PRICE COMMUNICATIONS CORP
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

|X| 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

For the transition period from to

Commission file number
1-8309

PRICE COMMUNICATIONS CORPORATION
(Exact Name of Registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-2991700 (I.R.S. Employer Identification No.)
45 Rockefeller Plaza, New York, New York (Address of principal executive offices)	10020 (Zip Code)

Registrant's telephone number (212) 757-5600

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange
Associated Common Stock Rights Under Rights Plan	Boston Stock Exchange
	Chicago Stock Exchange
	Pacific Stock Exchange

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

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 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 |_|

The number of shares outstanding of the issuer's common stock as of May 3, 2001 was 55,121,939.

==

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

INDEX

Item 1. Financial Statements

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
($ in thousands)

	(Unaudited) March 31, 2001	(Audi Decemb 20
Assets		
Current assets:		
Cash and cash equivalents	$ 200,658	$ 18
Trade accounts receivable, net of allowance for doubtful accounts	27,320	3
Receivable from other cellular carriers	4,600	
Available for sale securities	21,100	2
Inventory	4,680	
Deferred income taxes	2,550	
Prepaid expenses and other current assets	5,568	
Total current assets	266,476	25
Net property and equipment	144,333	14
Equity investment in other cellular properties	11,810	1
Licenses, net of amortization	826,790	83
Other intangible and other assets, net of amortization	18,249	1
	$1,267,658	$1,26
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 7,064	$
Accrued interest payable	18,196	1
Accrued salaries and employee benefits	1,346	
Deferred revenue	9,802	
Outstanding put option contracts	4,903	
Income taxes payable	8,692	
Customer deposits	1,200	
Other current liabilities	8,986	
Total current liabilities	60,189	5
Long-term debt	700,000	70
Accrued income taxes - long term	53,165	5
Deferred income taxes	282,890	28
Minority interests	5,580	
Total liabilities	1,101,824	1,09
Commitments and contingencies		
Shareholders' equity	165,834	17
	$1,267,658	$1,26

See accompanying notes to condensed consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

($ in thousands, except per share data)
(Unaudited)

	For the thr ended Ma
	2001
Revenue:	
Service	$ 61,464
Equipment sales and installation	4,255
Total revenue	65,719
Operating expenses:	
Engineering, technical and other direct	7,953
Cost of equipment	8,847
Selling, general and administrative	17,352
Non-cash compensation-selling, general and administration	912
Depreciation and amortization	11,862
Total operating expenses	46,926
Operating income	18,793
Other income (expense):	
Interest expense, net	(14,091)
Other income (expense), net	(1,029)
Total other expense	(15,120)
Income before minority interest share of income and income taxes	3,673
Minority interest share of income	(300)
Income before income taxes	3,373
Income tax expense	1,907
Net income	$ 1,466
Other comprehensive income, net of tax	

Unrealized gains (losses) on available for sale securities	(2,799)
Reclassification adjustment	13
Comprehensive income (loss)	$ (1,320)
Per share data:	
Basic earnings per share	$ 0.03
Weighted average shares outstanding	55,329,000
Diluted earnings per share	$ 0.03
Weighted average shares outstanding	55,712,000

See accompanying notes to condensed consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

($ in thousands)
(Unaudited)

	For the th ended M
	2001
Cash flows from operating activities:	
Net income	$ 1,466
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	11,862
Minority interest share of income	300
Deferred income taxes	--
Gain on available for sale securities	(248)
Non-cash compensation	912
Amortization of deferred finance charges	610
Increase in outstanding put option contracts	1,794
Decrease in trade accounts receivable	8,233
Decrease in inventory	1,335
Decrease in accounts payable and accrued expenses	(1,232)
Increase in accrued interest payable	5,822
Change in other accounts	519
Total adjustments	29,907
Net cash provided by operating activities	31,373
Cash flows from investing activities:	
Capital expenditures	(3,137)
Proceeds from sale of available for sale securities	3,821
Purchase of available for sale securities	(5,599)
Purchase of minority interests	--

Net cash used in investing activities	(4,915)
Cash flows from financing activities:	
Purchase and retirement of common stock	(7,210)
Exercise of employee stock options	702
Net cash used in financing activities	(6,508)
Net increase (decrease) in cash and cash equivalents	19,950
Cash and cash equivalents at the beginning of period	180,708
Cash and cash equivalents at the end of period	$ 200,658
Supplemental disclosure of cash flow information:	
Income taxes paid, net	$ 1,138
Interest paid	$ 10,281

See accompanying notes to condensed consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

($ in thousands)

	Common Stock Class A Shares	Common Stock Class A Par Value	Additional paid-in capital	Accumulated other comprehensive income	Re ea
Balance December 31, 2000	55,433	$ 555	$ 189,053	$ (457)	$
Change in unrealized gain (loss) on available for sale securities, net of tax effect				(2,799)	
Purchase and retirement of common stock	(399)	(4)	(7,206)		
Exercise of stock options	114	1	701		
Deferred compensation expense associated with the conversion of preferred stock to common stock					
Tax benefit from the exercise of stock options			151		
Net income					

Balance March 31, 2001	55,148	$ 552	$ 182,699	$ (3,256)	$
	========	=========	===========	===========	===

See accompanying notes to condensed consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Price Communications Corporation and its subsidiaries (the "Company" or "Price"). All significant intercompany items and transactions have been eliminated.

The Consolidated Financial Statements have been prepared by the Company without audit in accordance with the rules and regulations of the Securities and Exchange Commission. These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements previously filed on the Company's Form 10-K. In the opinion of management, the statements reflect all adjustments necessary for a fair presentation of the results of interim periods. All such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

Revenue Recognition

Service revenue from cellular operations for prepaid and post paid customers includes local subscriber revenue and outcollect roaming revenue. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), which was adopted in the fourth quarter of 2000 effective January 1, 2000, prepaid airtime revenue is recognized when the airtime is utilized and activation revenue is recognized over the estimated life of the subscriber's contract or in respect to prepaid customers over the customer's estimated initial usage. Accordingly, the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statement of Cash Flows have been adjusted for the three-month period ending March 31, 2000.

(2) Shareholders' Equity

The Company's Board of Directors has authorized stock repurchase programs of the Company's Class A Common Stock. The company is authorized to make such purchases from time to time in the market or in privately negotiated transactions when it is legally permissible to do so or believed to be in the best interests of the Company. During the first quarter of 2001, the company repurchased and retired 399,100 shares at an average price of $18.07 per share.

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

The following discussion is intended to facilitate an understanding and assessment of significant changes and trends related to the financial condition and results of operations of the Company. This discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and related notes thereto.

The discussion contains statements, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are made regarding the intent, belief or current expectations of the Company its directors or officers primarily with respect to the future operating performance of the Company. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those in the forward-looking statements as a result of factors, many of which are outside the control of the Company.

References to the "Company" or "Price" in this report include Price Communications Corporation and its subsidiaries unless the context otherwise indicates.

Overview

The Company is engaged in the construction, development, management and operation of cellular telephone systems in the southeastern United States. As of March 31, 2001, the Company provided cellular telephone service to 541,774 subscribers in Alabama, Florida, Georgia, and South Carolina in a total of 16 licensed service areas, composed of eight Metropolitan Statistical Areas ("MSAs") and eight Rural Service Areas ("RSAs"), with an aggregate estimated population of 3.3 million. The Company sells its cellular telephone service as well as a full line of cellular products and accessories principally through its network of retail stores. The Company markets all of its products and services under the nationally recognized service mark CELLULARONE.

On November 14, 2000, the Company entered into an agreement with Verizon Wireless, Inc. ("VW") whereby the Company agreed to sell its wholly owned subsidiary Price Communications Wireless ("PCW") for approximately $2.06 billion through an exchange of stock. VW will assume the then outstanding debt of PCW and Price will receive the balance in shares of Class A Common Stock, par value $.001 per share of VW upon its IPO. The transaction is subject to termination in certain events, the completion of VW's IPO and approval of the Company's shareholders. The transaction has received FCC and other regulatory approvals. If the closing of the transaction does not occur by September 30, 2001, either party may terminate the agreement.

Market Ownership

The Company's cellular telephone systems serve contiguous licensed service areas in Georgia, Alabama and South Carolina. The Company also has a cellular service area in Panama City, Florida. The following table sets forth, with respect to each service area in which the Company owns a cellular telephone system, the estimated population, the Company's beneficial ownership percentage and the Net Pops as of March 31, 2001.

Service Area	MSA Rank	Estimated Population (1)	Pe
Albany, GA..	271	118,442	
Augusta, GA...	106	440,242	
Columbus, GA..	165	249,365	

Macon, GA	139	322,093
Savannah, GA	153	287,349
Georgia-6 RSA	---	204,765
Georgia-7 RSA	---	134,698
Georgia-8 RSA	---	159,858
Georgia-9 RSA	---	119,299
Georgia-10 RSA	---	152,871
Georgia-12 RSA	---	220,340
Georgia-13 RSA	---	150,714
Dothan, AL	250	134,980
Montgomery, AL	137	323,675
Alabama-8 RSA	---	178,813
Subtotal		3,197,504
Panama City, FL	233	148,422
Total		3,345,926

(1) Based on population estimates for 1999 from the DLJ 1999-2000 Summer Book.

Results of Operations

The following table sets forth for the Company the percentage, which certain amounts bear to total revenue.

	Three Months Ended March 31, 2001	2000
Revenue:		
Service	93.5%	93.1%
Equipment sales and installation	6.5	6.9
Total revenue	100.0	100.0
Operating expenses:		
Engineering, technical and other direct:		
Engineering and technical (1)	5.7	5.5
Other direct costs of services (2)	6.4	5.4
Cost of equipment (3)	13.5	12.3
Selling, general and administrative:		
Sales and marketing (4)	8.8	8.4
Customer service (5)	6.0	7.7
General and administrative (6)	11.6	8.9
Non-cash compensation	1.4	1.4
Depreciation and amortization	18.0	17.8
Total operating expenses	71.4	67.4
Operating income	28.6%	32.6%
Operating income before depreciation and amortization - adjusted EBITDA (7)	48.0%	51.9%
Operating income before depreciation and amortization - Price Communications Wireless, Inc. (8)	49.0%	54.2%

(1) Consists of costs of cellular telephone network, including inter-trunk costs, span-line costs, cell site repairs and maintenance, cell site utilities, cell site rent, engineers' salaries and benefits and other operational costs.
(2) Consists of net costs of incollect roaming, costs of long distance, costs of interconnection with wireline telephone companies, costs for prepaid airtime usage (2001 only) and other costs of services.
(3) Consists primarily of the costs of the cellular telephones and accessories sold.
(4) Consists primarily of salaries and benefits of sales and marketing personnel, advertising and promotion expenses and employee and agent commissions.
(5) Consists primarily of salaries and benefits of customer service personnel and costs of printing and mailing subscriber's bills.
(6) Includes salaries and benefits of general and administrative personnel and other overhead expenses.
(7) Adjusted EBITDA represents operating income before Depreciation and amortization and non-cash compensation. Adjusted EBITDA should not be considered in isolation or as an alternative measurement of operating performance or liquidity to net income, operating income or any other measure of performance under generally accepted accounting principles. The Company believes that adjusted EBITDA is viewed as a relevant supplemental measure of performance in the cellular telephone industry.
(8) Represents operating income before Depreciation and amortization of the Company's operating subsidiary Price Communications Wireless, Inc. It does not include $656,000 for the current quarter and $1.5 million for the same period last year of the parent Company's general and administrative expenses.

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Revenue. Service revenues totaled $61.0 million for the first quarter of 2001 and 2000. An increase in the average number of cellular subscribers and in the average access per subscriber and a reduction in promotional credits generated additional access revenue of approximately $3.1 million for the current three-month period. While airtime revenue from post-paid subscribers was comparatively flat for the same three-month periods, prepaid airtime increased by $814,000. The Company's outcollect roaming revenue, which is revenue that the Company collects from other wireless carrier's subscribers using their phones in the Company's markets, decreased from $9.8 million for the first quarter 2000 to $7.5 million for the current quarter. A 7% increase in the number of outcollect minutes from 26.7 million minutes in the first quarter of 2000 to 28.5 million minutes for the same period in 2001 was more than offset by lower renegotiated reimbursement rates with certain

carriers that changed during the first quarter of 2001. While local toll and directory assistance revenue increased for the current three month period, the renegotiated toll rates from other carriers for roaming resulted in a net decrease in toll revenue from $5.9 million for the three month period ended March 31, 2000 to $5.3 million for the current three month period.

Average monthly revenue per post-paid subscriber (based upon service revenue only) includes local revenue as well as outcollect revenue, but does not include incollect revenue from subscribers, as this revenue is accounted for as an offset to the Company's direct cost of service. Such revenue decreased from $46.23 for last year's first quarter to $44.15 for the current three month period because of the factors stated above.

Equipment sales and installation revenue, which consists primarily of cellular subscriber equipment and accessory sales, decreased from $4.5 million for the first quarter of 2000 to $4.3 million for the current three month period. Although there were more gross subscriber additions during the current quarter, there were fewer post-paid subscriber additions, which caused a decrease in accessory and installation revenue of $324,000, since prepaid subscribers purchase fewer accessories. During the current three-month period the company sold 16,678 additional digital units but due to the competitive nature of equipment sales, did not realize additional revenue despite the higher cost of these phones.

Operating Expenses. Total operating expenses increased from $44.1 million in the first quarter of 2000 to $46.9 million in the current quarter. As a percentage of total revenue, operating expenses increased to 71.4% of revenue for the current quarter in 2001 from 67.4 % of revenue for the same quarter in 2000.

Engineering, technical and other direct increased by $900,000 to $8.0 million in the current quarter from $7.0 million in the first quarter of 2000. Included in engineering, technical and other direct is the net cost of incollect roaming which represents the difference between the amount paid to other cellular carriers for the Company's subscribers roaming in those carriers' markets and the amount billed to these subscribers by the Company. The net for the current three-month period amounted to a small amount of revenue ($45,000) compared to a net cost of $751,000 for the same period in the prior year or a net decrease of $796,000. The primary reason for the decrease was the more favorable rates negotiated with certain other cellular carriers during the first three months of 2001 which as previously stated, had a negative effect on roaming revenue. Partially offsetting this decrease, were increases in long distance, directory assistance and other variable telephone costs directly related to additional usage by the increased average number of subscribers. In addition, cell site rents increased due to new sites added in 2000. Prepaid system charges increased because the Company switched to a new prepaid vendor in June of 2000 and has experienced an increase in its prepaid customer base and usage. The change to a new vendor was necessitated when the Company's previous vendor went out of business.

The increase in cost of equipment from $8.0 million in the first quarter of 2000 to $8.8 million in the first quarter of 2001 is a result of additional phone sales due to increased gross subscriber additions in the current quarter over the same period last year, combined with additional sales of digital phones (see above), which have a higher unit cost. In the current period, the Company was able to recover approximately 48% of its equipment cost, which is less than the 56% recovered for the three-month period in 2000.

Selling, general and administrative expenses increased by $1.0 million when comparing the first quarter of 2001 to the same period in 2000. Sales and marketing (including the cost of installation) increased $271,000 when comparing the current quarter to last year's first quarter. The increase in gross subscriber adds resulted in additional commissions, the principal component of the increase. The cost to add a gross subscriber, which includes sales and marketing costs combined with the loss on equipment sales, an important statistic in the cellular industry, remained at $161 for the current and prior three month periods.

Customer service costs, which are included in general and administrative expenses, were $3.9 million for the current three-month period compared to $5.0 million for the same period last year. Increases in costs for the generation of subscribers' monthly invoices, as well as additional payroll costs, occurred because of the increased subscribers for the first quarter of 2001 compared to the first quarter of 2000. However, due to the difficulties incurred during the Company's billing conversion (see below) the Company was credited with $2.0

million by the billing vendor, which reduced net billing and customer service costs to $3.9 million for the current three month period compared with $5.0 million for the same period last year. For the current three-month period, customer service costs amounted to 6.0% of revenue compared to 7.7% for the same period in 2000.

General and administrative expenses increased $1.8 million for the current quarter compared to the same quarter in 2000. The increase was primarily a result of a $2.5 million increase in the provision for doubtful accounts. In the fourth quarter of 2000, the Company changed its billing vendor in order to take advantage of a system that would provide for more flexibility in creating customized rate plans and more meaningful reports for management. The previous billing provider also informed the Company that it would not be a long-term participant in the cellular billing business. The transition encountered processing

problems and as a result, the Company's collection efforts were hampered, which led to a longer average aging period of the Company's accounts receivable and a necessity to provide a higher provision for bad debts. Partially offsetting this increase were reductions in payroll. Most other components of general and administrative expense had little or no increase. General and administrative expenses excluding customer service costs, increased to 11.6% of total revenue for the current quarter compared to 8.9% for the same period in 2000.

Depreciation and amortization increased $200,000 to $11.9 million for the first quarter of 2001 from $11.7 million for the first quarter of 2000 as a result of fixed asset additions during 2000. As a percentage of revenue, depreciation and amortization amounted to 18.0% for the first quarter of 2001 compared to 17.8% for the first quarter of 2000.

Operating income decreased approximately $2.5 million to $18.8 million in the first quarter of 2001 from $21.3 million for the same period in 2000. Operating income before depreciation and amortization and non-cash compensation amounted to 48.0% of total revenue in the current quarter compared to 51.9% of total revenue for the quarter ended March 31, 2000. The decrease is a result of the items discussed above. The continuing emphasis by management on maintaining cost controls, resulted in no increase in the average operating cost per subscriber (total operating costs before depreciation and amortization, non-cash compensation and corporate overhead) which was $18.22 for the current three month period compared to $18.24 for the first quarter of 2000. Management believes that the current figure of $18.22 continues to be one of the lowest in the industry.

Net Interest Expense, Income Taxes and Net Income. Net interest expense decreased to $14.1 million for the quarter ended March 31, 2001 from $15.5 million in the first quarter of 2000.

The current period's income tax provision of $1.9 million compared to the income tax provision of $3.3 million in the first quarter of 2000 is a result of the higher financial statement taxable income for the first three months of 2000 compared to the first three months of 2001 and certain non taxable items.

The net income of $1.5 million for the first quarter of 2001 compared to net income of $5.6 million for the first quarter of 2000 is a function of the items discussed above.

Liquidity and Capital Resources

The Company's long-term capital requirements consist of funds for capital expenditures, acquisitions and debt service. Historically, the Company has met its capital requirements primarily through the issuance of debt, and to a lesser extent, operating cash flow. During the three month period ended March 31, 2001, the Company generated $31.4 million of cash from operating activities as shown in the Condensed Consolidated Statements of Cash Flows. The Company's EBITDA (earnings before interest, depreciation and amortization and non-cash compensation) was $31.6 million for the current quarter. The Company's debt service requirements for the current year consist of cash interest payments of $68.5 million of which $10.3 million was paid in January 2001. The remaining cash interest requirements are approximately $24.0 million during the second quarter, $10.3 million during the third quarter and $24.0 million in the fourth quarter. Based upon the Company's current ability to generate operating cash flow combined with its available cash position of $200.7 million, there does not appear to be a necessity to provide additional funding for the foreseeable future. The Company's outstanding debt instruments consist of $525 million 9 1/8% Senior Secured Notes due December 15, 2006, and $175 million 11 3/4% Senior Subordinated Notes due July 15, 2007. Both of these instruments contain covenants that restrict the payment of dividends, incurrence of debt and sale of assets.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The Company utilizes fixed rate debt instruments to fund its acquisitions. Management believes that the use of fixed rate debt minimizes the Company's exposure to market conditions and the ensuing increases and decreases that could arise with variable rate financing.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

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

None

(b) Reports on Form 8-K

None

SIGNATURES

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

PRICE COMMUNICATIONS CORPORATION

Date: May 14, 2001

By: /s/ Robert Price

Robert Price
Director, President and Treasurer

By: /s/ Kim I. Pressman

Kim I. Pressman
Director, Executive Vice President
and Principal Financial Officer

By: /s/ Michael Wasserman

Michael Wasserman
Vice President and Chief Accounting Officer