

PRICE COMMUNICATIONS CORP  
Form 10-Q  
November 09, 2005

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended September 30, 2005

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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:

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

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

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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  No

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

The number of shares outstanding of the issuer's common stock as of September 30, 2005 was 56,233,995.

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**PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

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Item 1. *Financial Statements*

## PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(\$ in thousands)

	September 30, 2005 (Unaudited)	December 31, 2004 (Audited)
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,053	\$ 2,739
Available for sale securities	3,330	5,588
Escrow deposit		13,666
Income taxes receivable (current and deferred)		4,890
Prepaid expense	111	106
<b>Total current assets</b>	<b>7,494</b>	<b>26,989</b>
Restricted cash and securities (principally securities)	75,884	90,998
Investment in limited partnership	1,168,207	1,155,499
Other assets	559	617
	\$ 1,252,144	\$ 1,274,103
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Income taxes payable	2,700	3,893
Estimated liability to former minority partners-current	2,132	12,947
Other current liabilities	1,930	4,966
<b>Total current liabilities</b>	<b>6,762</b>	<b>21,806</b>
Deferred income taxes, net	518,408	529,468
Estimated liability to former minority partners	14,427	13,570
<b>Total liabilities</b>	<b>539,597</b>	<b>564,844</b>
Commitments and contingencies		
Shareholders' equity	712,547	709,259
	\$ 1,252,144	\$ 1,274,103

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 September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<b>Revenue:</b>				
Earnings from partnership	\$ 8,467	\$ 8,360	\$ 25,324	\$ 24,988
<b>Operating expenses:</b>				
General and administrative	1,326	706	5,258	4,708
Provision and accrued settlement of cellular legal matters	1,259	10,000	2,459	10,000
Interest expense	401		1,502	
Other income, net	(1,141)	(1,908)	(3,380)	(8,638)
Income (loss) before income taxes	6,622	(438)	19,485	18,918
Income tax expense (benefit)	1,570	(54,115)	6,157	(47,085)
Net income	5,052	53,677	13,328	66,003
<b>Other comprehensive income, net of tax</b>				
Unrealized gain (loss) on available for sale securities	(2,368)	2,409	(9,420)	2,988
Reclassification adjustment	(119)	(249)	(873)	(2,101)
Comprehensive income	\$ 2,565	\$ 55,837	\$ 3,035	\$ 66,890
<b>Per share data:</b>				
Basic earnings per share	\$ 0.09	\$ 0.95	\$ 0.24	\$ 1.17
Weighted average shares outstanding	56,240,000	56,341,000	56,224,000	56,464,000
Diluted earnings per share	\$ 0.09	\$ 0.95	\$ 0.24	\$ 1.16
Weighted average shares outstanding	56,516,000	56,627,000	56,503,000	56,738,000

See accompanying notes to consolidated financial statements.

## PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(\$ in thousands)

(Unaudited)

	For the nine months ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 13,328	\$ 66,003
Adjustments to reconcile net income to net cash used in operating activities:		
Earnings from partnership	(25,324)	(24,988)
Depreciation and amortization	59	
Gain on available for sale marketable securities and options	(435)	(5,381)
Deferred taxes	1	(4,450)
Changes in operating assets and liabilities:		
Decrease in escrow deposit	13,666	
Increase (decrease) in income taxes receivable/payable	(1,193)	2,182
Increase in other assets		(188)
Decrease in other current liabilities	(3,036)	(9)
(Decrease) increase in estimated liability to former minority partners, net	(9,958)	10,000
Decrease in accrued income taxes-long term		(53,165)
Total adjustments	(26,220)	(75,999)
Net cash used in operating activities	(12,892)	(9,996)
Cash flows from investing activities:		
Proceeds from sale of securities and put and call options	38,107	95,382
Purchase of securities and put and call options	(34,561)	(96,827)
(Increase) decrease in cash in collateral account	(2,209)	179
Distribution of profits from partnership	12,616	12,433
Net cash provided by investing activities	13,953	11,167
Cash flows from financing activities:		
Purchase and retirement of common stock	(144)	(5,565)
Exercise of employee stock options	397	
Net cash provided by (used in) financing activities	253	(5,565)
Net decrease in cash and cash equivalents	1,314	(4,394)
Cash and cash equivalents at the beginning of period	2,739	6,499
Cash and cash equivalents at the end of period	\$ 4,053	\$ 2,105
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 7,349	\$ 8,347

See accompanying notes to consolidated financial statements.

## PRICE COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## Consolidated Statement of Shareholders Equity

(in thousands)

(Unaudited)

	Common Stock Class A Shares	Par Value	Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholders equity
Balance at December 31, 2004	56,216	\$ 562	\$ 156,628	\$ 6,202	\$ 545,867	\$ 709,259
Change in unrealized gain (loss) on available for sale securities, net of tax effect				(10,293)		(10,293)
Stock option exercise	26		397			397
Purchase and retirement of treasury stock and unexchanged shares	(9)		(144)			(144)
Net income					13,328	13,328
Balance, September 30, 2005	56,233	\$ 562	\$ 156,881	\$ (4,091)	\$ 559,195	\$ 712,547

See accompanying notes to consolidated financial statements.

**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, 2004. 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, 2004.

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



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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 had the right to withdraw up to \$5 million from this account to cover its ordinary operating expenses, which it did during 2004.

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.

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. As a consequence of the \$40 floor, if shares of Verizon Communications were to continue to trade at below \$40 at the time of the exchange, the number of Verizon Communications shares that would be issued to the Company in the exchange would be limited by the \$40 floor rather than being based on the actual trading price of the Verizon Communications shares. The Company would then receive fewer shares than would be the case if there were no \$40 floor and the total value of those shares would be less than the value of the investment the Company carries on its balance sheet. As of September 30, 2005 shares of Verizon Communications were trading at \$32.69.

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:

	(\$ in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	\$ 5,052	\$ 53,667	\$ 13,328	\$ 66,003
Estimated fair value of net option grants, net of forfeitures	(63)	(74)	(247)	(124)
Proforma net income	\$ 4,989	\$ 53,593	\$ 13,081	\$ 65,879
Proforma basic earnings per share	\$ .09	\$ .95	\$ .23	\$ 1.17
Proforma diluted earnings per share	\$ .09	\$ .95	\$ .23	\$ 1.16
Black-Scholes Methodology Assumptions:				
Dividend Yield	0%	0%	0%	0%
Risk free interest rate	3.72%	3.72%	3.72%	3.72%
Expected lives of options	5 years	5 years	5 years	5 years

Volatility of 31.326% was used to determine the fair value of options issued to employees.

### (4) Shareholders Equity

The Company's Board of Directors has authorized stock repurchase programs of the Company's common stock. During the nine months ended September 30, 2005 the Company purchased a total of 8,700 shares 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 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, 2004.

(5) **Equity Investment in Verizon Partnership**

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

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended, September 30, 2005	Nine Months Ended, September 30, 2004
<b><u>Income statement data:</u></b>				
<b>Operating revenues</b>	\$ 167,568	\$ 136,237	\$ 465,640	\$ 387,255
<b>Operating expenses</b>	107,564	82,167	290,562	224,673
<b>Net income</b>	55,157	47,806	159,871	143,640

	September 30, 2005	December 31, 2004
<b><u>Balance sheet data:</u></b>		
<b>Current assets</b>	\$ 108,027	\$ 33,696
<b>Wireless licenses</b>	1,640,655	1,640,655
<b>Total assets</b>	2,097,878	1,995,368
<b>Total liabilities</b>	381,379	405,730
<b>Partners capital</b>	1,709,011	1,584,780

The Company's portion of total partners' capital in the amount of \$1.168 billion currently earns a preferred return of approximately 2.9% per annum, which amounted to \$8.5 million and \$8.4 million for the quarter ended September 30, 2005 and September 30, 2004 and \$25.3 million and \$25.0 million for the nine months ended September 30, 2005 and September 30, 2004.

**(6) Estimated Liability To Former Minority Partners**

On November 12, 2004, the Company appealed to the Supreme Court in the State of Delaware the Memorandum Opinion and Final Order that had been issued in the case of Gerhard Frank Dobler et al ( "Dobler" ) v. Montgomery Cellular Holding Co. Inc. ( "MCHC" ) et al, the appraisal action to determine the value of the shares held in MCHC, by Mr. Dobler and other petitioners at the time of the merger of MCHC into Palmer. Amounts due under the Memorandum Opinion and Final Order are included in the estimated liability to former minority partners. On August 1, 2005, the Company was notified that the Supreme Court of the State of Delaware affirmed the judgement, and also made the Company responsible for payment of the petitioners' reasonable legal fees. The judgement was paid out of the escrow account that had been set up after the November 2004 Opinion and Final Order. On October 19, 2005, the petitioners filed an application for legal and expert fees in the amount of \$2,459,000. The Company is contesting the reasonableness of such amount. The judge has assigned this matter to a special master to determine the reasonability of petitioners' legal fees. The Company paid approximately \$327,000 of this amount and the remainder in the amount of \$2,132,000 has been accrued on the balance sheet in the estimated liability to former minority partners - current.

**(7) Recent Accounting Pronouncements**

In December 2004, the FASB issued FAS No. 123(R), *Share-Based Payment*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in FAS 123 originally issued and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*. This Statement is effective for fiscal years beginning after June 15, 2005 and applies to all outstanding and unvested stock-based payment awards at the date of adoption. We anticipate the adoption of FAS 123(R) will affect our results of operation to an extent similar to that as presented in our FAS 123 pro forma disclosure included in Note 3 above.

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

*Critical Accounting Policies and Estimates*



**Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared by the Company without audit in accordance with the rules and regulations of the Securities and Exchange Commission. The preparation of our financial statements requires us to make estimates that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. We base our accounting estimates on historical experience and other factors that are believed to be reasonable under the circumstances. However, actual results may vary from these estimates under different assumptions or conditions. The following is a summary of our critical significant accounting policies and estimates.**



***Financial Instruments***

At September 30, 2005, all of the Company's investment securities were marketable equity securities classified as Available-for-Sale Securities. In addition, substantially all of the balance maintained in the collateral account consisted of marketable equity securities. Unrealized holding gains and losses for Available-for-Sale Securities are excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss). The Company sells put and call options, some of which puts are in the Company's own common stock. These options entitle the holders to buy from or to sell publicly traded securities to the Company during certain periods at certain prices. The Company is required to maintain collateral to support the options it holds. Therefore, such unsettled contracts are classified as liabilities in the Company's consolidated balance sheet, if unsettled at the balance sheet date, with changes in fair values recorded as part of other income. As of September 30, 2005, there were no option contracts outstanding.

Realized gains and losses are accounted for by specific identification or average cost and are included in other income.

***Investment in Limited Partnership***

The Company accounts for the Preferred Exchangeable Interest using a method 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 will be entitled to based on the availability of profits at the agreed upon preferred rate of return and reduces such investment by any cash distribution to the Company.

***Recent Accounting Pronouncements***

In December 2004, the FASB issued FAS No. 123( R), *Share-Based Payment*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in FAS 123 originally issued and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*. This Statement is effective for fiscal years beginning after June 15, 2005 and applies to all outstanding and unvested stock-based payment awards at the date of adoption. We anticipate the adoption of FAS 123( R ) will affect our results of operation to an extent similar to that as presented in our FAS 123 pro forma disclosure included in Note 3 of the Company's consolidated financial statements.

**Overview**

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

The discussion contains statements, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are made regarding the intent, belief, or current expectations of the

Company, its directors, or officers primarily with respect to the future operating performance of the Company. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties and that actual results may differ from those in the forward-looking statements as a result of factors, many of which are outside the control of the Company.

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

The Company and Mr. Price (in his capacity as chief executive officer of the Company and in his personal capacity) have been shown a variety of potential acquisitions and opportunities. These include the purchase of a mutual fund management company, banks, cellular properties, independent telephone companies, broadcasting and/or publishing companies and a proposal for the conversion of the Company into a closed-end investment company. Management and the Board of Directors continue to evaluate these and other opportunities.

*Three and Nine Months Ended September 30, 2005 Compared to Three and Nine Months Ended September 30, 2004*

**Revenue.** As a result of the contribution on August 15, 2002 of the Company's operating subsidiary to the Verizon Partnership, the sole source of operating revenue during the periods was the earnings on the Company's preferred investment in the Verizon Partnership. Since there were sufficient earnings as indicated in Note 5 in the Notes to Consolidated Financial Statements, the Company recorded its proportionate share of profits at a rate of approximately 2.9% per annum on its average investment balance in the limited partnership. The income from the partnership increased to \$8.5 million and \$25.3 million for the quarter and nine months ended September 30, 2005 compared to \$8.4 million and \$25.0 million for the quarter and nine months ended September 30, 2004 as result of the preferred return accrued on the accumulated balance in the Company's partnership account.

**Operating Expenses.** Operating expenses are comprised mainly of general and administrative expenses which were approximately \$1.3 million and \$700,000 for the third quarter of 2005 and 2004, but were \$5.3 million and \$4.7 million for the first nine months of 2005 and 2004, respectively. The principal expenses during the first nine months of 2005 and 2004 continued to be payroll and related expenses and legal fees, primarily in connection with cellular legal matters. The increase in general and administrative expenses of approximately 88% and 12% for the three and nine months ended September 30, 2005 compared to 2004 was primarily due to increased legal expenses. The Company and its counsel began to prepare for the trial of certain legal matters related to the Company's former minority partners. These cases had been inactive during the first nine months of 2004.

**Provision for Cellular Legal Matters.** Former minority interest holders in certain of the Company's subsidiaries which were merged and/or dissolved into Palmer Wireless Holdings, Inc. (Palmer), a wholly owned subsidiary of Price Communications Wireless, Inc. (PCW), in June 2001 are entitled to receive merger consideration. Amounts payable to such minority interest holders may be finally determined by negotiations between the parties or if such negotiations fail, by applicable state court proceedings. As of December 31, 2004, the Company had accrued \$26.5 million including interest (of which \$12.9 million was classified as current) as the estimated liability to settle the minority holders' claims. During the quarter and nine months ended September 30, 2005, the Company accrued an additional

\$390,000 and \$1,446,000 of interest on the estimated liability payable to former minority partners.

Additionally, on November 12, 2004, the Company appealed to the Supreme Court in the State of Delaware the Memorandum Opinion and Final Order that had been issued in the case of Gerhard Frank Dobler et al ( Dobler ) v. Montgomery Cellular Holding Co. Inc. ( MCHC ) et al, the appraisal action to determine the value of the shares held in MCHC, by Mr. Dobler and other petitioners at the time of the merger of MCHC into Palmer. Amounts due under the Memorandum Opinion and Final Order are included in the estimated liability to former minority partners. On August 1, 2005, the Company was notified that the Supreme Court of the State of Delaware affirmed the judgement, and also made the Company responsible for payment of the petitioners' reasonable legal fees. The judgement was paid out of the escrow account that had been set up after the November 2004 Opinion and Final Order. On October 19, 2005, the petitioners filed an application for legal and expert fees in the amount of \$2,459,000. The Company has accrued this amount, but is contesting the reasonableness of such amount. The judge has assigned this matter to a special master to determine the reasonability of petitioners' legal fees. The Company paid approximately \$327,000 of this amount and the remainder in the amount of \$2,132,000 has been accrued on the balance sheet in the estimated liability to former minority partners' current.

**Other Income, Income Taxes and Net Income.** Other income decreased to \$1.1 million and \$3.4 million in the quarter and nine months ended September 30, 2005 from \$1.9 million and \$8.6 million in the quarter and nine months ended September 30, 2004 mainly as a result of a decrease in net gains from marketable securities transactions. Such gains were approximately \$95,000 and \$435,000 in the three months and nine months ended September 30, 2005, compared to \$737,000

and \$5.4 million in the three and nine months ended September 30, 2004. This decrease in realized gains was due to the volatile and more difficult market conditions in 2005.

Income tax expense has been provided for the first nine months of 2005 and 2004 at effective rates of 31.6% and 35.7%, respectively, and 23.7% for the quarter ended September 30, 2005. For the quarter ended September 30, 2004, there was a net income tax benefit. The effective tax rates in 2005 are lower than the effective tax rates in 2004 primarily resulting from overaccruals from prior years and a reduction of the expected effective tax rate for 2005.

The net income of \$5.1 million and \$13.3 million for the three and nine months ended September 30, 2005 compared to net income of \$53.7 million and \$66.0 million for the three and nine months ended September 30, 2004 decreased primarily because in the third quarter of 2004, the Company reversed a long-term tax accrual of \$53.1 million due to the expiration of applicable statutes. This amount was partially offset by a provision for cellular legal matters of \$10.0 million during that quarter. Additionally there was a decrease in realized gains on the sales of securities for both the quarter and nine months ended September 30, 2005.

#### **Liquidity and Capital Resources**

As previously discussed, the Company's primary source of revenue is currently its earnings from the Verizon Partnership. Based upon the current results for the Verizon Partnership, there appears to be minimal possibility that the Company will not receive its proportionate share of partnership earnings through August 15, 2006, the last period for which the Company is entitled to its preferred interest if a conversion to Verizon common or Verizon Wireless common does not occur before that date. For the period that the Company is entitled to receive a preferred return, 50% of such return will be paid in cash with the balance being added to the Company's capital account. If the Verizon Partnership incurs losses, such losses are first allocated to Cellco Partnership and its affiliates up to an amount equaling their capital account in the Verizon Partnership before being allocated to the Company.

Under a letter agreement dated August 9, 2002, Verizon Communications provided the Verizon Partnership with \$350 million of debt financing which was used in connection with the covenant defeasance and redemption of PCW's outstanding debt. PCW agreed to guarantee the \$350 million indebtedness. However, PCW is not obligated to make payment under the guarantee until Verizon Communications has exhausted all remedies against the Verizon Partnership. The Company believes that the probability of the guarantee being enforced is remote. This guarantee will expire when the Company converts the partnership interest to Verizon common stock in August of 2006. In connection with the guaranty, Price established a \$70 million collateral account (with a market value of \$75.9 million as of September 30, 2005), which now consists principally of marketable securities. Price controls the investment decisions for this account and has the right to withdraw certain sums such as dividends and interest on its investments and had the right to withdraw up to an additional \$5 million in the aggregate from the account in order to cover its ordinary operating expenses, which it did during 2004. The restrictions on this account will end upon the August 2006 conversion of the partnership interest to common stock.

As of September 30, 2005, the Company has approximately \$4.1 million of cash and cash equivalents and \$3.3 million in marketable securities. It anticipates receiving approximately \$16.8 million during the current year as its 50% distribution from its preferred investment, of which approximately \$12.6 million was received during the first nine months of the year. Based on its current and anticipated cash receipts, the Company can meet its current cash requirements. There is a remote risk, however, if significant unexpected cash needs arise, that its funds will be insufficient to meet its obligations and if the Company needs to borrow money to meet such obligations, it may be forced to do so on unfavorable terms.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk as it relates to its investment securities, whose values fluctuate with the market and whose values have been adjusted to reflect their market values as of September 30, 2005. In addition, the realizability of the Company's investment in the Verizon Partnership could be affected if the price of Verizon Communications common stock continues to be below \$40 per share (the lowest price at which the partnership interest is convertible in 2006 pursuant to the Company's agreement with Verizon) for an extended period of time. On September 30, 2005, those shares closed at a price of \$32.69. The Company believes its investment in the Verizon Partnership is realizable at its recorded value at September 30, 2005.

**Item 4. Procedures and Controls**



As of December 31, 2004 the Chief Executive Officer and the Chief Financial Officer of the Company carried out an evaluation of the effectiveness of the Company's design and operation of disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Since the

contribution of the Company's wireless business in 2002 to a limited partnership controlled by Verizon Wireless, Inc. as described in the Annual Report to Shareholders in the previously filed 10-K, the Company has not had an active operating business. The Company is primarily a holding Company for its investment in the Verizon Partnership and for other investments in marketable securities and cash. The Company has reduced its staff to a minimal level to support these activities and maximize shareholder value.

As reported in our 10-K/A filed on May 2, 2005, as of December 31, 2004, due to the lack of sufficient accounting personnel, there was an ineffective segregation of duties in the preparation of the financial statements to prevent or detect errors. This control deficiency resulted in audit adjustments to the 2004 financial statements related to marketable securities which were identified by BDO Seidman, LLP, the Company's independent registered public accounting firm, and could result in other material misstatements to annual or interim financial statements that would not be prevented or detected if left unremediated. Accordingly, management determined that this control deficiency constitutes a material weakness. Management determined that these errors might have been detected if the Company had additional accountants to assist in the controls in the preparation of financial statements.

Based on the evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2005, management believes that the material weakness referred to above still exists, in that the Company has not added any accountants to staff, however, the Company has continued to review, revise and improve the effectiveness of our internal controls. We have taken some steps to remedy the deficiencies, primarily by engaging external accountants to assist in the preparation and review of the marketable securities transactions. Our Chief Executive Officer and Chief Financial Officer believe these actions will strengthen our internal control over financial reporting and address the material weakness referred to above.

**PART II****OTHER INFORMATION****Item 1. Legal Proceedings**

See Management's Discussion and Analysis of Financial Condition and Results of Operations Provision for Cellular Legal Matters

**Item 2. Changes in Securities**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1-31, 2005				1,117,890
August 1-31, 2005				1,117,890
September 1-30, 2005	8,700	\$ 16.58	8,700	1,109,190
Total	8,700	\$ 16.58	8,700	1,109,190

**Item 3. Defaults Upon Senior Securities**

Not Applicable. The Company has no debt securities outstanding.

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

None

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32	Certification of the Chief Executive Officer and Chief Financial Officer

