ALAMOSA HOLDINGS INC
Form 10-Q
August 06, 2004
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2004

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: 0-32357

ALAMOSA HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-2890997
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5225 SOUTH LOOP 289, SUITE 120
LUBBOCK, TEXAS 79424
(Address of principal executive offices, including zip code)

(806) 722-1100
(Registrant's telephone number, including area code)

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 Rule 12b-2 of the Exchange Act).

YES NO

As of August 4, 2004, 112,664,093 shares of common stock, $0.01 par value per share, were issued and outstanding.

ALAMOSA HOLDINGS, INC.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALAMOSA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(dollars in thousands, except share information)

	June 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105,568	$ 99,644
Restricted cash	—	1
Short term investments	50,119	—

Customer accounts receivable, net	44,022	28,034
Receivable from Sprint	15,424	22,947
Inventory	7,292	7,309
Prepaid expenses and other assets	10,264	9,763
Deferred customer acquisition costs	7,259	8,060
Deferred tax asset	4,572	4,572
Total current assets	244,520	180,330
Property and equipment, net	427,196	434,840
Debt issuance costs, net	9,409	14,366
Early redemption option on preferred stock	22,437	21,687
Intangible assets, net	431,392	448,354
Other noncurrent assets	5,060	6,393
Total assets	$ 1,140,014	$ 1,105,970
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,833	$ 33,247
Accrued expenses	39,739	37,325
Payable to Sprint	21,511	26,616
Interest payable	21,726	5,353
Deferred revenue	23,107	22,742
Current installments of capital leases	223	481
Total current liabilities	129,139	125,764
Long term liabilities:		
Capital lease obligations	807	812
Other noncurrent liabilities	6,460	8,693
Deferred tax liability	15,963	15,966
Senior secured debt	—	200,000
Senior notes	726,427	464,424
Total long term liabilities	749,657	689,895
Total liabilities	878,796	815,659
Commitments and contingencies (see Note 15)	—	—
Redeemable convertible preferred stock:		
Series B preferred stock, $.01 par value, 750,000 shares authorized; 484,585 and 679,495 shares issued and outstanding, respectively	163,031	228,606
Series C preferred stock, $.01 par value; 500,000 shares authorized; no shares issued	—	—
Total redeemable convertible preferred stock	163,031	228,606
Stockholders' equity:		
Preferred stock, $.01 par value; 8,750,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value; 290,000,000 shares authorized, 112,605,519 and 95,401,557 shares issued and outstanding, respectively	1,126	954
Additional paid-in capital	860,100	800,992
Accumulated deficit	(762,820)	(739,566)
Unearned compensation	(219)	(145)
Accumulated other comprehensive loss, net of tax	—	(530)
Total stockholders' equity	98,187	61,705
Total liabilities and stockholders' equity	$ 1,140,014	$ 1,105,970

The accompanying notes are an integral part of the consolidated financial statements.

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ALAMOSA HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(dollars in thousands, except per share amounts)

	For the three months ended June 30, 2004	For the three months ended June 30, 2003	For the six months ended June 30, 2004	For the six months ended June 30, 2003
Revenues:				
Subscriber revenues	$ 133,569	$ 114,550	$ 258,315	$ 218,574
Roaming and wholesale revenues	51,705	35,040	94,858	66,830
Service revenues	185,274	149,590	353,173	285,404
Product sales	8,055	5,804	16,846	11,098
Total revenue	193,329	155,394	370,019	296,502
Costs and expenses:				
Cost of service and operations (excluding non-cash compensation of $2 and $4 for the three months ended June 30, 2004 and 2003, respectively, and $4 and $8 for the six months ended June 30, 2004 and 2003, respectively)	91,062	80,282	177,278	159,599
Cost of products sold	16,379	12,399	36,162	25,243
Selling and marketing (excluding non-cash compensation of $2 and $4 for the three months ended June 30, 2004 and 2003, respectively and $4 and $8 for the six months ended June 30, 2004 and 2003, respectively)	31,839	26,584	62,832	54,730
General and administrative expenses (excluding non-cash compensation of $21 and $191 for the three months ended June 30, 2004 and 2003, respectively, and $43 and $224 for the six months ended June 30, 2004 and 2003, respectively)	5,706	5,918	11,423	9,583
Depreciation and amortization	25,523	27,419	52,907	54,301
Impairment of property and equipment	2,604	34	2,910	394
Non-cash compensation	25	199	51	240
Total costs and expenses	173,138	152,835	343,563	304,090
Income (loss) from operations	20,191	2,559	26,456	(7,588)
Loss on debt extinguishment	—	—	(13,101)	—
Gain (loss) on derivative instrument	(11,926)	—	746	—
Interest and other income	221	249	389	634
Interest expense	(18,952)	(25,951)	(37,187)	(52,488)
Loss before income taxes	(10,466)	(23,143)	(22,697)	(59,442)
Income tax (expense) benefit	(240)	4,480	(557)	10,248

Net loss		(10,706)		(18,663)		(23,254)		(49,194)
Preferred stock dividend		(2,576)		—		(5,796)		—
Preferred stock conversion premium		(6,441)		—		(6,441)		—
Net loss attributable to common stockholders	$	(19,723)	$	(18,663)	$	(35,491)	$	(49,194)
Net loss per common share, basic and diluted	$	(0.19)	$	(0.20)	$	(0.36)	$	(0.53)
Weighted average common shares outstanding, basic and diluted		101,885,776		93,747,117		98,688,272		93,626,690

The accompanying notes are an integral part of the consolidated financial statements.

ALAMOSA HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(dollars in thousands)

	For the six months ended June 30,			
		2004		2003
Cash flows from operating activities:				
Net loss	$	(23,254)	$	(49,194)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Non-cash compensation		51		240
Non-cash interest expense (benefit) on derivative instruments		6		(261)
Non-cash accretion of asset retirement obligations		91		—
Non-cash gain on derivative instruments		(746)		—
Provision for bad debts		4,114		10,000
Depreciation and amortization of property and equipment		35,945		34,268
Amortization of intangible assets		16,962		20,033
Amortization of financing costs included in interest expense		488		2,237
Amortization of discounted interest		—		198
Loss on debt extinguishment		13,101		—
Deferred tax benefit		—		(10,248)
Interest accreted on discount notes		12,056		17,377
Impairment of property and equipment		2,910		394
(Increase) decrease in:				
Receivables		(12,579)		(1,543)
Inventory		17		1,989
Prepaid expenses and other assets		1,633		(1,378)
Increase (decrease) in:				
Accounts payable and accrued expenses		10,891		(4,608)
Net cash provided by operating activities		61,686		19,504
Cash flows from investing activities:				

Proceeds from sale of assets	380	2,454
Purchases of property and equipment	(42,636)	(19,196)
Change in restricted cash	1	24,977
Change in short term investments	(50,119)	—
Net cash provided by (used in) investing activities	(92,374)	8,235
Cash flows from financing activities:		
Proceeds from issuance of senior notes	250,000	—
Repayments of borrowings under senior secured debt	(200,000)	—
Debt issuance costs	(8,100)	—
Preferred stock dividends	(6,053)	—
Preferred stock conversion premium	(116)	—
Stock options exercised	719	—
Shares issued to employee stock purchase plan	492	127
Payments on capital leases	(330)	(699)
Net cash provided by (used in) financing activities	36,612	(572)
Net increase in cash and cash equivalents	5,924	27,167
Cash and cash equivalents at beginning of period	99,644	61,737
Cash and cash equivalents at end of period	$ 105,568	$ 88,904
Supplemental disclosure of non-cash financing and investing activities:		
Conversion of preferred stock	$ 65,626	$ —
Preferred stock issued in debt exchange	51	—
Asset retirement obligations capitalized	75	—
Capitalized lease obligations incurred	67	73
Change in accounts payable for purchases of property and equipment	(11,186)	(6,790)

The accompanying notes are an integral part of the consolidated financial statements.

ALAMOSA HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
(dollars in thousands, except as noted)

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited consolidated balance sheet at June 30, 2004, the unaudited consolidated statements of operations for the three months and six months ended June 30, 2004 and 2003, the unaudited consolidated statements of cash flows for the six months ended June 30, 2004 and 2003 and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required annually by accounting principles generally accepted in the United States of America. The financial information presented should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2003. In the opinion of management, the interim data includes all adjustments (consisting of only normally recurring adjustments) necessary for a fair statement of the results for the interim periods. Operating results for the three months and six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the year ending December 31, 2004.

Basic and diluted net loss per share of common stock is computed by dividing net loss attributable to common stockholders for each period by the weighted-average outstanding number of common shares. No conversion of common stock equivalents has been assumed in the calculations since the effect would be antidilutive. As a result, the number of weighted-average outstanding common shares as well as the amount of net loss per share are the same for basic and diluted net loss per share calculations for all periods presented. Common stock equivalents excluded from diluted net loss per share calculations consisted of options to purchase 9,972,684 and 8,440,710 shares of common stock at June 30, 2004 and 2003, respectively. Also excluded from diluted net loss per share calculations for all periods presented is the impact of the Series B redeemable convertible preferred stock outstanding during the period as the inclusion of the impact of the conversion of this preferred stock would be antidilutive. The number of shares of Series B redeemable convertible preferred stock outstanding was 484,585 at June 30, 2004. No shares were outstanding at June 30, 2003 as these shares were issued in November 2003.

In addition, 800,000 shares of restricted stock that were collectively awarded in October and December of 2002 have been excluded from the weighted-average outstanding number of common shares for the three months and six months ended June 30, 2003 and 400,000 shares of this restricted stock have been excluded from the weighted-average outstanding number of common shares for the three months and six months ended June 30, 2004. These shares are included in the weighted-average outstanding number of common shares as the restrictions lapse.

Certain reclassifications have been made to prior period balances to conform to current period presentation. Changes in restricted cash have been reclassified from cash flows from financing activities to cash flows from investing activities for all periods presented.

2. ORGANIZATION AND BUSINESS OPERATIONS

Alamosa Holdings, Inc. ("Alamosa Holdings") is a PCS Affiliate of Sprint with the exclusive right to provide wireless personal communications service under the Sprint brand name in a territory encompassing approximately 15.8 million residents. Alamosa Holdings was formed in July 2000. Alamosa Holdings is a holding company and through its subsidiaries provides wireless personal communications services, commonly referred to as PCS, in the Southwestern, Northwestern and Midwestern United States. Alamosa (Delaware), Inc. ("Alamosa (Delaware)"), a subsidiary of Alamosa Holdings, was formed in October 1999 under the name "Alamosa PCS Holdings, Inc." to operate as a holding company in anticipation of its initial public offering. On February 3, 2000, Alamosa (Delaware) completed its initial public offering. Immediately prior to the initial public

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offering, shares of Alamosa (Delaware) were exchanged for Alamosa PCS LLC's ("Alamosa LLC") membership interests, and Alamosa LLC became wholly owned by Alamosa (Delaware). Alamosa Holdings and its subsidiaries are collectively referred to in these consolidated financial statements as the "Company," "we," "us" or "our."

On December 14, 2000, Alamosa (Delaware) formed a new holding company pursuant to Section 251(g) of the Delaware General Corporation Law. In that transaction, each share of Alamosa (Delaware) was converted into one share of the new holding company, and the former public company, which was renamed "Alamosa (Delaware), Inc." became a wholly owned subsidiary of the new holding company, which was renamed "Alamosa PCS Holdings, Inc."

On February 14, 2001, Alamosa Holdings became the new public holding company of Alamosa PCS Holdings, Inc. ("Alamosa PCS Holdings") and its subsidiaries pursuant to a reorganization transaction in which a wholly owned subsidiary of Alamosa Holdings was merged with and into Alamosa PCS Holdings. As a result of this reorganization, Alamosa PCS Holdings became a wholly owned subsidiary of Alamosa Holdings, and each share of Alamosa PCS Holdings common stock was converted into one share of Alamosa Holdings common stock. Alamosa Holdings' common stock is quoted on Nasdaq under the symbol "APCS."

3. LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed its operations through capital contributions from owners, through debt financing and through proceeds generated from public offerings of common stock. The proceeds from these transactions have been used to fund the build-out of the Company's portion of the PCS network of Sprint, subscriber acquisition costs and working capital.

While the Company has incurred substantial net losses since inception and negative cash flows from operating activities through 2002, the Company generated approximately $55 million and $62 million of cash flows from operating activities for the year ended December 31, 2003 and the six months ended June 30, 2004, respectively. In November 2003, the Company completed a debt exchange that provided for approximately $238 million of principal debt reduction.

As of June 30, 2004, the Company had $106 million in cash and cash equivalents as well as $50 million in short term investments and believes that this cash on hand plus the additional liquidity that it expects to generate from operations will be sufficient to fund expected capital expenditures and to cover its working capital and debt service requirements (including dividends on preferred stock) for at least the next 12 months.

The Company's future liquidity will be dependent on a number of factors influencing its projections of operating cash flows, including those related to subscriber growth, average revenue per user, average monthly churn and cost per gross addition. Should actual results differ significantly from these assumptions, the Company's liquidity position could be adversely affected and it could be in a position that would require it to raise additional capital which may or may not be available on terms acceptable to the Company, if at all, and could have a material adverse effect on the Company's ability to achieve its intended business objectives.

4. STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. No stock-based employee compensation cost related to option grants is reflected in the consolidated statements of operations for the three months and six months ended June 30, 2004 or 2003, as all options granted by the Company had an exercise price equal to or

greater than the market value of the underlying common stock on the date of grant. Non-cash compensation expense reflected in the consolidated statements of operations for the three month and six month periods ended June 30, 2004 and 2003 relate to the vesting of shares of restricted stock awarded to officers and shares of stock awarded to directors and are not related to the granting of stock options. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Net loss – as reported	$ (10,706)	$ (18,663)	$ (23,254)	$ (49,194)
Add: stock-based employee compensation included in reported net loss, net of related tax	25	199	51	240
Deduct: stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,595)	(2,116)	(2,780)	(3,588)
Net loss – pro forma	(12,276)	(20,580)	(25,983)	(52,542)
Preferred stock dividend	(2,576)	—	(5,796)	—
Preferred stock conversion premium	(6,441)	—	(6,441)	—
Net loss attributable to common stockholders – pro forma	$ (21,293)	$ (20,580)	$ (38,220)	$ (52,542)
Net loss per share – as reported				
Basic and diluted	$ (0.19)	$ (0.20)	$ (0.36)	$ (0.53)
Net loss per share – pro forma				
Basic and diluted	$ (0.21)	$ (0.22)	$ (0.39)	$ (0.56)

5. SHORT TERM INVESTMENTS

During the first six months of 2004, the Board of Directors approved a change in the Company's investment policy to extend the allowable weighted average maturity of investments from the 90 days allowed previously to 270 days. In connection with this amendment, the Company established a short term investment account in the second quarter of 2004 to invest excess liquidity and improve earnings on this excess liquidity. All investments are classified as held-to-maturity, mature in less than one year and consist primarily of short term corporate debt securities with a Moody's rating of Aa3 or higher or a Standard & Poor's rating of AA- or higher. The fair value of the Company's held-to-maturity investments approximates carrying value due to the short term nature of these investments.

6. ACCOUNTS RECEIVABLE

Customer accounts receivable – Customer accounts receivable represents amounts owed to the Company by subscribers for PCS service. The amounts presented in the consolidated balance sheets are net of an allowance for uncollectible accounts of $5.9 million and $6.0 million at June 30, 2004 and December 31, 2003, respectively.

(UNAUDITED)
(dollars in thousands, except as noted)

Receivable from Sprint – Receivable from Sprint in the accompanying consolidated balance sheets consists of the following:

	June 30, 2004	December 31, 2003
Net roaming receivable	$12,590	$13,071
Accrued service revenue	2,686	2,584
Service fee refund	—	6,418
Other amounts due from Sprint	148	874
	$15,424	$22,947

Net roaming receivable includes net travel revenue due from Sprint relative to PCS subscribers based outside of the Company's licensed territory who utilize the Company's portion of the PCS network of Sprint. The net roaming revenue receivable is net of amounts owed to Sprint relative to the Company's subscribers who utilize the PCS network of Sprint outside of the Company's licensed territory. In addition, net roaming receivable also includes amounts due from Sprint, which have been collected from other PCS providers for their customers' usage of the Company's portion of the PCS network of Sprint.

Accrued service revenue represents the Company's estimate of airtime usage and other charges that have been earned but not billed at the end of the period.

Service fee refund due from Sprint at December 31, 2003 related to a refund of fees paid to Sprint for services such as billing and customer care. Under the previous agreements with Sprint, these fees were determined at the beginning of each year based on estimated costs and were adjusted based on actual costs incurred by Sprint in providing the respective services. This process changed effective December 1, 2003 under the new agreements with Sprint as discussed in Note 14.

7. PROPERTY AND EQUIPMENT

Property and equipment are stated net of accumulated depreciation and amortization of $212.8 million and $188.1 million at June 30, 2004 and December 31, 2003, respectively.

8. ASSET RETIREMENT OBLIGATIONS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period that it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. For the Company's leased telecommunications facilities, primarily consisting of cell sites and switch site operating leases and operating leases for retail and office space, the Company has adopted SFAS No. 143 as of January 1, 2003.

As previously disclosed, upon adoption of SFAS No. 143, the Company had concluded that, for its leased telecommunications facilities, a liability could not be reasonably estimated due to (1) the Company's inability to reasonably assess the probability of the likelihood that a lessor would enforce the remediation requirements upon expiration of the lease term and therefore its impact on future cash outflows, (2) the Company's inability to estimate a potential range of settlement dates due to its ability to renew site leases after the initial lease expiration and (3) the Company's limited experience in abandoning cell site locations and actually incurring remediation costs.

It is the Company's understanding that further clarification has been provided by the Securities and Exchange Commission regarding the accounting for asset retirement obligations and specifically

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relating to factors to consider in determining the estimated settlement dates and the probability of enforcement of the remediation obligation. Based on this information, the Company revised certain of the estimates used in its original analysis and calculated an asset retirement obligation for its leased telecommunications facilities. The Company determined that the aforementioned asset retirement obligations did not have a material impact on its consolidated results of operations, financial position or cash flows and recorded the asset retirement obligations in the third quarter of 2003.

An initial asset retirement obligation of $1,213 was recorded and classified in other non-current liabilities and a corresponding increase in property and equipment of $1,213 was recorded in the third quarter of 2003 relating to obligations that existed upon the adoption of SFAS No. 143. The Company incurred additional asset retirement obligations during the year ended December 31, 2003 and the six months ended June 30, 2004 of $35 and $75, respectively, related to new leases entered into. Included in costs of services and operations in the Company's statement of operations for the year ended December 31, 2003 is a charge of $402 related to the cumulative accretion of the asset retirement obligations as of the adoption of SFAS No. 143 as well as an additional $163 in accretion recorded for the year ended December 31, 2003. Included in depreciation and amortization expenses in the Company's statement of operations for the year ended December 31, 2003 is a charge of $364 related to the cumulative depreciation of the related assets recorded at the time of the adoption of SFAS No. 143 as well as an additional $123 in depreciation recorded for the year ended December 31, 2003. For the six months ended June 30, 2004, the Company recorded $91 in accretion of asset retirement obligations and $63 in depreciation of the related assets. For purposes of determining the asset retirement obligations, the Company has assigned a 100% probability of enforcement to the remediation obligations and has assumed an average settlement period of 20 years.

9. INTANGIBLE ASSETS

In connection with acquisitions completed during 2001, the Company allocated portions of the respective purchase prices to identifiable intangible assets consisting of (i) the value of the Sprint agreements in place at the acquired companies and (ii) the value of the subscriber base in place at the acquired companies.

The value assigned to the Sprint agreements is being amortized using the straight-line method over the remaining original terms of the agreements that were in place at the time of acquisition or approximately 17.6 years. The value assigned to the subscriber bases acquired was being amortized using the straight-line method over the estimated life of the acquired subscribers, or approximately three years and became fully amortized during 2004.

Intangible assets consist of:

	June 30, 2004	December 31, 2003
Sprint affiliate and other agreements	$ 532,200	$ 532,200
Accumulated amortization	(100,808)	(85,692)
Subtotal	431,392	446,508
Subscriber base acquired	29,500	29,500
Accumulated amortization	(29,500)	(27,654)
Subtotal	—	1,846
Intangible assets, net	$ 431,392	$ 448,354

Amortization expense relative to intangible assets was $16,962 and $20,033 for the six months ended June 30, 2004 and 2003, respectively.

ALAMOSA HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
(dollars in thousands, except as noted)

Aggregate amortization expense relative to intangible assets for the periods shown will be as follows:

Year ended December 31,	
2004	$ 32,079
2005	30,234
2006	30,234
2007	30,234
2008	30,234
Thereafter	295,339
	$ 448,354

10. LONG-TERM DEBT
Long-term debt consists of the following:

	June 30, 2004	December 31, 2003
Senior Notes:		
12 7/8% Senior Discount Notes, net of discount	$ 5,915	$ 5,556
12% Senior Discount Notes, net of discount	205,692	193,995
12½% Senior Notes	11,600	11,600
13 5/8% Senior Notes	2,325	2,475
11% Senior Notes	250,895	250,798
8½% Senior Notes	250,000	—
Total Senior Notes	726,427	464,424

(dollars in thousands, except as noted)

Senior Secured Credit Facility		—		200,000
Total Debt		726,427		664,424
Less current maturities		—		—
Long term debt, excluding current maturities	$	726,427	$	664,424

SENIOR NOTES

12 7/8% Senior Discount Notes – The 12 7/8% Senior Discount Notes were issued in February 2000, mature February 15, 2010, carry a coupon rate of 12 7/8% and provide for interest deferral through February 15, 2005. The 12 7/8% Senior Discount Notes will accrete to their $6,389 face amount by February 8, 2005, after which, interest will be paid in cash semiannually.

12% Senior Discount Notes – The 12% Senior Discount Notes were issued in November 2003, mature July 31, 2009, carry a coupon rate of 12% and provide for interest deferral through July 31, 2005. The 12% Senior Discount Notes will accrete to their $233 million face amount by July 31, 2005, after which, interest will be paid in cash semiannually.

12½% Senior Notes – The 12½% Senior Notes were issued in January 2001, mature February 1, 2011 and carry a coupon rate of 12½%, payable semiannually on February 1 and August 1.

Approximately $59.0 million of the proceeds of the 12½% Senior Notes Offering were used by Alamosa (Delaware) to establish a security account (with cash or U.S. government securities) to secure on a pro rata basis the payment obligations under the 12½% Senior Notes and the 12 7/8% Senior Discount Notes. As of December 31, 2003, all of the escrowed proceeds had been used in connection with payment of cash interest.

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13 5/8% Senior Notes – The 13 5/8% Senior Notes were issued in August 2001, mature August 15, 2011 and carry a coupon rate of 13 5/8% payable semiannually on February 15 and August 15. Approximately $39.1 million of the proceeds of the 13 5/8% Senior Notes were used by Alamosa (Delaware) to establish a security account to secure on a pro rata basis the payment obligations under all of the Company's unsecured borrowings. As of December 31, 2003, all of the escrowed proceeds had been used in connection with payment of cash interest.

11% Senior Notes – The 11% Senior Notes were issued in November 2003, mature July 31, 2010 and carry a coupon rate of 11%, payable semiannually on January 31 and July 31.

8½% Senior Notes – The 8½% Senior Notes were issued in January 2004, mature January 31, 2012 and carry a coupon rate of 8½% payable semiannually on January 31 and July 31. The proceeds of these notes were used to permanently repay the Company's senior secured credit facility in January 2004 as discussed below and for general corporate purposes.

SENIOR SECURED OBLIGATIONS

Senior Secured Credit Facility – On February 14, 2001, Alamosa Holdings, Alamosa (Delaware) and Alamosa Holdings, LLC, as borrower, entered into a $280 million senior secured credit facility (the "Senior Secured Credit Facility") with Citicorp USA, as administrative agent and collateral agent; Toronto Dominion (Texas), Inc., as syndication agent; Export Development Corporation ("EDC") as co-documentation agent; First Union National Bank, as documentation agent; and a syndicate of banking and financial institutions. On March 30, 2001, the Senior Secured Credit Facility was amended to increase the facility to $333 million. The Senior Secured Credit Facility was again amended in August 2001 concurrent with the issuance of the 13 5/8% Senior Notes to reduce the maximum borrowing to $225 million, consisting of a 7-year senior secured 12-month delayed draw term loan facility of $200 million and a 7-year senior secured revolving credit facility in an aggregate principal amount of up to $25 million.

The weighted average interest rate on the outstanding borrowings under this facility at December 31, 2003 was 4.69%. Alamosa Holdings, LLC was also required to pay quarterly in arrears a commitment fee on the unfunded portion of the commitment of each lender. The Company entered into derivative hedging instruments to hedge a portion of the interest rate risk associated with borrowings under the Senior Secured Credit Facility, as discussed in Note 13.

At December 31, 2003, Alamosa Holdings, LLC had drawn $200 million under the term portion of the Senior Secured Credit Facility. In connection with the issuance of the 8½% Senior Notes discussed above, a portion of the proceeds from that issuance was used to permanently repay the advances outstanding under the Senior Secured Credit Facility and the facility was terminated in January 2004.

11. REDEEMABLE CONVERTIBLE PARTICIPATING PREFERRED STOCK

In connection with a debt exchange completed in November 2003, the Company issued 679,495 shares of Series B Preferred Stock to noteholders who tendered their notes in the exchange. Holders of the Series B Preferred Stock are entitled to receive cumulative dividends at an annual rate of 7½% of the $250 per share liquidation preference. Dividends are payable quarterly in arrears on the last calendar day of each January, April, July and October. Until July 31, 2008, the Company has the option to pay dividends in (1) cash, (2) shares of Alamosa Holdings Series C Preferred Stock, (3) shares of Alamosa Holdings common stock or (4) a combination thereof. After July 31, 2008, all dividends are payable in cash only. Holders of the Series B Preferred Stock are entitled to participate in any dividends declared on Alamosa Holdings common stock based on the number of

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common shares the Series B Preferred Stock could be converted into immediately prior to the declaration of the common stock dividend. The Series C Preferred Stock has essentially the same terms as the Series B Preferred Stock with the exception of the conversion rate, as discussed below.

Each share of Series B Preferred Stock and Series C Preferred Stock is convertible at the holder's option and at any time into shares of Alamosa Holdings common stock. The Series B Preferred Stock is convertible at $3.40 per share and the Series C Preferred Stock is convertible at $4.25 per share.

Beginning on the third anniversary of the date of original issuance of the Series B or Series C Preferred Stock, the Company has the option to redeem outstanding preferred shares for cash. The initial redemption price is 125 percent of the $250 per share liquidation preference, reduced by 5 percent annually thereafter until 2011 after which time the redemption price remains at 100 percent. All outstanding Series B and Series C Preferred Stock must be redeemed by the Company on July 31, 2013.

In accordance with the provisions of SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," this option to redeem outstanding preferred shares for cash represents a derivative instrument that must be bifurcated and accounted for separately as the early redemption could potentially double a holders' return on the preferred shares. As a result, an asset was recorded in connection with this early redemption option in November 2003 in the amount of $18.8 million which represented the fair value of the option upon the issuance of the preferred shares as determined by an independent valuation professional. This derivative is adjusted to fair value at the end of each reporting period with any change in fair value being reflected in earnings for the period. As of June 30, 2004 and December 31, 2003, the fair value of this option was $22.4 million and $21.7 million, respectively.

The Series B Preferred Stock was recorded at fair value as of the date of issuance or approximately $325 per share, less a portion of the costs incurred in connection with the debt exchange of approximately $4.4 million plus the value assigned to the early redemption option discussed previously. The costs allocated to the Series B Preferred Stock were determined based on the relative fair value of the Series B Preferred Stock to the total fair value of consideration given to the tendering noteholders. In determining the $325 per share fair value of Series B Preferred Stock, the Company engaged the services of an independent valuation professional who used customary methodologies common in the valuation of such instruments to arrive at the fair value.

During the six months ended June 30, 2004, the Company paid $6,053 in cash dividends on the Series B Preferred Stock.

On May 14, 2004, the Company completed a private exchange transaction with a holder of the 13 5/8% Senior Notes. Pursuant to the transaction, the holder delivered to the Company an aggregate of $150 principal amount of the 13 5/8% Senior Notes in exchange for a newly issued $97 in principal amount of the 11% Senior Notes and 150 shares of Series B Preferred Stock. The transaction was retroactively effective as of the debt exchange in November 2003.

During the six months ended June 30, 2004, holders of 195,060 shares of Series B Preferred Stock exercised their conversion option or exchanged shares of Series B Preferred Stock with the Company and were granted 15,212,953 shares of Alamosa Holdings common stock in the aggregate valued at $4.58 per share at the time of conversion or exchange. In connection with the conversions or exchanges during the six months ended June 30, 2004, the Company paid premiums to certain holders of 193,000 shares of preferred stock in connection with private exchange transactions to induce such conversions. Cash premiums totaled $116 and premiums in the form of additional shares of common stock amounted to 870,310 shares valued at $6,325.

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12. INCOME TAXES

The Company's effective income tax rate is based on annual income (loss), statutory tax rates, tax planning opportunities, expected future taxable income, and expected reversals of taxable temporary differences. The annual rate is then applied to the Company's quarterly operating results. The income tax benefit in 2003 is recognized based on an assessment of the combined expected future taxable income of the Company and expected reversals of the temporary differences from acquisitions completed in 2001. In addition, the Company establishes a valuation allowance for the deferred tax asset when it is more likely than not that the deferred tax asset will not be realized. Due to the Company's limited operating history and lack of positive taxable earnings, a valuation allowance was established during 2003 as deferred tax assets were expected to exceed deferred tax liabilities. The establishment of this valuation allowance in the six months ended June 30, 2003 resulted in an effective tax rate of 17 percent. For the six months ended June 30, 2004, the expected tax benefit related to net operating losses generated was fully offset by an increase in the valuation allowance. The effective tax rate for the six months ended June 30, 2004 is negative 2.4 percent, due to the fact that the Company has estimated that it will have a current alternative minimum tax ("AMT") liability for the year ending December 31, 2004.

(dollars in thousands, except as noted)

13. HEDGING ACTIVITIES AND COMPREHENSIVE INCOME

The Company follows the provisions of SFAS No. 133, "Accounting for Derivatives and Hedging Activities" in its accounting for derivative financial instruments and hedging activities. The statement requires the Company to record all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either recognized in earnings or are recognized in other comprehensive income until the hedged item is recognized in earnings.

As of December 31, 2003, the Company had recorded $1,275 in "other noncurrent liabilities" related to the fair value of derivative instruments used for hedging purposes, including $856 representing derivative instruments that qualified for hedge accounting under SFAS No. 133. These instruments were settled for cash in January 2004 in connection with the termination of the Senior Secured Credit Facility. During the six month period ended June 30, 2004, the Company recognized losses of $6 (net of income tax benefit of $3) in other comprehensive income related to the change in fair value of these derivative instruments from January 1, 2004 through the settlement of the instruments. The balance of other comprehensive income related to these derivative instruments was recognized in the first quarter of 2004 when the derivatives were terminated. The net other comprehensive loss balance of $536 is included in the loss on debt extinguishment recorded in the consolidated statement of operations for the six months ended June 30, 2004.

During the six month period ended June 30, 2003, the Company recognized a gain of $481 (net of income tax expense of $195) in other comprehensive income related to the change in fair values of derivative instruments.

Total comprehensive loss for the three months and six months ended June 30, 2004 and 2003 is illustrated below:

	For the three months ended	For the six months ended

	June 30,		June 30,	
	2004	2003	2004	2003
Net loss	$ (10,706)	$ (18,663)	$ (23,254)	$ (49,194)
Change in fair values of derivative instruments, net of income tax expense (benefit) of $0, $80, $0 and $195, respectively	—	293	—	481
Comprehensive loss	$ (10,706)	$ (18,370)	$ (23,254)	$ (48,713)

14. SPRINT AGREEMENTS

In accordance with the Company's affiliation agreements with Sprint, Sprint provides the Company various services including billing, customer care, collections and inventory logistics. In addition, Sprint bills the Company for various pass-through items such as commissions to national retail merchants, handset subsidies on handsets activated in the Company's territory but not sold by the Company and long distance charges.

In 2003, the Company executed amendments to its affiliation agreements with Sprint. The amendments, among other things, established fixed per subscriber costs for services that the Company purchases from Sprint through December 31, 2006 in the form of two new fees. The amendments created a new combined service bureau fee, which consolidates numerous fees that were previously settled separately, for back office services such as billing and customer care. The combined service bureau fee was set at $7.70 per average subscriber per month through December 31, 2006 and will be recorded in costs of services and operations in the consolidated statement of operations. The amendments also created a new per-activation fee, which consolidates numerous fees that were previously settled separately, for marketing services, such as subscriber activation and handset logistics. The per-activation fee was initially calculated as a percentage of certain of Sprint PCS' selling and marketing expenses and was to be applied to the actual number of gross subscriber activations the Company experiences on a monthly basis through December 31, 2006. The per-activation fee will be recorded in selling and marketing expenses in the consolidated statement of operations. In March 2004, the Company exercised its rights under a most favored nations clause in the Sprint agreements to implement the terms of an agreement entered into between Sprint and another PCS Affiliate of Sprint. As a result, the Company entered into new amendments that increased the per-activation fee and decreased the price to the Company on purchases of handsets and accessories. Additionally, the March 2004 amendments increased the reciprocal roaming rate for 3G services from $0.0014 per Kb to $0.0020 per Kb and extended the fixed reciprocal rates for voice and 3G data roaming through December 31, 2006. In June 2004, the Company further amended its agreements with Sprint to (1) reduce the combined service bureau fee from $7.70 to $7.00 per average subscriber per month and (2) change the per-activation fee from a percentage of certain of Sprint PCS' selling and marketing expenses to a fixed rate of $23.00 per activation.

In addition to the new fees, the amendments changed the methodology used for settling cash received from subscribers. Historically, actual weekly cash receipts were passed through to the Company by Sprint based on a calculation of an estimate of the portion of that cash related to the Company's activity. Under the new methodology, the Company receives its portion of billed revenue (net of an 8% affiliation fee) less actual written off accounts in the month subsequent to billing regardless of when Sprint collects the cash from the subscriber. The provisions of the amendments became effective on December 1, 2003 and the Company has the right to evaluate subsequent amendments to the affiliation agreements of other similarly situated PCS Affiliates of Sprint and adopt the provisions of those amendments if the Company elects to do so.

ALAMOSA HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
(dollars in thousands, except as noted)

Expenses reflected in the consolidated statements of operations related to the Sprint affiliation agreements are:

	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Cost of service and other operations	$ 66,509	$ 56,146	$ 129,146	$ 108,714
Cost of products sold	16,379	12,399	36,162	25,243
Selling and marketing	10,815	12,047	21,209	24,956
Total	$ 93,703	$ 80,592	$ 186,517	$ 158,913

In connection with the billing services provided to the Company by Sprint, the Company relies on Sprint to provide information as to monthly billing activity relative to all subscriber revenues. In addition, Sprint provides the information utilized for the settlement of all roaming revenue.

The Company relies upon Sprint as a service provider to provide accurate information for the settlement of revenue and expense items. The Company makes estimates used in connection with the preparation of financial statements based on the financial and statistical information provided by Sprint. The Company assesses the accuracy of this information through analytic review and reliance on the service auditor report on Sprint's internal control processes prepared by Sprint's external service auditor. Inaccurate or incomplete data from Sprint in connection with the services provided to the Company by Sprint could have a material effect on the Company's financial position, results of operation or cash flows.

15. COMMITMENTS AND CONTINGENCIES

Litigation – On January 23, 2001, the Company's board of directors, in a unanimous decision, terminated the employment of Jerry Brantley, then President and COO of the Company. On April 29, 2002, Mr. Brantley initiated litigation against the Company and the Chairman of the Company, David E. Sharbutt, in the District Court of Lubbock County, Texas, 22nd Judicial District, alleging wrongful termination. In the litigation, Mr. Brantley claimed, among other things, that the Company's termination of his employment was without cause under his employment agreement rather than a termination for non-performance. As such, Mr. Brantley's claim sought money damages for (i) severance pay equal to one year's salary at the time of his termination, (ii) the value of certain unexercised stock options he owned at the time of his termination, (iii) an allegedly unpaid bonus and (iv) exemplary damages, as well as recovery of attorneys' fees and costs. On September 27, 2002, the Court entered an Agreed Order Compelling Arbitration. A panel of three arbitrators was selected. Mr. Brantley's claims against the Company and David Sharbutt, including claims asserted in the Lubbock County lawsuit and in the arbitration, were resolved pursuant to a settlement agreement dated February 6, 2004. The settlement does not materially impact the Company's consolidated financial statements or our operations.

In November and December 2003 and January 2004, multiple lawsuits were filed against the Company and David E. Sharbutt, its Chairman and Chief Executive Officer as well as Kendall W. Cowan, its Chief Financial officer. Steven Richardson, the Company's Chief Operating Officer, was also a named defendant in one of the lawsuits. Each claim is a purported class action filed on behalf of a putative class of persons who and/or entities that purchased Alamosa Holdings' securities between January 9, 2001 and June 13, 2002, inclusive, and seeks recovery of compensatory damages, fees and costs. Each lawsuit was filed in the United States District Court for the Northern District of Texas, in either the Lubbock Division or the Dallas Division. On February 27, 2004, the lawsuits were consolidated into one action pending in the United States District Court for the Northern

District of Texas, Lubbock Division. On March 4, 2004, the Court appointed the Massachusetts State Guaranteed Annuity Fund to serve as lead plaintiff and approved its selection of lead counsel for the consolidated action.

On May 18, 2004, the lead plaintiff filed a consolidated complaint. The consolidated complaint names three of the original defendants (the Company, David Sharbutt and Kendall Cowan), drops one of the original defendants (Steven Richardson) and names two new defendants who are outside directors (Michael Roberts and Steven Roberts). The putative class period remains the same. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act. The consolidated complaint seeks recovery of compensatory damages, fees, costs, recission or rescissory damages in connection with the Sections 11 and 15 claims, and injunctive relief and/or disgorgement in connection with defendants' insider trading proceeds. At the end of the putative class period on June 13, 2002, the Company announced that its projection of net subscriber additions for the second quarter of 2002 would be less than previously projected. The consolidated complaint alleges, among other things, that the Company made false and misleading statements about subscriber additions during the putative class period. The consolidated complaint also alleges that the Company's financial statements were false and misleading because the Company improperly recognized revenue and failed to record adequate allowances for uncollectible receivables. The defendants' motion to dismiss the consolidated complaint was filed on July 26, 2004.

The Company believes that the defendants have meritorious defenses to these claims and intend to vigorously defend these actions. No discovery has been taken at this time, and the ultimate outcome is not currently predictable. There can be no assurance that the litigation will be resolved in the Company's favor and an adverse resolution could adversely affect the Company's financial condition.

On July 8 and 15, 2004, two shareholder derivative suits, each asserting identical allegations, were filed in State District Court in Dallas County, Texas on behalf of the Company against certain of its officers and directors: David E. Sharbutt, the Company's Chairman and Chief Executive Officer, Kendall W. Cowan, the Company's Chief Financial Officer, as well as other current and former members of the Company's board of directors, including Scotty Hart, Michael V. Roberts, Ray M. Clapp, Jr., Schuyler B. Marshall, Thomas F. Riley, Jr. Steven C. Roberts, Jimmy R. White, Thomas B. Hyde and Tom M. Phelps. The suits also name the Company as a nominal defendant. Based on allegations substantially similar to the federal shareholder action, the suits assert claims for defendants' alleged violations of state law, including breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment that allegedly occurred between January 2001 and June 2002. The suits seek recovery of damages, fees, costs, equitable and/or injunctive remedies, and disgorgement of all profits, benefits and other compensation.

On November 26, 2003, Core Group PC filed a claim against Alamosa PCS and four other PCS Affiliates of Sprint in the United States District Court for the District of Kansas alleging copyright infringement related to the designs used in Sprint retail stores. The complainant sought money damages and an injunction against Alamosa PCS' continued use of the alleged copyrighted designs. This claim was dismissed on June 4, 2004 with no adverse impact to the Company.

The Company is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters are not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

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16. EFFECTS OF RE