AIRGATE PCS INC /DE/
Form 10-Q
August 16, 2004

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

FORM 10-Q

(Mark One)
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004.

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 or 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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

11,771,019 shares of common stock, $0.01 par value, were outstanding as of August 4, 2004.

AIRGATE PCS, INC.
FORM 10-Q FOR THE QUARTER ENDED
JUNE 30, 2004

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PART I. FINANCIAL INFORMATION

Item 1. -- Financial Statements

AIRGATE PCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004	September 2003
	(unaudited)	
	(Dollars in thousands, except and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 61,962	$
Accounts receivable, net of allowance for doubtful accounts of $4,009 and $4,635	26,219	
Receivable from Sprint	14,371	
Inventories	2,709	
Prepaid expenses	3,519	
Other current assets	306	
Total current assets	109,086	1
Property and equipment, net of accumulated depreciation and amortization of $165,660 and $129,986	154,199	1
Financing costs	2,999	
Direct subscriber activation costs	2,245	
Other assets	1,046	
Total assets	$ 269,575	$ 2

Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 2,775	$
Accrued expense	18,969	
Payable to Sprint	50,215	
Deferred revenue	8,694	
Current maturities of long-term debt	19,156	
Total current liabilities	99,809	
Deferred subscriber activation fee revenue	3,829	
Other long-term liabilities	2,273	
Long-term debt, excluding current maturities	252,812	3
Investment in iPCS	-	1
Total liabilities	358,723	6
Commitments and contingencies	-	
Stockholders' deficit:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	-	
Common stock, $.01 par value; 30,000,000 shares authorized; 11,771,019 and 5,192,238 shares issued and outstanding at June 30, 2004 and September 30, 2003	118	
Additional paid-in-capital	1,046,376	9
Unearned stock compensation	(5)	
Accumulated deficit	(1,135,637)	(1,3
Total stockholders' deficit	(89,148)	(3
Total liabilities and stockholders' deficit	$ 269,575	$ 2

See accompanying notes to the unaudited condensed consolidated financial statements.

AIRGATE PCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Quarter Ended June 30,	
	2004	2003
	(Dollars in thousands, except share	
Revenue:		
Service revenue	$ 65,037	$ 64,936
Roaming revenue	17,389	15,764

Equipment revenue	3,612	2,486
Total revenue	86,038	83,186
Operating Expense:		
Cost of service and roaming (exclusive of depreciation and amortization as shown separately below)	43,278	46,040
Cost of equipment	6,670	4,969
Selling and marketing expense	10,890	12,703
General and administrative expense	4,970	5,401
Depreciation and amortization of property and equipment	12,015	11,588
Loss (gain) on disposal of property and equipment	(2)	-
Total operating expense	77,821	80,701
Operating income (loss)	8,217	2,485
Interest income	188	38
Interest expense	(6,230)	(10,770)
Income (loss) from continuing operations before income tax	2,175	(8,247)
Income tax	-	-
Income (loss) from continuing operations	2,175	(8,247)
Discontinued Operations:		
Loss from discontinued operations	-	-
Gain on disposal of discontinued operations net of $0 income tax expense	-	-
Income (loss) from discontinued operations	-	-
Net income (loss)	$ 2,175	$ (8,247)
Weighted-average number of shares outstanding		
Basic shares	11,769,976	5,187,967
Dilutive shares	11,857,479	5,187,967
Basic and diluted earnings (loss) per share:		
Basic:		
Income (loss) from continuing operations	$ 0.18	$ (1.59)
Income (loss) from discontinued operations	-	-
Net income (loss)	$ 0.18	$ (1.59)
Diluted:		
Income (loss) from continuing operations	$ 0.18	$ (1.59)
Income (loss) from discontinued operations	-	-
Net income (loss)	$ 0.18	$ (1.59)

See accompanying notes to the unaudited condensed

consolidated financial statements.

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AIRGATE PCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Mo Ju
	2004
	(Dollars in
Cash flows from operating activities:	
Net income (loss)	$ 165,304
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	-
Depreciation and amortization of property and equipment	35,674
Amortization of financing costs into interest expense	812
Provision for doubtful accounts	(553)
Interest expense associated with accretion of discounts	15,242
Non-cash stock compensation	485
Loss (gain) on disposal of property and equipment	(7)
Changes in assets and liabilities:	
Accounts receivable	1,328
Receivable from Sprint	1,438
Inventories	(577)
Prepaid expenses, other current and non-current assets	35
Accounts payable, accrued expenses and other long-term liabilities	1,262
Payable to Sprint	5,146
Deferred revenue	840
Net cash provided by operating activities	42,314
Cash flows from investing activities:	
Purchases of property and equipment	(11,803)
Net cash used in investing activities	(11,803)
Cash flows from financing activities:	
Borrowings under credit facility	-
Repayments of credit facility	(17,019)
Financing cost on credit facility	(884)
Transaction costs capitalized to equity	(4,759)
Stock issued to employee stock purchase plan	-
Proceeds from stock option exercises	35
Net cash (used in) provided by financing activities	(22,627)
Net increase in cash and cash equivalents	7,884

Cash and cash equivalents at beginning of period	54,078
Cash and cash equivalents at end of period	$ 61,962
Supplemental disclosure of cash flow information:	
Interest paid	$ 5,518
Supplemental disclosure for non-cash investing activities:	
Capitalized interest	112
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.

AIRGATE PCS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 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") for interim financial reporting 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 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 nine months ended June 30, 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 PCS ("Sprint"), which is a group of wholly-owned subsidiaries of Sprint Corporation that operate and manage Sprint's PCS products

and services. We have 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 October 17, 2003, the Company irrevocably transferred all of its shares of common stock of iPCS, Inc. and its subsidiaries ("iPCS") to a trust for the benefit of the Company's shareholders of record as of the date of the 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 disposal of discontinued operations. The Company's condensed consolidated financial statements reflect the results of iPCS as discontinued operations (described below in Note 6).

(b) Liquidity

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 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").

Since inception, the Company has financed its operations through debt financing and proceeds generated from public offerings of its common stock. The proceeds from these transactions have been used to fund the build-out of the Company's portion of the PCS network of Sprint, subscriber acquisition costs and working capital. Since inception, the Company has invested over $300.0 million in capital expenditures.

As of June 30, 2004, the Company had working capital of $9.3 million and cash and cash equivalents of $62.0 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. The Company believes that the cash on hand plus the additional liquidity that it expects to generate from operations will be sufficient to fund expected capital expenditures and to cover its working capital and debt service requirements for at least the next 12 months.

While the Company has incurred substantial net losses since inception and negative cash flows from operating activities through September 30, 2002, the Company generated $42.5 million of cash flows from operating activities for the year ended September 30, 2003. For the nine months ended June 30, 2004, the Company generated $42.3 million of cash flows from operating activities.

As part of the Company's financial restructuring to address future liquidity concerns (the "Recapitalization Plan"), in November 2003 the Company amended its credit facility and in February 2004 completed an exchange of 99.4% of the $300.0 million in outstanding 13 1/2% Old Notes for $159.0 million in 9 3/8% New

Notes and issuance of 6,568,706 shares of common stock, representing 56% of the shares of common stock issued and outstanding immediately after the completion of the Recapitalization Plan.

The accompanying 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 registered public accounting firm, included an explanatory paragraph regarding the Company's ability to continue as a going concern in their audit opinion.

The Company's future liquidity will be dependent on a number of factors influencing its projections of operating cash flow, including those related to subscriber growth, retention and credit quality; revenue growth and the Company's ability to manage operating expense. Should actual results differ significantly from these assumptions, the Company's liquidity position could be adversely affected and it could be in a position that would require it to raise additional capital which may or may not be available on terms acceptable to the Company, if at all. The Company's inability to raise capital when needed could have a material adverse effect on the Company's ability to achieve its intended business objectives.

(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 did not 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.

(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 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 an 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.

Although the Company acknowledges its responsibility for all of its internal controls, the Company relies upon Sprint as a service provider to provide accurate information for the settlement of revenue and certain expense items. The Company makes estimates used in connection with the preparation of financial statements based on the financial and statistical information provided by Sprint. The Company assesses the accuracy of this information through the Company's audit procedures, analytic reviews and the reliance on the Type II SAS 70 report, "Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Reporting and Financial Settlement Process," for Sprint's internal control processes. The report is prepared for Sprint by Sprint's service auditor. Inaccurate or incomplete data from Sprint in connection with the services provided to the Company by Sprint could have a material adverse effect on the Company's financial position, results of operations or cash flow.

Amounts recorded relating to the Sprint Agreements for the quarter and nine months ended June 30, 2004 and 2003 are as follows:

	Quarter Ended June 30,	
	2004	2003
	(Dollars in thousands)	
Amounts included in the Condensed Consolidated Statements of Operations:		
Roaming revenue	$ 16,737	$ 14,595
Cost of service and roaming:		
Roaming	$ 12,380	$ 11,548
Customer service	7,195	9,313
Affiliation fee	4,879	4,203
Long distance	3,301	3,309
Other	906	546
Total cost of service and roaming	$ 28,661	$ 28,919
Purchased inventory	$ 5,600	$ 3,971
Selling and marketing	$ 2,750	$ 3,672

	As
	June 30, 2004
	(Dollars in

Receivable from Sprint	$ 14,371
Payable to Sprint	$ 50,215

Because approximately 96% of our revenue is collected by Sprint and 66% of cost of service and roaming in our financial statements for the nine months ended June 30, 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:

- 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.

- Sprint invoiced the Company and we have accrued approximately $0.4 million for fiscal year 2002 and $1.0 million for fiscal year 2003 to reimburse Sprint for certain 3G related development expenses. For the nine months ended June 30, 2004, Sprint invoiced the Company and we have accrued approximately $3.2 million. We are disputing Sprint's right to charge 3G fees in 2002 and beyond.

- 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 nine months ended June 30, 2004, Sprint invoiced the Company and we have accrued approximately $1.3 million. We are disputing Sprint's right to charge software maintenance fees.

- Sprint invoiced the Company and we have accrued $1.2 million for fiscal year 2003 and $2.3 million for the nine months ended June 30, 2004 for the cost of IT projects completed by Sprint. We are disputing Sprint's right to collect these fees.

The payable to Sprint includes disputed amounts (including, but not limited to amounts disclosed above) for which Sprint has invoiced the Company approximately $15.0 million. The invoiced amount does not include $2.7 million which has been 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. Sprint has unilaterally reduced the reciprocal roaming rate charged among Sprint and its network partners, in a manner we believe is a breach of the Sprint Agreements.

During the nine months ended June 30, 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 nine months ended June 30, 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 reductions to cost of service.

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 June 30, 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.

While there is no pending litigation with Sprint, we have a variety of disputes with Sprint, which are described in Note 3.

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.

(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 nine months ended June 30, 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 disposal 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 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 disposal of discontinued operations. The Company's condensed consolidated financial statements reflect the results of iPCS as discontinued operations. Subsequent to February 23, 2003 and prior to October 17, 2003 the Company accounted for iPCS as an investment using the cost method of accounting. Excluding the gain on disposal of $184.1 million recorded October 17, 2003, there were no losses from discontinued operations for the quarter and nine months ended June 30, 2004. The following reflects the loss from discontinued operations of iPCS for the nine months ended June 30, 2003 (dollars in thousands):

	Nine Months Ended June 30,
	2003
Revenue	$ 79,364
Cost of revenue	63,200
Selling and marketing	16,418
General and administrative	6,881

Depreciation and amortization	20,989
Operating expense	107,488
Operating loss	(28,124)
Interest expense, net	(14,447)
Loss from discontinued operations	$ (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), the Old Notes (see Note 10) 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.

AirGate Network Services LLC ("ANS") is a wholly-owned restricted subsidiary of the Company. ANS has fully and unconditionally guaranteed the New Notes, the 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, the 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 June 30, 2004 and September 30, 2003 and for the quarters and nine months ended June 30, 2004 and 2003 (dollars in thousands):

Unaudited Condensed Consolidating Balance Sheets
As of June 30, 2004

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations
Cash and cash equivalents	$ 61,970	$ (8)	$
Other current assets	108,236	529	(61,64

Total current assets	170,206	521	(61,64
Property and equipment, net	124,119	30,080	
Other noncurrent assets	6,290	-	
Total assets	$ 300,615	$ 30,601	$ (61,64
Current liabilities	$ 100,110	$ 61,340	$ (61,64
Intercompany	(123,601)	123,601	
Long-term debt	252,812	-	
Other long-term liabilities	6,102	-	
Investment in subsidiaries	154,340	-	(154,34
Total liabilities	389,763	184,941	(215,98
Stockholders' deficit	(89,148)	(154,340)	154,34
Total liabilities and stockholders' deficit	$ 300,615	$ 30,601	$ (61,64

Unaudited Condensed Consolidating Balance Sheets
As of September 30, 2003

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Eliminations
Cash and cash equivalents	$ 54,078	$ -	$
Other current assets	108,136	529	(61,47
Total current assets	162,214	529	(61,47
Property and equipment, net	141,129	36,941	
Other noncurrent assets	11,581	-	
Total assets	$ 314,924	$ 37,470	$ (61,47
Current liabilities	$ 89,036	$ 61,189	$ (61,47
Intercompany	(108,890)	108,890	
Long-term debt	386,509	-	
Other long-term liabilities	8,542	-	
Investment in subsidiaries	316,724	-	(132,60
Total liabilities	691,921	170,079	(194,08
Stockholders' deficit	(376,997)	(132,609)	132,60
Total liabilities and stockholders' deficit	$ 314,924	$ 37,470	$ (61,47

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Unaudited Condensed Consolidating Statement of Operations
For the Quarter Ended June 30, 2004

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elimin
Revenue	$ 86,038	$ -	
Cost of revenue	45,627	4,321	
Selling and marketing	10,377	513	
General and administrative	4,846	124	
Depreciation and amortization of property and equipment	9,638	2,377	
Gain on disposal of property and equipment	(2)	-	
Total operating expense	70,486	7,335	
Operating income (loss)	15,552	(7,335)	
Loss in subsidiaries	(7,294)	-	
Interest income	188	-	
Interest expense	(6,271)	41	
Income (loss) from continuing operations before income tax	2,175	(7,294)	
Income tax	-	-	
Net income (loss)	$ 2,175	$ (7,294)	

Unaudited Condensed Consolidating Statement of Operations
For the Quarter Ended June 30, 2003

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elimin
Revenue	$ 83,186	$ -	
Cost of revenue	46,786	4,223	
Selling and marketing	11,656	1,047	
General and administrative	5,069	332	
Depreciation and amortization of property and equipment	10,798	790	

Total operating expense	74,309	6,392
Operating income (loss)	8,877	(6,392)
Loss in subsidiaries	(6,383)	-
Interest income	38	-
Interest expense	(10,779)	9
Loss before income tax	(8,247)	(6,383)
Income tax	-	-
Net loss	$ (8,247)	$ (6,383)

Unaudited Condensed Consolidating Statement of Operations
For the Nine Months Ended June 30, 2004

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elimin
Revenue	$ 245,577	$ -	
Cost of revenue	132,917	12,720	
Selling and marketing	35,339	1,592	
General and administrative	17,405	401	
Depreciation and amortization of property and equipment	28,544	7,130	
Gain on disposal of property and equipment	(7)	-	
Total operating expense	214,198	21,843	
Operating income (loss)	31,379	(21,843)	
Loss in subsidiaries	(21,731)	-	
Interest income	510	-	
Interest expense	(28,969)	112	
Loss from continuing operations before income tax	(18,811)	(21,731)	
Income tax	-	-	
Loss from continuing operations	(18,811)	(21,731)	
Income from discontinued operations	184,115	-	
Net income (loss)	$ 165,304	$ (21,731)	

Unaudited Condensed Consolidating Statement of Operations
For the Nine Months Ended June 30, 2003

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elimin
Revenue	$ 241,800	$ -	
Cost of revenue	140,678	12,803	
Selling and marketing	37,910	2,996	
General and administrative	13,824	1,613	
Depreciation and amortization of property and equipment	27,671	7,161	
Loss on disposal of property and equipment	418	-	
Total operating expense	220,501	24,573	
Operating income (loss)	21,299	(24,573)	
Loss in subsidiaries	(24,456)	-	
Interest income	63	-	
Interest expense	(31,278)	117	
Loss from continuing operations before income tax	(34,372)	(24,456)	
Income tax	-	-	
Loss from continuing operations	(34,372)	(24,456)	
Loss from discontinued operations	(42,571)	-	
Net loss	$ (76,943)	$ (24,456)	

Unaudited Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended June 30, 2004

AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elim

Operating activities, net	$ 42,053	$ 261	
Investing activities, net	(11,534)	(269)	
Financing activities, net	(22,627)	-	
Change in cash and cash equivalents	7,892	(8)	
Cash and cash equivalents at beginning of period	54,078	-	
Cash and cash equivalents at end of period	$ 61,970	$ (8)	

Unaudited Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended June 30, 2003

	AirGate PCS, Inc.	AirGate Guarantor Subsidiaries	Elim
Operating activities, net	$ 29,121	$ 616	
Investing activities, net	(9,632)	(737)	
Financing activities, net	6,538	-	
Change in cash and cash equivalents	26,027	(121)	
Cash and cash equivalents at beginning of period	4,769	118	
Cash and cash equivalents at end of period	$ 30,796	$ (3)	

(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 39,835, 53,841, and 39,588 for the quarter ended June 30, 2003 and the nine months ended June 30, 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 effected on February 13, 2004 (described below in Note 10).

(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 quarters and nine months ended June 30, 2004 and 2003, the pro forma net income (loss) and earnings (loss) per share would have been as follows:

	Quarters Ended June 30,	
	2004	2003
	(Dollars in thousands, except per share d	
Net income (loss), as reported	$ 2,175	$ (8,247)
Add: stock based compensation expense included in determination of net income (loss)	185	177
Less: stock based compensation expense determined under the fair value based method	(1,651)	(2,426)
Pro forma, net income (loss)	$ 709	$ (10,496)
Basic and diluted earnings (loss) per share:		
Basic		
As reported	$ 0.18	$ (1.59)
Pro forma	$ 0.06	$ (2.02)
Diluted		
As reported	$ 0.18	$ (1.59)
Pro forma	$ 0.06	$ (2.02)

On April 8, 2004, the Company issued 99,750 shares of performance-restricted stock. The restrictions on the stock lapse three years from the date of issuance if certain cumulative performance criteria are met at September 30, 2006. The shares qualify for variable accounting under Accounting Principles Board (APB) Statement No. 25 and Financial Accounting Standards Board Interpretation 28. The Company recorded compensation expense of $0.2 million related to these shares during the quarter ended June 30, 2004.

On April 8, 2004, the Company also issued 299,250 stock options with an exercise price of $15.93, which vest ratably over three years. The shares were accounted for in accordance with APB No. 25. No related compensation expense was recognized during the quarter ended June 30, 2004.

(10) Recapitalization Plan

In November 2003, the Company completed an amendment to its credit facility. Certain changes were effective and used in determining compliance with financial covenants for periods ended December 31, 2003 and thereafter. Such changes included clarifying and modifying the definition of, and period for calculating, EBITDA for purposes of complying with financial covenants under the credit facility.

In February 2004, the Company completed the Recapitalization Plan, comprised of:

- o The exchange of $298,205,000 of 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 issued and outstanding immediately after the Recapitalization Plan and (ii) $159.0 million aggregate principal amount of newly issued 9 3/8% senior subordinated notes due 2009 (the "New Notes"); and

- o The removal of substantially all of the restrictive covenants in the indenture governing the Old Notes, release of collateral that secured the Company's obligations thereunder and waiver of any defaults or events of default that occurred in connection with the recapitalization.

The $298,205,000 of Old Notes exchanged constituted 99.4% of the Old Notes outstanding. In the recapitalization, each tendering 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 a 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.

The exchange offer comprising the Recapitalization Plan was settled 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

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condensed consolidated financial statements as of and for the nine months ended June 30, 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 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 issued in the restructuring. 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 June 30, 2004, the carrying value of the New Notes was approximately $135.9 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 nine months ended June 30, 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:

- our dependence on the success of Sprint's wireless business;
- 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;
- 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;
- 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;
- subscriber credit quality;
- the ability to successfully leverage 3G products and services;
- inaccuracies in financial information provided by Sprint;
- new charges and fees, or increased charges and fees, imposed by Sprint;
- the impact and outcome of disputes with Sprint;
- our ability to predict future customer growth, as well as other key operating metrics;
- the impact of spending cuts on network quality, customer retention and customer growth;
- rates of penetration in the wireless industry;
- our significant level of indebtedness and debt covenant requirements;
- the impact and outcome of legal proceedings between other Sprint network partners and Sprint;
- the potential need for additional sources of capital and liquidity;
- risks related to our ability to compete with larger, more established businesses;

- anticipated future losses;
- rapid technological and market change;
- an adequate supply of subscriber equipment;
- declines in growth of wireless subscribers;

- the effect of wireless local number portability;
- the volatility of the market price of our common stock and
- the future obsolescence of our network assets based on technological changes.

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.

During the third quarter of 2004 we continued to stay focused on our key financial and operating performance metrics, including net income and EBITDA. Accomplishments during the third quarter of fiscal 2004, which we believe are important indicators of our overall performance and financial well-being, include:

- Achieving for the first time in our Company's history, income from continuing operations for the quarter ended June 30, 2004 of $2.2 million, or $0.18 per share for both basic and diluted outstanding common shares, compared to a loss of ($8.2) million or $(1.59) per share for the same quarter of the previous year.
- EBITDA, earnings before interest, taxes, depreciation and amortization (as later defined), was $20.2 million for the quarter ended June 30, 2004, compared to $14.1 million for the same quarter of the previous year.
- Gross additions were 38,223 for the quarter ended June 30, 2004, compared

to 38,919 for the same quarter of the previous year.

- Churn (as later defined) decreased to 2.55% in the quarter ended June 30, 2004, compared to 2.90% for the same quarter of the previous year and 2.92% in the second quarter of fiscal 2004.

The Company generated $42.3 million in cash from operating activities during the nine months ended June 30, 2004, compared to $29.7 million for the prior year. We believe these results have strengthened our balance sheet by increasing cash and cash equivalents to $62.0 million from $48.6 million in the second quarter of fiscal 2004 and from $30.8 million from the previous year.

As of June 30, 2004, the Company had 375,241 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. 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 disposal of discontinued 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.

Critical Accounting Policies and Estimates

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.

Revenue and Cost Data Provided by Sprint

Although the Company recognizes its responsibility for all of its internal controls, we place substantial reliance on the timeliness, accuracy and sufficiency of certain revenue, accounts receivable and cost data provided by Sprint which we use in the preparation of our financial statements and financial disclosures. The data provided by Sprint is the primary source for our recognition of service revenue and a significant portion of our selling and marketing and cost of service and operations expenses. At times, we have been invoiced by Sprint for charges that we believed to be incorrect based on our agreements with Sprint. We review all charges from Sprint and dispute charges if appropriate based upon our interpretation of our agreements with Sprint PCS. When Sprint does not notify us timely of charges that we have incurred, we record estimates primarily based on our historical trends and our estimate of the amount due to Sprint. Amounts in dispute with Sprint have been fully reserved or otherwise provided for.

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 our 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.

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.

Valuation and Recoverability of Long-Lived Assets

Long-lived assets such as property and equipment represent approximately 57% of the Company's total assets as of June 30, 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. The 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

For the quarter ended June 30, 2004 compared to the quarter ended June 30, 2003:

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.

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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 generally 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.

	For the Quarters Ended June 30,			
	2004	2003	Increase (Decrease) $	Increase (Decrease) %
	(Dollars in thousands)			
Service revenue	$ 65,037	$ 64,936	$ 101	0.2%
Roaming revenue	17,389	15,764	1,625	10.3%
Equipment revenue	3,612	2,486	1,126	45.3%
Total	$ 86,038	$ 83,186	$ 2,852	3.4%

Service Revenue

The slight increase in service revenue for the quarter ended June 30, 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, substantially offset by higher customer care and promotional 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. As a result, the number of minutes-over-plan charged to subscribers for plan overages used and associated revenues have decreased while the number of minutes used for PCS to PCS calls has increased significantly as compared to periods prior to adoption of this program.

Roaming Revenue

The increase in roaming revenue for the quarter ended June 30, 2004 over the same quarter of the previous year is attributable to an increase of $8.8 million resulting from higher inbound roaming traffic, partially offset by a decrease of $7.2 million as a result of a decrease in the reciprocal roaming rate. 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. For the quarter ended June 30, 2004, the Company's roaming revenue from Sprint and its PCS network partners was $16.7 million or 96% compared to $14.6 million or 92% of total roaming revenue for the quarter ended June 30, 2003.

Equipment Revenue

Equipment revenue for the quarter ended June 30, 2004 increased over the same quarter of the previous year, primarily due to increased handset sales of $3.7 million or an 82% increase prior to rebates and promotion costs, offset by a $2.6 million increase in handset rebates and promotions. The increase in handset sales is comprised of a $3.0 million increase in sales of handsets to existing subscribers, a $0.6 million increase in sales to new subscribers and a $0.1 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:

- Cost of roaming;
- 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);
- Bad debt expense related to estimated uncollectible accounts receivable;
- Other cost of service, which includes:

- Back office services provided by Sprint such as customer care, billing and activation;
- The 8% of collected service revenue representing the Sprint affiliation fee;
- Long distance expense relating to inbound roaming revenue and the Company's own subscriber's long distance usage and roaming expense when subscribers from the Company's territory place calls on Sprint's or its network partners' networks; and
- Wireless handset subsidies on existing subscriber purchases of handsets through national third-party retailers.

	For the Quarters Ended June 30,		
	2004	2003	Increase (Decrease)$
	(Dollars in thousands)		
Cost of roaming	$ 12,981	$ 12,123	$ 858
Network operating costs	15,782	14,606	1,176
Bad debt expense	165	1,570	(1,405)
Other cost of service	14,350	17,741	(3,391)
Total cost of service and roaming	$ 43,278	$ 46,040	$ (2,762)

Cost of Roaming

The increase in cost of roaming for the quarter ended June 30, 2004 compared to the same quarter of the previous year is attributable to an increase of $6.2 million resulting from higher outbound roaming traffic, partially offset by a decrease of $5.3 million as a result of a decrease in the reciprocal roaming rate (see roaming revenue above). The Company's cost of roaming attributable to Sprint and its network partners was $12.4 million and $11.5 million or 95% of the total cost of roaming for both quarters ended June 30, 2004 and 2003.

Network Operating Costs

Network operating costs increased for the quarter ended June 30, 2004 compared to the same quarter of the previous year primarily due to increased network costs resulting from a 28% increase in network usage and increased interconnect charges and higher feature costs.

Bad Debt Expense

Bad debt expense decreased for the quarter ended June 30, 2004 compared to the same quarter of the previous year. During the quarter ended June 30, 2004, the Company recorded a $0.3 million reduction to bad debt expense related to significantly past due accounts receivable which were previously written off by Sprint. 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. On April 6, 2004, the Company reduced or eliminated the deposit requirement for certain subscribers in selected market areas. As of June 30, 2004, the Company has not experienced a significant increase in delinquent customers. While we will continue to review our customer performance and modify our credit policy to meet short-term and long-term business objectives and closely monitor the impact of sub-prime customers, we are not certain what impact in the future the change in credit policy will have on our financial results.

Other Cost of Service

Other cost of service decreased for the quarter ended June 30, 2004 compared to the same quarter of the previous year as a result of a rate reduction in the fees paid to Sprint for back office services provided lower subsidies and lower customer loyalty retention costs.

Cost of Equipment, Other Operating Expenses and Interest

	For the Quarters En	
	2004	2003
	(Dollars in thou	
Cost of equipment	$ 6,670	$ 4,969
Selling and marketing expense	10,890	12,703
General and administrative expense	4,970	5,401
Depreciation and amortization of property and equipment	12,015	11,588
Loss (gain) on disposal of property and equipment	(2)	-
Interest income	188	38
Interest expense	6,230	10,770

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 June 30, 2004 compared to the same quarter of the previous year primarily as a result of increased retail handset sales to existing subscribers, partially offset by slightly lower 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 decreased for the quarter ended June 30, 2004 compared to the same quarter of the previous year as a result of staff reductions and store closings implemented in fiscal 2003 and lower estimated commission payments, offset by increased advertising and promotional expense.

General and Administrative Expense

General and administrative expense decreased for the quarter ended June 30, 2004 compared to the same quarter of the previous year, as a result of decreased use of outside consulting services.

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 for the quarter ended June 30, 2004 compared to the same quarter of the previous year primarily as a result of increased capital spending over the comparable quarter in fiscal year 2003 and prior quarters. The Company purchased $4.4 million of property and equipment in the quarter ended June 30, 2004, compared to property and equipment purchases of $3.7 million in the quarter ended June 30, 2003.

Interest Expense

Interest expense decreased for the quarter ended June 30, 2004 compared to the same quarter of the previous year as a result of lower outstanding debt balances. As a result of the debt restructuring, our outstanding notes were reduced from $300.0 million to $159.0 million in New Notes and $1.7 million in Old Notes and our interest rate on the New Notes is 9 3/8% compared to 13.5% on the Old Notes. Additionally, the outstanding balance on the credit facility is $134.5 million with a weighted average rate of 5.02% at June 30, 2004 compared to $143.0 million with a weighted average rate of 5.14% at June 30, 2003.

Income Tax

No income tax benefit on continuing operations was recorded for the quarters ended June 30, 2004 and 2003, as it was not more likely than not that the income tax benefit would be realized.

Income (Loss) from Continuing Operations

For the quarter ended June 30, 2004, income from continuing operations was $2.2 million compared to a loss from continuing operations of $8.2 million for the same quarter of the previous year. The improvement is primarily the result of higher roaming revenue, lower cost of service and roaming, lower selling and marketing expense and lower interest expense.

For the nine months ended June 30, 2004 compared to the nine months ended June 30, 2003:

	For the Nine Months Ended June 30,			
	2004	2003	Increase (Decrease)$	Increase (Decrease)
	(Dollars in thousands)			
Service revenue	$ 188,866	$ 185,032	$ 3,834	2.1
Roaming revenue	47,370	48,569	(1,199)	(2.5
Equipment revenue	9,341	8,199	1,142	13.9
Total	$ 245,577	$ 241,800	$ 3,777	1.6

Service Revenue

The increase in service revenue for the nine months ended June 30, 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 lower revenue from "minutes over plan," or airtime usage in excess of the subscribed usage plans and higher customer care and promotional credits.

Roaming Revenue

The decrease in roaming revenue for the nine months ended June 30, 2004 over the same period of the previous year is attributable to a decrease of $24.7 million as a result of a decrease in the reciprocal roaming rate, partially offset by an increase of $23.5 million resulting from higher inbound roaming traffic. For the nine months ended June 30, 2004, the Company's roaming revenue from Sprint and its PCS network partners was $45.4 million, or approximately 96% of roaming revenue, compared to $45.6 million or approximately 94% of roaming revenue for the nine months ended June 30, 2003.

Equipment Revenue

Equipment revenue for the nine months ended June 30, 2004 increased over the same period of the previous year, primarily due to increased handset sales of $9.6 million or a 70% increase prior to rebates and promotion costs, offset by a $8.8 million increase in handset rebates and promotions and lower gross additions from our retail and local distributor channels. The increase in handset sales is comprised of a $7.3 million increase in sales of handsets to existing subscribers, a $2.1 million increase in sales to new subscribers and a $0.2 million increase in accessory sales.

Cost of Service and Roaming

For the Nine Months Ended June 30		
2004	2003	Increase (Decrease

	(Dollars in thousands)		
Cost of roaming	$ 37,717	$ 39,258	$ (1,54
Network operating costs	46,944	43,452	3,49
Bad debt expense	(553)	3,724	(4,27
Other cost of service	41,071	56,760	(15,68
Total cost of service and roaming	$ 125,179	$ 143,194	$ (18,01

Cost of Roaming

The decrease in cost of roaming for the nine months ended June 30, 2004 compared to the same period of the previous year is attributable to a decrease of $19.9 million as a result of a decrease in the reciprocal roaming rate, partially offset by an increase of $18.4 million resulting from higher outbound roaming traffic. Cost of roaming of $36.2 million and $37.3 million or 96% and 95% of the total cost of roaming was attributable to Sprint and its network partners for the nine months ended June 30, 2004 and 2003, respectively.

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Network Operating Costs

Network operating costs increased for the nine months ended June 30, 2004 compared to the same period of the previous year primarily due to increased network costs as a result of a 30% increase in network usage and higher long distance costs and increased interconnect charges.

Bad Debt Expense

Bad debt expense decreased for the nine months ended June 30, 2004 compared to the same period of the previous year. During the nine months ended June 30, 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 and recorded a $0.3 million reduction in bad debt expense related to significantly past due accounts receivable which were previously written-off by Sprint. 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 nine months ended June 30, 2004.

Other Cost of Service

Other cost of service decreased for the nine months ended June 30, 2004 compared to the same period of the previous year. The decrease was attributable to lower service bureau costs and fees paid to Sprint, lower subsidies, a $2.6 million special settlement from Sprint for service bureau fees charged for calendar year 2003 and a $1.2 million special settlement resulting from Sprint's decision to discontinue their billing system conversion in 2004.

Cost of Equipment, Other Operating Expenses and Interest

	For the Nine Months	
	2004	2003
		(Dollars in th
Cost of equipment	$ 20,458	$ 15,271
Selling and marketing expense	36,931	40,906
General and administrative expense	17,806	15,437
Depreciation and amortization of property and equipment	35,674	34,832
Loss (gain) on disposal of property and equipment	(7)	418
Interest income	510	63
Interest expense	28,857	31,161

Cost of Equipment

Cost of equipment increased for the nine months ended June 30, 2004 compared to the same period of the previous year primarily as a result of increased retail sales of handsets to existing subscribers, offset by decreased subscriber gross additions.

Selling and Marketing Expense

Selling and marketing expense decreased for the nine months ended June 30, 2004 compared to the same period of the previous year reflecting the effect of reduced advertising and promotion expense and staff reductions and store closings implemented in fiscal 2003, partially offset by increased rebate costs for handsets sold through national third parties.

General and Administrative Expense

General and administrative expense increased for the nine months ended June 30, 2004 compared to the same period of the previous year, as a result of $3.1 million in costs related to the Recapitalization Plan and higher salaries and other employee costs as a result of fully absorbing corporate overhead costs previously shared with iPCS. These higher costs were partially offset by lower outside consulting costs.

Depreciation and Amortization of Property and Equipment

Depreciation expense increased for the nine months ended June 30, 2004 compared to the same period 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 $11.8 million of property and equipment in the nine months ended June 30, 2004, compared to property and equipment purchases of $10.4 million in the nine months ended June 30, 2003.

Interest Expense

Interest expense decreased for the nine months ended June 30, 2004 compared to the same period of the previous year as a result of lower outstanding debt balances. As a result of the debt restructuring, our outstanding notes were

reduced from $300.0 million to $159.0 million in New Notes and $1.7 million in Old Notes and our interest rate on the New Notes is 9 3/8% compared to 13.5% on the Old Notes. Additionally, the outstanding balance on the credit facility is $134.5 million with a weighted average rate of 5.02% at June 30, 2004 compared to $143.0 million with a weighted average rate of 5.14% at June 30, 2003.

Income Tax

No income tax benefit on continuing operations was recorded for the nine months ended June 30, 2004 and 2003 as it was not more likely than not that the income tax benefit would be realized.

Loss from Continuing Operations

For the nine months ended June 30, 2004, loss from continuing operations improved to $18.8 million compared to $34.4 million for the same period of the previous year. The improvement is the result of higher revenue, reduced cost of service and roaming, lower selling and marketing expense and lower interest expense, offset by higher general and administrative expenses as a result of increased spending associated with the Recapitalization Plan of $3.1 million.

Income (Loss) from Discontinued Operations

Discontinued operations is comprised of a $184.1 million non-monetary gain from the elimination of the investment in iPCS for the nine months ended June 30, 2004 and a loss from the discontinued operations of iPCS of $42.6 million during the nine months ended June 30, 2003.

Non-GAAP Financial Measures and Key Operating Metrics

We use certain operating and financial measures that are not calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of income or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Terms such as subscriber net additions, average revenue per user ("ARPU"), churn, and cost per gross addition ("CPGA") are important operating metrics used in the wireless telecommunications industry. These metrics are important to compare us to other wireless service providers. ARPU and CPGA assist management in budgeting and CPGA also assists management in quantifying the incremental costs to acquire a new subscriber. Except for churn and net subscriber additions, we have included a reconciliation of these metrics to the most directly comparable GAAP financial measure. Churn and subscriber net additions are operating statistics with no comparable GAAP financial measure. ARPU and CPGA are supplements to GAAP financial information and should not be considered an alternative to, or more meaningful than, revenues, expenses, income (loss) from continuing operations, or net income (loss) as determined in accordance with GAAP.

Earnings before interest, taxes, depreciation and amortization, or "EBITDA," is a performance metric we use and which is used by other companies. Management believes that EBITDA is a useful adjunct to income (loss) from continuing operations and other measurements under GAAP because it is a meaningful measure of a company's performance, as interest, taxes, depreciation and amortization can vary significantly between companies due in part to differences in accounting policies, tax strategies, levels of indebtedness, capital purchasing practices and interest rates. EBITDA also assists management in evaluating

operating performance and is sometimes used to evaluate performance for executive compensation. We have included below a presentation of the GAAP financial measure most directly comparable to EBITDA, which is income (loss) from continuing operations, as well as a reconciliation of EBITDA to income (loss) from continuing operations. EBITDA is a supplement to GAAP financial information and should not be considered an alternative to, or more meaningful than, net income (loss), income (loss) from continuing operations, or operating income (loss) as determined in accordance with GAAP. EBITDA has distinct limitations as compared to GAAP information such as net income (loss), income (loss) from continuing operations, or operating income (loss). By excluding interest and income taxes for example, it may not be apparent that both represent a reduction in cash available to the Company. Likewise, depreciation and amortization, while non-cash items, represent generally the decreases in the value of assets that produce revenue for the Company.

ARPU, churn, CPGA, and EBITDA as used by the Company may not be comparable to a similarly titled measure of another company.

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

- "ARPU" summarizes the average monthly service revenue per user, excluding roaming revenue. The Company excludes roaming revenue from its ARPU calculation because this revenue is generated from customers of Sprint and other carriers that use our network and not directly from our subscribers. ARPU is computed by dividing average monthly service revenue for the period by the average number of subscribers for the period.

- "Churn" is the average monthly rate of subscriber turnover that both voluntarily and involuntarily discontinued service during the period, expressed as a percentage of the average number of subscribers for the period. Churn is computed by dividing the number of subscribers that discontinued service during the period, net of 30-day returns, by the average subscribers for the period.

- "CPGA" summarizes the average cost to acquire new subscribers during the period. CPGA is computed by adding the equipment margin for handsets sold to new subscribers (equipment revenues less cost of equipment, which costs have historically exceeded the related revenues) and selling and marketing expenses related to adding new subscribers. Equipment margin on handsets sold to existing subscribers, including handset upgrade transactions, are excluded, as these costs are incurred specifically for existing subscribers. That net amount is then divided by the total new subscribers acquired during the period. Prior to June 30, 2004, the Company included upgrade costs for existing subscribers as a component of CPGA. The Company believes the measure is more meaningful and comparable if these costs are excluded given they relate to existing subscribers. For the quarter ended June 30, 2004, the Company has excluded handset upgrade costs for existing customers from the CPGA calculation for all periods presented.

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

The tables, which follow present and reconcile non-GAAP financial measures and key operating metrics for the Company for the quarters and nine months ended June 30, 2004 and 2003.

For the quarter ended June 30, 2004 compared to the quarter ended June 30, 2003:

The table below sets forth key operating metrics for the Company for the

quarters ended June 30, 2004 and 2003 (dollars in thousands, except unit and per unit data):

	For the Quarters Ended June 3		
	2004	2003	Increase (Decrease)
Total subscribers, end of period	375,241	364,157	11,084
Subscriber gross additions	38,223	38,919	(696
Subscriber net additions	7,434	5,593	1,841
Churn	2.55%	2.90%	(0.35%
ARPU	$ 58.35	$ 59.90	$ (1.55
CPGA	$ 330	$ 381	$ (51
EBITDA	$ 20,232	$ 14,073	$ 6,159

The reconciliation of ARPU to service revenue, as determined in accordance with GAAP, is as follows (dollars in thousands, except per unit data):

	For the Quarters Ended June 3		
	2004	2003	Increase (Decrease)
Average Revenue Per User (ARPU):			
Service revenue	$ 65,037	$ 64,936	$ 101
Average subscribers	371,524	361,361	10,163
ARPU	$ 58.35	$ 59.90	$ (1.55

The reconciliation of CPGA to selling and marketing expense, as determined in accordance with GAAP, is calculated as follows (dollars in thousands, except per unit data):

	For the Quarters Ended June 3		
	2004	2003	Increase (Decrease
Cost Per Gross Addition (CPGA):			

Selling and marketing expense	$ 10,890	$ 12,703	$ (1,813
Plus: activation costs	706	333	373
Plus: cost of equipment	6,670	4,969	1,701
Less: costs for existing subscribers	(2,039)	(679)	(1,360
Less: equipment revenue	(3,612)	(2,486)	(1,126
Total acquisition costs	$ 12,615	$ 14,840	$ (2,225
Gross additions	38,223	38,919	(696
CPGA	$ 330	$ 381	$ (51

The reconciliation of EBITDA to our reported income (loss) from continuing operations, as determined in accordance with GAAP, is as follows (dollars in thousands):

	For the Quarters Ended June 3		
	2004	2003	Increase (Decrease)
Income (loss) from continuing operations	$ 2,175	$ (8,247)	$ 10,422
Depreciation and amortization of property and equipment	12,015	11,588	427
Interest income	(188)	(38)	(150
Interest expense	6,230	10,770	(4,540
EBITDA	$ 20,232	$ 14,073	$ 6,159

Subscriber Gross Additions

Subscriber gross additions decreased slightly for the quarter ended June 30, 2004 compared to the same quarter in 2003. This decrease is due to the loss of distribution from closed retail stores and Sprint's loss of certain national third-party distribution channels.

Subscriber Net Additions

Subscriber net additions increased for the quarter ended June 30, 2004, compared to the same quarter in 2003. The increase is due to improved subscriber churn, partially offset by a reduction in subscriber gross additions.

Churn

Churn improved for the quarter ended June 30, 2004, compared to the same quarter for 2003. The Company has focused on improving the credit quality of the subscriber base. We believe this improvement in credit quality may have resulted in the reduction in churn for the quarter ended June 30, 2004 compared to the same period in 2003.

The FCC has mandated that wireless carriers provide for wireless local number

portability, or WLNP, in certain large markets by November 24, 2003 and by May 24, 2004 in all remaining markets. Six of our thirty-seven markets were included in the November 2003 deadline. WLNP allows subscribers to keep their wireless phone number when switching to a different service provider. As of June 30, 2004, WLNP has not had a material impact on subscriber churn, but number portability could increase churn in the future.

Average Revenue Per User

ARPU decreased for the quarter ended June 30, 2004 compared to the same quarter for 2003 primarily as a result of a reduction in revenue from customers using minutes in excess of their subscriber usage plans and higher customer credits, partially offset by higher subscriber monthly recurring charges and higher data revenue.

Cost per Gross Addition

CPGA decreased for the quarter ended June 30, 2004 compared to the same quarter in 2003. The decrease reflects lower third party and employee commissions, partially offset by increased costs for marketing, advertising, and handset sales incentives.

EBITDA

EBITDA for the quarter ended June 30, 2004 increased from the same quarter in 2003. This increase is a result of higher revenues, lower cost of service and roaming and lower selling and marketing expense.

For the nine months ended June 30, 2004 compared to the nine months ended June 30, 2003:

The table below sets forth key operating metrics for the Company for the nine months ended June 30, 2004 and 2003 (dollars in thousands, except unit and per unit data):

	For the Nine Months Ended June 30,			
	2004	2003	Increase (Decrease)	Increase (Decrease)%
Subscriber gross additions	115,565	137,543	(21,978)	(16.0%)
Subscriber net additions	15,781	25,018	(9,237)	(36.9%)
Churn	2.83%	3.30%	(0.47%)	NM
ARPU	$ 57.13	$ 58.47	$ (1.34)	(2.3%)
CPGA	$ 374	$ 344	$ 30	8.7%
EBITDA	$45,210	$ 31,558	$ 13,652	43.3%

The reconciliation of ARPU to service revenue, as determined in accordance with GAAP, is as follows (dollars in thousands, except per unit data):

	For the Nine Months Ended J		
	2004	2003	Increas (Decreas
Average Revenue Per User (ARPU):			
Service revenue	$ 188,866	$ 185,032	$ 3,834
Average subscribers	367,351	351,648	15,703
ARPU	$ 57.13	$ 58.47	$ (1.34

The reconciliation of CPGA to selling and marketing expense, as determined in accordance with GAAP, is calculated as follows (dollars in thousands, except per unit data):

	For the Nine Months Ended J		
	2004	2003	Increas (Decreas
Cost Per Gross Addition (CPGA):			
Selling and marketing expense	$ 36,931	$ 40,906	$ (3,975
Plus: activation costs	2,424	747	1,677
Plus: cost of equipment	20,458	15,271	5,187
Less: costs for existing subscribers	(7,215)	(1,396)	(5,819
Less: equipment revenue	(9,341)	(8,199)	(1,142
Total acquisition costs	$ 43,257	$ 47,329	$ (4,072
Gross additions	115,565	137,543	(21,978
CPGA	$ 374	$ 344	$ 30

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

	For the Nine Months Ended J		
	2004	2003	Increas (Decreas
Loss from continuing operations	$ (18,811)	$ (34,372)	$ 15,561

Depreciation and amortization of property and equipment	35,674	34,832	842
Interest income	(510)	(63)	(447
Interest expense	28,857	31,161	(2,304
EBITDA	$ 45,210	$ 31,558	$ 13,652

Subscriber Gross Additions

Subscriber gross additions decreased for the nine months ended June 30, 2004 compared to the same period in 2003. This decrease is due to the loss of distribution from closed retail stores and Sprint's loss of certain national third-party distribution channels.

Subscriber Net Additions

Subscriber net additions decreased for the nine months ended June 30, 2004, compared to the same period in 2003. This decrease is due to the reduction in subscriber gross additions, partially offset by the improved subscriber churn rate.

Churn

Churn improved for the nine months ended June 30, 2004, compared to the same period for 2003. The Company has focused on improving the credit quality of the subscriber base. We believe this improvement in credit quality may have resulted in the reduction in churn for the nine months ended June 30, 2004 compared to the same period in 2003.

Average Revenue Per User

ARPU decreased for the nine months ended June 30, 2004 compared to the same period for 2003 primarily as a result of a reduction in revenue from customers using minutes in excess of their subscriber usage plans and higher customer credits, offset by an increase in subscriber monthly recurring charges and higher data revenues.

Cost per Gross Addition

CPGA increased for the nine months ended June 30, 2004 compared to the same period in 2003. The increase reflects increased costs for handset sales incentives and rebates, partially offset by lower marketing and selling expenses that were spread over a lower number of gross additions.

EBITDA

EBITDA for the nine months ended June 30, 2004 increased from the same period in 2003. This increase is a result of an increase in revenues and decrease in cost of services and roaming, decreased selling and marketing expense and an increase in general and administrative expenses. The decrease in cost of service included special Sprint settlements of $1.2 million recorded for the change in certain customer bad debt profiles and $1.2 million resulting from Sprint's decision to discontinue their billing system conversion. General and administrative expenses included higher costs as a result of $3.1 million in debt restructuring costs.

Liquidity and Capital Resources

As of June 30, 2004, the Company had $62.0 million in cash and cash equivalents

compared to $54.1 million in cash and cash equivalents at September 30, 2003. The Company's working capital for June 30, 2004 was $9.3 million, compared to working capital of $12.5 million at September 30, 2003. The increase in the Company's cash position of $7.9 million is attributable to the following (dollars in thousands):

	For the Nine Months E		
	2004	2003	
	(Dollars in thousands)		
Cash provided by operating activities	$ 42,314	$ 29,737	
Cash used in investing activities	(11,803)	(10,369)	
Cash (used in) provided by financing activities	(22,627)	6,538	
Net increase (decrease)	$ 7,884	$ 25,906	

Net Cash Provided By Operating Activities

The $42.3 million of cash provided by operating activities for the nine months ended June 30, 2004 was the result of the Company's $165.3 million net income offset by non-cash items including gain on discontinued operations, depreciation, amortization of note discounts, financing costs, provision for doubtful accounts, non-cash stock compensation and loss (gain) on disposal of property and equipment totaling $132.5 million and an increase in other operating assets and liabilities of $9.5 million. The $29.7 million of cash provided by operating activities for the nine months ended June 30, 2003 was the result of the Company's $76.9 million net loss offset by non-cash items including loss on discontinued operations, depreciation, amortization of note discounts, financing costs, provision for doubtful accounts and non-cash stock option compensation, loss (gain) on disposal of property and equipment totaling $107.4 million and offset by a decrease in other operating assets and liabilities of $0.8 million.

Net Cash Used in Investing Activities

The $11.8 million of cash used in investing activities for the nine months ended June 30, 2004 represents purchases of property and equipment related to expansion of switch capacity and improvements in service quality. For the nine months ended June 30, 2003, cash used in investing activities was $10.4 million for purchases of property and equipment related to expansion of switch capacity and improvements in service quality.

Net Cash (Used In)Provided by Financing Activities

The $22.6 million in cash used in financing activities during the nine months ended June 30, 2004, consisted of $17.0 million for principal payments associated with the credit facility and $4.8 million in debt restructuring costs which were capitalized as part of paid in capital, and $0.8 million in fees capitalized related to amending the credit facility. The $6.5 million of cash

provided by financing activities during the nine months ended June 30, 2003 consisted of $8.0 million borrowed under the credit facility, offset by $1.5 million of principal payments associated with the credit facility.

Liquidity

We have principally relied on the proceeds from equity and debt financings and cash provided from operations as our primary sources of capital. During fiscal year 2003, we generated approximately $42.5 million of cash flow from operating activities. In the nine months ended June 30, 2004, we generated approximately $42.3 million of cash flow from operating activities.

As of June 30, 2004, the Company had working capital of $9.6 million and cash and cash equivalents of $62.0 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. The Company believes that the cash on hand plus the additional liquidity that it expects to generate from operations will be sufficient to fund expected capital expenditures and to cover its working capital and debt service requirements for at least the next 12 months.

Completion of our PCS network has required substantial capital. Since inception through fiscal 2003 we had incurred over $300.0 million for capital expenditures. For the nine months ended June 30, 2004 we have incurred $11.8 million of capital expenditures. Although we have essentially completed our network coverage build-out, our business will likely require additional capital expenditures primarily for capacity enhancements and coverage improvements.

While management does not currently anticipate the need to raise additional capital to meet our operating and capital expenditure requirements in the foreseeable future, our funding status is dependent on a number of factors influencing projections of operating cash flows, including those related to gross new subscriber additions, subscriber turnover, revenues, marketing cost, bad debt expense and roaming and revenue. Further, management believes our financial position over the next twelve months will be sufficient to meet the cash requirements of the business including capital expenditures, operations losses, cash interest and working capital needs. Should actual results differ significantly from our current assumptions, our liquidity position could be

adversely affected and we could be in a position that would require us to raise additional capital, which may not be available to us or may not be available on acceptable terms.

Further, if we fail to satisfy the financial covenants and other requirements contained in our credit facility and the indentures governing our outstanding notes, our debts could become immediately payable at a time when we are unable to pay them, without additional capital.

During the quarter ended March 31, 2004, pursuant to the Recapitalization Plan, the Company exchanged 99.4% of the 13.5% Old Notes maturing in 2009 with 9 3/8% New Notes maturing in 2009 and issuance of 6,568,706 shares of common stock, representing 56% of the shares of common stock issued and outstanding immediately after the Recapitalization Plan. As a result, after 2004, the financial restructuring is estimated to provide cumulative cash savings of $255 million through 2009, by reducing our principal payment by $139.2 million and annual cash interest payment by $25.5 million per year after 2004.

Over time, Sprint has increased fees charged to the Company and other network

partners and has added fees that were not anticipated when the agreements with Sprint were entered into. Sprint also sought to collect money from us that we believe is not authorized under the agreements. In addition, Sprint has imposed additional programs, requirements and conditions that have adversely affected our financial performance. If these increases, additional charges and changes continue, our operating results, liquidity and capital resources could be adversely affected. As of June 30, 2004, we have disputed approximately $15.0 million in invoiced charges and $2.7 million claimed by Sprint but not invoiced for such increases and additional charges, which have not been fully resolved. While we believe that we have adequately reserved for these disputed amounts, if they are resolved in favor of Sprint and against the Company, the payment of this amount of money could adversely affect our liquidity and capital resources. The resolution of all disputes in favor of Sprint and payment of disputed amounts would reduce our cash position by approximately $17.7 million.

Capital Resources

As of June 30, 2004, the Company had $62.0 million of cash and cash equivalents. The Company has no further borrowing available under the credit facility.

Future Trends That May Affect Operating Results, Liquidity and Capital Resources

During 2003, we experienced overall declining net subscriber growth compared to previous periods. This decline is attributable to increased competition and slowing aggregate subscriber growth in the wireless telecommunications industry. Although we have experienced improvements in subscriber growth during the past two quarters of fiscal 2004, we may continue to experience net losses as the cost to acquire subscribers is significant. If the trend of slowing net subscriber growth does not improve, we believe it will lengthen the amount of time it will take for us to reach a sufficient number of subscribers needed to offset the costs of acquisition. It is not yet clear what effect the FCC's WLNP mandate will have on subscriber growth, although we believe that it should lead to some increase in net subscriber additions as it makes switching service providers easier for subscribers but may also lead to increased competition among service providers.

Our average monthly churn for the third fiscal quarter of 2004 was 2.55% compared to 2.90% for 2003. We expect that in the near term churn may increase as a result of the implementation of the FCC's WLNP mandate in all of our markets during the third fiscal quarter of 2004. Through the third fiscal quarter of 2004, we have not experienced a material impact to churn related to WLNP with respect to the markets in which we operate that became subject to the mandate in November 2003. The remainder of our markets were subject to the mandate beginning in May 2004. If average monthly churn increases over the long-term, we would lose the cash flows attributable to those customers and have greater than projected losses.

We may incur significant handset subsidy costs for existing customers who upgrade to a new handset. As our customer base matures and technological advances in our services take place, we believe more existing customers will begin to upgrade to new handsets to take advantage of these services. We have limited historical experience regarding the rate at which existing customers upgrade their handsets and if more customers upgrade than we are currently anticipating, it could have a material adverse impact on our earnings and cash flows.

For the quarter ended June 30, 2004, we had income for continuing operations of $2.2 million, or $0.18 per share for the first time in the Company's history, primarily as a result of lower interest expense, higher net roaming revenue, and lower bad debt expense. Each of these items is discussed below:

- Interest expense was lower as a result of a reduction in the outstanding

balance of our notes and a lower interest rate. We expect that we will continue to see the benefits of lower interest expense on the notes resulting from our Recapitalization Plan.

- o Higher net roaming revenue is largely attributable to higher inbound travel volume. Net roaming revenue can be affected by industry trends, seasonality, and rates.
- o Throughout fiscal year 2004, the Company has experienced lower subscriber write-off experience; however, we are continually monitoring the effects of changes in our credit policy for certain subscribers and are not certain what effect, if any, the changes will have on our bad debt expense.
- o Additionally, during the quarter ended June 30, 2004 we did not receive or pay any significant special Sprint Settlements.

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For the quarter ended June 30, 2004, we had cash and cash equivalents of $62.0 million. On July 1, 2004 we made our first interest payment of $7.5 million on the New Notes.

Contractual Obligations

The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to the credit facility, the Old Notes, the New Notes and non-cancelable operating lease agreements for office space, cell sites, vehicles and office equipment. Expected future minimum contractual cash obligations for the next five years and in the aggregate at September 30, 2003, giving effect to changes made as a result of the Recapitalization Plan, are as follows (dollars in thousands):

	Payments Due By Period for Years Ending Septem				
	Total	2004	2005	2006	2007
Credit facility, principal (1)	$ 151,475	$ 20,275	$ 21,200	$ 30,107	$ 39,893
Credit facility, interest (2)	24,188	7,460	6,779	5,327	3,430
Old Notes, principal	1,795	-	-	-	-
Old Notes, interest (3)	1,212	-	242	242	242
New Notes, principal	159,035	-	-	-	-
New Notes, interest (4)	84,487	7,455	14,909	14,909	14,909
Operating leases (5)	60,262	18,899	14,396	9,485	6,632
	$ 482,454	$ 54,089	$ 57,526	$ 60,070	$ 65,106

(1) Total repayments are based upon borrowings outstanding as of September 30, 2003.

(2) Interest rate is assumed to be 5.5%. As of June 30, 2004, the weighted-average interest rate on the credit facility was 5.02%. Due to a $10.0 million pre-payment made on February 20, 2004, offset by subsequent credits, projected interest decreased approximately $0.5 million in FY 2004.

(3) Stated interest rate on Old Notes is 13.5% with payments starting in 2005.

(4) Stated interest rate on New Notes is 9.375% with payments starting in July 2004.
(5) Operating leases do not include payments due under renewals to the original lease term.

On August 16, 1999, the Company entered into a $153.5 million senior credit facility. The credit facility which was amended on November 30, 2003, provides for (i) a $13.5 million senior secured term loan ("Tranche I Term Loan") which matures on June 6, 2007 and (ii) a $140.0 million senior secured term loan ("Tranche II Term Loan") which matures on September 30, 2008. Under the credit facility, the Company makes quarterly payments which began on December 31, 2002 for the Tranche I Term Loan and March 31, 2004 for the Tranche II Term Loan. The quarterly payments are predetermined based upon a percentage of the aggregate balance and consist of (i) eight payments of 3.75%, (ii) four payments of 5.0%, (iii) six payments of 7.143% and (iv) a final payment of 7.142%. No amounts remain available for borrowing under the credit facility. The credit facility is secured by all the assets of the Company and its restricted subsidiaries. The interest rate for the credit facility is determined on a margin above either the prime lending rate in the United States or the London Interbank Offer Rate.

The credit facility contains ongoing financial covenants, including reaching covered population targets, maximum annual spending on capital expenditures, attaining minimum subscriber revenues, and maintaining certain leverage and other ratios such as debt to total capitalization, debt to EBITDA (as defined in the credit facility agreement, "Bank EBITDA") and Bank EBITDA to fixed charges. The credit facility restricts the ability of the Company and its restricted subsidiaries to: create liens; incur indebtedness; make certain payments, including payments of dividends and distributions in respect of capital stock; consolidate, merge and sell assets and engage in certain transactions with affiliates. As of June 30, 2004, the Company was in compliance in all material respects with covenants contained in the credit facility.

On February 20, 2004, the Company issued approximately $159.0 million in aggregate principal amount of new senior subordinated secured notes that mature on September 1, 2009 in exchange for Old Notes in an aggregate principal amount of $298.5 million. The New Notes bear interest at the rate of 9 3/8% per year, accruing from January 1, 2004, which is payable each January 1 and July 1, beginning on July 1, 2004. The Company may redeem some or all of the New Notes at any time on or after January 1, 2006 at specified redemption prices.

The New Notes are subordinated to up to $175.0 million of the Company's senior debt under its credit facility and are fully and unconditionally guaranteed on a senior subordinated basis by the Company's subsidiaries that guarantee the Company's obligations under the credit facility. In addition, the New Notes are secured by a second-priority lien, subject to certain exceptions and permitted liens, on all the collateral that secures the Company's and its guarantor subsidiaries' obligations under the Company's credit facility. If the Company undergoes a change of control (as defined in the indenture that governs the New Notes), then it must make an offer to repurchase the New Notes at 101% of the principal amount of the notes then outstanding.

The New Notes contain covenants, subject to certain exceptions, that prohibit the Company's ability to, among other things, incur more debt; create liens; repurchase stock and make certain investments; pay dividends, make loans or transfer property or assets; enter into sale and leaseback transactions, transfer or dispose of substantially all of the Company's assets; or engage in transactions with affiliates. Some exceptions to the restrictions on the Company's ability to incur more debt include: up to $175 million of indebtedness under the Company's credit facility; up to $5 million of capital lease

obligations; and up to $50 million of additional general indebtedness. As of June 30, 2004, the Company was in compliance in all material respects with covenants contained in the note indenture.

The Company has no off-balance sheet arrangements and has not entered into any transactions involving unconsolidated, limited purpose variable interest entities or commodity contracts.

As of June 30, 2004, two major credit rating agencies rate the Company's unsecured debt. The ratings were as follows:

Type of facility	S&P	Moody's
New Notes	CCC-	Caa1
Credit Facility	CCC+	B2

Related Party Transactions

See Note 3 to the condensed consolidated financial statements for a description of transactions with Sprint.

Item 3. Quantitative And Qualitative Disclosure About Market Risk

In the normal course of business, the Company's operations are exposed to interest rate risk on its credit facilities and any future financing requirements. The Company's fixed rate debt consists primarily of the carrying value of the New Notes ($135.9 million including discounts of $23.2 million at June 30, 2004) and the remaining accreted carrying value of the Old Notes ($1.7 million at June 30, 2004). The Company's variable rate debt consists of borrowings made under the credit facility ($134.5 million outstanding at June 30, 2004). As of June 30, 2004, the weighted average interest rate under the credit facility was 5.02%. Our primary interest rate risk exposures relate to (i) the interest rate on long-term borrowings; (ii) our ability to refinance the New Notes at maturity at market rates; and (iii) the impact of interest rate movements on our ability to meet interest expense requirements and financial covenants under our debt instruments.

The following table presents the estimated future balances of outstanding long-term debt projected at the end of each period and future required annual principal payments for each period then ended associated with the New Notes, Old Notes (net of original issue discount) and credit facility based on projected levels of long-term indebtedness (dollars in thousands):

	Years Ending September 30,				
	2004	2005	2006	2007	2008
New Notes	$ 159,035	$ 159,035	$ 159,035	$ 159,035	$ 159,0
Fixed interest rate	9.375%	9.375%	9.375%	9.375%	9.37
Principal payments	$ -	$ -	$ -	$ -	$ -
Credit facility	$ 131,200	$ 110,000	$ 79,893	$ 40,000	$ -
Variable interest rate (1)	5.5%	5.5%	5.5%	5.5%	5.
Principal payments	$ 20,275	$ 21,200	$ 30,107	$ 39,893	$ 40,00
Old Notes	$ 1,778	$ 1,779	$ 1,781	$ 1,784	$ 1,788
Fixed interest rate	13.5%	13.5%	13.5%	13.5%	13.

Principal payments	$ -	$ -	$ -	$ -	$ -

(1) The interest rate on the credit facility equals the London Interbank Offered Rate ("LIBOR") +3.75%. LIBOR is assumed to equal 1.75% for all periods presented. A 1% increase (decrease) in the variable interest rate would result in a $0.8 million increase (decrease) in the related interest expense on an average annual basis (based upon borrowings outstanding as of June 30, 2004).

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, June 30, 2004 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

Although the Company acknowledges its responsibility for all of its internal controls, because of our reliance on Sprint for financial information, we depend on Sprint to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint's other network partners. As part of this control process, Sprint engages its service auditors to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Reporting and Financial Settlement Process" under guidance provided in Statement of Auditing Standards No. 70 ("Type II SAS 70 reports"). The Type II SAS 70 report is provided to us semi-annually and covers our entire fiscal year.

In addition, at least annually, we review the prior year's Type II SAS 70 report in light of events that have occurred during the year. We also provide comments to Sprint and its service auditors regarding issues and information we believe the report should address.

As was reported in our Form 10-K for our fiscal year ended September 30, 2003 and our Form 10-Q for our fiscal quarter ended December 31, 2003, we determined during fiscal 2002, that we had a reportable condition in our internal controls related to an accounts receivable issue with Sprint. We and our independent auditors believed that the accounts receivable issue resulted from a reportable condition in our internal controls as they related to information we received from Sprint and our ability to verify that information. The Company relies on Sprint for financial information, including information relating to our revenues and accounts receivable, which underlies a substantial portion of our periodic financial statements and other financial disclosure.

Notwithstanding this reportable condition, we concluded that our disclosure controls and procedures were effective as of September 30, 2002.

As previously disclosed, the reportable condition continued during our fiscal year ended September 30, 2003 because most of the procedures implemented to address the condition were not in place until the end of the fiscal year. However, we reported in our Form 10-K for the 2003 fiscal year that, as a result of the improved processes and procedures designed to address the reportable condition, the Company believed no reportable condition existed by the end of fiscal year September 30, 2003, but our independent auditors have not made that finding. During fiscal 2004, we have continued to perform the enhanced internal controls procedures adopted to address this reportable condition.

To avoid this reportable condition in the future, the Company will need to continue the processes we have implemented as previously disclosed in prior filings and continue to obtain or perform the following:

- Obtain from Sprint access to a detailed listing of subscriber receivables at the account level on a quarterly basis and validate its integrity. Sprint provided this same level of detail at September 30, 2003 and each quarter ended to date during fiscal 2004, and the Company validated the report's integrity at each date. Subsequent to February 29, 2004, Sprint provided the detailed listing of subscriber receivables at the account level on a monthly basis.

- Perform a full reconciliation of the subscriber receivables detail to the general ledger balance, including a complete understanding of all reconciling items. At September 30, 2003, and during the nine months ended June 30, 2004, the Company performed a full reconciliation of the subscriber receivables detail on a monthly basis.

- Perform a rollforward of the accounts receivable information to be provided by Sprint and compare these amounts to our general ledger accounts. At September 30, 2003, and during the nine months ended June 30, 2004, the Company

performed a rollforward of the accounts receivable information provided by Sprint on a monthly basis and reconciled it to the Company's accounts receivable general ledger accounts.

In preparation for the requirements imposed under Section 404 of the Sarbanes Oxley Act of 2002, we retained an outside accounting firm to assist us in documenting processes, identifying gaps and improving our internal control processes, including our processes to verify data provided by Sprint. Beginning January 2004, the outside accounting firm we retained began documenting processes and identifying gaps in our internal controls with the Company's management. During the quarter ended June 30, 2004, there were no changes to internal control over financial reporting that have had, or are reasonably likely to have, a material effect on our internal control over financial reporting.

In light of the additional procedures adopted as described above and in our prior periodic filings, we believe that the improvements made to our system of internal control over financial reporting were appropriate and responsive to the internal control over financial reporting reportable condition identified at September 30, 2002 and 2003. We have continued to monitor the operation of our improved internal control over financial reporting with respect to our Sprint relationship, and have concluded that, as of June 30, 2004, our disclosure controls and procedures were effective.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 4 to the condensed consolidated financial statements in this document.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1) Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification

2) Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification

3) Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350

4) Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K

The following Current Reports on Form 8-K were filed by the Company during the quarter ended June 30, 2004:

On April 8, 2004, AirGate filed a Current Report on Form 8-K under items 7,9 and 12 relating to a slide presentation made to investors on April 8, 2004.

On April 9, 2004, AirGate filed a Current Report on Form 8-K under items 5 and 7 relating to a press release announcing the appointment of three new independent directors and the reelection of one director.

On April 13, 2004, AirGate filed a Current Report on Form 8-K under items 7 and 12 relating to a press release announcing certain preliminary operating results for the second quarter of fiscal 2004.

On April 13, 2004, AirGate filed a Current Report on Form 8-K under items 5 and 7 relating to a press release announcing the resignation of Barbara L. Blackford as its vice president, general counsel and corporate secretary to become general counsel to Superior Essex Inc.

On May 13, 2004, AirGate filed a Current Report on Form 8-K under items 5 and 7 relating to a press release announcing its financial and operating results for

the second quarter of fiscal 2004.

On May 13, 2004, AirGate filed a Current Report on Form 8-K under items 7 and 12 relating to the script of the conference call it held on May 13, 2004 to discuss the financial and operating results for the second quarter of fiscal 2004.

On May 18, 2004, AirGate filed a Current Report on Form 8-K under items 7,9 and 12 relating to a slide presentation made to investors on May 18, 2004.

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 officer thereunto duly authorized.

AIRGATE PCS, INC.

By:/s/ William J. Loughman
William J. Loughman
Title: Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Chief Accounting Officer)

Date: August 13, 2004