

AIRGATE PCS INC /DE/
Form 10-Q
May 14, 2001
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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001.

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

COMMISSION FILE NUMBER: 027455

AirGate PCS, Inc.

(Exact name of registrant as
specified in its charter)

DELAWARE

58-2422929

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

Harris Tower, 233 Peachtree St. NE, Suite 1700,
Atlanta, Georgia

30303

(ADDRESS OF PRINCIPAL
EXECUTIVE OFFICES)

(ZIP CODE)

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

Indicate by a 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

No

13,166,681 shares of Common Stock, \$0.01 par value per share, were outstanding as of May 10, 2001.

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AIRGATE PCS, INC.

SECOND QUARTER REPORT

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PART I. FINANCIAL INFORMATION
Item I FINANCIAL STATEMENTS

AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except share and per share amounts)

March 31,	September
2001	30,
	2000

Assets

Current assets:

Cash and cash equivalents	\$39,877,384
Trade receivables, net	22,397,696
Inventories	1,772,902
Prepaid expenses	4,392,106
Other current assets	4,492,227

Total current assets

72,893,315

Property and equipment, net
192,903,581

Financing costs
8,609,098

Other assets
626,954

\$275,031,948

**Liabilities and Stockholders
Equity (Deficit)**

Current liabilities:

Accounts payable	\$10,856,009
Accrued expenses	14,917,548
Payable to Sprint PCS	14,549,292
Deferred revenue	7,441,828

Total current liabilities

47,769,677

Deferred revenue
244,671

Long-term debt
235,387,727

Total liabilities

283,400,075

Stockholders' equity (deficit):

Preferred stock, par value,
\$.01 per share;
5,000,000 shares authorized;
no shares issued and

outstanding

Common stock, par value,
\$.01 per share;
150,000,000 shares
authorized; 13,087,381 and
12,816,783 shares issued and
outstanding at March 31,
2001 and September 30,
2000, respectively

131128

Additional paid-in capital
164,639161,575

Accumulated deficit
(170,812)(108,577)

Unearned stock option
compensation
(2,327)(3,253)

Total stockholders equity
(deficit)
(8,369)49,873

Commitments and
contingencies

\$275,031\$268,948

See accompanying notes to consolidated financial statements

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AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(dollars in thousands, except share and per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2001	2000	2001	2000
Revenues:				
Service revenue	\$21,541	\$460	\$33,825	\$460
Roaming revenue				

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	10,997,816,183,859,46
Equipment revenue	2,675,304,965,304

Total revenues	35,213,580,571,751,710
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Operating expenses:	
Cost of service and roaming	(24,632)(5,509)(40,545)(8,427)
Cost of equipment	(4,592)(1,093)(9,664)(1,093)
Selling and marketing	(16,061)(3,419)(32,739)(4,552)
General and administrative	(3,572)(3,189)(8,281)(4,677)
Noncash stock option compensation	(594)(309)(926)(713)
Depreciation and amortization	(7,100)(2,042)(13,762)(2,560)

Operating loss	(21,338)(13,981)(48,742)(20,312)
Interest income	724,722,013,192
Interest expense	(7,758)(5,845)(15,506)(12,812)

Net loss	\$(28,372)\$(17,104)\$(62,235)\$(26,932)
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Basic and diluted net loss per share of common stock	\$(2.18)\$(1.40)\$(4.82)\$(2.23)
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Weighted-average outstanding common shares	13,008,461,12,237,483,12,920,925,12,101,507
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See accompanying notes to consolidated financial statements

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AIRGATE PCS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(dollars in thousands)

	Six Months Ended March 31,	
	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net loss		
	\$(62,235)	\$(26,932)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	13,762	13,560
Amortization of financing costs	605	591
Provision for doubtful accounts	2,922	224
Interest expense associated with accretion of discount and beneficial conversion feature	12,660	11,155
Stock option compensation	926	713
(Increase) decrease in:		
Trade receivables	(16,623)	(674)
Inventories	1,125	(736)
Prepaid expenses	(2,287)	(2,124)
Other assets	(827)	(473)
Increase (decrease) in:		
Accounts payable	3,625	10,540
Accrued expenses	6,723	7,284
Payable to Sprint PCS		

	9,257
Deferred revenue	5,192
<hr/>	
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Net cash (used in) provided by operating activities	(25,175)1,928
Cash flows from investing activities:	
Capital expenditures	(37,988)(105,631)
Acquisition of assets	(411)
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Net cash used in investing activities	(38,399)(105,631)
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Cash flows from financing activities:	
Proceeds from Senior Credit Facility	42,000
Payment on notes payable to Sprint PCS	(7,700)
Proceeds from exercise of stock purchase warrants	4
Exercise of stock options	3,067
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Net cash provided by (used in) financing activities	45,067(7,696)
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Net decrease in cash and cash equivalents	(18,507)(111,399)
Cash and cash equivalents at beginning of period	58,384258,900
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Cash and cash equivalents at end of period	\$39,877\$147,501
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Supplemental disclosure of cash flow information - cash paid for interest	\$2,930\$1,929

Supplemental disclosure of noncash investing and financing activities:	
Capitalized interest	\$1,417\$3,618
Grant of compensatory stock options	2,231
Notes payable and accrued interest converted to equity	102

See accompanying notes to consolidated financial statements

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AIRGATE PCS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001
(unaudited)

(1) Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared by management. The consolidated financial statements included herein include the accounts of AirGate PCS, Inc. and its wholly-owned subsidiaries, AGW Leasing Company, Inc. (AGW) and AirGate Network Services, LLC (ANS), for all periods presented. In the opinion of management, these consolidated financial statements contain all of the adjustments, consisting of normal recurring adjustments, necessary to present fairly, in summarized form, the financial position and the results of operations of AirGate PCS, Inc. and subsidiaries (collectively AirGate or the Company). The results of operations for the three and six months ended March 31, 2001 are not indicative of the results that may be expected for the full fiscal year of 2001. The financial information presented herein should be read in conjunction with the Company s Form 10-K for the year ended September 30, 2000 which includes information and disclosures not included herein. All significant intercompany accounts or balances have been eliminated in consolidation. Certain amounts have been reclassified to conform to the current year presentation.

(2) Net Loss Per Share

The Company computes net loss per common share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 Earnings per Share. Basic and diluted net loss per share of common stock is computed by dividing net loss for each period by the weighted-average outstanding common shares. No conversion of common stock equivalents has been assumed in the calculations since the effect would be antidilutive. As a result, the number of weighted-average outstanding common shares as well as the amount of net loss per share are the same for both the basic and diluted net loss per share calculations for all periods presented.

The reconciliation of weighted-average outstanding common shares to weighted-average outstanding shares including potentially dilutive common stock equivalents is set forth below:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2001	2000	2001	2000
Weighted-average outstanding common shares	13,008,461	12,237,483	12,920,925	12,101,507
Weighted-average potentially dilutive common stock equivalents:				
Common stock options	540,124	992,268	497,173	875,995
Stock purchase warrants	93,895	517,891	93,342	496,668
Weighted-average outstanding shares including potentially dilutive common stock equivalents	13,642,480	13,747,642	13,511,440	13,474,170

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(3) Revenue Recognition and Customer Activation Cost

The accounting policy for the recognition of activation fee revenue is to record the revenue over the periods such revenue is earned in accordance with the current interpretations of Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. Accordingly, activation fee revenue and direct customer activation costs have been deferred and are recorded either: over the average life for those customers (30 months) that do not commit to a fixed service term or the contractual service term (generally 12 months) for those customers that do commit to a fixed service term. For the three months ended March 31, 2001, the Company has recognized approximately \$0.6 million of activation fee revenue and \$0.5 million of direct customer activation costs. For the six months ended March 31, 2001, the Company recognized approximately \$0.8 million of activation fee revenue and \$0.6 million of direct customer activation costs and as of March 31, 2001, the Company has deferred \$3.5 million of activation fee revenue and \$3.0 million of direct customer activation costs to future periods.

(4) Trade Receivables, net

Trade receivables, net, including \$6.8 million due from Sprint PCS, relates to roaming revenues, amounts from customers with respect to airtime service charges and amounts from local third party resellers relating to the sale of handsets and accessories. For the three months ended March 31, 2001, roaming revenues from

Sprint PCS totaled \$11.0 million, or 31% of total revenues. For the six months ended March 31, 2001, roaming revenues from Sprint PCS totaled \$18.4 million.

The Company records an allowance for doubtful accounts to reflect the expected loss on the collection of receivables. Such allowance is recorded for accounts receivables from customers and third party vendors and totaled \$3.5 million at March 31, 2001 compared to \$0.6 million at September 30, 2000.

(5) Other Current Assets

Other current assets consist of the following at March 31, 2001 and September 30, 2000 (dollars in thousands):

	March 31, 2001	September 30, 2000
Current portion of financing costs	\$ 1,215	\$ 1,215
Direct customer activation costs		
2,835,627		
Interest receivable and other		
399,385		
Other current assets		
\$4,449,227		

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(6) Property and Equipment

Property and equipment consist of the following at March 31, 2001 and September 30, 2000 (dollars in thousands):

	March 31, 2001	September 30, 2000
Network assets	\$ 179,749	\$ 158,720
Computer equipment		
3,239,081		
Furniture, leasehold improvement, and office equipment		
8,836,800		
191,824,601		
Less accumulated depreciation and amortization		

(26,765)(13,005)

165,059 155,596
 Construction in progress
 (network build-out)
 27,844 27,985

Property and equipment, net
 \$192,903 \$183,581

(7) Payable to Sprint PCS

The payable to Sprint PCS consists of amounts owed to Sprint PCS related to purchases of handsets and accessories, services provided including customer care and customer billing, equipment subsidies payable to third party national retailers and the 8% affiliation fee. At March 31, 2001, the amount payable to Sprint PCS totaled \$14.5 million.

(8) Long-Term Debt

Long-term debt consists of the following at March 31, 2001 and September 30, 2000 (dollars in thousands):

	March 31, 2001	September 30, 2000
Senior Credit Facility:		
Gross borrowings	\$55,500	\$13,500
Unaccreted original issue discount	(673)	(772)
Net Senior Credit Facility	54,827	12,728
Senior Subordinated Discount Notes:		
Outstanding borrowings	189,866	177,852
Unaccreted original issue discount	(9,306)	(9,853)
Net Senior Subordinated Discount Notes	180,560	167,999
Long-term debt	\$235,387	\$180,727

(9) Common Stock Purchase Warrants

(a) Senior Credit Facility

On June 1, 2000, the Company issued stock purchase warrants to Lucent Technologies in consideration of the Senior Credit Facility (see Subsequent Events 12(a)). The exercise price of the warrants equals \$20.40 per share, and the warrants are exercisable for an aggregate of 10,175 shares of the Company's common stock at any time. The warrants expire on the earlier of August 15, 2004 or August 15, 2001, if, as of such date, the Company has paid in full all outstanding amounts under the Senior Credit Facility and

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has terminated the remaining unused portion of the commitments. The Company recorded a discount on the associated credit facility of \$0.3 million which represents the fair value of the warrants on the date of grant using the Black-Scholes option pricing model. The discount is recognized as interest expense over the period from the date of issuance to maturity using the effective interest method. All of these warrants remain outstanding at March 31, 2001.

(b) Senior Subordinated Discount Notes

On January 3, 2000, the Company's registration statement on Form S-1, relating to warrants to purchase 644,400 shares of common stock issued together, as units, with the Company's \$300 million of 13.5% senior subordinated discount notes due 2009, was declared effective by the Securities and Exchange Commission. On September 30, 1999, the Company received gross proceeds of \$156.1 million from the issuance of 300,000 units, each unit consisting of a \$1,000 principal amount at maturity 13.5% senior subordinated discount note due 2009 and one warrant to purchase 2.148 shares of common stock at a price of \$0.01 per share. The warrants were exercisable beginning upon the effective date of the registration statement registering such warrants, for an aggregate of 644,400 shares of common stock. The warrants expire October 1, 2009. As of March 31, 2001, warrants representing 555,843 shares of common stock had been exercised, and warrants representing 88,557 shares of common stock remain outstanding. On February 14, 2001, the registration statement on Form S-1 expired. On March 23, 2001, the Company's registration statement on Form S-3, file number 333-56928, relating to warrants to purchase the outstanding 88,557 shares of common stock was declared effective by the Securities and Exchange Commission.

(10) Acquisition of Assets

On February 28, 2001, certain operating assets and intangibles were acquired to convert one of the Company's resellers into Company owned retail outlets. The Company paid a total purchase price of approximately \$0.4 million, representing \$0.3 million of operating equipment and leasehold improvements for eight retail stores and two mall kiosks and \$0.1 million assigned to a two year non-compete agreement. The non-compete agreement will be amortized over the contractual period.

(11) Condensed Consolidated Financial Information

AGW Leasing Company, Inc. (AGW) and AirGate Network Services LLC (ANS) are wholly-owned subsidiaries of AirGate PCS, Inc. Both AGW and ANS have jointly, fully and unconditionally guaranteed the Company's senior subordinated discount notes and Senior Credit Facility. AGW was formed to hold the real estate interests for the Company's PCS network. ANS was formed to provide construction management services for the Company's PCS network.

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	AirGate PCS, Inc.	AGW Leasing Company, Inc.	AirGate Network Services, LLC	Eliminations	Consolidated
Cash and cash equivalents	\$39,877	\$	\$	\$	\$39,877
Trade receivables and other current assets					33,016 33,016
Property and equipment, net	145,629	47,274			192,903
Other assets	73,530	(64,295)			9,235
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Total assets	\$292,052	\$ 47,274	(64,295)		\$275,031
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Current liabilities					46,345 14,591 151,128 (64,295) \$47,769
Long-term deferred revenue					244 244
Long-term debt		235,387			235,387
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Total liabilities					281,976 14,591 151,128 (64,295) 283,400
Common stock					131 131
Additional paid-in capital		164,639			164,639
Accumulated deficit		(152,367)	(14,591)	(3,854)	(170,812)
Unearned stock option compensation		(2,327)			(2,327)

Total liabilities and stockholders' equity(deficit)
 \$292,052 \$ 47,274 \$(64,295) \$275,031

Total revenues
 57,175 \$ \$ 57,175

Total expenses
 (115,549)(3,458)(403) (119,410)

Net loss
 \$(58,374)\$(3,458)\$(403)\$ \$(62,235)

Operating activities, net
 (28,447) 3,272 (25,175)

Investing activities, net
 (35,379) (3,020) (38,399)

Financing activities, net
 45,067 45,067

(Decrease) increase in cash and cash equivalents
 (18,759) 252 (18,507)

Cash and cash equivalents at beginning of period
 58,636 (252)