TRITON PCS HOLDINGS INC
Form 10-K/A
May 21, 2003

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2002

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: 1-15325

TRITON PCS HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**23-2974475**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

1100 Cassatt Road
Berwyn, Pennsylvania 19312
(Address and zip code of principal executive offices)

(610) 651-5900
(Registrant s telephone number, including area code)

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

Title of Class	Name of Exchange on Which Registered
Class A common stock, $.01 par value per share	New York 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

As of February 28, 2003, 60,255,510 shares of registrant s Class A common stock and 7,926,099 shares of the registrant s Class B non-voting common stock were outstanding, and the aggregate market value of shares of Class A common stock and Class B non-voting common stock held by non-affiliates was approximately $103.1 million.

TABLE OF CONTENTS

ITEM 6. SELECTED FINANCIAL DATA
ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
ITEM 8. FINANCIAL STATEMENTS & SUPPLEMENTARY DATA
REPORT OF INDEPENDENT ACCOUNTANTS
Consolidated Balance Sheets
Consolidated Statements of Operations and Comprehensive Loss
Consolidated Statements of Redeemable Preferred Equity and Stockholders Equity (Deficit)
Consolidated Statements of Redeemable Preferred Equity and Stockholders Equity (Deficit) (Dollars in Thousands)
Consolidated Statements of Cash Flows
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
ITEM 14. CONTROLS AND PROCEDURES
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K
SIGNATURES
CERTIFICATION
CONSENT OF PRICEWATERHOUSECOOPERS LLP
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION OF CHIEF FINANCIAL OFFICER

Table of Contents

TRITON PCS HOLDINGS, INC.
2002 FORM 10-K/A ANNUAL REPORT
TABLE OF CONTENTS

Item 6	Selected Financial Data	3
Item 7	Management s Discussion and Analysis of Financial Condition and Results of Operations	4
Item 8	Financial Statements & Supplementary Data	F-1
	Report of Independent Accountants	F-2
	Consolidated Balance Sheets	F-3
	Consolidated Statements of Operations and Comprehensive Loss	F-4
	Consolidated Statements of Redeemable Preferred Equity and Stockholders Equity (Deficit)	F-5
	Consolidated Statements of Cash Flows	F-6
	Notes to Consolidated Financial Statements	F-7
Item 14	Controls and Procedures	17
Item 15	Exhibits, Financial Statement Schedules and Reports on Form 8-K	18
Signatures		29
Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934		31
Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934		32
Certification of Chief Operating Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934		33
Certification of Senior Vice President of Operations Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934		34

Explanatory Note

This annual report on Form 10-K/A is being filed to amend Items 6, 7, 8 and 15. Accordingly, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-K/A contains the complete text of Items 6, 7, 8 and 15, as amended, and Item 14. In this Form 10-K/A, Triton, refers to Triton PCS Holdings, Inc. and its subsidiaries. Triton is filing this Form 10-K/A as an amendment to its annual report on Form 10-K for the year ended December 31, 2002 that was filed with the Securities and Exchange Commission on March 25, 2003 in order to restate its 2002 annual results to reflect deferred tax adjustments resulting from the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). Upon further analysis completed by Triton, management determined that an adjustment was required to properly reflect Triton s tax provision reflected in its 2002 financial statements as presented in the Form 10-K for the year ended December 31, 2002 as filed on March 25, 2003. This non-cash adjustment of $23.7 million is the result of Triton having to establish a valuation allowance against its deferred tax assets, as Triton is no longer able to reasonably estimate the period of reversal, if any, for deferred tax liabilities related to licensing costs as the result of the adoption of SFAS No. 142. As a result, Triton may not rely on the reversal of deferred tax liabilities associated with licensing costs as a means to realize Triton s deferred tax assets, which primarily represent net operating loss carryforwards. Additionally, due to a lack of earnings history, Triton cannot rely, for accounting purposes, on forecasts of future earnings as a means to realize its deferred tax assets. Accordingly, Triton has determined that, pursuant to the provisions of SFAS No. 109, deferred tax valuation allowances are required on those deferred tax assets. Triton has not updated the information contained herein for events and transactions occurring subsequent to the date of the original Annual Report on Form 10-K for the year ended December 31, 2002. Triton, therefore, recommends that this report be read in conjunction with Triton s reports filed subsequent to the original filing date.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected financial data derived from audited financial statements of Triton for the years ended December 31, 1998, 1999, 2000, 2001 and 2002. In addition, subscriber data for the same periods is presented. The following financial information is qualified by reference to and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes appearing elsewhere in this amended report.

	Year Ended December 31,				
	1998	1999	2000	2001	2002 (3) As Restated
	(in thousands, except share data)				
Statement of Operations Data:					
Revenues:					
Service	$ 11,122	$ 61,798	$ 220,940	$ 387,381	$ 502,402
Roaming	4,651	44,281	98,492	126,909	175,405
Equipment	755	25,405	34,477	25,810	38,178
Total revenues	16,528	131,484	353,909	540,100	715,985
Expenses:					
Costs of service and equipment (excluding the below amortization, excluding depreciation of $220, $15,964, $63,183, $90,851 and $114,007, respectively, and excluding noncash compensation of $0, $142, $1,026, $2,544 and $3,646, respectively)	10,466	107,521	194,686	248,013	296,598
Selling, general and administrative (excluding depreciation of $744, $4,531, $13,072, $16,657 and $16,072, respectively, and excluding noncash compensation of $1,120, $3,167, $7,241, $14,647 and $17,784, respectively)	18,799	100,187	181,713	228,163	252,921
Non-cash compensation	1,120	3,309	8,267	17,191	21,430
Depreciation (1)	964	20,495	76,255	107,508	130,079
Amortization	5,699	14,126	17,876	19,225	4,926
Total operating expenses	37,048	245,638	478,797	620,100	705,954
Income/(loss) from operations	(20,520)	(114,154)	(124,888)	(80,000)	10,031
Interest expense	(30,391)	(41,061)	(55,903)	(117,499)	(144,086)
Other expense			(326)	(18,034)	(7,693)
Interest and other income	10,635	4,852	4,957	18,322	6,292
Gain on sale of marketable securities, net		1,003			
Loss before taxes	$ (40,276)	$ (149,360)	$ (176,160)	$ (197,211)	$ (135,456)
Income tax expense (benefit)	(7,536)		746	1,372	25,039
Net loss	$ (32,740)	$ (149,360)	$ (176,906)	$ (198,583)	$ (160,495)
Accretion of preferred stock	(6,853)	(8,725)	(9,865)	(10,897)	(12,038)
Net loss available to common stockholders	$ (39,593)	$ (158,085)	$ (186,771)	$ (209,480)	$ (172,533)

Net loss per common share (basic and diluted)	$ (8.18)	$ (9.79)	$ (3.01)	$ (3.22)	$ (2.62)
Weighted average common shares outstanding (basic and diluted)	4,841,520	16,142,482	62,058,844	64,968,315	65,885,515

3

Table of Contents

	As of December 31,				
	1998	1999	2000	2001	2002 (3) As Restated
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$146,172	$186,251	$ 1,617	$ 371,088	$ 212,450
Working capital (deficiency)	146,192	134,669	(54,305)	283,314	172,090
Property, plant and equipment, net	198,953	421,864	662,990	793,175	796,503
Intangible assets, net	308,267	315,538	300,161	283,847	395,249
Total assets	686,859	979,797	1,065,570	1,682,342	1,617,571
Long-term debt and capital lease obligations	465,689	504,636	728,485	1,344,291	1,413,263
Redeemable preferred stock	80,090	94,203	104,068	114,965	127,003
Stockholders (deficit) equity	95,889	233,910	55,437	(39,221)	(187,189)

	Year Ended December 31,				
	1998	1999	2000	2001	2002
	(in thousands)				
Other Data:					
Subscribers (end of period)	33,844	195,204	446,401	685,653	830,159
Adjusted EBITDA (2)	$ (12,737)	$ (76,224)	$ (22,490)	$ 63,924	$ 166,466
Cash flows from:					
Operating activities	(4,130)	(61,071)	(22,253)	(3,514)	54,090
Investing activities	(372,372)	(191,538)	(346,444)	(318,181)	(236,637)
Financing activities	511,312	292,688	184,063	691,166	23,909

(1) Includes a gain of $10.9 million on the sale of property and equipment for the year ended December 31, 1999.

(2) Adjusted EBITDA is net loss plus net interest expense, income taxes, depreciation and amortization adjusted for other expense (which was exclusively non-cash) and non-cash compensation. We believe Adjusted EBITDA provides a meaningful measure of liquidity, providing additional information on our cash earnings from on-going operations and on our ability to service our long-term debt and other fixed obligations and our ability to fund continued growth with internally generated funds. Adjusted EBITDA also is considered by many financial analysts to be a meaningful indicator of an entity s ability to meet its future financial obligations. Adjusted EBITDA should not be construed as an alternative to cash flows from operating activities as determined in accordance with United States GAAP. See Reconciliation of Non-GAAP Financial Measures in Management s Discussion and Analysis of Financial Condition and Results of Operations. Our method of computation may or may not be comparable to other similarly titled measures of other companies.

(3) The selected financial data for 2002 has been restated for matters related to the realization of deferred tax assets. See Note 17 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis is based upon our financial statements as of the dates and for the periods presented in this section. You should read this discussion and analysis in conjunction with our financial statements and the related notes contained elsewhere in this report.

We were incorporated in October 1997. In February 1998, we entered into a joint venture with AT&T Wireless. As part of the agreement, AT&T Wireless contributed to us personal communications services licenses covering 20 MHz of authorized frequencies in a contiguous geographic area encompassing portions of Virginia, North Carolina, South Carolina, Tennessee, Georgia and Kentucky in exchange for an equity position in Triton. As part of the transaction, we were granted the right to be the exclusive provider of wireless mobility services using equal emphasis co-branding with AT&T within our region.

4

Table of Contents

On June 30, 1998, we acquired an existing cellular system serving Myrtle Beach and the surrounding area from Vanguard Cellular Systems of South Carolina, Inc. In connection with this acquisition, we began commercial operations and earning recurring revenue in July 1998. We integrated the Myrtle Beach system into our personal communications services network as part of our initial network deployment. Substantially all of our revenues prior to 1999 were generated by cellular services provided in Myrtle Beach. Our results of operations do not include the Myrtle Beach system prior to our acquisition of that system.

We began generating revenues from the sale of personal communications services in the first quarter of 1999 as part of our initial personal communications services network deployment. Since our initial network deployment, we have successfully launched and offered personal communications service to approximately 13.6 million people in all of our 37 markets.

Critical Accounting Polices and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

We recognize revenues as services are rendered. Unbilled revenues result from service provided from the billing cycle date to the end of the month and from other carrier s customers using our network. Activation revenue is deferred and recognized over the estimated subscriber s life. Equipment sales are a separate earnings process from other services offered by Triton and are recognized upon delivery to the customer and reflect charges to customers for wireless handset equipment purchases.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our subscribers to make required payments. If the financial condition of a material portion of our subscribers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period we made that determination. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period we made that determination.

We assess the impairment of long-lived assets, other than indefinite-lived intangible assets, whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results or significant changes in the manner of use of the assets or in the strategy for our overall business. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. When we determine that the carrying value of a long-lived asset is not recoverable, we measure any impairment based upon a projected discounted cash flow method using a discount rate we determined to be commensurate with the risk involved. Our primary indefinite-lived intangible assets are FCC licenses. We test investments in FCC licenses for impairment annually or more frequently if events or changes in circumstances indicate that the FCC licenses may be impaired. The impairment test consists of a comparison of the fair value with the carrying value. We aggregate all of our FCC licenses for the purpose of performing the impairment test as the licenses are operated as a single asset and, as such, are essentially inseparable from one another.

Revenue

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 for our subscribers include monthly recurring charges and monthly non-recurring airtime charges for local, long distance and roaming airtime used in excess of pre-subscribed usage. Our customers roaming charges are rate plan dependent and are based on the number of pooled minutes included in their plans. Service revenue also includes non-recurring activation and de-activation service charges.

Equipment. We sell wireless personal communications handsets and accessories that are used by our customers in connection with our wireless services. Equipment sales are a separate earnings process from other services offered by Triton, and we recognize equipment sales upon delivery to the customer and reflect charges to customers for wireless handset equipment purchases. In addition, the fair value of a handset received from a customer in a handset upgrade transaction is recorded as equipment revenue.

Roaming. We charge per minute fees to other wireless telecommunications companies for their customers use of our network facilities to place and receive wireless services.

We believe our roaming revenues will be subject to seasonality. We expect to derive increased revenues from roaming during vacation periods, reflecting the large number of tourists visiting resorts in our coverage area. Although we expect our overall revenues to increase due to increasing roaming minutes, our per-minute roaming revenue will decrease over time according to the terms of our agreements with AT&T Wireless and other carriers.

Costs and Expenses

Our costs of services and equipment include:

Equipment. We purchase personal communications services handsets and accessories from third party vendors to resell to our customers for use in connection with our services. Because we subsidize the sale of handsets to encourage the use of our services, the cost of handsets is higher than the resale price to the customer. We do not manufacture any of this equipment.

Roaming Fees. We incur fees to other wireless communications companies based on airtime usage by our customers on other wireless communications networks.

Transport and Variable Interconnect. We incur charges associated with interconnection with other wireline and wireless carriers networks. These fees include monthly connection costs and other fees based on minutes of use by our customers.

Variable Long Distance. We pay usage charges to other communications companies for long distance service provided to our customers. These variable charges are based on our subscribers usage, applied at pre-negotiated rates with the other carriers.

Cell Site Costs. We incur expenses for the rent of towers, network facilities, engineering operations, field technicians and related utility and maintenance charges.

Recent industry data indicate that transport, interconnect, roaming and long distance charges that we currently incur will continue to decline, due principally to competitive pressures and new technologies.

Other expenses include:

Selling, General and Administrative. Our selling expense includes advertising and promotional costs, commission expense for our indirect, direct and e-commerce agents, and fixed charges such as store rent and retail associates salaries. General and administrative expense includes customer care, billing, information technology, finance, accounting and legal services. Functions such as customer care, billing, finance, accounting and legal services are likely to remain centralized in order to achieve economies of scale.

Depreciation and Amortization. Depreciation of property and equipment is computed using the straight-line method, generally over three to twelve years, based upon estimated useful lives. Leasehold improvements are amortized over the lesser of the useful lives of the assets or the term of the lease. Network development costs incurred to ready our network for use are capitalized. Depreciation of network development costs begins when the network equipment is ready for its intended use and is depreciated over the estimated useful life of the asset. Prior to January 1, 2002, our personal communications services licenses and our cellular licenses were being amortized over a period of 40 years. In 2002, we adopted SFAS No. 142 Goodwill and Other Intangible Assets, or SFAS No. 142, and as a result, we ceased to amortize our FCC licenses, which we believe qualify as having an indefinite life.

Non-cash Compensation. As of December 31, 2002, we recorded $74.6 million of deferred compensation associated with the issuances of our common and preferred stock to employees. We will recognize this compensation over four to five years as the stock vests.

Interest Expense (Income). Interest expense through December 31, 2002 consists of interest on our credit facility, our 11% senior subordinated discount notes due 2008, our 9 3/8% senior subordinated notes due 2011 and our 8 3/4% senior subordinated notes due 2011, net of capitalized interest. Interest income is earned primarily on our cash and cash equivalents.

Other Expense. Other expense primarily includes the mark-to-market of our interest rate swaps that do not qualify as hedges.

Income Tax Expense. Income tax expense primarily includes non-cash tax adjustments resulting from Triton having to establish a valuation allowance against its deferred tax assets, as Triton is no longer able to reasonably estimate the period of reversal for deferred tax liabilities related to licensing costs as the result of the adoption of SFAS No. 142. As a result, we may not rely on the reversal, if any, of deferred tax liabilities associated with licensing costs as a means to realize our deferred tax assets, which primarily represent net operating loss carryforwards. Additionally, due to a lack of earnings history, we cannot rely, for accounting purposes, on forecasts of future earnings as a means to realize our deferred tax assets. Accordingly, we have

Table of Contents

determined that, pursuant to the provisions of SFAS No. 109, deferred tax valuation allowances are required on those deferred tax assets.

Our ability to improve our margins will depend on our ability to manage our variable costs, including selling, general and administrative expense, costs per gross added subscriber and costs of maintaining and upgrading our network. We expect our operating costs to grow as our operations expand and our customer base and call volumes increase. Over time, these expenses should represent a reduced percentage of revenues as our customer base grows.

Results of Operations

All data for 2002 is presented on a restated basis. See Note 17 to the Consolidated Financial Statements.

Year ended December 31, 2002 compared to the year ended December 31, 2001

Net subscriber additions were 144,506 for the year ended December 31, 2002, bringing our total subscribers to 830,159 as of December 31, 2002, an increase of 21.1% over our subscriber total as of December 31, 2001. The increase in subscribers was primarily due to continued demand for our digital service offerings and pricing plans. During the year ended December 31, 2002, 100% of our gross subscriber additions were post-pay on a one or two year service contract.

Subscriber churn was 2.16% and 1.95% for the years ended December 31, 2002 and 2001, respectively. Subscriber churn is calculated by dividing subscriber deactivations by our average subscriber base for the respective period. We believe that our churn rate remains consistently low compared to industry average due to our high quality system performance, our commitment to quality customer service and our focused retention efforts.

Average revenue per user, or *ARPU*, was $56.07 and $58.78 for the years ended December 31, 2002 and 2001, respectively. Subscriber ARPU reflects the average amount billed to subscribers based on rate plan offerings. Subscriber ARPU excludes service revenue credits made to retain existing subscribers of $0.93 and $1.30 for the years ended December 31, 2002 and 2001, respectively. These retention credits are excluded from our calculation of ARPU, as these are discretionary reductions of the amount billed to a subscriber. We have no contractual obligation to issue these credits, therefore, our ARPU reflects the amount subscribers have contractually agreed to pay Triton. ARPU is calculated by dividing service revenue, excluding service revenue credits made to existing subscribers, by our average subscriber base for the respective period. We continue to focus on attracting new customers with rate plans that provide more value to the customer at a higher average customer bill. The $2.71 decrease, or 4.6%, was primarily the result of a change in our rate plan mix, as many existing high ARPU subscribers migrated to our new service offering, the UnPlan , to take advantage of the plan s unlimited minutes for calls from the subscriber s local calling area at a lower monthly cost.

Total revenue increased 32.6% to $716.0 million for the year ended December 31, 2002 from $540.1 million for the year ended December 31, 2001. Service revenue for the year ended December 31, 2002 was $502.4 million, an increase of $115.0 million or 29.7%, compared to $387.4 million for the year ended December 31, 2001. The increase in service revenue was due primarily to growth of subscribers. We expect subscriber growth to continue, and hence, we expect service revenue to continue to increase. Roaming revenue was $175.4 million for the year ended December 31, 2002, an increase of $48.5 million, or 38.2%, compared to $126.9 million for the year ended December 31, 2001. The increase in roaming revenue was the result of increased roaming minutes of use resulting from the expansion of our network, the implementation of new roaming agreements with such carriers as Cingular Wireless and the overall growth in the wireless industry. We expect the growth of the wireless industry to continue in the future, and as a result, we expect roaming revenue to continue to increase. Equipment revenue was $38.2 million for the year ended December 31, 2002, an increase of $12.4 million or 48.1%, compared to $25.8 million for the year ended December 31, 2001. Equipment revenue now includes the revenue earned in the sale of a handset or handset accessories to new and existing subscribers. In addition, equipment revenue includes the fair value of handsets received from a subscriber in a handset upgrade or exchange transaction, which was previously classified as contra expense in cost of equipment. Prior period amounts have been reclassified to conform with the current period presentation. The reclassification did not impact Adjusted EBITDA or income (loss) from continuing operations. The equipment revenues increase was due primarily to an increase in the sale of phone upgrades to existing subscribers.

Cost of service was $212.2 million for the year ended December 31, 2002, an increase of $37.7 million or 21.6%, compared to $174.5 million for the year ended December 31, 2001. The increase was related to the higher volume of traffic on our network driven by subscriber growth and higher roaming minutes of use. As a result of the variable components of cost of service, such as interconnect and toll, our cost of service may increase in conjunction with anticipated subscriber growth. Cost of service as a percentage of revenue, excluding equipment revenue, was 31.3% and 33.9% for the years ended December 31, 2002, and 2001, respectively. The decrease of 2.6% was primarily attributable to increased leverage on fixed interconnect and cell site costs. Cost of service as a percentage of revenue, excluding equipment revenue, may decline in the future as we continue to leverage our fixed cost of service against increased revenue.

Cost of equipment was $84.4 million for the year ended December 31, 2002, an increase of $10.9 million or 14.8%, compared to $73.5 million for the year ended December 31, 2001. Cost of equipment includes the cost associated with the sale or exchange of a handset or handset accessories to new and existing subscribers. Cost of equipment now excludes the fair value of handsets received

from a subscriber in a handset upgrade or exchange transaction, which was previously classified as contra expense in cost of equipment. Prior period amounts have been reclassified to conform with the current period presentation. The reclassification did not impact Adjusted EBITDA or income (loss) from continuing operations. The increase in cost of equipment was driven primarily by an increase in the sale of phone upgrades to existing customers.

Selling, general and administrative expenses were $252.9 million for the year ended December 31, 2002, an increase of $24.7 million, or 10.8%, compared to $228.2 million for the year ended December 31, 2001. Selling expenses increased by $3.3 million or 3.1%, primarily due to increased commissions offered to sales associates and agent distributors to promote the UnPlan. General and administrative expenses increased by $21.4 million or 17.4%, primarily due to expansion of the number of customer care representatives to support our customer growth. Although our collection effort remained focused, bad debt expense increased from $12.1 million in 2001 to $18.9 million in 2002. The increase of $6.8 million was the result of the growth of our subscriber base and higher involuntary churn. As a result of the variable components of selling, general and administrative expense, such as customer care personnel and billing costs, our selling, general and administrative expenses may increase in conjunction with anticipated subscriber growth. General and administrative expenses as a percentage of revenue, excluding equipment revenue, was 21.3% and 24.0% for the years ended December 31, 2002 and 2001, respectively. The decrease of 2.7% is primarily attributable to increased customer care efficiency and increased leverage on other fixed costs. General and administrative expense as a percentage of revenue, excluding equipment revenue, may decline in the future as we continue to leverage our fixed general and administrative costs against increased revenue.

Beginning July 1, 2002, we changed our method of calculating cost per gross addition, or *CPGA*. CPGA is calculated by dividing the sum of equipment margin for handsets sold to new subscribers (equipment revenue less cost of equipment) and selling expenses related to adding new subscribers by total gross subscriber additions during the relevant period. Retail customer service expenses and the equipment margin on handsets sold to or exchanged with existing subscribers, including handset exchange and upgrade transactions, have been excluded, as these costs are incurred specifically for existing subscribers. Previously, retail customer service expenses and the additional equipment margin loss on handset exchanges with existing subscribers related to the costs to refurbish handsets received from existing subscribers were part of the calculation of CPGA. The total retail customer service expenses excluded from our calculation of CPGA was $6.1 million and $3.8 million and the equipment margin excluded from our calculation of CPGA was $10.7 million and $2.5 million for the years ended December 31, 2002 and 2001, respectively. The equipment margin excluded from our calculation of CPGA includes $1.0 million and $0.7 million, respectively, of costs to refurbish handsets received from existing subscribers in a handset exchange. The increase in equipment margin on transactions with existing subscribers is the result of the growth and aging of our subscriber base.

	Year Ended December 31, 2001		Year Ended December 31, 2002	
	Currently Calculated	**Previously Calculated**	**Currently Calculated**	**Previously Calculated**
CPGA	$406	$415	$421	$442

Non-cash compensation expense was $21.4 million for the year ended December 31, 2002, an increase of $4.2 million or 24.4%, compared to $17.2 million for the year ended December 31, 2001. The increase is attributable to the vesting of an increased number of restricted shares of Holdings Class A common stock awarded to management in prior years.

Depreciation and amortization expenses were $135.0 million for the year ended December 31, 2002, an increase of $8.3 million or 6.6%, compared to $126.7 million for the year ended December 31, 2001. The increase relates primarily to increased depreciation expense due to the growth in the depreciable asset base resulting from capital expenditures, partially offset by the effect of ceasing amortization on our FCC licenses in accordance with SFAS 142, Goodwill and Other Intangible Assets . In addition, we incurred $3.9 million of charges during 2002 as the result of losses on the sale of fixed assets as well as charges to accelerate depreciation on certain assets as a result of management s decision not to complete the construction of certain network infrastructure. Depreciation will continue to increase as additional portions of our network are placed into service.

Interest expense was $144.1 million, net of capitalized interest of $4.2 million, for the year ended December 31, 2002. Interest expense was $117.5 million, net of capitalized interest of $5.9 million, for the year ended December 31, 2001. The increase of $26.6 million, or 22.6%, relates primarily to increases of interest expense on our January 2001 private placement of $350.0 million aggregate principal amount of 9 3/8% senior subordinated notes and our November 2001 private placement of $400.0 million aggregate principal amount of 8 3/4% senior subordinated notes, offset partially by a decrease of interest expense on our bank credit facility. The aggregate interest expense of these debt instruments increased from $74.9 million for the year ended December 31, 2001 to $94.2 million for the year ended December 31, 2002. Interest expense also increased $5.1 million due to the accretion of interest on our May 1998 private placement of $512.0 million aggregate principal

amount of 11% senior subordinated discount notes and a decrease in capitalized interest of $1.7 million for the year ended December 31, 2002.

Table of Contents

We had a weighted average interest rate of 9.69% for the year ended December 31, 2002, on our average borrowings under our bank credit facility and our average obligation for the senior subordinated debt, as compared with the 9.43% weighted average interest rate for the year ended December 31, 2001.

Other expense was $7.7 million and $18.0 million for the years ended December 31, 2002 and 2001, respectively. The decrease of $10.3 million, or 57.2%, relates primarily to a decrease in the loss on the mark to market of our interest rate swaps, which was $5.4 million and $12.9 million for the years ended December 31, 2002 and 2001, respectively. The losses were recognized as the result of the change in fair value of our interest rate swap derivative instruments, which did not qualify as hedges. These interest rate swaps do not qualify as hedges as the result of the repayment, in November of 2001, of previously matched variable rate debt under our bank facility with proceeds from our 8 3/4% note offering. In addition, write-offs of deferred financing costs decreased from $4.0 million for the year ended December 31, 2001 to $0.4 million for the year ended December 31, 2002. These write-offs were a result of the early repayment of a portion of our credit facility.

Interest and other income was $6.3 million for the year ended December 31, 2002, a decrease of $12.0 million, or 65.6%, compared to $18.3 million for the year ended December 31, 2001. The decrease of $12.0 million was due primarily to lower average interest rates on lower average cash balances.

Income tax expense, as restated, was $25.0 million for the year ended December 31, 2002, an increase of $23.6 million compared to $1.4 million for the year ended December 31, 2001. The increase was due primarily to non-cash tax adjustments to establish a valuation allowance against our deferred tax assets as we are no longer able to reasonably estimate the period of reversal, if any, for deferred tax liabilities related to licensing costs as the result of the adoption of SFAS No. 142 on January 1, 2002. As a result, we may not rely on the reversal of deferred tax liabilities associated with licensing costs as a means to realize our deferred tax assets, which primarily represent net operating loss carryforwards. Additionally, due to a lack of earnings history, we cannot rely, for accounting purposes, on forecasts of future earnings as a means to realize our deferred tax assets. Accordingly, we have determined that, pursuant to the provisions of SFAS No. 109, deferred tax valuation allowances are required on those deferred tax assets.

Net loss, as restated, was $160.5 million and $198.6 million for the years ended December 31, 2002 and 2001, respectively. The net loss decrease of $38.1 million resulted primarily from the items discussed above.

Year ended December 31, 2001 compared to the year ended December 31, 2000

Net subscriber additions were 239,252 for the year ended December 31, 2001, bringing our total subscribers to 685,653 as of December 31, 2001, an increase of 53.6% over our subscriber total as of December 31, 2000. The increase in subscribers was primarily due to continued strong demand for our digital service offerings and pricing plans.

Subscriber churn was 1.95% and 1.80% for the years ended December 31, 2001 and 2000, respectively.

ARPU was $58.78 and $60.99 for the years ended December 31, 2001 and 2000, respectively. Subscriber ARPU excludes service revenue adjustments made to retain existing subscribers of $1.30 and $0.92 for the years ended December 31, 2001 and 2000, respectively. The $2.21 decrease, or 3.6%, was primarily the result of a change in our rate plan mix, as subscribers who are new to the wireless sector typically begin service with a lower monthly access plan.

Total revenue increased 52.6% to $540.1 million for the year ended December 31, 2001 from $353.9 million for the year ended December 31, 2000. Service revenue for the year ended December 31, 2001 was $387.4 million, an increase of $166.5 million or 75.4%, compared to $220.9 million for the year ended December 31, 2000. The increase in service revenue was due primarily to strong growth of subscribers. Equipment revenue was $25.8 million for the year ended December 31, 2001, a decline of $8.7 million or 25.2%, compared to $34.5 million for the year ended December 31, 2000. The equipment revenue decline was due primarily to a decrease in the average revenue per item sold, partially offset by an increase in the quantities sold. Roaming revenue was $126.9 million for the year ended December 31, 2001, an increase of $28.4 million or 28.8%, compared to $98.5 million for the year ended December 31, 2000. The increase in roaming revenue was the result of increased roaming minutes of use resulting from the expansion of our network, partially offset by a contractual decrease in our service charge per minute.

Cost of service was $174.5 million for the year ended December 31, 2001, an increase of $49.2 million, or 39.3%, compared to $125.3 million for the year ended December 31, 2000. Approximately 40% of the increase was due to the expansion of our network. We added approximately 350 cell sites to our network in 2001. The remaining increase of approximately 60% over the prior year was the result of an increase in the charges paid to connect calls on other networks, including access, interconnection and toll-related charges. These increases were due primarily to increased costs of expanding and maintaining our wireless network to support an increase in the number of subscriber and roaming minutes of use.

Cost of equipment was $73.5 million for the year ended December 31, 2001, an increase of $4.1 million or 5.9%, compared to $69.4 million for the year ended December 31, 2000. The increase was due primarily to an increase in gross subscriber additions, partially offset by a decrease in the average cost of items sold.

Table of Contents

Selling, general and administrative costs were $228.2 million for the year ended December 31, 2001, an increase of $46.5 million or 25.6%, compared to $181.7 million for the year ended December 31, 2000. Selling expenses increased approximately $6.3 million, or 6.4%, primarily due to increased commission and headcount related costs. This increase resulted from a 16.7% increase in gross subscriber additions in the year ended December 31, 2001, versus the prior year ended December 31, 2000. The increase was also attributable to increasing the points of distribution in our company-owned retail store channel by 27% in 2001. The general and administrative increase of approximately $40.2 million, or 48.3%, was primarily due to the development and growth of infrastructure and staffing related to information technology, customer care, collections, retention and other administrative functions established in conjunction with the corresponding growth in our subscriber base.

Non-cash compensation expense was $17.2 million for the year ended December 31, 2001, an increase of $8.9 million or 107.2%, compared to $8.3 million for the year ended December 31, 2000. The increase is attributable to the vesting of an increased number of restricted shares of Holdings Class A common stock awarded to management in prior years.

Depreciation and amortization expenses were $126.7 million for the year ended December 31, 2001, an increase of $32.6 million or 34.6% compared to $94.1 million for the year ended December 31, 2000. The increase relates primarily to increased depreciation expense due to the growth in the depreciable asset base resulting from capital expenditures. Depreciation will continue to increase as additional portions of our network were placed into service.

Interest expense was $117.5 million, net of capitalized interest of $5.9 million, for the year ended December 31, 2001. Interest expense was $55.9 million, net of capitalized interest of $9.5 million, for the year ended December 31, 2000. The increase of $61.6 million, or 110.2% relates primarily to $32.0 million of interest from our $350.0 million 9 3/8% senior subordinated notes offering completed in January 2001 and $4.6 million of interest from our $400.0 million 8 3/4% senior subordinated notes offering completed in November 2001. For the year ended December 31, 2001, we had a weighted average interest rate of 9.43% on our average borrowings under our bank credit facility and our average obligation for the senior subordinated debt as compared with 10.98% for the year ended December 31, 2000. In addition, interest expense was higher on the credit facility due to mandatory draws on the facility in 2001.

Other expense was $18.0 million and $0.3 million for the years ended December 31, 2001 and 2000, respectively. The increase of $17.7 million is primarily the result of a $12.9 million loss on the mark to market of interest rate swaps for the year ended December 31, 2001. There was no loss on the market-to-market of interest rate swaps in 2000. This loss was the result of paying down $390.0 million of the credit facility with net proceeds from the 8 3/4% senior subordinated notes offering, which caused certain fixed interest rate derivatives to no longer qualify as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended by SFAS No. 137 and SFAS No. 138. The fair value of these non-qualifying hedges on November 14, 2001 and subsequent changes in their fair value were recorded in the statement of operations as other expense for the year ended December 31, 2001. All interest rate swaps qualified as hedges in 2000, and therefore, the changes in the fair value of the interest rate swaps were recorded through accumulated other comprehensive income. Also attributing to the increase in other expense was a write-off of approximately $4.0 million of deferred financing costs in 2001. The write-off was a result of the early repayment of a portion of our credit facility with the proceeds from our 8 3/4% note offering.

Interest and other income was $18.3 million for the year ended December 31, 2001, an increase of $13.3 million or 266.0%, compared to $5.0 million for the year ended December 31, 2000. The increase of $13.3 million was due primarily to interest on higher average cash balances.

Net loss was $198.6 million and $176.9 million for the years ended December 31, 2001 and 2000, respectively. The net loss increase of $21.7 million resulted primarily from the items discussed above.

Liquidity and Capital Resources

The construction of our network and the marketing and distribution of wireless communications products and services have required, and will continue to require, substantial capital. Capital outlays have included license acquisition costs, capital expenditures for network construction, funding of operating cash flow losses and other working capital costs, debt service and financing fees and expenses. We estimate that capital expenditures for network construction will be approximately $120.0 million to $140.0 million in 2003. In January 2003, we completed a reduction in our workforce, eliminating 170 positions, which we anticipate will result in approximately $8.0 million reduction in operating costs for 2003. We believe that cash on hand and available credit facility borrowings will be sufficient to meet our projected capital requirements through 2004, at which time we expect to become free cash flow positive. Although we estimate that these funds will be sufficient to finance our continued growth, we may have additional capital requirements, which could be substantial for future upgrades and advances in new technology.

Preferred Stock. As part of our joint venture agreement with AT&T Wireless, Holdings issued 732,371 shares of its Series A preferred stock to AT&T Wireless PCS. The Series A preferred stock provides for cumulative dividends at an annual rate of 10% on the $100 liquidation value per share plus unpaid dividends. These dividends accrue and are payable quarterly; however, we may defer all cash payments due to the holders until June 30, 2008, and quarterly dividends are payable in cash thereafter. To date, all such dividends have been deferred. The Series A preferred stock is redeemable at the option of its holders beginning in 2018 and at our option, at its liquidation value plus unpaid dividends on or

after February 4, 2008. On and after February 4, 2006, the Series A preferred stock is also convertible at the option of its holders for shares of our Class A common stock having a market value equal to the liquidation value plus unpaid dividends on the Series A

preferred stock. We may not pay dividends on, or, subject to specified exceptions, repurchase shares of our common stock without the consent of the holders of the Series A preferred stock.

Credit Facility. On September 14, 2000, Triton PCS, Inc., a wholly owned subsidiary of Holdings, entered into a second amended and restated credit agreement that provided for a senior secured bank facility with a group of lenders for an aggregate amount of $750.0 million of borrowings. On November 14, 2001, we extinguished $390.0 million of the bank facility with net proceeds from the 8 3/4% senior subordinated notes offering. We began to repay the then outstanding term loans in quarterly installments, beginning on February 4, 2002. On March 8, 2002, the credit agreement was amended to create a new term loan with $125.0 million of available borrowings. On October 16, 2002, we entered into a fourth amendment that provided greater flexibility in the total leverage and interest coverage covenant requirements. In exchange for the covenant changes, we agreed to reduce the facility by $50.0 million. The commitment reduction consisted of a $30.0 million pro-rata repayment of outstanding borrowings and a $20.0 million reduction in unfunded commitments. On February 26, 2003, we entered into a fifth amendment that extended the availability period for draws on the Tranche E term loan from March 8, 2003 to June 8, 2003. As of December 31, 2002, we had $208.0 million and $215.0 million of outstanding borrowings and committed availability, respectively, under the bank facility. The bank facility provides for:

- a $10.8 million senior secured Tranche A term loan maturing in May 2006, $10.8 million of which was outstanding as of December 31, 2002;
- a $123.1 million senior secured Tranche B term loan maturing in February 2007, $123.1 million of which was outstanding as of December 31, 2002;
- a $10.8 million senior secured Tranche C term loan maturing in May 2006, $10.8 million of which was outstanding as of December 31, 2002;
- a $63.3 million senior secured Tranche D term loan maturing in May 2006, $63.3 million of which was outstanding as of December 31, 2002;
- a $115.0 million senior secured Tranche E term loan maturing in February 2007, none of which was outstanding as of December 31, 2002; and
- a $100.0 million senior secured revolving credit facility maturing in May 2006, none of which was outstanding as of December 31, 2002.

The terms of the bank facility will permit us, subject to various terms and conditions, including compliance with specified financial covenants, to draw up to the remaining amount available under the bank facility to finance working capital requirements, capital expenditures, permitted acquisitions and for other corporate purposes. Borrowings under the bank facility are subject to customary terms and conditions. As of December 31, 2002, we were in compliance with all such covenants.

The commitments to make loans under the revolving credit facility are automatically and permanently reduced in installments beginning in August 2004 through May 2006. In addition, the credit agreement requires us to make mandatory prepayments of outstanding borrowings under the credit facility based on a percentage of excess cash flow and contains financial and other covenants customary for facilities of this type, including limitations on investments and on our ability to incur debt and pay dividends.

Senior Subordinated Notes. On May 4, 1998, Triton PCS completed the private placement of $512.0 million principal amount at maturity of 11% senior subordinated discount notes due 2008 under Rule 144A and Regulation S of the Securities Act of 1933. The proceeds of the offering, after deducting the initial purchasers discount, were $291.0 million. The 11% senior subordinated discount notes due 2008 are guaranteed by all of Triton PCS s subsidiaries. The indenture for the notes contains customary covenants, including covenants that limit our subsidiaries ability to pay dividends to us, make investments and incur debt. The indenture also contains customary events of default. On October 30, 1998, Triton PCS closed its registered exchange offer of $512.0 million aggregate principal amount at maturity of its 11% senior subordinated discount notes due 2008 for $512.0 million aggregate principal amount at maturity of its newly issued 11% senior subordinated discount notes due 2008, which have been registered under the Securities Act.

On January 19, 2001, Triton PCS completed the private placement of $350.0 million principal amount of 9 3/8% senior subordinated notes due 2011 under Rule 144A and Regulation S of the Securities Act. The proceeds of the offering, after deducting the initial purchasers discount and estimated expenses, were $337.5 million. The 9 3/8% senior subordinated notes due 2011 are guaranteed by all of the domestic subsidiaries of Triton PCS. The indenture for the notes contains customary covenants, including covenants that limit our subsidiaries ability to pay dividends to us, make investments and incur debt. The indenture also contains customary events of default. On June 15, 2001, Triton PCS closed its registered exchange offer of $350.0 million principal amount of its 9 3/8% senior subordinated notes due 2011 for $350.0 million principal amount of its newly issued 9 3/8% senior subordinated notes due 2011, which have been registered under the Securities Act.

On November 14, 2001, Triton PCS completed the private placement of $400.0 million principal amount of 8 3/4% senior subordinated notes due 2011 under Rule 144A and Regulation S of the Securities Act. The proceeds of the offering, after deducting the initial purchasers discount and estimated expenses, were approximately $390.0 million. The 8 3/4% senior subordinated notes due 2011 are guaranteed by all of the subsidiaries of Triton PCS. The indenture for the notes contains customary covenants, including covenants that limit our subsidiaries ability to pay dividends to us, make investments and incur debt. The indenture also contains customary events of default. On February 14,

2002, Triton PCS closed its registered exchange offer of $400.0 million principal amount of its 8 3/4% senior subordinated notes due 2011 for $400.0 million principal amount of its newly issued 8 3/4% senior subordinated notes due 2011, which have been registered under the Securities Act.

Equity Offering. On February 28, 2001, we issued and sold 3,500,000 shares of Class A common stock in a public offering at $32.00 per share and raised approximately $106.1 million, net of $5.9 million of costs.

Adjusted EBITDA. We believe net loss plus net interest expense, income taxes, depreciation and amortization adjusted for other expense (which was exclusively non-cash) and non-cash compensation, or Adjusted EBITDA, provides a meaningful measure of liquidity, providing additional information on our cash earnings from on-going operations and on our ability to service our long-term debt and other fixed obligations and our ability to fund our continued growth with internally generated funds. Adjusted EBITDA also is considered by many financial analysts to be a meaningful indicator of an entity s ability to meet its future financial obligations. Adjusted EBITDA should not be construed as an alternative to cash flows from operating activities as determined in accordance with United States GAAP. Adjusted EBITDA was $166.5 million, $63.9 million and ($22.5) million for the years ended December 31, 2002, 2001 and 2000, respectively.

Historical Cash Flow. As of December 31, 2002, we had $212.5 million in cash and cash equivalents, as compared to $371.1 million in cash and cash equivalents at December 31, 2001. Net working capital was $172.1 million at December 31, 2002 and $283.3 million at December 31, 2001. The $54.1 million of cash provided by operating activities during the year ended December 31, 2002 was the result of our net loss of $160.5 million and $45.6 million of cash used by changes in working capital and other long-term assets, offset by $260.2 million of depreciation and amortization, deferred income taxes, accretion of interest, non-cash compensation, bad debt expense, loss in equity investment and loss on derivative instruments. The $236.6 million of cash used by investing activities during the year ending December 31, 2002 was primarily related to capital expenditures associated with our network build-out and the acquisition of FCC licenses. These capital expenditures were made primarily to enhance and expand our wireless network in order to increase capacity and to satisfy subscriber needs and competitive requirements. We will continue to upgrade our network capacity and service quality to support our anticipated subscriber growth. The $23.9 million provided by financing activities during the year ended December 31, 2002 relates primarily to our $65.0 million draw against our credit facility partially offset by $42.0 million of credit facility repayments.

As of December 31, 2001, we had $371.1 million in cash and cash equivalents, as compared to $1.6 million in cash and cash equivalents at December 31, 2000. Net working capital/(deficit) was $283.3 million at December 31, 2001 and ($54.3) million at December 31, 2000. The $3.5 million of cash used in operating activities during the year ended December 31, 2001 was the result of our net loss of $198.6 million and $22.8 million of cash used in changes in working capital and other long-term assets and offset by $217.9 million of depreciation and amortization, accretion of interest, non-cash compensation, bad debt expense, loss in equity investment and loss on derivative instruments. The $318.2 million of cash used by investing activities during the year ending December 31, 2001 was related primarily to capital expenditures associated with our network build-out and advances to Lafayette. These capital expenditures were made primarily to enhance and expand our wireless network in order to increase capacity and to satisfy subscriber needs and competitive requirements. We will continue to upgrade our network capacity and service quality to support our anticipated subscriber growth. The $691.2 million provided by financing activities during the year ended December 31, 2001 relates primarily to our $281.0 million draw against our credit facility, $729.0 million of net proceeds from the issuances of senior subordinated notes and $106.7 million of net proceeds from our equity offering, partially offset by $428.8 million of credit facility repayments.

Contractual Obligations and Commercial Commitments

The following table provides aggregate information about our contractual obligations and the periods in which payments are due. These disclosures are also included in the footnotes to the financial statements, and the relevant footnotes are cross-referenced in the table below.

	Payments Due by Period (dollars in thousands)					
Contractual Obligation	**Total**	**Less than 1 year**	**1-2 years**	**3-4 years**	**After 4 Years**	**Footnote Reference**
Short-term debt	$ 17,169	$17,169	$	$	$	5
Long-term debt	1,413,263		45,833	147,710	1,219,720	5
Operating leases	281,305	48,845	76,973	52,742	102,745	12
Total cash contractual obligations	$1,711,737	$66,014	$122,806	$200,452	$1,322,465	

Table of Contents

Reconciliation of Non-GAAP Financial Measures

We utilize certain financial measures that are not calculated in accordance with accounting principles generally accepted in the United States, or *GAAP*, to assess our financial performance. 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. The discussion of each non-GAAP financial measure we use in this report appear above under Adjusted EBITDA and Results of Operations . A brief description of the calculation of each measure is included where the particular measure is first discussed. Our method of computation may or may not be comparable to other similarly titled measures of other companies. The following tables reconcile our non-GAAP financial measures with our financial statements presented in accordance with GAAP.

Adjusted EBITDA			**Year Ended December 31,**		
	1998	**1999**	**2000**	**2001**	**2002**
					(As restated)
Net cash provided by (used in) operating activities	($ 4,130,000)	($ 61,071,000)	($ 22,253,000)	($ 3,514,000)	$ 54,090,000
Change in operating assets and liabilities	(5,079,000)	(10,391,000)	(1,532,000)	22,871,000	45,579,000
Change in deferred income taxes	7,536,000		(272,000)		(23,674,000)
Interest expense	30,391,000	41,061,000	55,903,000	117,499,000	144,086,000
Accretion of interest	(22,648,000)	(38,213,000)	(42,688,000)	(48,271,000)	(53,969,000)
Interest and other income	(10,635,000)	(4,852,000)	(4,957,000)	(18,322,000)	(6,292,000)
Bad debt expense	(636,000)	(2,758,000)	(7,763,000)	(12,103,000)	(18,889,000)
Other expense			326,000	4,392,000	496,000
Income tax expense (benefit)	(7,536,000)		746,000	1,372,000	25,039,000
Adjusted EBITDA	($ 12,737,000)	($ 76,224,000)	($ 22,490,000)	$ 63,924,000	$166,466,000

The table above reconciles Adjusted EBITDA with what management believes is the most directly comparable GAAP measure of liquidity, cash provided by (used in) operating activities. We believe Adjusted EBITDA provides a meaningful measure of liquidity, providing additional information on our cash earnings from on-going operations, our ability to service our long-term debt and other fixed obligations and our ability to fund continued growth with internally generated funds. Adjusted EBITDA also is considered by many financial analysts to be a meaningful indicator of an entity s ability to meet its future financial obligations. Adjusted EBITDA should not be construed as an alternative to cash flows from operating activities as determined in accordance with GAAP.

Average revenue per user (ARPU)		**Year Ended December 31,**	
	2000	**2001**	**2002**
Service revenue	$220,940,000	$387,381,000	$502,402,000
Subscriber retention credits (1)	3,372,000	8,771,000	8,510,000
Adjusted service revenue	224,312,000	396,152,000	510,912,000
Average subscribers	306,499	561,619	759,279
ARPU	$ 60.99	$ 58.78	$ 56.07

We believe ARPU, which calculates the average service revenue billed to an individual subscriber, is a useful measure to evaluate our past billable service revenue and to assist in forecasting our future billable service revenue. ARPU excludes service revenue credits made to retain existing subscribers, as these are discretionary reductions of the amount billed to a subscriber. We have no contractual obligation to issue these credits, therefore, ARPU reflects the amount subscribers have contractually agreed to pay us based on their specific usage pattern. ARPU is calculated by dividing service revenue, excluding service revenue credits made to existing subscribers, by our average subscriber base for the respective period. Average subscribers is calculated by dividing the sum of our average subscribers for each quarter of the relevant year by four.

Table of Contents

CPGA	Year Ended December 31,		
	2000	2001	2002
Selling expense	$ 98,662,000	$ 104,987,000	$ 108,321,000
Total cost of equipment - transactions with new subscribers	68,788,000	71,055,000	70,224,000
CPGA operating expenses	167,450,000	176,042,000	178,545,000
Cost of service	$125,288,000	$174,500,000	$212,221,000
Cost of equipment - transactions with existing subscribers	610,000	2,458,000	14,153,000
General and administrative	83,051,000	123,176,000	144,600,000
Non-cash compensation	8,267,000	17,191,000	21,430,000
Depreciation	76,255,000	107,508,000	130,079,000
Amortization	17,876,000	19,225,000	4,926,000
Total operating expenses	478,797,000	620,100,000	705,954,000
CPGA operating expenses (from above)	$167,450,000	$176,042,000	$178,545,000
Equipment revenue - transactions with new subscribers	(34,477,000)	(25,810,000)	(34,729,000)
CPGA costs, net	$132,973,000	$150,232,000	$143,816,000
Gross subscriber additions	317,308	370,358	341,271
CPGA	**$419**	**$406**	**$421**

We believe CPGA is a useful measure that quantifies the incremental costs to acquire a new subscriber. This measure also provides a gauge to compare our average acquisition costs per new subscriber to that of other wireless communication providers.

Relationship with Lafayette Communications Company L.L.C.

We hold a 39% interest in Lafayette, an entrepreneur under FCC guidelines. During 2002, Lafayette held 18 FCC licenses, covering a population of approximately 6.3 million people. On September 30, 2002, we acquired certain FCC licenses from Lafayette in markets covering a population

of approximately 2.9 million people in areas of Georgia, Tennessee and Virginia, for an aggregate fair value of $21.7 million. This acquisition was consummated to meet the spectrum needs of our current network overlay of GSM/GPRS technology. We have entered into agreements with Lafayette to acquire additional licenses from Lafayette for an aggregate fair value of $126.9 million. We expect these acquisitions to be consummated in the second quarter of 2003.

As of December 31, 2002, we have funded approximately $74.5 million of senior loans to Lafayette to finance the acquisition of licenses. The carrying value of these loans has been adjusted for any losses in excess of our initial investment. In connection with the loans, Lafayette has and will guarantee our obligations under our credit facility, and such senior loans are and will be pledged to the lenders under our credit facility.

Because we do not control Lafayette, we are accounting for our investment under the equity method. Ordinarily, as the investor, we would record our proportionate share of Lafayette s losses in our income statement. However, Triton has committed to provide further financial support to Lafayette in order to preserve its business relationship. Therefore, even in the absence of a legally binding obligation, we are now recognizing 100% of Lafayette s losses, which arise primarily from interest costs related to an assumed note payable to the FCC.

In accordance with EITF 98-13, Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee, when the carrying amount of an investment has been reduced to zero, the investor should continue to report its share of the equity method losses in its statement of operations as an adjustment to the adjusted basis of the loans receivable. As of December 31, 2001, we had written our initial investment in Lafayette down to zero and had reduced its carrying value of the approximate $74.5 million loan receivable from Lafayette, so as to reflect 100% of Lafayette s cumulative loss of approximately $2.5 million.

On October 9, 2002, and as amended on December 2 and December 31, 2002, we entered into an agreement with Lafayette for the acquisition of 10 MHz of spectrum in Anderson, Charleston, Columbia, Florence, Greenville, Greenwood, Orangeburg and Sumter, South Carolina, for approximately $114.7 million. On December 2, 2002, we entered into an agreement with Lafayette for the acquisition of 10 MHz of spectrum in Myrtle Beach, South Carolina, Augusta, Georgia, Fredericksburg, Virginia and Lynchburg, Virginia for approximately $12.2 million. The applications seeking FCC approval for these transactions have been filed, and we expect to consummate the transactions in the second quarter of 2003. Following consummation of these transactions, we plan to demand repayment of the outstanding senior loans to Lafayette.

Table of Contents

New Accounting Pronouncements

In June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Assets . SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and capitalize that amount as part of the book value of the long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. This statement is effective for financial statements for fiscal years beginning after June 15, 2002. We have certain legal obligations, principally related to our leased cell site properties, which fall within the scope of SFAS No. 143. These legal obligations include obligations to remediate leased property on which cell sites are located. In conjunction with the adoption of SFAS No. 143 effective January 1, 2003, we did not record asset retirement obligations for network infrastructure assets subject to the provisions of this statement as the fair value of the obligations could not reasonably be estimated. We believe that uncertainty as to the eventual settlement of legal obligations exists due to trends in the wireless communications industry, including the rapid growth in minutes of use on wireless networks, increasing subscriber penetration and deployment of advanced wireless data technologies such as GSM/GPRS. Therefore, these factors increase the probability that third parties would not contractually enforce their remediation rights related to the sites. Based on the combination of these industry trends and our limited experience in removing sites, it is not probable that any sites will be removed in the foreseeable future and require remediation. Therefore, sufficient information to estimate a range of potential settlement dates is not available. In accordance with SFAS No. 143, we will not recognize a liability until such information becomes known.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS Statement No. 13 and Technical Corrections as of April 2002 . SFAS No. 145 primarily addresses: (i) the income statement classification of gains or losses from the extinguishment of debt as ordinary or extraordinary and (ii) the treatment of certain lease modifications with sale-leaseback accounting when they have an economic effect similar to a sale-leaseback agreement. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Accounting Principles Board Opinion No. 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this Statement related to the rescission of SFAS No. 4 is encouraged. As such, we have reclassified an extraordinary loss on the extinguishment of debt in 2001 to other expense. We do not believe further implementation of this statement will have a material impact on our financial position or results of operations.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 nullifies EITF 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The principle difference between SFAS No. 146 and EITF 94-3 relates to SFAS No. 146 s requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as generally defined in EITF 94-3 was recognized at the date of an entity s commitment to an exit plan. A fundamental conclusion reached by the FASB in this statement is that an entity s commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. Therefore, this statement eliminates the definition and requirements for recognition of exit costs in EITF 94-3. This statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for fiscal years beginning after December 31, 2002. We will apply this statement to the accounting for all prospective exit or disposal activities.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, Accounting for Stock Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123 Accounting for Stock Based Compensation . SFAS No. 148 primarily (i) provides an alternative method of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and (ii) requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for the fiscal years beginning after December 15, 2002. We will disclose our method of accounting for stock-based employee compensation and the effect of the method used on reported results in future financial statements.

In February 2003, the Emerging Issues Task Force issued EITF 00-21 Revenue Arrangements with Multiple Deliverables. EITF 00-21 primarily addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, it addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. In applying EITF 00-21, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. The provisions of EITF 00-21 are effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the impact this statement will have on our financial position or results of operations.

Table of Contents

In February 2003, the Emerging Issues Task Force issued EITF 02-16 Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor . Issue 1 of EITF 02-16 primarily addresses the circumstances under which cash consideration received from a vendor by a reseller should be considered (a) an adjustment of the prices of the vendor s products or services and, therefore, characterized as a reduction of cost of sales when recognized in the reseller s income statement, (b) an adjustment to a cost incurred by the reseller and, therefore, characterized as a reduction of that cost when recognized in the reseller s income statement, or (c) a payment for assets or services delivered to the vendor and, therefore, characterized as revenue when recognized in the reseller s income. The provisions of Issue 1 of EITF 02-16 are effective for fiscal periods beginning after December 15, 2002. Issue 2 of EITF 02-16 addresses vendors offering a customer a rebate or refund of a specified amount of cash consideration that is payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period, when the customer should recognize the rebate and how the customer should measure the amount of the offer. The provisions of Issue 2 of EITF 02-16 are effective for all arrangements entered into after November 1, 2002. We do not believe that this statement will have a material impact on our financial position or results of operations.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities , or *FIN 46*. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We are currently evaluating the impact of FIN 46 on our financial statements and related disclosures but do not believe that this statement will have a material impact on our financial position or results of operations.

Inflation

We do not believe that inflation has had a material impact on our operations.

Table of Contents

ITEM 8 . FINANCIAL STATEMENTS & SUPPLEMENTARY DATA

TRITON PCS HOLDINGS, INC.

INDEX TO FINANCIAL STATEMENTS

Consolidated Financial Statements:	
Report of Independent Accountants	F-2
Consolidated Balance Sheets as of December 31, 2001 and 2002	F-3
Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2000, 2001 and 2002	F-4
Consolidated Statements of Redeemable Preferred Equity and Stockholders Equity (Deficit) for the years ended December 31, 2000, 2001 and 2002	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 2001 and 2002	F-6
Notes to Consolidated Financial Statements	F-7
Schedule I Condensed Financial Information of Triton PCS Holdings, Inc.	19
Schedule II Valuation and Qualifying Accounts	22

Table of Contents

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Triton PCS Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 8 on page F-1 of this Form 10-K/A present fairly, in all material respects, the financial position of Triton PCS Holdings, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(1) on page 18 of this Form 10-K/A, present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4, effective January 1, 2002, the Company changed its accounting for intangible assets pursuant to the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

As discussed in Note 17, the Company has restated its 2002 financial statements in order to properly state its deferred income tax provision.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 14, 2003, except for Note 16, as to
which the date is February 26, 2003, and Note 17,
as to which the date is May 19, 2003

Table of Contents

Triton PCS Holdings, Inc.
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2001	December 31, 2002
		(As restated, see Note 17)
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 371,088	$ 212,450
Accounts receivable net of $3,345 and $7,008	52,496	68,213
Accounts receivable roaming partners	16,189	23,037
Inventory, net	28,477	28,510
Prepaid expenses	8,160	8,767
Other current assets	5,301	6,056
Total current assets	481,711	347,033
Property and equipment:		
Land	313	377
Network infrastructure and equipment	871,523	1,004,323
Furniture, fixtures and computer equipment	75,651	89,208
Capital lease assets	8,860	8,454
Construction in progress	55,651	37,647
	1,011,998	1,140,009
Less accumulated depreciation	(218,823)	(343,506)
Net property and equipment	793,175	796,503
Intangible assets, net	283,847	395,249
Investment in and advances to non-consolidated entities	116,731	72,019
Other long term assets	6,878	6,767
Total assets	$ 1,682,342	$ 1,617,571
LIABILITIES AND STOCKHOLDERS DEFICIT:		
Current liabilities:		
Accounts payable	$ 96,529	$ 57,758
Bank overdraft liability	22,265	25,892
Accrued payroll & related expenses	17,381	16,282
Accrued expenses	6,634	5,999
Current portion of long-term debt	12,641	17,169
Deferred revenue	12,099	19,548
Deferred gain on sale of property and equipment	1,190	1,190
Accrued interest	20,351	20,637
Other current liabilities	9,307	10,468
Total current liabilities	198,397	174,943
Long-term debt:		
Bank credit facility	174,441	192,579
Senior subordinated debt	1,167,338	1,219,720
Capital lease obligations	2,512	964
Total Long-term debt:	1,344,291	1,413,263
Deferred income taxes	11,935	35,609

Deferred revenue	3,129	3,051
Fair value of derivative instruments	20,584	23,819
Deferred gain on sale of property and equipment	28,262	27,072
Total liabilities	1,606,598	1,677,757
Commitments and contingencies (Note 12)		
Series A Redeemable Convertible Preferred Stock, $.01 par value, 1,000,000 shares authorized, 786,253 shares issued and outstanding	114,965	127,003
Stockholders deficit:		
Series B Preferred Stock, $.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Series C Preferred Stock, $.01 par value, 3,000,000 shares authorized, no shares issued or outstanding		
Series D Preferred Stock, $.01 par value, 16,000,000 shares authorized, 543,683 shares issued and outstanding	5	5
Class A Common Stock, $.01 par value, 520,000,000 shares authorized, 59,438,555 shares issued and 59,327,637 shares outstanding as of December 31, 2001 and 60,518,754 shares issued and 60,289,166 shares outstanding as of December 31, 2002	594	603
Class B Non-voting Common Stock, $.01 par value, 60,000,000 shares authorized, 7,926,099 shares issued and outstanding as of December 31, 2001 and December 31, 2002		