party subject to the requirements described below.

Appointment of third-party by administrative agent to operate business. If an administrative agent appoints a person other than Sprint to operate a defaulting party's business on an interim basis, the third-party must:

- agree to serve for six months unless terminated by Sprint for cause or such administrative agent in its discretion;
- meet the requirements for a successor to an affiliate and not be challenged by Sprint for failing to meet these requirements within 20 days after the administrative agent provides Sprint with information on the third-party; and
- agree to comply with the terms of the applicable Sprint agreements.

The third-party is required to operate the Sprint network in the defaulting party's territory but is not required to assume its existing liabilities. If the third-party materially breaches the defaulting party's Sprint agreements, this breach will be treated as an event of default under the related management agreement with Sprint.

Management agreement breach. If AirGate or iPCS breaches its Sprint agreements and such breach causes a default under such company's respective credit facility, Sprint has the right to designate who will operate the business of the defaulting party on an interim basis. Sprint has the right to:

- allow the defaulting party to continue to operate such business under its Sprint agreements if approved by its administrative agent;
- operate such business on an interim basis; or
- appoint a person other than Sprint that is acceptable to the applicable administrative agent, which acceptance cannot be unreasonably withheld and must be given for another Sprint network partner, to operate such business on an interim basis.

When a debt default is caused by a breach of AirGate's or iPCS' management agreement with Sprint, the applicable administrative agent only has a right to designate who will operate such business on an interim basis if Sprint elects not to operate such business or designate a third-party to operate such business on an interim basis.

Election of Sprint to serve as interim manager or designate a third-party to operate business. If Sprint elects to operate such business on an interim basis or designate a third-party to operate such business on an interim basis, Sprint or the third-party may operate such business for up to six months at the discretion of Sprint. At the end of the six months, the period may be extended for an additional six months or an additional 12 months if the aggregate population served by AirGate and iPCS and all other network partners of Sprint is less than 40 million. If the term is extended beyond the initial six-month period, each administrative agent has agreed that Sprint or its designee's right to be reimbursed by the defaulting party for amounts previously expended and to be incurred as interim manager to cure a default up to an aggregate amount that is equal to 5% of the sum of the defaulting party's stockholder's equity value plus the outstanding amount of such company's long term debt will no longer be subordinated by the defaulting party's obligations under the senior credit facility. Sprint or its third-party designee is not required to incur expenses beyond this 5% limit. At the end of the initial six-month interim term, Sprint, subject to the approval of the applicable administrative agent, has the right to appoint a successor interim manager to operate such business.

Appointment of third-party by administrative agent to operate business. If Sprint gives the applicable administrative agent notice of a breach of AirGate's or iPCS' management agreement, the debt repayment is accelerated, and Sprint does not agree to operate such business or is unable to find a designee, such administrative agent may designate a third-party to operate such business. Such administrative agent has this same right if Sprint or the third-party designated by Sprint resigns and is not replaced within 30 days. The third-party selected by such administrative agent must:

- agree to serve for six months unless terminated by Sprint for cause or by such administrative agent;
- meet the requirements for a successor to a network partner and not be challenged by Sprint for failing to meet the requirements within 20 days after such administrative agent provides Sprint with information on the third-party; and
- agree to comply with the terms of the applicable Sprint agreements.

The third-party may continue to operate the business after the six month period at the applicable administrative agent's discretion, so long as the third-party continues to satisfy the requirements to be a successor to a network partner and is in material compliance with the terms or the applicable Sprint agreements. The third-party is required to operate the Sprint PCS network in the defaulting party's territory, but is not required to assume such company's existing liabilities.

Purchase and sale of operating assets. Each of the consents establishes a process for the sale of either AirGate's or iPCS' operating assets, as the case may be, in the event of a default and acceleration under the applicable credit facility. AirGate's stockholders have approved the sale of its operating assets pursuant to the terms of AirGate's consent.

Sprint's right to purchase on acceleration of amounts outstanding under the respective credit facility. Subject to the requirements of applicable law, Sprint has the right to purchase AirGate's or iPCS' operating assets, as applicable, upon notice of an acceleration of the respective senior credit facility under the following terms:

- in addition to the purchase price requirements of the respective management agreement, the purchase price must include the payment or assumption in full, pursuant to the terms of the respective consent, of the respective credit facility;

- Sprint must notify the applicable administrative agent of its intention to exercise the purchase right within 60 days of receipt of the notice of acceleration;

- such administrative agent is prohibited for a period of at least 120 days after the acceleration or until Sprint rescinds its intention to purchase from enforcing its security interest if Sprint has given notice of its intention to exercise the purchase right;

- if the defaulting party receives a written offer that is acceptable to such company to purchase its operating assets within a specified period after the acceleration, Sprint has the right to purchase, subject to the administrative agent's consent, such operating assets on terms and conditions at least as favorable to such company as the offer such company receives. Sprint must agree to purchase the operating assets within 14 business days of its receipt of the offer, on acceptable conditions, and in an amount of time acceptable to such company; and

- upon completion of the sale to Sprint, such administrative agent must release the security interests upon satisfaction in full pursuant to the terms of the respective consent of the obligations under the respective credit facility.

If the applicable administrative agent acquires the defaulting party's operating assets, Sprint has the right for 60 days to notify such administrative agent that it wants to purchase such operating assets for an amount not less than the sum of the aggregate amount paid by the lenders under the related credit facility for such operating assets plus an aggregate amount sufficient to satisfy in full the obligations under such credit facility pursuant to the terms of the respective company's consent. If Sprint purchases such operating assets under these provisions, the administrative agent must release the security interests securing such senior credit facility. In the event that a bankruptcy petition is filed by or with respect to AirGate or iPCS, Sprint has the right to purchase the defaulting party's operating assets from the applicable administrative agent by repaying the obligations in full. Such

right may be exercised by giving the administrative agent notice of Sprint's intent to exercise such purchase right no later than 60 days following the date of filing of the bankruptcy petition.

If such administrative agent receives an offer to purchase the operating assets of the defaulting party, Sprint has the right to purchase the operating assets on terms and conditions at least as favorable as the terms and conditions in the proposed offer within 14 days of Sprint's receipt of notice of the offer, and so long as the conditions of Sprint's offer and the amount of time to complete the purchase is acceptable to the administrative agent.

Sale of operating assets to third parties. If Sprint does not purchase the operating assets, following an acceleration of the obligations under the related senior credit facility, the applicable administrative agent may sell the operating assets of the defaulting party. Subject to the requirements of applicable law, such administrative agent has two options:

- to sell the assets to an entity that meets the requirements to be a successor under the related Sprint agreements; or

- to sell the assets to any third-party, subject to specified conditions.

Sale of assets to qualified successor. Subject to the requirements of applicable law, the related administrative agent may sell the operating assets and assign the agreements to entities that meet the following requirements to succeed the defaulting party:

- the person has not materially breached a material agreement with Sprint or its related parties that has resulted in the exercise of a termination right or in the initiation of judicial or arbitration proceedings during the past three years;

- the person is not named by Sprint as a prohibited successor;

- the person has reasonably demonstrated its credit worthiness and can demonstrate the ability to service the indebtedness and meet the requirements of the related build-out plan; and

- the person agrees to be bound by the applicable Sprint agreements.

Such administrative agent is required to provide Sprint with information necessary to determine if a buyer meets the requirements to succeed the defaulting party. Sprint has 20 days after its receipt of this information to object to the qualifications of the buyer to succeed the defaulting party. If Sprint does not object to the buyer's qualifications, subject to the requirements of applicable law, the buyer can purchase the assets and assume our rights and responsibilities under the related Sprint agreements. The consents will remain in full force and effect for the benefit of the buyer and its lenders. The buyer also has a period to cure any defaults under the applicable Sprint agreements.

Sale of assets to non-successor. Subject to the requirements of applicable law, the related administrative agent may sell a defaulting party's assets to a party that does not meet the requirements to succeed the defaulting party. If such a sale is made:

- Sprint may terminate the related Sprint agreements;

- the buyer may purchase from Sprint 5, 7.5 or 10 MHz of the PCS spectrum licensed to Sprint in AirGate's or iPCS' territory under specified terms, as the case may be;

- if the buyer controls, is controlled by or is under common control with an entity that owns a license to provide wireless service to at least 50% of the population in a basic trading area where the buyer proposes to purchase the spectrum from Sprint, the buyer may only buy 5MHz of spectrum;

- the price to purchase the spectrum is equal to the sum of the original cost of the license to Sprint pro rated on a population and a spectrum basis, plus the cost paid by Sprint for microwave clearing in the spectrum ultimately acquired by the buyer of the defaulting party's assets and the amount of carrying costs attributable to the license and microwave clearing costs from the date of the appropriate consent until the closing of the sale, based on a rate of 12% per annum;

- the buyer will receive from Sprint the subscribers with the MIN assigned to the market area covered by the purchased spectrum except for subscribers of national accounts and resellers;

- with limited exceptions, Sprint will not solicit for six months the subscribers transferred to the buyer with the MIN assigned to the market area;

- the buyer and Sprint will enter into a mutual roaming agreement with prices equal to the lesser of the most favored pricing provided by buyer to third parties roaming in the geographic area and the national average paid by Sprint to third parties; and

- Sprint will have the right to resell the buyer's wireless services at most favored nations pricing.

Right to purchase debt obligations. Following an acceleration under the applicable senior credit facility and until the 60-day anniversary of the filing of a petition of bankruptcy, Sprint has the right to purchase AirGate's or iPCS' obligations under such credit facility, as the case may be, at a purchase price equal to the amount of the obligations under such credit facility. In the event that Sprint purchases the obligations within 60 days following the earlier of acceleration or the date of the filing of a

bankruptcy petition, the purchase price for the obligations will be reduced by accrued interest and any fees and expenses that are unreasonable.

Modification and amendment of consent. If Sprint modifies or amends the form of consent and agreement it enters into with a lender to another Sprint network partner that serves an area with population exceeding 5.0 million, then Sprint agrees to give the administrative agents written notice of the amendments and to amend the consents in the same manner at the applicable administrative agent's request; provided, however, that Sprint is not required to amend the consents to:

- incorporate selected changes designated by such administrative agent unless Sprint consents to making only the selected changes; or

- incorporate changes made for the benefit of a lender because of circumstances related to a particular Sprint network partner other than AirGate or iPCS.

The following circumstances would not be considered related to a particular Sprint network partner and, subject to the provisions described in the preceding sentence, could result in amendment of the consents (if the 5.0 million population threshold is met as described above):

- any form of recourse to Sprint or similar form of credit enhancement;

- any change in Sprint's right to purchase our operating assets or capital stock, as applicable, under the management agreement or Sprint's right to purchase the obligations under the credit facilities;

- any change to the right of AirGate or iPCS or the right of the related administrative agent or the lenders under the related credit facilities to sell the collateral or purchase spectrum from Sprint;
- any change in the ownership status, terms of usage or the amount of spectrum that may be purchased by AirGate or iPCS from Sprint;
- any material change in the flow of certain revenues between Sprint and AirGate or iPCS;
- any changes to the obligations required to be assumed by, or qualifications for, or appointment of, anyone other than AirGate or iPCS who can be appointed to operate such business on an interim basis under such management agreement or purchase such business and continue to operate under such management agreement;
- any changes to the consent and agreements terms on confidentiality, non-compete or eligible buyers of the business;
- any clarifications of FCC compliance issues;
- any issuance of legal opinions; and
- any changes to the requirements described in this section.

Termination of consents. The consents will terminate upon the first to occur of:

- repayment in full of all obligations under the applicable credit facility and termination of such credit facility; and
- termination of the applicable Sprint agreements.

REGULATION OF THE WIRELESS TELECOMMUNICATIONS INDUSTRY

Federal Regulation

Federal Communications Commission Regulation. The FCC regulates the licensing, construction, operation, acquisition and interconnection arrangements of wireless telecommunications systems in the United States. Specifically, we are subject to radio license regulation under Title III of the Communications Act, as amended, as well as common carrier regulation under Title II of the Communications Act, as amended. In addition, our operations are subject to regulation as commercial mobile radio services, commonly referred to as CMRS, and to service-specific personal communications service regulations.

The FCC has promulgated, and is in the process of promulgating and revising, a series of rules, regulations and policies that affect our operations. Penalties for violating the FCC's rules and policies can range from monetary forfeitures to license revocation or non-renewal of licenses. The FCC Title II regulations applicable to our wireless operations include, among other things:

- requirements and standards, discussed further below, for the interconnection of PCS networks with other wireless and wireline carriers;

- requirements to provide service upon reasonable request and prohibitions on unjust or unreasonable discrimination by carriers between similarly situated subscribers and the charging of unreasonable or unjust rates; and

- requirements to pay access charges, universal service funding (as discussed below), and other regulatory and non-regulatory fees and charges.

We do not hold any radio licenses, but rather operate using spectrum licensed to Sprint under the Sprint management agreements. Nonetheless, we are subject to, or impacted by, a number of additional regulations and requirements under Title III of the Communications Act, as amended. These requirements include, among other things:

- requirements in most cases to obtain prior consent before the assignment and/or transfer of control of a PCS license, as discussed below;

- limitations on the extent of non-U.S. ownership of radio licenses and the qualifications of holders of radio licenses; and

- requirements for compliance of antenna sites with the National Environmental Policy Act of 1969, including restrictions on emissions of radio frequency radiation, as well as requirements on the marking and lighting of antenna structures, and related notifications to the Federal Aviation Administration, for certain antenna sites.

Furthermore, our operations are also subject to CMRS and service specific regulation by the FCC. CMRS regulations include, among other things:

- limitations on having attributable interests (usually 20% or greater) in broadband PCS, cellular and specialized mobile radio service, or SMR, spectrum totaling more than 55 MHz in a given market (while these limitations will expire on January 1, 2003, the FCC will consider competitive factors when licensees seek to aggregate large amounts of spectrum in an area);

- requirements for carriers to provide access to 9-1-1 services from mobile handsets, including handsets of users who are not subscribers of such carrier, and for the network to provide enhanced location and other mobile identification information to public safety answering points, as discussed below;

- requirements to comply with the Communications Assistance to Law Enforcement Act, commonly known as CALEA, including the dedication of capacity and provision of access points for law enforcement agencies to facilitate wiretaps and intercepts with valid authority; and

- rules requiring implementation by November 24, 2003 of local number portability, including the ability to deliver calls from the company's networks to ported numbers anywhere in the country, and to contribute to the Local Number Portability

Fund.

The FCC has divided the 120 MHz of spectrum allocated to broadband PCS into six frequenc