UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 8, 2012

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California	**0-10140**	**95-3629339**
(State or other jurisdiction of incorporation or organization)	**(Commission file number)**	**(I.R.S. employer identification number)**

701 North Haven Avenue,	
Ontario, California	**91764**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (909) 980-4030

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02(b) Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On November 8, 2012, John Borba, a director of CVB Financial Corp. (the Company) formally advised the Board of Directors of the Company that he will retire as a director of the Company and its subsidiary, Citizens Business Bank, effective as of November 30, 2012.

The press release announcing Mr. John Borba s retirement is attached as an exhibit to this 8-K.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release dated November 8, 2012, announcing the retirement of Mr. John Borba from the Board of Directors of CVB Financial Corp.

SIGNATURES

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

CVB FINANCIAL CORP.
(Registrant)

Date: November 9, 2012

By: /s/ Richard C. Thomas
Richard C. Thomas
Executive Vice President and Chief Financial Officer

Exhibit Index

99.1 Press Release dated November 8, 2012, announcing the retirement of Mr. John Borba from the Board of Directors of CVB Financial Corp.

================= ================= ================= ================= Basic and diluted weighted-average number of shares outstanding 8,152,162 5,185,887 6,664,131 5,175,241 Basic and diluted earnings (loss) per share: Loss from continuing operations $ (1.21) $ (1.29) $ (3.15) $ (5.05) Income (loss) from discontinued operations - (2.76) 27.63 (8.22) ---------------- ---------------- ---------------- ----------------- Net income (loss) $ (1.21) $ (4.05) $ 24.48 $ (13.27) ================= ================= ================= ================= See accompanying notes to the unaudited condensed consolidated financial statements. 4 AIRGATE PCS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) Six Months Ended March 31, ---------------------------------- 2004 2003 ---------------- ----------------- (Dollars in thousands) Cash flows from operating activities: Net income (loss) $ 163,129 $ (68,696) Adjustments to reconcile net income (loss) to net cash provided by operating activities: Gain on disposal of discontinued operations (184,115) - Loss from discontinued operations - 42,571 Depreciation and amortization of property and equipment 23,659 23,244 Amortization of financing costs into interest expense 629 605 Provision for doubtful accounts (718) 2,155 Interest expense associated with accretion of discounts 14,366 15,940 Non-cash stock compensation 302 352 Loss (gain) on disposal of property and equipment (5) 418 Changes in assets and liabilities: Accounts receivable 3,235 364 Receivable from Sprint 3,852 17,362 Inventories (1,337) 1,974 Prepaid expenses, other current and non-current assets (2,528) (3,021) Accounts payable, accrued expenses and other long-term liabilities (3,654) (6,131) Payable to Sprint 3,692 (12,811) Deferred revenue 767 1,301 ---------------- ----------------- Net cash provided by operating activities 21,274 15,627 ---------------- ----------------- Cash flows from investing activities: Purchases of property and equipment (7,361) (6,654) ---------------- ----------------- Net cash used in investing activities (7,361) (6,654) ---------------- ----------------- Cash flows from financing activities: Borrowings under credit facility - 8,000 Repayments of credit facility (13,761) (1,012) Financing cost on credit facility (884) - Equity issue costs (4,758) - Stock issued to employee stock purchase plan - 57 Proceeds from stock option exercises 5 - ----------------- ----------------- Net cash (used in) provided by financing activities (19,398) 7,045 ---------------- ----------------- Net (decrease) increase in cash and cash equivalents (5,485) 16,018 Cash and cash equivalents at beginning of period 54,078 4,887 ---------------- ----------------- Cash and cash equivalents at end of period $ 48,593 $ 20,905 ================= ================= Supplemental disclosure of cash flow information: Interest paid $ 3,777 $ 3,947 Supplemental disclosure for non-cash investing activities: Capitalized interest 71 158 Supplemental disclosure of non-cash financing activities for debt recapitalization: Net carrying value of Old Notes (264,888) - Unamortized financing cost of Old Notes 3,755 - Issuance of New Notes 159,035 - Carrying value difference on New Notes (24,686) - Common stock issued in exchange for Old Notes 126,784 - See accompanying notes to the unaudited condensed consolidated financial statements. 5 AIRGATE PCS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS March 31, 2004 (unaudited) (1) Business, Basis of Presentation and Liquidity (a) Basis of Presentation The accompanying unaudited condensed consolidated financial statements of AirGate PCS, Inc. and subsidiaries (the "Company") are presented in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America. In the opinion of management, these statements reflect all adjustments, including recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial statements for the interim periods. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K/A, Amendment No. 2 to 10-K/A and in Form 8-K for Discontinued Operations and to reflect the 1-for-5 reverse stock split (collectively, the "Annual Report") for the fiscal year ended September 30, 2003, which are filed with the SEC and may be accessed via EDGAR on the SEC's website at http://www.sec.gov. The results of operations for the quarter and six months ended March 31, 2004 are not necessarily indicative of the results that can be expected for the entire fiscal year ending September 30, 2004. Certain prior year amounts have been reclassified to conform to the current year's presentation. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated balance sheets and revenues and expenses during the reporting periods to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. AirGate PCS, Inc. and its restricted subsidiaries were created for the purpose of providing wireless Personal Communication Services ("PCS"). The Company is a network partner of Sprint with the right to market and provide Sprint PCS products and services using the Sprint brand name in a defined territory. The accompanying condensed consolidated financial statements include the accounts of AirGate PCS, Inc. and its wholly-owned restricted subsidiaries, AGW Leasing Company, Inc., AirGate Service Company, Inc. and AirGate Network Services, LLC for all periods presented. On November 30, 2001, the Company acquired iPCS, Inc. and its subsidiaries ("iPCS") in a merger. The transaction was accounted for under the purchase method of accounting. Although iPCS's growth rates initially met or exceeded expectations, the slowdown in growth in the wireless industry, increased competition, iPCS' dependence on Sprint and the reimposition and increase of the deposit for sub-prime credit customers, all contributed to slower growth subsequent to acquisition. In addition, iPCS' slow growth was compounded because it was earlier in its life cycle when growth slowed, it had approximately one-third fewer subscribers than the Company, and it had a less complete network than the Company. On February 23, 2003, iPCS filed a Chapter 11 bankruptcy petition in the United States Bankruptcy Court for the Northern District of Georgia for the purpose of effecting a court administered reorganization. Subsequent to February 23, 2003, the Company no longer consolidated the accounts and results of operations of iPCS, and the accounts of iPCS were recorded as an investment using the cost method of accounting. In connection with the issuance of common stock in the Company's Recapitalization Plan (described below), the Company had an ownership change for tax purposes. In order to avoid the ownership change of iPCS that would have resulted from the Company's ownership change, on October 17, 2003, the Company irrevocably transferred all of its shares of iPCS common stock to a trust for the benefit of the Company's shareholders of record as of the date of transfer. On October 17, 2003, the iPCS investment ($184.1 million credit balance carrying amount) was eliminated and recorded as a non-monetary gain on disposition of discontinuing operations. The Company's condensed consolidated financial statements reflect the results of iPCS as discontinued operations. (b) Liquidity, Financial Restructuring and Going Concern The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern. In connection with their audit of the Company's fiscal 2003 consolidated financial statements, KPMG LLP the Company's independent auditors, included an explanatory paragraph regarding the Company's ability to continue as a going concern in their audit opinion. The PCS market is characterized by significant risks as a result of rapid changes in technology, intense competition and the costs associated with the build-out, on-going operations and growth of a PCS network. The Company's 6 operations are dependent upon Sprint's ability to perform its obligations under the agreements between the Company and Sprint (see Note 3) under which the Company has agreed to construct and manage its Sprint PCS network (the "Sprint Agreements"). The Company's ability to attract and maintain a subscriber base of sufficient size and credit quality is critical to achieving sufficient positive cash flow. Significant changes in technology, increased competition, or adverse economic conditions could impair the Company's ability to achieve sufficient positive cash flow. As shown in the condensed consolidated financial statements, the Company has generated significant losses from continuing operations since inception and has an accumulated deficit of $1.1 billion and stockholders' deficit of $91.5 million at March 31, 2004. For the six months ended March 31, 2004, the Company's loss from continuing operations amounted to $21.0 million. As of March 31, 2004, the Company had working capital of $3.8 million and cash and cash equivalents of $48.6 million, and no remaining availability under its credit facility. As a result, the Company is completely dependent on available cash and operating cash flow to pay debt service and meet its other capital needs. If such sources are not sufficient, alternative funding sources may not be available. In addition to its capital needs to fund operating losses, the Company has invested large amounts to build-out its networks and for other capital assets. Since inception, the Company has invested over $300 million to purchase property and equipment. A number of factors, including slower subscriber growth, increased competition and churn and our dependence on Sprint and

Sprint's changes to various programs and fees have had an adverse affect on the Company's business and led the Company to revise its business strategy and take actions to cut costs during fiscal year 2003. These actions included the following: o Restructuring the Company's organization and eliminating more than 150 positions; o Reducing capital expenditures; o Reducing spending for sales and marketing activities; and o Reducing per minute network operating costs by more closely managing connectivity costs. Despite these measures and certain amendments to its credit facility, the Company's compliance with the financial covenants under its credit facility was not assured and the Company's ability to generate sufficient cash flow to meet its financial covenants and payment obligations in 2005 and beyond was substantially uncertain. In addition, there was substantial risk that the Company would not have had sufficient liquidity to meet its cash interest obligations under the Old Notes (defined below) in 2006. As a result, the Company engaged in a financial restructuring (the "Recapitalization Plan") which closed on February 13, 2004 and settled on February 20, 2004. See Note 10 to the condensed consolidated financial statements. As a result, the Company believes that it will be able to meet its liquidity needs for the next 12 months. (2) Significant New Accounting Pronouncements In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," which became effective at the beginning of the first interim period beginning after June 15, 2003. However, certain aspects of SFAS 150 have been deferred. SFAS No. 150 establishes standards for the Company's classification of liabilities in the financial statements that have characteristics of both liabilities and equity. The implementation of SFAS 150 is not anticipated to have a significant impact on our results of operations, financial position or cash flows. In 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin ("ARB") No. 51. This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. This interpretation applies immediately to variable interests entities created or acquired after January 31, 2003 and to special purpose entities for the quarter ended after December 15, 2003. The Interpretation is generally effective for interim periods ending after March 15, 2004 for all variable interests entities created or acquired prior to January 31, 2003. We do not have any variable interest entity arrangements. In November 2002, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a package, and the consideration will be measured and allocated to the separate units based on their relative fair values. This consensus guidance is applicable to agreements entered into for quarters beginning after June 15, 2003. The Company adopted this EITF on July 1, 2003. The adoption of EITF 00-21 did not have a material impact on our results of operations, financial position or cash flows. (3) Sprint Agreements Under the Sprint Agreements, Sprint is obligated to provide the Company significant support services such as billing, collections, long distance, customer care, network operations support, inventory logistics support, use of Sprint brand names, national advertising, national distribution and product development. Additionally, the Company derives substantial roaming revenue and 7 expenses when Sprint's and Sprint's network partners' wireless subscribers incur minutes of use in the Company's territory and when the Company's subscribers incur minutes of use in Sprint's and other Sprint network partners' PCS territories. These transactions are recorded in roaming revenue, cost of service and roaming, cost of equipment, and selling and marketing expense captions in the accompanying condensed consolidated statements of operations. Cost of service and roaming transactions include the 8% affiliation fee, long distance charges, roaming expense and costs of services such as billing, collections, customer service and pass-through expenses. Cost of equipment transactions relate to inventory purchased by the Company from Sprint under the Sprint Agreements. Selling and marketing transactions relate to subsidized costs on handsets and commissions paid by the Company under Sprint's national distribution programs. Amounts recorded relating to the Sprint Agreements for the three months and six months ended March 31, 2004 and 2003 are as follows: Three Months Ended Six Months Ended March 31, March 31, --------------------------------- --------------------------------- 2004 2003 2004 2003 ---------------- ---------------- ---------------- ---------------- (Dollars in thousands) Amounts included in the Condensed Consolidated Statements of Operations: Roaming revenue $ 12,905 $ 13,032 $ 28,652 $ 30,993 Cost of service and roaming: Roaming $ 10,500 $ 10,861 $ 23,774 $ 25,713 Customer service 8,465 11,150 13,348 22,686 Affiliation fee 4,685 4,708 9,384 9,545 Long distance 3,407 3,259 6,675 6,044 Other 694 514 1,282 990 ---------------- ----------------

---------------- ---------------- Total cost of service and roaming $ 27,751 $ 30,492 $ 54,463 $ 64,978 ================ ================ ================ ================ Purchased inventory $ 8,087 $ 2,695 $ 15,415 $ 8,345 ================ ================ ================ ================ Selling and marketing $ 2,629 $ 2,716 $ 6,923 $ 6,112 ================ ================ ================ ================ As of --------------------------------- March 31, September 30, 2004 2003 ---------------- ---------------- (Dollars in thousands) Receivable from Sprint $ 11,957 $ 15,809 Payable to Sprint $ 48,761 $ 45,069 Because approximately 96% of our revenue is collected by Sprint and 66% of cost of service and roaming in our financial statements for the six months ended March 31, 2004, are derived from fees and charges by (or through) Sprint, we have a variety of settlement issues and other contract disputes open and outstanding from time to time. Currently, this includes, but is not limited to, the following items, all of which, for accounting purposes, have been reserved or otherwise provided for: o In fiscal year 2002, Sprint PCS asserted it has the right to recoup up to $3.9 million in long-distance access revenues previously paid by Sprint PCS to AirGate, for which Sprint PCS has invoiced $1.2 million. We have disputed these amounts. o Sprint invoiced the Company and we have accrued approximately $0.4 million for fiscal year 2002 and $1.0 million for fiscal year 2003, respectively to reimburse Sprint for certain 3G related development expenses. For the six months ended March 31, 2004, Sprint invoiced the Company and we have accrued approximately $1.4 million. We are disputing Sprint's right to charge 3G fees in 2002 and beyond. o Sprint invoiced the Company and we have accrued for software maintenance fees of approximately $1.7 million and $1.3 million for each of the fiscal years 2002 and 2003, respectively. For the six months ended March 31, 2004, Sprint invoiced the Company and we have accrued approximately $1.0 million. We are disputing Sprint's right to charge software maintenance fees. o Sprint invoiced the Company and we have accrued $1.2 million for fiscal year 2003 and $2.5 million for the six months ended March 31, 2004 for the cost of IT projects completed by Sprint. We are disputing Sprint's right to collect these fees. 8 The payable to Sprint includes disputed amounts (including, but not limited to amounts disclosed above) for which Sprint has invoiced the Company of approximately $12.4 million. The invoiced amount does not include $2.7 million which has accrued for long-distance access revenues claimed but not invoiced by Sprint, or other fees not yet invoiced relating to disputed 3G, software maintenance and information technology that Sprint would assert have accrued. We intend to vigorously contest these charges and to closely examine all fees and charges imposed by Sprint. In addition to these disputes, we have other outstanding issues with Sprint which could result in set-offs to the items described above or in payments due from Sprint. For example, we believe Sprint has failed to calculate, pay and report on collected revenues in accordance with our Sprint Agreements which, together with other cash remittance issues, has resulted in a shortfall in cash payments to the Company. Sprint also has unilaterally reduced the reciprocal roaming rate charged among Sprint and its network partners, in a manner which we believe is a breach of our Sprint agreements. During the six months ended March 31, 2004, the Company recorded $2.4 million in credits from Sprint as a reduction of cost of service, consisting of a $1.2 million credit resulting from Sprint's decision to discontinue their billing system conversion and a special cash settlement of the bad debt profile for certain subscribers, which resulted in a credit of $1.2 million. Sprint had previously billed and passed on to us their development costs related to the billing system conversion as part of the IT service bureau fee we were charged. This credit positively affects the six months ended March 31, 2004 results; however, it is a non-cash item that was previously disputed and not paid. The settlement for the bad debt profile for certain subscribers represents a special settlement resulting from the improvement in actual bad debt experience as compared to the estimated bad debt expense (bad debt profile) for the periods April 2000 through December 2003. Sprint estimates monthly service charges at the beginning of each calendar year. At the end of each year, Sprint calculates the actual costs to provide these services for its network partners and requires a final settlement for the calendar year against the charges actually paid. If the costs to provide these services are less than the amounts paid by Sprint's network partners, Sprint issues a credit for these amounts. If the costs to provide the services are more than the amounts paid by Sprint's network partners, Sprint charges the network partners for these amounts. During the quarters ended December 31, 2003 and 2002 the Company received a credit from Sprint for $2.6 million and $1.3 million related to the calendar years 2003 and 2002, respectively, which were recorded as a reduction to cost of service. The calendar year 2003 service bureau fee credit included $0.9 million in previously disputed unpaid amounts; therefore $1.7 million of cash proceeds from Sprint were accrued during the quarter ended December 31, 2003 and received during the quarter ended March 31, 2004. The Sprint Agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of March 31, 2004. (4) Litigation In May 2002, putative class action complaints were filed in the United States District Court for the Northern District of Georgia against AirGate PCS, Inc., Thomas M. Dougherty, Barbara L. Blackford, Alan B. Catherall, Credit Suisse First Boston, Lehman Brothers, UBS Warburg LLC, William Blair & Company, Thomas Wiesel Partners LLC and TD Securities. The complaints do not specify an amount or range of damages that the plaintiffs are seeking. The complaints seek class certification and allege that the prospectus used in connection with the secondary offering of the Company's common stock by certain former iPCS shareholders on December 18, 2001 contained materially false and misleading statements and omitted material information necessary to make the statements in the prospectus not false and misleading. The alleged omissions included (i) failure to disclose that in order to complete an effective integration of iPCS, drastic changes would have to be made to the Company's distribution channels, (ii) failure to disclose that the sales force in the acquired iPCS markets would require extensive restructuring and (iii) failure to disclose that the "churn" or "turnover" rate for subscribers would increase as a result of an increase in the amount of sub-prime credit quality subscribers the Company added from its merger with iPCS. On July 15, 2002, certain plaintiffs and their counsel filed a motion seeking appointment as lead plaintiffs and lead counsel. Subsequently, the court denied this motion without prejudice, and two of the plaintiffs and their counsel filed a renewed motion seeking appointment as lead plaintiffs and lead counsel. On September 12, 2003, the court again denied the motion without prejudice and on December 2, 2003, certain plaintiffs and their counsel filed a modified renewed motion. On December 11, 2003, Stuart Tinney, an AirGate shareholder, filed suit in the U.S. District Court for the District of Delaware against Genesco Communications, Inc., Cambridge Telecom, Inc., The Blackstone Group, Trust Company of the West, Cass Communications Management, Inc., Technology Group, LLC, Montrose Mutual PCS, Inc., Gridley Enterprises, Inc., Timothy M. Yager, Peter G. Peterson and Stephen A. Schwarzman (collectively, the "Defendants"). The lawsuit alleges that the Defendants, as either officers, directors or 10% shareholders of the Company, purchased and sold the Company's securities within a six-month period ended December 15, 2001 and profited from these transactions in violation of Section 16(b) of the Exchange Act. The lawsuit seeks disgorgement of these "short swing" profits and payment of the profits to the Company, which is named as a nominal defendant in the lawsuit for its failure to directly take action against the Defendants. While there is no pending litigation with Sprint, we have a variety of disputes with Sprint, which are described in Note 3. 9 We are also subject to a variety of other claims and suits that arise from time to time in the ordinary course of business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our liquidity, financial condition or results of operations, the litigation and other claims noted above are subject to inherent uncertainties and management's view may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on our liquidity, financial condition and results of operations for the period in which the effect becomes reasonably estimable. (5) Income Taxes Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates applied to expected taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities for a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is provided for deferred income tax assets based upon the Company's assessment of whether it is more likely than not that the deferred income tax assets will be realized. No such amounts were realized in the quarters and six months ended March 31, 2004 and 2003, nor will amounts be realized in the future unless management believes the recoverability of deferred tax assets is more likely than not. The non-monetary gain on the disposition of discontinued operations recorded during the quarter ended December 31, 2003 did not impact the Company's net operating loss carryforwards as the disposition resulted in a non-deductible loss for tax purposes. As a result of the Company's restructuring, the Company's existing net operating losses ("NOLs") will be subject to annual limitations as required by Section 382 of the Internal Revenue Code of 1986, as amended. The Company estimates that it had NOLs of approximately $290 million through the date of restructuring. The Company estimates that the annual limitation associated with these NOLs is approximately $4.5 million. Thus, should the Company generate taxable income in excess of the annual limit, it would be exposed to a liability for current income taxes. (6) Discontinued Operations On October 17, 2003, the Company irrevocably transferred all of its shares of iPCS common stock to a trust for the benefit of the Company's shareholders of record on the date of the transfer. On that date, the iPCS investment ($184.1 million credit balance carrying amount) was eliminated and recorded as a gain on disposal of discontinued operations. The results for iPCS for all periods presented are shown as discontinued operations. Subsequent to February 23, 2003, the Company accounted for iPCS under the cost method. Therefore, excluding the gain on disposal of $184.1 million recorded October 17, 2003, there were no losses from discontinued operations for the quarter and six months ended March 31, 2004. The following reflects the loss from discontinued operations of iPCS for the quarter and six months ended March 31, 2003 (dollars in thousands): For the Quarter For the Six Months Ended Ended March 31, March 31, ----------------- ---------------- 2003 2003 ------------------ ---------------- Revenue $ 27,829 $ 79,364 Cost of revenue 21,197 63,200 Selling and marketing 4,312 16,418 General and administrative 3,550 6,881 Depreciation and amortization 7,718 20,989 ------------------ ---------------- Operating expense 36,777 107,488 ----------------- ---------------- Operating loss (8,948) (28,124) Interest expense, net (5,376) (14,447) ----------------- ---------------- Loss from discontinued operations $ (14,324) $ (42,571) ================= ================= (7) Condensed Consolidating Financial Statements AGW Leasing Company, Inc. ("AGW") is a wholly-owned restricted subsidiary of AirGate. AGW has fully and unconditionally guaranteed the New Notes (see Note 10), Old Notes and the credit facility. AGW was formed to hold the real estate interests for the Company's PCS network and retail operations. AGW also was a registrant under the Company's registration statement declared effective by the SEC on September 27, 1999. 10 AirGate Network Services LLC ("ANS") is a wholly-owned restricted subsidiary of the Company. ANS has fully and unconditionally guaranteed the New Notes, Old Notes and the credit facility. ANS was formed to provide construction management services for the Company's PCS network. AirGate Service Company, Inc. ("Service Co") is a wholly-owned restricted subsidiary of the Company. Service Co has fully and unconditionally guaranteed the New Notes, Old Notes and the credit facility. Service Co was formed to provide management services to the Company and iPCS. The following shows the unaudited condensed consolidating financial statements for the Company and its guarantor subsidiaries, as listed above, as of March 31, 2004 and September 30, 2003 and for the three months and six months ended March 31, 2004 and 2003 (dollars in thousands): Unaudited Condensed Consolidating Balance Sheets As of March 31, 2004 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ------------------ ------------------ ------------------ ------------------ Cash and cash equivalents $ 48,605 $ (12) $ - $ 48,593 Other current assets 106,935 529 (61,546) 45,918 ------------------ ------------------ ------------------ ------------------ Total current assets 155,540 517 (61,546) 94,511 Property and equipment, net 129,449 32,323 - 161,772 Other noncurrent assets 6,861 - - 6,861 ------------------ ------------------ ------------------ ------------------ Total assets $ 291,850 $ 32,840 $ (61,546) $ 263,144 ================== ================== ================== ================== Current liabilities $ 91,016 $ 61,242 $ (61,546) $ 90,712 Intercompany (118,644) 118,644 - - Long-term debt 257,237 - - 257,237 Other long-term liabilities 6,733 - - 6,733 Investment in subsidiaries 147,046 - (147,046) - - ------------------ ------------------ ------------------ ------------------ Total liabilities 383,388 179,886 (208,592) 354,682 ------------------ ------------------ ------------------ ------------------ Stockholders' deficit (91,538) (147,046) 147,046 (91,538) ------------------ ------------------ ------------------ ------------------ Total liabilities and stockholders' deficit $ 291,850 $ 32,840 $ (61,546) $ 263,144 ================== ================== ================== ================== Unaudited Condensed Consolidating Balance Sheets As of September 30, 2003 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ------------------ ------------------ ------------------ ------------------ Cash and cash equivalents $ 54,078 $ - $ - $ 54,078 Other current assets 108,136 529 (61,478) 47,187 ------------------ ------------------ ------------------ ------------------ Total current assets 162,214 529 (61,478) 101,265 Property and equipment, net 141,129 36,941 - 178,070 Other noncurrent assets 11,581 - - 11,581 ------------------ ------------------ ------------------ ------------------ Total assets $ 314,924 $ 37,470 $ (61,478) $ 290,916 ================== ================== ================== ================== Current liabilities $ 89,036 $ 61,189 $ (61,478) $ 88,747 Intercompany (108,890) 108,890 - - Long-term debt 386,509 - - 386,509 Other long-term liabilities 8,542 - - 8,542 Investment in subsidiaries 316,724 - (132,609) 184,115 Total liabilities 691,921 170,079 (194,087) 667,913 ------------------ ------------------ ------------------ ------------------ Stockholders deficit (376,997) (132,609) 132,609 (376,997) ------------------ ------------------ ------------------ ------------------ Total liabilities and stockholders' deficit $ 314,924 $ 37,470 $ (61,478) $ 290,916 ================== ================== ================== ================== 11 Unaudited Condensed Consolidating Statement of Operations For the Quarter Ended March 31, 2004 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ---------------- --------------- ---------------- ----------------

Revenue $ 78,036 $ - $ - $ 78,036 Cost of revenue 42,426 4,198 - 46,624 Selling and marketing 11,347 569 - 11,916 General and administrative 6,180 157 - 6,337 Depreciation and amortization of property and equipment 9,508 2,384 - 11,892 Gain on disposal of property and equipment (3) - - (3) ---------------- --------------- ---------------- ---------------- Total operating expense 69,458 7,308 - 76,766 ---------------- --------------- ---------------- ---------------- Operating income (loss) 8,578 (7,308) - 1,270 Loss in subsidiaries (7,267) - 7,267 - Interest income 165 - - 165 Interest expense (11,352) 41 - (11,311) ---------------- --------------- ---------------- ---------------- Loss from continuing operations before income tax (9,876) (7,267) 7,267 (9,876) Income tax - - - - ---------------- --------------- ---------------- ---------------- Loss from continuing operations (9,876) (7,267) 7,267 (9,876) Income from discontinued operations - - - - ---------------- --------------- ---------------- ---------------- Net loss $ (9,876) $ (7,267) $ 7,267 $ (9,876) ================= =============== ================ ================= Unaudited Condensed Consolidating Statement of Operations For the Quarter Ended March 31, 2003 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ---------------- --------------- ---------------- ---------------- Revenue $ 76,749 $ - $ - $ 76,749 Cost of revenue 39,598 4,604 - 44,202 Selling and marketing 10,195 1,189 - 11,384 General and administrative 5,335 509 - 5,844 Depreciation and amortization of property and equipment 9,272 2,353 - 11,625 Loss on disposal of property and equipment 220 - - 220 ---------------- --------------- ---------------- ---------------- Total operating expense 64,620 8,655 - 73,275 ---------------- --------------- ---------------- ---------------- Operating income (loss) 12,129 (8,655) - 3,474 Loss in subsidiaries (8,616) - 8,616 - Interest income (14) 39 - 25 Interest expense (10,197) - - (10,197) ---------------- --------------- ---------------- ---------------- Loss from continuing operations before income tax (6,698) (8,616) 8,616 (6,698) Income tax - - - - ---------------- --------------- ---------------- ---------------- Loss from continuing operations (6,698) (8,616) 8,616 (6,698) Loss from discontinued operations (14,324) - - (14,324) ---------------- --------------- ---------------- ---------------- Net loss $ (21,022) $ (8,616) $ 8,616 $ (21,022) ================= =============== ================ ================= 12 Unaudited Condensed Consolidating Statement of Operations For the Six Months Ended March 31, 2004 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ---------------- --------------- ---------------- ---------------- Revenue $ 159,539 $ - $ - $ 159,539 Cost of revenue 87,300 8,399 - 95,699 Selling and marketing 24,984 1,079 - 26,063 General and administrative 12,527 277 - 12,804 Depreciation and amortization of property and equipment 18,906 4,753 - 23,659 Gain on disposal of property and equipment (5) - - (5) ---------------- --------------- ---------------- ---------------- Total operating expense 143,712 14,508 - 158,220 ---------------- --------------- ---------------- ---------------- Operating income (loss) 15,827 (14,508) - 1,319 Loss in subsidiaries (14,437) - 14,437 - Interest income 322 - - 322 Interest expense (22,698) 71 - (22,627) ---------------- --------------- ---------------- ---------------- Loss from continuing operations before income tax (20,986) (14,437) 14,437 (20,986) Income tax - - - - ---------------- --------------- ---------------- ---------------- Loss from continuing operations (20,986) (14,437) 14,437 (20,986) Income from discontinued operations 184,115 - - 184,115 ---------------- --------------- ---------------- ---------------- Net income (loss) $ 163,129 $ (14,437) $ 14,437 $ 163,129 ================= =============== ================ ================= Unaudited Condensed Consolidating Statement of Operations For the Six Months Ended March 31, 2003 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ---------------- --------------- ---------------- ---------------- Revenue $ 158,614 $ - $ - $ 158,614 Cost of revenue 93,535 8,937 - 102,472 Selling and marketing 26,256 1,947 - 28,203 General and administrative 8,797 1,239 - 10,036 Depreciation and amortization of property and equipment 18,448 4,796 - 23,244 Loss on disposal of property and equipment 418 - - 418 ---------------- --------------- ---------------- ---------------- Total operating expense 147,454 16,919 - 164,373 ---------------- --------------- ---------------- ---------------- Operating income (loss) 11,160 (16,919) - (5,759) Loss in subsidiaries (16,766) - 16,766 - Interest income (128) 153 - 25 Interest expense (20,391) - - (20,391) ---------------- --------------- ---------------- ---------------- Loss from continuing operations before income tax (26,125) (16,766) 16,766 (26,125) Income tax - - - - ---------------- --------------- ---------------- ---------------- Loss from continuing operations (26,125) (16,766) 16,766 (26,125) Loss from discontinued operations (42,571) - - (42,571) ---------------- --------------- ---------------- ---------------- Net loss $ (68,696) $ (16,766) $ 16,766 $ (68,696) ================= ================ ================ ================= 13 Unaudited Condensed Consolidating Statement of Cash Flows For the Six Months Ended March 31, 2004 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ------------------- ------------------ ------------------ ------------------ Operating activities, net $ 21,151 $ 123 $ - $ 21,274 Investing activities, net (7,226) (135) - (7,361) Financing activities, net (19,398) - - (19,398)

------------------- ------------------ ------------------- ------------------ Change in cash and cash equivalents (5,473) (12) - (5,485) Cash and cash equivalents at beginning of period 54,078 - - 54,078 ------------------- ------------------ ------------------- ------------------ Cash and cash equivalents at end of period $ 48,605 $ (12) $ - $ 48,593 =================== ================== =================== ================== Unaudited Condensed Consolidating Statement of Cash Flows For the Six Months Ended March 31, 2003 AirGate AirGate PCS, Guarantor Inc. Subsidiaries Eliminations Consolidated ------------------- ------------------ ------------------- ------------------ Operating activities, net $ 15,101 $ 526 $ - $ 15,627 Investing activities, net (6,000) (654) - (6,654) Financing activities, net 7,045 - - 7,045 ------------------- ------------------ ------------------- ------------------ Change in cash and cash equivalents 16,146 (128) - 16,018 Cash and cash equivalents at beginning of period 4,769 118 - 4,887 ------------------- ------------------ ------------------- ------------------ Cash and cash equivalents at end of period $ 20,915 $ (10) $ - $ 20,905 =================== ================== =================== ================== (8) Basic and Diluted Earnings (Loss) Per Share Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Common stock equivalent securities of 24,106, 11,465, 24,133, and 9,191 for the quarters and six months ended March 31, 2004 and 2003 respectively, have been excluded from the computation of dilutive earnings (loss) per share for the periods because the Company has a loss from continuing operations and their effect would have been antidilutive. All share and per share amounts have been restated to give retroactive effect to the 1-for-5 reverse stock split. (9) Stock-based Compensation Plans We have elected to continue to account for our stock-based compensation plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees", and disclose pro forma effects of the plans on a net income (loss) and earnings (loss) per share basis as provided by SFAS No. 123, "Accounting for Stock-Based Compensation." Consistent with the provisions of SFAS No. 123, had compensation expense for these plans been determined based on the fair value at the grant date during the three months and six months ended March 31, 2004 and 2003, the pro forma net income (loss) and earnings (loss) per share would have been as follows: 14 Three Months Ended Six Months Ended March 31, March 31, --------------------------------- --------------------------------- 2004 2003 2004 2003 --------------- ---------------- --------------- ---------------- (Dollars in thousands, except per share data) Net income (loss), as reported $ (9,876) $ (21,022) $ 163,129 $ (68,696) Add: stock based compensation expense included in determination of net income (loss) 197 177 302 353 Less: stock based compensation expense determined under the fair value based method (1,398) (2,426) (2,797) (4,852) --------------- ---------------- --------------- ---------------- Pro forma, net income (loss) $ (11,077) $ (23,271) $ 160,634 $ (73,195) =============== ================ =============== ================ Basic and diluted earnings (loss) per share: As reported $ (1.21) $ (4.05) $ 24.48 $ (13.27) Pro forma $ (1.36) $ (4.49) $ 24.10 $ (14.14) (10) Recapitalization Plan The Recapitalization Plan included the following public and private exchange offers and consent solicitations: o The Company offered to exchange all of the outstanding 13.5% senior subordinated discount notes due 2009 (the "Old Notes") for (i) newly issued shares of common stock representing 56% of the shares of common stock to be issued and outstanding immediately after the Recapitalization Plan and (ii) $160.0 million aggregate principal amount of newly issued 9 3/8% senior subordinated notes due 2009 (the "New Notes"); o The consent solicitations requested the consents of holders of the Old Notes to remove substantially all of the restrictive covenants in the indenture governing the Old Notes, release collateral that secured the Company's obligations thereunder and waive any defaults or events of default that occur in connection with the restructuring; o The Company also solicited acceptances from holders of the Old Notes of a prepackaged plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Prepackaged Plan"). The Prepackaged Plan would have effected the same transactions as the Recapitalization Plan, only under the governance of a bankruptcy court. In addition, the Company held a Special Meeting of Shareholders ("Special Meeting") on February 12, 2004 at which its shareholders: o Approved the issuance in the restructuring of an additional 56% of the Company's common stock immediately after the restructuring; o Approved the amendment and restatement of the Company's certificate of incorporation to implement a 1-for-5 reverse stock split; and o Approved the amendment and restatement of the 2002 AirGate PCS, Inc. Long Term Incentive Plan to increase the number of shares available and reserved for issuance thereunder, and to make certain other changes, and approved the grant of certain performance-vested restricted stock units and stock options to certain executives of the Company. On the same date, the exchange offers expired, and the Company accepted $298,205,000 of Old Notes (or 99.4% of the Old Notes outstanding) that were validly tendered and not withdrawn in the exchange offers. Under the offers, each holder of the

Company's Old Notes received, for each $1,000 of aggregate principal amount due at maturity tendered, 22.0277 shares of the Company's post reverse stock split common stock, $533.33 in principal amount of the Company's New Notes and cash resulting from the elimination of any fractional shares and fractional notes. On February 13, 2004, the Company effected the 1-for-5 reverse stock split and shareholders received one share of common stock, and cash resulting from the elimination of any fractional shares, in exchange for each five shares of common stock then outstanding. Unless otherwise indicated, all share and per share amounts have been restated to give retroactive effect to this 1-for-5 reverse stock split. On February 17, 2004, our stock began trading on a post split basis. We settled the exchange offers on February 20, 2004. Debt Restructuring The following summarizes the accounting related to certain key provisions of the Recapitalization Plan as it relates to the condensed consolidated financial statements as of and for the six months ended March 31, 2004. The Old Notes with a net carrying value of $264.8 million and related unamortized financing costs of $3.8 million as of February 13, 2004 were exchanged for New Notes with a principal balance of $159.0 million and 6,568,706 15 shares of common stock as adjusted for the 1-for-5 reverse stock split, valued at $126.8 million as of February 13, 2004, based upon a closing common stock market price of $19.30 on that date. The financial restructuring was accounted for as a troubled debt restructuring in accordance with Statement of Financial Accounting Standards No. 15 "Accounting by Debtors and Creditors for Troubled Debt Restructurings" and EITF 02-4, "Determining Whether a Debtors Modification or Exchange of Debt is within the scope of FASB statement No. 15." Based on the terms of the Recapitalization Plan, no gain on the transaction was recognized since total future cash payments, including interest, exceeded the remaining carrying amount of the Old Notes after reducing the Old Notes by the fair value of the common stock. The difference of approximately $24.7 million between the principal value of the New Notes and the carrying value of the Old Notes will be amortized as interest expense over the term of the New Notes under the interest method. The New Notes have a stated rate of 9.375% with interest due July and January of each year, beginning July 1, 2004. As of March 31, 2004, the carrying value of the New Notes was approximately $135.1 million, with an effective interest rate of approximately 13.3%. Transaction costs of $3.0 million and $3.1 million were incurred during the year ended September 30, 2003 and during the six months ended March 31, 2004, respectively, to raise capital related to the debt and were expensed as incurred. Transaction costs of $4.8 million, incurred to raise capital, related to the equity were recorded as an offset to additional paid in capital. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains "forward-looking statements." These forward-looking statements are based on current expectations, estimates, forecasts and projections about us, our future performance, our liquidity, the wireless industry, our beliefs and management's assumptions. In addition, other written and oral statements that constitute forward-looking statements may be made by us or on our behalf. Such forward-looking statements include statements regarding expected financial results and other planned events, including but not limited to, anticipated liquidity, churn rates, ARPU and CPGA (all as defined below in "Non-GAAP Financial Measures and Key Operating Metrics"), roaming rates, EBITDA (as defined below in "Non-GAAP Financial Measures and Key Operating Metrics"), and capital expenditures. Words such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "seek," "project," "target," "goal," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual future events or results may differ materially from these statements. These risks and uncertainties include: o our dependence on the success of Sprint's wireless business; o the competitiveness and impact of Sprint's pricing plans and PCS products and services and introduction of pricing plans and programs that may adversely affect our business; o intense competition in the wireless market and the unsettled nature of the wireless market; o the potential to experience a continued high rate of subscriber turnover; o the ability of Sprint (directly or through third parties) to provide back office billing, subscriber care and other services and the quality and costs of such services or, alternatively, our ability to outsource all or a portion of these services at acceptable costs and the quality of such services; o subscriber credit quality; o the ability to successfully leverage 3G products and services; o inaccuracies in financial information provided by Sprint; o new charges and fees, or increased charges and fees, imposed by Sprint; o the impact and outcome of disputes with Sprint; o our ability to predict future customer growth, as well as other key operating metrics; o the impact of spending cuts on network quality, customer retention and customer growth; o rates of penetration in the wireless industry; o our significant level of indebtedness and debt covenant requirements; o the impact and outcome of legal proceedings between other Sprint network partners and Sprint; o the potential need for additional sources of capital and liquidity; o risks related to our ability to compete with larger, more established businesses; o anticipated future losses; o rapid technological and market change; o an adequate supply of subscriber equipment; o declines in growth of wireless subscribers; 16 o the effect of wireless local number portability; and o the volatility of the market price of our common stock. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in the Company's Annual Report for the fiscal year ended September 30, 2003 and elsewhere in this report. Moreover, we caution you not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. Except as required under Federal Securities laws and the rule and regulations of the SEC, we do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in or referred to in this report. For a further listing and description of such risks and uncertainties, see the Company's Annual Report for the fiscal year ended September 30, 2003 and other reports filed by us with the SEC. You should read this discussion in conjunction with our consolidated financial statements and accompanying notes contained in our Annual Report for the year ended September 30, 2003. Overview 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, which is a group of wholly-owned subsidiaries of Sprint Corporation (a diversified telecommunications service provider), that operate and manage Sprint's PCS products and services. 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. As of March 31, 2004, the Company had 367,807 subscribers and total network coverage of approximately 6.1 million residents, representing approximately 82% of the residents in its territory. iPCS, Inc. On November 30, 2001, we acquired iPCS in a merger. In light of consolidation in the wireless communications industry in general and among Sprint PCS network partners in particular, we believed that the merger represented a strategic opportunity to significantly expand the size and scope of our operations, attain access to attractive markets, and provide greater operational efficiencies and growth potential than we would have had on our own. The transaction was accounted for under the purchase method of accounting. Although iPCS's growth rates initially met or exceeded expectations, the slowdown in growth in the wireless industry, increased competition, iPCS' dependence on Sprint and the reimposition and increase of the deposit for sub-prime credit customers, all contributed to slower growth subsequent to acquisition. In addition, iPCS' slow growth was compounded because it was earlier in its life cycle when growth slowed, it had approximately one-third fewer subscribers than the Company, and it had a less complete network than the Company. On February 23, 2003, iPCS filed a Chapter 11 bankruptcy petition in the United States Bankruptcy Court for the Northern District of Georgia for the purpose of effecting a court administered reorganization. Subsequent to February 23, 2003, the Company no longer consolidated the accounts and results of operations of iPCS, and the accounts of iPCS were recorded as an investment using the cost method of accounting. In connection with the issuance of common stock in the Company's Recapitalization Plan (as described in Note 10 to our Condensed Consolidated Financial Statements), the Company had an ownership change for tax purposes. Such ownership change would also have caused an ownership change of iPCS, which could have had a detrimental effect on the use of certain net operating losses of iPCS. In order to avoid the ownership change of iPCS that would have resulted from the Company's ownership change, on October 17, 2003, the Company irrevocably transferred all of its shares of iPCS common stock to a trust for the benefit of the Company's shareholders of record as of the date of transfer. On October 17, 2003, the iPCS investment ($184.1 million credit balance carrying amount) was eliminated and recorded as a non-monetary gain on disposition of discontinuing operations. The results for iPCS for all periods presented are shown as discontinued operations. The results for AirGate only are shown as continuing operations. The following description of the Company's business is limited to AirGate alone, and does not reflect the business of iPCS. 17 Critical Accounting Policies The Company relies on the use of estimates and makes assumptions that impact its financial condition and results. These estimates and assumptions are based on historical results and trends as well as the Company's forecasts as to how these might change in the future. While we believe that the estimates we use are reasonable, actual results could differ from those estimates. The Company's most critical accounting policies that may materially impact the Company's results of operations include: Revenue Recognition The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable, and collectibility is reasonably assured. Effective July 1, 2003 the Company adopted EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The consensus guidance is applicable to agreements entered into for quarters beginning after June 15, 2003. The adoption of EITF 00-21 has resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated costs being recognized at the time the related wireless handset is sold. Upon adoption of EITF 00-21, previously deferred revenues and costs will continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations will continue to be deferred and amortized over their estimated lives. The Company recognizes service revenue from its subscribers as they use the service. The Company provides a reduction of recorded revenue for billing adjustments and credits, and estimated uncollectible late payment fees and early cancellation fees. The Company also reduces recorded revenue for rebates and discounts given to subscribers on wireless handset sales in accordance with EITF No. 01-9 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." For industry competitive reasons, the Company sells wireless handsets at a loss. The Company participates in the Sprint national and regional distribution programs in which national retailers such as Radio Shack and Best Buy sell Sprint PCS products and services. In order to facilitate the sale of Sprint PCS products and services, national retailers purchase wireless handsets from Sprint for resale and receive compensation from Sprint for Sprint PCS products and services sold. For industry competitive reasons, Sprint subsidizes the price of these handsets by selling the handsets at a price below cost. Under the Company's Sprint Agreements, when a national retailer sells a handset purchased from Sprint to a subscriber in the Company's territory, the Company is obligated to reimburse Sprint for the handset subsidy. The Company does not receive any revenue from the sale of handsets and accessories by such national retailers. The Company classifies these handset subsidy charges as a selling and marketing expense for a new subscriber handset sale and classifies these subsidies as a cost of service and roaming for a handset upgrade to an existing subscriber. The Company records equipment revenue from the sale of handsets to subscribers in its retail stores upon delivery in accordance with EITF 00-21. The Company does not record equipment revenue on handsets and accessories purchased from national third-party retailers such as Radio Shack and Best Buy or directly from Sprint by subscribers in its territory. Sprint is entitled to retain 8% of collected service revenue from subscribers based in the Company's markets and from non-Sprint subscribers who roam onto the Company's network. The amount of affiliation fees retained by Sprint is recorded as cost of service and roaming. Revenue derived from the sale of handsets and accessories by the Company and from certain roaming services are not subject to the 8% affiliation fee from Sprint. Allowance for Doubtful Accounts Estimates are used in determining the allowance for doubtful accounts and are based on historical collection and write-off experience, current trends, credit policies, accounts receivable by aging category and current trends in the credit quality of its subscriber base. In determining these estimates, the Company compares historical write-offs in relation to the estimated period in which the subscriber was originally billed. The Company also looks at the historical and projected average length of time that elapses between the original billing date and the date of write-off in determining the adequacy of the allowance for doubtful accounts by aging category. From this information, the Company provides specific amounts to the aging categories. The Company provides an allowance for substantially all receivables over 90 days old. Using historical information, the Company provides a reduction in revenues for certain billing adjustments and credits, late payment fees and early cancellation fees that it anticipates will not be collected. The reserves for billing adjustments and credits, late payment fees and early cancellation fees are included in the allowance for doubtful accounts balance. If the allowance for doubtful accounts is not adequate, it could have a material adverse affect on the Company's liquidity, financial position and results of operations. 18 First Payment Default Subscribers Prior to March 2003, the Company estimated the percentage of new subscribers that would never pay a bill and reserved for the related percentage of monthly revenue through a reduction in revenues. In 2002, the Company reinstated the deposit requirement for sub-prime credit customers, and then increased the deposit amounts in February 2003. These changes to our credit policy were sufficient to mitigate the collection risk and resulted in improvements in the credit quality of our subscriber base. Accordingly, in March 2003 the Company ceased recording this reserve, which resulted in the addition of 4,187 net subscriber additions. The Company continually evaluates its credit policy and evaluates the impact the subscriber base will have on the business and raises or lowers credit standards periodically, as allowed by Sprint. On April 6, 2004, the Company reduced or eliminated the deposit requirement for a segment of potential subscribers in selected market areas. The Company will continue to review our customer performance and modify our credit policy to meet short-term and long-term business objectives and monitor the impact of sub-prime customers on our allowance for doubtful accounts. Valuation and Recoverability of Long-Lived Assets Long-lived assets such as property and equipment represent approximately 61% of the Company's total assets as of March 31, 2004. Property and equipment are stated at original cost, less accumulated depreciation and amortization. Depreciation is recorded using the straight-line method over the estimated useful lives of 15 years for the 1 tower which we own, 3 to 5 years for computer equipment, 5 years for furniture, fixtures and office equipment and 5 to 7 years for network assets (other than towers). The Company reviews long-lived assets for impairment in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss, if any, is recognized for the difference between the fair value and the carrying value of the asset. Impairment analysis is based on our current business and technology strategy, our views of growth rates for the business, anticipated future economic and regulatory conditions and expected technological availability. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell the asset. Significant New Accounting Pronouncements See Note 2 to the condensed consolidated financial statements for a description of significant new accounting pronouncements and their impact on the Company. Results of Operations Revenues We derive our revenue from the following sources: Service. We sell wireless personal communications services. The various types of service revenue associated with wireless communications services include monthly recurring access and feature charges and monthly non-recurring charges for local, wireless long distance and roaming airtime usage in excess of the subscribed usage plan. Roaming. The Company receives roaming revenue at a per-minute rate from Sprint and other Sprint PCS network partners when Sprint's or its network partner's PCS subscribers from outside of the Company's territory use the Company's network. The Company pays the same reciprocal roaming rate when subscribers from its territories use the network of Sprint or its other PCS network partners. The Company also receives non-Sprint roaming revenue when subscribers of other wireless service providers who have roaming agreements with Sprint roam on the Company's network. Equipment. We sell wireless personal communications handsets and accessories that are used by our subscribers in connection with our wireless services. Equipment revenue is derived from the sale of handsets and accessories from Company owned stores, net of sales incentives, rebates and an allowance for returns. The Company's handset return policy allows subscribers to return their handsets for a full refund within 14 days of activation. When handsets are returned to the Company, the Company may be able to reissue the handsets to subscribers at little additional cost. When handsets are returned to Sprint for refurbishing, the Company receives a credit from Sprint. 19 For the Quarters Ended March 31, -- Increase Increase 2004 2003 (Decrease)$ (Decrease)% ---------------- --------------- ------------- --------------- (Dollars in thousands) Service revenue $ 61,656 $ 60,163 $ 1,493 2.5% Roaming revenue 13,498 13,895 (397) (2.9%) Equipment revenue 2,882 2,691 191 7.1% ---------------- --------------- ------------- Total $ 78,036 $ 76,749 $ 1,287 1.7% ================ =============== ============== For the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003: Service Revenue The increase in service revenue for the quarter ended March 31, 2004 over the same quarter of the previous year reflects a higher average number of subscribers using our network, relatively consistent average revenue per subscriber, higher monthly recurring revenue and feature charges and increased data revenue, partially offset by higher credits and lower revenue from "minutes over plan," or airtime usage in excess of the subscribed usage plans. In late calendar year 2002, Sprint implemented a new PCS to PCS product offering under which subscribers receive unlimited quantities of minutes for little or no additional cost for any calls made from one Sprint PCS subscriber to another ("PCS to PCS"). Pursuant to our Sprint Agreements, we are required to support this program in our territory. The number of minutes-over-plan charged to subscribers for plan overages used and associated revenues decreased while the number of minutes used for PCS to PCS calls has increased significantly. Roaming Revenue The decrease in roaming revenue for the quarter ended March 31, 2004 over the same quarter of the previous year is attributable primarily to the lower reciprocal roaming rate charged among Sprint and its PCS network partners, partially offset by increased volume in inbound roaming traffic. The reciprocal roaming rate between Sprint and the Company declined from $0.058 per minute of use to $0.041 in calendar years 2003 and 2004, respectively. The Company believes that these reductions are in violation of our agreements with Sprint. The Company's roaming revenue from Sprint and its PCS network partners was $12.9 million and $13.0 million or 96% and 94% of total roaming revenue for the quarters ended March 31, 2004 and 2003, respectively. Equipment Revenue Equipment revenue for the quarter ended March 31, 2004 increased over the same quarter of the previous year, primarily due to increased handset sales of $5.0 million or 168% prior to rebates and promotion costs, offset by a $4.8 million increase in handset rebates and promotions. The increase in handset sales is comprised of a $2.5 million increase in sales of new or upgraded handsets to existing subscribers, a $2.3 million increase in sales to new subscribers and a $0.2 million increase in accessory sales. Cost of Service and Roaming Cost of service and roaming principally consists of costs to support the Company's subscriber base including: o Cost of roaming; o Network operating costs (including salaries, cell site lease payments, fees related to the connection of the Company's switches to the cell sites that they support, inter-connect fees and other expenses related to network operations); o Bad debt expense related to estimated uncollectible accounts receivable; o Wireless handset subsidies on existing subscriber upgrades through national third-party retailers; and o Other cost of service, which includes: o Back office services provided by Sprint such as customer care, billing and activation; o The 8% of collected service revenue representing the Sprint affiliation fee; and 20 o Long distance expense relating to inbound roaming revenue and the Company's own subscriber's long distance usage and roaming expense when subscribers from the Company's territory place calls on Sprint's or its network partners' networks. For the Quarters Ended March 31, --- Increase Increase 2004 2003 (Decrease)$ (Decrease)% ---------------- --------------- ------------- --------------- (Dollars in thousands) Cost of roaming $ 11,022 $ 11,468 $ (446) (3.9%) Network operating costs 15,416 13,971 1,445 10.3% Bad debt expense (1,122) (32) (1,090) 3406.3% Wireless handset subsidies 298 1,770 (1,472) (83.2%) Other cost of service 13,808 13,570 238 1.8% ---------------- --------------- ------------- Total cost of service and roaming $ 39,422 $ 40,747 $ (1,325) (3.3%) ================ =============== ============== Cost of Roaming Cost of roaming decreased for the quarter ended March 31, 2004 compared to the same quarter of the previous year as a result of the decrease in the reciprocal roaming rate charged among Sprint and its network partners, partially offset by increased volume. The reciprocal roaming rate between Sprint and the Company declined from $0.058 per minute of use to $0.041 in calendar years 2003 and 2004, respectively. The Company believes that these reductions are in violation of our agreements with Sprint. The Company's cost of roaming attributable to Sprint and its network partners was 95% of the total cost of roaming for each of the quarters ended March 31, 2004 and 2003. Network Operating Costs Network operating costs increased for the quarter ended March 31, 2004 compared to the same quarter of the previous year as a result of increased network costs related to increased network usage of approximately 36%, including higher long distance costs and increased interconnect charges. Bad Debt Expense Bad debt expense decreased for the quarter ended March 31, 2004 compared to the same quarter of the previous year. During the quarter ended March 31, 2004, the Company recorded a $1.2 million special settlement received from Sprint resulting from a change in the bad debt profile for certain subscribers. In addition, we believe the improvements in the credit quality and payment profile of our subscriber base since we re-imposed deposits for sub-prime credit subscribers in early 2002 and the subsequent increases in February 2003 resulted in significant improvements in accounts receivable write-off experience, increased collections, and the associated decrease in bad debt expense for the quarter. Wireless Handset Subsidies Despite an increase in the number of subscribers making handset upgrade purchases, wireless handset subsidies on existing subscriber upgrades sold through national third-party retailers decreased for the quarter ended March 31, 2004 compared to the same quarter of the previous year as a result of reduced subsidies per handset paid to national third-party retailers. Subsidies paid to national third-party retailers decreased as a result of increased handset rebates and promotions offered directly to our customers through the national third party channels. Handset rebates and promotions sold through the national third party channels offered directly to our customers are included in selling and marketing expense. Other Cost of Service Other cost of service increased for the quarter ended March 31, 2004 compared to the same quarter of the previous year as a result of higher customer loyalty retention costs, offset by a rate reduction in the fees paid to Sprint for back office services provided. 21 Cost of Equipment, Other Operating Expenses and Interest For the Quarters Ended March 31, -- Increase Increase 2004 2003 (Decrease)$ (Decrease)% ---------------- --------------- ------------- ---------------- (Dollars in thousands) Cost of equipment $ 7,202 $ 3,455 3,747 108.5% Selling and marketing expense 11,916 11,384 532 4.7% General and administrative expense 6,337 5,844 493 8.4% Depreciation and amortization of property and equipment 11,892 11,625 267 2.3% Loss (gain) on disposal of property and equipment (3) 220 223 101.4% Interest income 165 25 140 560.0% Interest expense (11,311) (10,197) 1,114 10.9% Cost of Equipment We purchase handsets and accessories to resell to our subscribers for use in connection with our services. To remain competitive in the marketplace, we subsidize the price of the handset sales; therefore the cost of handsets is higher than the retail price to the subscriber. Cost of equipment increased for the quarter ended March 31, 2004 compared to the same quarter of the previous year primarily as a result of increased retail upgrade sales for handsets to existing subscribers, partially offset by decreased subscriber gross additions. Selling and Marketing Expense Selling and marketing expense includes retail store costs such as salaries and rent, promotion, advertising and commission costs, and handset subsidies for new activations on units sold by national third-party retailers and Sprint sales channels for which the Company does not record revenue. Under the Company's agreements with Sprint, when a national retailer or other Sprint distribution channel sells a handset purchased from Sprint to a subscriber from the Company's territory, the Company is obligated to reimburse Sprint for the handset subsidy and related selling costs that Sprint originally incurred. Selling and marketing expenses increased for the quarter ended March 31, 2004 compared to the same quarter of the previous year reflecting increased advertising and promotion expense, offset by staff reductions and store closings implemented in early fiscal 2003. General and Administrative Expense General and administrative expense increased for the quarter ended March 31, 2004 compared to the same quarter of the previous year, as a result of higher salaries and other employee costs of $0.9 million, offset by a net decrease in outside consulting services of $0.4 million. The higher salaries and other employee costs are the result of fully absorbing corporate overhead costs previously shared with iPCS. Depreciation and Amortization of Property and Equipment The Company capitalizes network development costs incurred to ready its network for use and costs for leasehold improvements to our retail stores and office space. Depreciation of these costs begins when the equipment is ready for its intended use and is amortized over the estimated useful life of the asset. Depreciation expense increased slightly for the quarter ended March 31, 2004 compared to the same quarter of the previous year primarily as a result of additional network assets placed in service in the later part of fiscal year 2003. The Company purchased $5.8 million of property and equipment in the quarter ended March 31, 2004, compared to property and equipment purchases of $1.0 million in the quarter ended March 31, 2003. Interest Expense Interest expense increased for the quarter ended March 31, 2004 to $11.3 million compared to $10.2 million for the same quarter of the previous year as a result of interest accruing on the New Notes beginning January 1, 2004 in conjunction with accreted interest on the Old Notes until acceptance of the exchange offers on February 12, 2004. This increase was partially offset by a decline in interest rates and reduced borrowings on the credit facility. The Company had outstanding credit facility borrowings of $137.7 million at a weighted average interest rate of 4.96% at March 31, 2004, compared to $143.5 million at a weighted average interest rate of 5.37% at March 31, 2003. Under Generally Accepted Accounting Principles, the difference in the carrying value of the Old Notes and aggregate principal and interest payments of the New Notes was recognized as a $24.7 million discount to the stated value of the New Notes, which is amortized to interest expense over the term of the New Notes. For the quarter ended March 31, 2004, total interest on the New Notes was $4.5 million, which reflects future cash payments of interest of $3.8 million and 22 $0.7 million resulting from amortization of the discount on the New Notes. We believe our interest expense for the quarter ended June 30, 2004 will not exceed $8.0 million. Income Tax No income tax benefit was recorded for the quarters ended March 31, 2004 and 2003, as it was more likely than not that the income tax benefit would not be realized. Loss from Continuing Operations For the quarter ended March 31, 2004, loss from continuing operations increased to $9.9 million compared to $6.7 million for the same quarter of the previous year. The increase is the result of higher cost of equipment, selling and marketing expense, increased spending associated with the Recapitalization Plan of $0.8 million and higher interest expense of $1.1 million, partially offset by the $1.2 million special settlement received from Sprint related to an improved bad debt expense profile related to certain customers. Income (Loss) from Discontinued Operations Discontinued operations reflect a loss from iPCS of $14.3 million during the quarter ended March 31, 2003. For the six months ended March 31, 2004 compared to the six months ended March 31, 2003: For the Six Months Ended March 31, --- Increase Increase 2004 2003 (Decrease)$ (Decrease)% ---------------- ---------------- ------------- ---------------- (Dollars in thousands) Service revenue $ 123,829 $ 120,096 $ 3,733 3.1% Roaming revenue 29,981 32,805 (2,824) (8.6%) Equipment revenue 5,729 5,713 16 0.3% ---------------- ---------------- ------------- Total $ 159,539 $ 158,614 $ 925 0.6% ================ ================ ============= Service Revenue The increase in service revenue for the six months ended March 31, 2004 over the same period of the previous year reflects a higher average number of subscribers using our network, relatively consistent average revenue per subscriber, higher monthly recurring revenue and feature charges and increased data revenue, partially offset by higher credits and lower revenue from "minutes over plan," or airtime usage in excess of the subscribed usage plans. In late calendar year 2002, Sprint implemented the new PCS to PCS product offering described above. Pursuant to our Sprint Agreements, we are required to support this program in our territory. The number of minutes-over-plan charged to subscribers for plan overages used and associated revenues decreased while the number of minutes used for PCS to PCS calls has increased significantly. Roaming Revenue The decrease in roaming revenue for the six months ended March 31, 2004 over the same period of the previous year is attributable primarily to the lower reciprocal roaming rate charged among Sprint and its PCS network partners, partially offset by increased volume in inbound roaming traffic. For the six months ended March 31, 2004, the Company's roaming revenue from Sprint and its PCS network partners was $28.7 million, or approximately 96% of the roaming revenue, compared to $31.0 million or approximately 95% for the six months ended March 31, 2003. Equipment Revenue Equipment revenue for the six months ended March 31, 2004 increased slightly over the same period of the previous year, primarily due to increased handset sales of $6.3 million or 68% prior to rebates and promotion costs, offset by a $6.3 million increase in handset rebates and promotions and a decrease in gross additions from our retail and local distributor channels. The increase in handset sales is comprised of a $4.4 million increase in sales of new or upgraded handsets to existing subscribers and a $1.9 million increase in sales to new subscribers. 23 Cost of Service and Roaming For the Six Months Ended March 31, --- Increase Increase 2004 2003 (Decrease)$ (Decrease)% ---------------- ---------------- ------------- ---------------- (Dollars in thousands) Cost of roaming $ 24,736 $ 27,135 $ (2,399) (8.8%) Network operating costs 31,158 28,846 2,312 8.0% Bad debt expense (718) 2,155 (2,873) (133.3%) Wireless handset subsidies 996 3,353 (2,357)