

PRICE COMMUNICATIONS CORP
Form 10-Q
August 09, 2004

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 June 30, 2004

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)
45 Rockefeller Plaza,
New York, New York
(Address of principal executive offices)

13-2991700
(I.R.S. Employer
Identification No.)

10020
(Zip Code)

Registrant's telephone number (212) 757-5600

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

Title of each class
Common Stock, par value \$.01 per share
Associated Common Stock Rights Under Rights Plan

**Name of each exchange
on which registered**
New York Stock Exchange
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 o

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

The number of shares outstanding of the issuer's common stock as of June 30, 2004 was 56,410,345.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Consolidated Balance Sheets June 30, 2004 and December 31, 2003</u>	I-1
	<u>Consolidated Statements of Operations Three months and six months ended June 30, 2004 and 2003</u>	I-2
	<u>Consolidated Statements of Cash Flows Six months ended June 30, 2004 and 2003</u>	I-3
	<u>Consolidated Statement of Shareholders Equity Six months ended June 30, 2004</u>	I-4
	<u>Notes to Consolidated Financial Statements</u>	I-5
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	I-8
<u>ITEM 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	I-10
<u>ITEM 4</u>	<u>Procedures and Controls</u>	I-10
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	II-1
<u>ITEM 2.</u>	<u>Changes in Securities</u>	II-1
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities None</u>	II-1
<u>ITEM 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	II-1
<u>ITEM 5.</u>	<u>Other Information</u>	II-1
<u>ITEM 6.</u>	<u>Exhibits and Reports on Form 8-K</u>	II-1
<u>SIGNATURES</u>		II-2
<u>CERTIFICATIONS</u>		

Item 1. Financial Statements

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(\$ in thousands)

	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,963	\$ 6,499
Available for sale securities	13,299	13,587
Total current assets	17,262	20,086
Restricted cash and securities (principally securities)	87,976	86,430
Investment in limited partnership	1,147,124	1,138,772
Other assets	592	390
	\$ 1,252,954	\$ 1,245,678
Liabilities and Shareholders Equity		
Current liabilities:		
Income taxes payable (current and deferred)	4,341	4,350
Other current liabilities	5,028	5,175
Total current liabilities	9,369	9,525
Accrued income taxes long term	53,165	53,165
Deferred income taxes, net	525,000	525,000
Estimated liability to former minority partners	16,000	16,000
Total liabilities	603,534	603,690
Commitments and contingencies		
Shareholders equity	649,420	641,988
	\$ 1,252,954	\$ 1,245,678

See accompanying notes to consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES**Consolidated Statements of Operations**

(\$ in thousands, except per share data)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Revenue:				
Earnings from partnership	\$ 8,329	\$ 8,133	\$ 16,628	\$ 16,189
Operating expenses:				
General and administrative	874	1,780	4,002	3,959
Operating income	7,455	6,353	12,626	12,230
Other income, net	2,271	4,170	6,730	5,903
Income before income taxes	9,726	10,523	19,356	18,133
Income tax expense	3,530	4,209	7,030	7,263
Net income	6,196	6,314	12,326	10,870
Other comprehensive income, net of tax				
Unrealized gain on available for sale securities	1085	4,700	579	1,558
Reclassification adjustment	(663)	(862)	(1,852)	(1,091)
Comprehensive income	\$ 6,618	\$ 10,152	\$ 11,053	\$ 11,337
Per share data:				
Basic earnings per share	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.19
Weighted average shares outstanding	56,463,000	57,103,200	56,527,000	57,165,150
Diluted earnings per share	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.19
Weighted average shares outstanding	56,738,000	57,355,200	56,801,000	57,417,150

See accompanying notes to consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

(\$ in thousands)

(Unaudited)

	For the six months ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 12,326	\$ 10,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from partnership	(16,628)	(16,189)
Gain on available for sale marketable securities and options	(4,647)	(4,217)
Increase in income taxes receivable/payable	841	
Decrease in other current liabilities	(146)	
Changes in other accounts	(203)	(389)
Total adjustments	(20,783)	(20,795)
Net cash used in operating activities	(8,457)	(9,925)
Cash flows from investing activities:		
Proceeds from sale of securities and put and call options	72,447	106,952
Purchase of securities and put and call options	(71,374)	(113,254)
Decrease (increase) in cash in collateral account cash	193	(1,690)
Distribution of profits from partnership	8,276	8,197
Net cash provided by investing activities	9,542	205
Cash flows from financing activities:		
Purchase and retirement of common stock	(3,621)	(4,376)
Exercise of employee stock options		60
Net cash used in financing activities	(3,621)	(4,316)
Net decrease in cash and cash equivalents	(2,536)	(14,036)
Cash and cash equivalents at the beginning of period	6,499	20,733
Cash and cash equivalents at the end of period	\$ 3,963	\$ 6,697
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 6,189	\$ 7,277

See accompanying notes to consolidated financial statements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES**Consolidated Statement of Shareholders' Equity****(in thousands)****(Unaudited)**

	Common Stock Class A		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholders equity
	Shares	Par Value				
Balance at December 31, 2003	56,683	\$ 567	\$ 163,240	\$ 4,590	\$ 473,591	\$ 641,988
Change in unrealized gain (loss) on available for sale securities net of tax effect				(1,273)		(1,273)
Purchase and retirement of treasury stock (245) and unexchanged shares (27)	(272)	(3)	(3,618)			(3,621)
Net income					12,326	12,326
Balance, June 30, 2004	56,411	\$ 564	\$ 159,622	\$ 3,317	\$ 485,917	\$ 649,420

See accompanying notes to consolidated financial statements.

I-4

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim Consolidated Financial Statements include the accounts of Price Communications Corporation and its subsidiaries (the Company, Price or PCC). Price Communications Wireless, Inc. (PCW) is a wholly owned subsidiary of Price Communications Corporation and prior to the consummation of the asset contribution, which occurred on August 15, 2002, was the operating entity for the cellular business engaged in the construction, development, management and operation of cellular telephone systems in the southeastern United States. All significant intercompany items and transactions have been eliminated.

The unaudited interim 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 Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements previously filed on the Company's Form 10-K for the year ended December 31, 2003. 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 for any interim period are not necessarily indicative of the results to be expected for a full year.

All share and per share information has been adjusted to reflect the 5 percent stock dividend that was paid in May 2004 as if it had occurred on January 1, 2003.

(2) Contribution of the Company's Wireless Business to the Verizon Partnership

As per an agreement of December 18, 2001, on August 15, 2002 the Company contributed substantially all of the assets and liabilities of PCW to Verizon Wireless of the East (the Verizon Partnership). As consideration for such contribution, the Company received a preferred exchangeable interest in the Verizon Partnership initially valued at approximately \$1.112 billion. According to the Partnership agreement, the Company is entitled to an allocation of any profits from the Verizon Partnership for a period of up to four years subsequent to August 15, 2002 equal to its preferred return, which currently approximates 2.9% per annum. The Company receives only 50% of its preferred return in cash, with the balance being added to its capital account.

Under a letter agreement dated August 9, 2002, PCW is a guarantor of \$350 million of the Verizon Partnership debt to Verizon Communications. However, PCW is not obligated to make payment under the guaranty until Verizon Communications has exhausted all remedies against the Verizon Partnership. The Company initially deposited \$70 million in a separate collateral account to support such guaranty. The Company has the right to withdraw certain sums such as interest and dividends from the account and has the right to withdraw up to \$5 million from this account to cover its ordinary operating expenses.

The preferred exchangeable interest is exchangeable into either Verizon Communications common stock or Verizon Wireless common stock depending on the circumstances. If a public offering of Verizon Wireless occurs, the exchangeable interest can be exchanged at the initial public offering price if Price obtains shareholder approval. On January 29, 2003, however, Verizon Wireless announced the withdrawal of its registration statement for an initial public offering of common stock, given that company's ongoing strong cash flow and lack of significant funding requirements.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(2) Contribution of the Company's Wireless Business to the Verizon Partnership (Continued)

If Verizon Wireless does not complete such an initial public offering by August 15, 2006 or an initial public offering does occur within the prescribed time frame but such exchange does not occur because of a breach of contract by Verizon Wireless, the preferred exchangeable interest will be mandatorily exchanged for shares of Verizon Communications common stock on approximately August 15, 2006. The price used for the calculation of the number of shares that would be issued in such an exchange is the trailing 20-day average for Verizon Communications common stock but not less than \$40, nor more than \$74.

The Company accounts for the preferred exchangeable interest in a manner similar to the equity method of accounting. The initial investment equaled the credit in the capital account on the partnership's financial statement. Thereafter, the Company increases its investment by the amount of income it was entitled to receive based on the availability of profits at the agreed upon preferred rate of return and reduces such investment by any cash distributions to the Company.

(3) Stock-Based Compensation

In 1995, the FASB issued SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123). As permitted by SFAS No. 123, the Company continues to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees: (APB 25). As permitted by SFAS No. 123, the Company has chosen to continue accounting for stock options issued to employees at their intrinsic value. Accordingly, no compensation expense is recognized. Had the fair value method of accounting been applied, the proforma net income would be as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2004	2003	June 30, 2004	2003
	(\$ in thousands)			
Net income as reported	\$ 6,196	\$ 6,314	\$ 12,326	\$ 10,870
Estimated fair value of net option grants, net of forfeitures	(50)		(50)	
Proforma net income	6,146	6,314	12,276	10,870
Proforma basic earnings per share	.11	.11	.22	.19
Proforma diluted earnings per share	.11	.11	.22	.19

(4) Shareholders' Equity

The Company's Board of Directors has authorized stock repurchase programs of the Company's common stock. During the six months ended June 30, 2004 the Company repurchased a total of approximately 245,000 shares in the public market for total consideration of approximately \$3.6million pursuant to such authorizations. As a result of the transaction agreement with the Verizon Partnership, the Company is precluded from using certain of its funds to repurchase its outstanding stock.

On April 20, 2004, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's common stock, in addition to prior authorizations, in open market or privately negotiated transactions.

PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

(4) Shareholders' Equity (Continued)

On May 5, 2004, the Company's Board of Directors declared a 5% stock dividend, payable on May 24, 2004, to shareholders of record on May 17, 2004. All share and per share information has been adjusted to reflect the 5 percent stock dividend that was paid in May 2004 as if it had occurred on January 1, 2003.

In October 1994, the Company declared a dividend distribution of one Common Share Purchase Right (a "Right") for each outstanding share of the Company's common stock. In May 2004, the Company's Board of Directors approved the extension of the Rights until October 2014. Until exercisable, the Rights will not be transferable apart from the common stock. Each Right has an exercise price of \$50.00. The Rights will become exercisable only if a person or group acquires 20 percent or more of the Company's common stock, in which event each Right will entitle the holder to purchase for the exercise price common stock in the Company having a market value of twice the exercise price of the Rights. In the event the Company is acquired in a merger or a similar transaction following such a 20 percent acquisition, each right entitles the holder to purchase for the exercise price common stock of the surviving company having a market value of twice the exercise price of the Rights. The Rights may be redeemed by the Company at a nominal price prior to the acquisition of 20 percent of the outstanding shares of the Company's common stock.

(5) Equity Investment in Verizon Partnership

The following table summarizes financial information of the Verizon Partnership (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
<u>Income statement data:</u>				