

ALAMOSA HOLDINGS INC
Form 10-K
March 03, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 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
(State or other jurisdiction of
incorporation or organization)

75-2890997
(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)

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Common Stock, par value \$.01 per share
Rights to purchase Series A Preferred Stock, par value \$.01 per share

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 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2004 was approximately \$588,270,000.

As of February 28, 2005, approximately 141.8 million shares of common stock, par value \$.01 per share, of the registrant were issued and outstanding.

Portions of the registrant's proxy statement to be mailed to stockholders for its 2005 annual meeting are incorporated by reference into Part III of this Form 10-K.

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PART I

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which can be identified by the use of forward-looking terminology such as "may," "might," "could," "would," "believe," "expect," "intend," "plan," "seek," "anticipate," "estimate," "project" or "continue" or the negative thereof or other variations thereon or comparable terminology. All statements other than statements of historical fact included in this annual report on Form 10-K, including without limitation, the statements under "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" and located elsewhere herein regarding our financial position and liquidity are forward-looking statements. These forward-looking statements also include:

- forecasts of population growth in our territory;
- statements regarding our anticipated revenues, expense levels, liquidity and capital resources and operating losses; and
- statements regarding expectations or projections about markets in our territories.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from our expectations, include, but are not limited to:

- our dependence on our affiliation with Sprint;
- the ability of Sprint to alter the terms of our affiliation agreements with it, including fees paid or charged to us and other program requirements;
- our limited operating history and anticipation of future losses;
- our dependence on back office services, such as billing and customer care, provided by Sprint;
- inaccuracies in financial information provided by Sprint;
- potential fluctuations in our operating results;
- our ability to predict future customer growth, as well as other key operating metrics;
- changes or advances in technology;
- competition in the industry and markets in which we operate;
- subscriber credit quality;
- our ability to attract and retain skilled personnel;
- our potential need for additional capital or the need for refinancing existing indebtedness;
- our potential inability to expand our services and related products in the event of substantial increases in demand for these services and related products;
- our inability to predict the outcome of potentially material litigation;
- the potential impact of wireless local number portability ("WLNP");

- changes in government regulation;
- future acquisitions;
- general economic and business conditions; and
- effects of mergers and consolidations within the wireless telecommunications industry and unexpected announcements or developments from others in the wireless telecommunications industry.

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All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above.

ITEM 1. BUSINESS.

For convenience in this annual report, unless indicated otherwise, "Company," "we," "us," and "our" refer to Alamosa Holdings, Inc. and its subsidiaries. "Alamosa Holdings" refers exclusively to Alamosa Holdings, Inc. "Sprint PCS" refers to Sprint Communications Company, L.P., Sprint Spectrum L.P. and WirelessCo, L.P. "Sprint" refers to Sprint Corporation and its affiliates, including Sprint PCS. Statements in this annual report regarding Sprint or Sprint PCS are derived from information contained in our agreements with Sprint, periodic reports and other documents filed by Sprint and Sprint Spectrum L.P. with the U.S. Securities and Exchange Commission ("SEC") or press releases issued by Sprint. A "PCS Affiliate of Sprint" is an entity whose sole or predominant business is operating (directly or through one or more subsidiaries) a personal communications service business pursuant to affiliation agreements with Sprint Spectrum L.P. and/or its affiliates, or their successors. "Sprint PCS products and services" refer to digital wireless personal communications services, including wireless voice and data services, and related retail products, including handsets, in any case, offered under the Sprint brand name.

References in this annual report on Form 10-K to us as a provider of wireless personal communications services or similar phrases generally refer to our building, owning and managing our portion of the PCS network of Sprint pursuant to our affiliation agreements with Sprint. Sprint holds the spectrum licenses and controls the network through its agreements with us.

All references contained in this annual report on Form 10-K to resident population ("POPs") are based on year-end 2000 population counts compiled by the U.S. Census Bureau adjusted for annual population growth rate estimates provided to us by Sprint.

Overview

We are the largest PCS Affiliate of Sprint in terms of subscribers. As of December 31, 2004, we had the exclusive right to provide wireless mobility communications network services under the Sprint brand name in a territory encompassing over 15.8 million residents primarily located in portions of Texas, New Mexico, Arizona, Colorado, Wisconsin, Arkansas, Illinois, Oklahoma, Kansas, Missouri, Washington and Oregon. For the year ended December 31, 2004, we generated \$803 million in revenue, \$130 million in cash flows from operating activities and reported a net loss of \$17 million. As of December 31, 2004, we had approximately 915,000 subscribers.

We launched Sprint wireless services in our first market in June 1999 and, as of December 31, 2004, operated in the 88 basic trading areas ("BTAs") assigned to us under our affiliation agreements with Sprint PCS. At December 31, 2004, our network covered approximately 12.9 million POPs, or approximately 81% of the total POPs in our markets.

The number of residents covered by our network does not represent the number of wireless subscribers that we serve or expect to serve in our territory. Sprint PCS, along with its PCS Affiliates, operates a 100% digital, 100% PCS nationwide wireless network in the United States with licenses to provide services to an area consisting of more than 280 million POPs. Like Sprint PCS, we utilize code division multiple access ("CDMA") technology across our portion of the PCS Network of Sprint.

On February 15, 2005 we completed our acquisition of AirGate PCS, Inc. ("AirGate"). AirGate is a PCS Affiliate of Sprint and has the right to provide wireless communications services under the Sprint brand name in its licensed territory, which includes most of the state of South Carolina, parts of North Carolina and the eastern Georgia cities of Augusta and Savannah. As of December 31, 2004, AirGate's licensed territory had a total population of 7.4 million residents, of which its network covered 6.1 million residents. As of December 31, 2004, AirGate had approximately 400,000 subscribers.

Subsequent to our acquisition of AirGate in February 2005, we have a licensed territory encompassing over 23 million residents. Within this territory, the combined company provides

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coverage to approximately 19 million POPs. Combined subscribers as of December 31, 2004 were approximately 1.3 million. The acquisition of AirGate will be accounted for as a purchase and the results of operations of AirGate will be included in our results of operations from the date of acquisition.

Our Background

Alamosa (Delaware), Inc. ("Alamosa (Delaware)") (formerly known as Alamosa PCS Holdings, Inc.) was formed in October 1999 to operate as a holding company and closed its initial public offering in February 2000. On December 14, 2000, Alamosa (Delaware) formed a new holding company and became a wholly-owned subsidiary of the new holding company, which was named Alamosa PCS Holdings, Inc.

We were formed in July 2000 to operate as a holding company. On February 14, 2001, Alamosa Sub I, Inc., our wholly owned subsidiary, merged with and into Alamosa PCS Holdings, with Alamosa PCS Holdings surviving the merger and becoming our wholly owned subsidiary. Each share of Alamosa PCS Holdings common stock issued and outstanding immediately prior to the merger was converted into the right to receive one share of our common stock.

During the first quarter of 2001, we completed acquisitions of three PCS Affiliates of Sprint. We acquired Roberts Wireless Communications, L.L.C. ("Roberts") and Washington Oregon Wireless, LLC ("WOW") on February 14, 2001. We acquired Southwest PCS Holdings, Inc. ("Southwest PCS") on March 30, 2001.

Our Relationship with Sprint

Sprint PCS, along with its PCS Affiliates, operates the largest 100% digital, 100% PCS nationwide wireless network in the United States with licenses to provide services to an area consisting of more than 280 million residents. The PCS network of Sprint uses CDMA technology nationwide. Sprint directly operates its PCS network in major markets throughout the United States and has entered into independent agreements with various companies such as us, under which each has become a PCS Affiliate of Sprint and has agreed to construct and manage PCS networks in smaller metropolitan areas and along major highways designed to operate seamlessly with the nationwide PCS network of Sprint.

Pursuant to our affiliation agreements with Sprint PCS, we agreed to provide network coverage to a minimum percentage of the POPs in our territory within specified time periods. We believe we are in compliance with our network build-out requirements and Sprint PCS' other program requirements. The build-out of our territory has significantly extended Sprint PCS wireless coverage in the Southwestern, Northwestern and Midwestern regions of the United States.

We believe that our affiliation with Sprint PCS allows us to offer high quality, branded wireless voice and data services for a lower cost and lower capital requirements than would otherwise be possible and to also benefit from Sprint PCS':

- Marketing – We market Sprint PCS products and services through Sprint PCS' existing relationships with major national retailers under the highly recognizable Sprint and Sprint PCS brand names.
- National Network – Our subscribers can immediately access Sprint PCS' national network, which includes over 300 major metropolitan areas.
- Advanced Technology – We believe that the CDMA technology used in our network offers advantages in capacity and voice quality, as well as access to advanced features such as Sprint PCS' suite of "PCS Vision" products.
- Handset Availability and Pricing – Sprint PCS' purchasing leverage allows us to acquire handsets more quickly and at a lower cost than we could without our affiliation with Sprint.

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- National Reseller Agreements – We receive additional revenue as a result of Sprint PCS' relationships with wireless resellers, including Virgin Mobile and Qwest Wireless, when customers of those resellers use our portion of the PCS network of Sprint.

Markets

We believe we operate in highly attractive markets. We believe our markets are attractive for a number of reasons:

- Fewer Competitors Market-by-Market – Because we operate in less populated markets, we believe that we face fewer competitors in most markets in our territory than wireless providers that operate in more urban areas typically face.
- Proximity to Large U.S. Urban Centers – Our territory is located near or around several large U.S. urban centers, including Dallas, Denver, Kansas City, Milwaukee, Minneapolis, Oklahoma City, Phoenix, Portland, St. Louis, San Antonio, Seattle, Tulsa and Wichita. This has led to a favorable ratio of wireless subscribers based outside of our territory using our portion of the PCS network of Sprint as compared to our subscribers using wireless communications networks outside our territory.
- Attractive Roaming and Travel Characteristics – Given the rural nature of many of our markets and our extensive coverage of the major and secondary highways in our markets, we have consistently received significant roaming revenue from wireless subscribers using our portion of the PCS network of Sprint.
- High Population Growth Markets – The overall population growth in our territory has been above the national average over the past five years.

The following table lists the location, BTA number, megahertz ("MHz") of spectrum and estimated total residents for each of the BTAs that comprise our territory under our affiliation agreements with Sprint PCS as of December 31, 2004. The number of estimated covered residents does not represent the number of wireless subscribers that we expect

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to be based in our territory.

LOCATION	BTA NO.(1)	MHZ OF SPECTRUM	ESTIMATED TOTAL POPs (2)	ESTIMATED COVERED POPs (3)
ARKANSAS				
Fayetteville-Springdale-Rogers	140	30	346,200	
Fort Smith	153	30	331,600	
Little Rock (4)	257	30	15,700	
Russellville	387	30	100,400	
			793,900	646,900
ARIZONA				
Flagstaff	144	30	119,700	
Las Vegas, NV (Arizona side) (4)	245	30	157,100	
Prescott	362	30	181,800	
Phoenix (4)	347	30	110,500	
Sierra Vista-Douglas	420	30	121,000	
Tucson (4)	447	30	2,000	
Yuma	486			
	\$0.00			
	-100.00%			
	N/A			
	N/A			
	-100.00%			
	\$0.00			
	\$10.00			
	-90.00%			
	N/A			
	N/A			
	-90.00%			
	\$100.00			
	\$20.00			
	-80.00%			
	N/A			
	N/A			

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-80.00%

\$200.00

\$30.00

-70.00%

N/A

N/A

-70.00%

\$300.00

\$40.00

-60.00%

N/A

N/A

-60.00%

\$400.00

\$50.00

-50.00%

N/A

N/A

-50.00%

\$500.00

\$55.00

-45.00%

N/A

N/A

-45.00%

\$550.00

\$60.00

-40.00%

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0.00%
\$1,000.00
-40.00%
\$600.00
\$70.00
-30.00%
0.00%
\$1,000.00
-30.00%
\$700.00
\$80.00
-20.00%
0.00%
\$1,000.00
-20.00%
\$800.00
\$90.00
-10.00%
0.00%
\$1,000.00
-10.00%
\$900.00
\$100.00
0.00%
0.00%
\$1,000.00
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\$1,000.00

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\$110.00

10.00%

10.70%

\$1,107.00

10.70%

\$1,107.00

\$120.00

20.00%

21.40%

\$1,214.00

21.40%

\$1,214.00

\$130.00

30.00%

32.10%

\$1,321.00

32.10%

\$1,321.00

\$140.00

40.00%

42.80%

\$1,428.00

42.80%

\$1,428.00

\$150.00

50.00%

53.50%

\$1,535.00

53.50%

\$1,535.00

Hypothetical Examples of Amounts Payable at Maturity

The following examples illustrate how the returns set forth in the table above are calculated.

Example 1: The price of the Underlying Asset decreases from the hypothetical Initial Level of \$100.00 to a hypothetical Final Level of \$55.00, representing a Percentage Change of -45%, and a Barrier Event has occurred during the Monitoring Period. Because the Percentage Change is negative and the hypothetical Final Level of \$55.00 is less than the Barrier Level, the investor receives a payment at maturity of \$550 per \$1,000 in principal amount of the notes, calculated as follows:

$$\text{Principal Amount} + (\text{Principal Amount} \times \text{Percentage Change}) = \text{Payment at Maturity}$$

$$\$1,000 + (\$1,000 \times -45\%) = \$550$$

Example 2: The price of the Underlying Asset decreases from the hypothetical Initial Level of \$100.00 to a hypothetical Final Level of \$90.00, representing a Percentage Change of -10%, and a Barrier Event has occurred during the Monitoring Period. Because the hypothetical Final Level of \$90.00 is less than the hypothetical Initial Level and a Barrier Event has occurred, the investor receives a payment at maturity of \$900 per \$1,000 in principal amount of the notes, calculated as follows:

$$\text{Principal Amount} + (\text{Principal Amount} \times \text{Percentage Change}) = \text{Payment at Maturity}$$

$$\$1,000 + (\$1,000 \times -10\%) = \$900$$

Example 3: The price of the Underlying Asset decreases from the hypothetical Initial Level of \$100.00 to a hypothetical Final Level of \$90.00, representing a Percentage Change of -10%, but a Barrier Event has not occurred during the Monitoring Period. Because the hypothetical Final Level of \$90.00 is less than the hypothetical Initial Level and a Barrier Event has not occurred, the investor receives a payment at maturity of \$1,000 per \$1,000 in principal amount of the notes.

Example 4: The price of the Underlying Asset increases from the hypothetical Initial Level of \$100.00 to a hypothetical Final Level of \$110.00, representing a Percentage Change of 10%. Because the hypothetical Final Level of \$110.00 is greater than the hypothetical Initial Level, the investor receives a payment at maturity of \$1,107 per \$1,000 in principal amount of the notes, calculated as follows:

Principal Amount + (Principal Amount x Percentage Change x Upside Leverage Factor) = Payment at Maturity

$$\$1,000 + (\$1,000 \times 10\% \times 107\%) = \$1,107$$

U.S. Federal Tax Information

By purchasing the notes, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat each note as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the notes are uncertain and the Internal Revenue Service could assert that the notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the product supplement under “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations,” which applies to the notes.

A “dividend equivalent” payment is treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-United States holder (as defined in the product supplement). Under recently proposed U.S. Treasury Department regulations, payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends with respect to certain equity-linked instruments, whether explicitly stated or implicitly taken into account in computing one or more of the terms of such instruments, may be treated as dividend equivalents. If enacted in their current form, the regulations will impose a withholding tax on payments made on the notes on or after January 1, 2016 that are treated as dividend equivalents. In that case, we (or the applicable paying agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

The Treasury Department has issued final regulations and a notice affecting the legislation enacted on March 18, 2010 and discussed in the product supplement under “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations—Legislation Affecting Taxation of Notes Held By or Through Foreign Entities.” Pursuant to the notice, withholding requirements with respect to the notes will generally begin no earlier than July 1, 2014. Additionally, the withholding tax will not be imposed on payments pursuant to obligations outstanding on July 1, 2014. Account holders subject to information reporting requirements pursuant to the legislation may include holders of the notes. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing the legislation may be subject to different rules. Holders are urged to consult their own tax advisors regarding the implications of this legislation and subsequent guidance on their investment in the notes.

Supplemental Plan of Distribution (Conflicts of Interest)

BMOCM will purchase the notes from us at a purchase price reflecting the commission set forth on the cover page of this pricing supplement. BMOCM has informed us that, as part of its distribution of the notes, it will reoffer the notes to other dealers who will sell them. Each such dealer, and each additional dealer further engaged by a dealer to whom BMOCM reoffers the notes, will purchase the notes at an agreed discount to the initial price to public.

We own, directly or indirectly, all of the outstanding equity securities of BMOCM, the agent for this offering. In accordance with FINRA Rule 5121, BMOCM may not make sales in this offering to any of its discretionary accounts without the prior written approval of the customer.

We reserve the right to withdraw, cancel or modify the offering of the notes and to reject orders in whole or in part. You may cancel any order for the notes prior to its acceptance.

You should not construe the offering of the notes as a recommendation of the merits of acquiring an investment linked to the Underlying Asset or as to the suitability of an investment in the notes.

BMOCM may, but is not obligated to, make a market in the notes. BMOCM will determine any secondary market prices that it is prepared to offer in its sole discretion.

We may use this pricing supplement in the initial sale of the notes. In addition, BMOCM or another of our affiliates may use this pricing supplement in market-making transactions in any notes after their initial sale. Unless BMOCM, or we inform you otherwise in the confirmation of sale, this pricing supplement is being used by BMOCM in a market-making transaction.

For a period of approximately three months following issuance of the notes, the price, if any, at which we or our affiliates would be willing to buy the notes from investors, and the value that BMOCM may also publish for the notes through one or more financial information vendors and which could be indicated for the notes on any brokerage account statements, will reflect a temporary upward adjustment from our estimated value of the notes that would otherwise be determined and applicable at that time. This temporary upward adjustment represents a portion of (a) the hedging profit that we or our affiliates expect to realize over the term of the notes and (b) the selling concessions paid in connection with this offering. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the three-month period.

Additional Information Relating to the Estimated Initial Value of the Notes

Our estimated initial value of the notes on the date of this preliminary pricing supplement, and that will be set forth on the cover page of the final pricing supplement relating to the notes, equals the sum of the values of the following hypothetical components:

- a fixed-income debt component with the same tenor as the notes, valued using our internal funding rate for structured notes; and
 - one or more derivative transactions relating to the economic terms of the notes.

The internal funding rate used in the determination of the initial estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The value of these derivative transactions are derived from our internal pricing models. These models are based on factors such as the traded market prices of comparable derivative instruments and on other inputs, which include volatility, dividend rates, interest rates and other factors. As a result, the estimated initial value of the notes on the pricing date will be determined based on market conditions at that time.

The Underlying Asset

We have derived the following information regarding the Underlying Asset from publicly available documents. We have not independently verified the accuracy or completeness of the following information. We are not affiliated with the Underlying Asset and the Underlying Asset will have no obligations with respect to the notes. This pricing supplement relates only to the notes and does not relate to the shares of the Underlying Asset or any securities included in the Underlying Index. Neither we nor our affiliates participates in the preparation of the publicly available documents described below. Neither we nor our affiliates has made any due diligence inquiry with respect to the Underlying Asset in connection with the offering of the notes. There can be no assurance that all events occurring prior to the date of this pricing supplement, including events that would affect the accuracy or completeness of the publicly available documents described below, that would affect the trading price of the shares of the Underlying Asset have been or will be publicly disclosed. Subsequent disclosure of any events or the disclosure of or failure to disclose material future events concerning the Underlying Asset could affect the value of the shares of the Underlying Asset after the pricing date and therefore could affect the payment at maturity.

The selection of the Underlying Asset is not a recommendation to buy or sell the shares of the Underlying Asset. Neither we nor any of our affiliates make any representation to you as to the performance of the shares of the Underlying Asset. Information provided to or filed with the SEC under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 relating to the Underlying Asset may be obtained through the SEC's website at <http://www.sec.gov>.

iShares consists of numerous separate investment portfolios (the "iShares Funds"), including the Underlying Asset. The Underlying Asset seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Underlying Index. The Underlying Asset typically earns income from dividends from securities held by the Underlying Asset. These amounts, net of expenses and taxes (if applicable), are passed along to the Underlying Asset's shareholders as "ordinary income." In addition, the Underlying Asset realizes capital gains or losses whenever it sells securities. Net long-term capital gains are distributed to its shareholders as "capital gain distributions." However, because the notes are linked only to the share price of the Underlying Asset, you will not be entitled to receive income, dividend, or capital gain distributions from the Underlying Asset or any equivalent payments.

"iShares®" and "BlackRock®" are registered trademarks of BlackRock®. The notes are not sponsored, endorsed, sold, or promoted by BlackRock®, or by any of the iShares® Funds. Neither BlackRock® nor the iShares® Funds make any representations or warranties to the owners of the notes or any member of the public regarding the advisability of investing in the notes. Neither BlackRock® nor the iShares® Funds shall have any obligation or liability in connection with the registration, operation, marketing, trading, or sale of the notes or in connection with our use of information about the Underlying Asset or any of the iShares® Funds.

iShares® MSCI EAFE ETF

The Underlying Asset is intended to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Underlying Index. The Underlying Asset trades on NYSE Arca under the ticker symbol "EFA".

The Underlying Index

We have derived all information contained in this pricing supplement regarding the Underlying Index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. The information reflects the policies of, and is subject to change by MSCI. MSCI has no obligation to continue to publish, and may discontinue publication of, the Underlying Index.

The Underlying Index is intended to measure equity market performance in developed market countries, excluding the U.S. and Canada. The Underlying Index is a free float-adjusted market capitalization equity index with a base date of December 31, 1969 and an initial value of 100. The Underlying Index is calculated daily in U.S. dollars and published in real time every 60 seconds during market trading hours. The Underlying Index currently consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, The Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The Underlying Index is part of the MSCI Regional Equity Indices series and is an MSCI Global Investable Market Index, which is a family within the MSCI International Equity Indices..

General – MSCI Global Investable Market Indices

MSCI provides global equity indices intended to measure equity performance in international markets and the MSCI International Equity Indices are designed to serve as global equity performance benchmarks. In constructing these indices, MSCI applies its index construction and maintenance methodology across developed, emerging, and frontier markets.

MSCI enhanced the methodology used in its MSCI International Equity Indices. The MSCI Standard and MSCI Small Cap Indices, along with the other MSCI equity indices based on them, transitioned to the global investable market indices methodology described below. The transition was completed at the end of May 2008. The Enhanced MSCI Standard Indices are composed of the MSCI Large Cap and Mid Cap Indices. The MSCI Global Small Cap Index transitioned to the MSCI Small Cap Index resulting from the Global Investable Market Indices methodology and contains no overlap with constituents of the transitioned MSCI Standard Indices. Together, the relevant MSCI Large Cap, Mid Cap, and Small Cap Indices will make up the MSCI investable market index for each country, composite, sector, and style index that MSCI offers.

Constructing the MSCI Global Investable Market Indices. MSCI undertakes an index construction process, which involves:

- defining the equity universe;
- determining the market investable equity universe for each market;
- determining market capitalization size segments for each market;
- applying index continuity rules for the MSCI Standard Index;
- creating style segments within each size segment within each market; and
- classifying securities under the Global Industry Classification Standard (the “GICS”).

Defining the Equity Universe. The equity universe is defined by:

- **Identifying Eligible Equity Securities:** the equity universe initially looks at securities listed in any of the countries in the MSCI Global Index Series, which will be classified as either Developed Markets (“DM”) or Emerging Markets (“EM”). All listed equity securities, or listed securities that exhibit characteristics of equity securities, except mutual funds, exchange traded funds, equity derivatives, limited partnerships, and most investment trusts, are eligible for inclusion in the equity universe. Real Estate Investment Trusts (“REITs”) in some countries and certain income trusts in Canada are also eligible for inclusion.
- **Classifying Eligible Securities into the Appropriate Country:** each company and its securities (i.e., share classes) are classified in only one country.

Determining the Market Investable Equity Universes. A market investable equity universe for a market is derived by applying investability screens to individual companies and securities in the equity universe that are classified in that market. A market is equivalent to a single country, except in DM Europe, where all DM countries in Europe are aggregated into a single market for index construction purposes. Subsequently, individual DM Europe country indices within the MSCI Europe Index are derived from the constituents of the MSCI Europe Index under the global investable market indices methodology.

The investability screens used to determine the investable equity universe in each market are as follows:

- **Equity Universe Minimum Size Requirement:** this investability screen is applied at the company level. In order to be included in a market investable equity universe, a company must have the required minimum full market capitalization.

- **Equity Universe Minimum Free Float-Adjusted Market Capitalization Requirement:** this investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have a free float-adjusted market capitalization equal to or higher than 50% of the equity universe minimum size requirement.
- **DM and EM Minimum Liquidity Requirement:** this investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have adequate liquidity. The twelve-month and three-month Annual Traded Value Ratio (“ATVR”), a measure that screens out extreme daily trading volumes and takes into account the free float-adjusted market capitalization size of securities, together with the three-month frequency of trading are used to measure liquidity. In the calculation of the ATVR, the trading volumes in depository receipts associated with that security, such as ADRs or GDRs, are also considered. A minimum liquidity level of 20% of three- and twelve-month ATVR and 90% of three-month frequency of trading over the last four consecutive quarters are required for inclusion of a security in a market investable equity universe of a DM, and a minimum liquidity level of 15% of three- and twelve-month ATVR and 80% of three-month frequency of trading over the last four consecutive quarters are required for inclusion of a security in a market investable equity universe of an EM.
- **Global Minimum Foreign Inclusion Factor Requirement:** this investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security’s Foreign Inclusion Factor (“FIF”) must reach a certain threshold. The FIF of a security is defined as the proportion of shares outstanding that is available for purchase in the public equity markets by international investors. This proportion accounts for the available free float of and/or the foreign ownership limits applicable to a specific security (or company). In general, a security must have an FIF equal to or larger than 0.15 to be eligible for inclusion in a market investable equity universe.

- **Minimum Length of Trading Requirement:** this investability screen is applied at the individual security level. For an initial public offering (“IPO”) to be eligible for inclusion in a market investable equity universe, the new issue must have started trading at least four months before the implementation of the initial construction of the index or at least three months before the implementation of a semi-annual index review (as described below). This requirement is applicable to small new issues in all markets. Large IPOs are not subject to the minimum length of trading requirement and may be included in a market investable equity universe and the Standard Index outside of a Quarterly or Semi-Annual Index Review.

Defining Market Capitalization Size Segments for Each Market. Once a market investable equity universe is defined, it is segmented into the following size-based indices:

- Investable Market Index (Large + Mid + Small);
 - Standard Index (Large + Mid);
 - Large Cap Index;
 - Mid Cap Index; or
 - Small Cap Index.

Creating the size segment indices in each market involves the following steps:

- defining the market coverage target range for each size segment;
- determining the global minimum size range for each size segment;
- determining the market size-segment cutoffs and associated segment number of companies;
 - assigning companies to the size segments; and
- applying final size-segment investability requirements.

Index Continuity Rules for the Standard Indices. In order to achieve index continuity, as well as to provide some basic level of diversification within a market index, and notwithstanding the effect of other index construction rules described in this section, a minimum number of five constituents will be maintained for a DM Standard Index and a minimum number of three constituents will be maintained for an EM Standard Index.

Creating Style Indices within Each Size Segment. All securities in the investable equity universe are classified into value or growth segments using the MSCI Global Value and Growth methodology.

Classifying Securities under the Global Industry Classification Standard. All securities in the global investable equity universe are assigned to the industry that best describes their business activities. To this end, MSCI has designed, in conjunction with Standard & Poor’s, the GICS. Under the GICS, each company is assigned to one sub-industry according to its principal business activity. Therefore, a company can belong to only one industry grouping at each of the four levels of the GICS.

Index Maintenance

The MSCI Global Investable Market Indices are maintained with the objective of reflecting the evolution of the underlying equity markets and segments on a timely basis, while seeking to achieve index continuity, continuous investability of constituents and replicability of the indices, and index stability, and low index turnover. In particular, index maintenance involves:

(i) Semi-Annual Index Reviews (“SAIRs”) in May and November of the Size Segment and Global Value and Growth Indices which include:

- updating the indices on the basis of a fully refreshed equity universe;
- taking buffer rules into consideration for migration of securities across size and style segments; and
 - updating FIFs and Number of Shares (“NOS”).

(ii) Quarterly Index Reviews in February and August of the Size Segment Indices aimed at:

- including significant new eligible securities (such as IPOs that were not eligible for earlier inclusion) in the index;

- allowing for significant moves of companies within the Size Segment Indices, using wider buffers than in the SAIR; and
 - reflecting the impact of significant market events on FIFs and updating NOS.

(iii) Ongoing Event–Related Changes: changes of this type are generally implemented in the indices as they occur. Significantly large IPOs are included in the indices after the close of the company’s tenth day of trading.

Through this maintenance process, MSCI may make structural changes to the indices by adding or deleting component country indices. Consequently, the composition of the Underlying Index may change over the term of the notes.

Neither we nor any of our affiliates, including BMOCM, accepts any responsibility for the calculation, maintenance, or publication of, or for any error, omission, or disruption in the Underlying Index, or any successor to the index. MSCI does not guarantee the accuracy or the completeness of the Underlying Index, or any data included in the index. MSCI assumes no liability for any errors, omissions, or disruption in the calculation and dissemination of the Underlying Index. MSCI disclaims all responsibility for any errors or omissions in the calculation and dissemination of the Underlying Index, or the manner in which the index is applied in determining the amount payable on the notes at maturity.

Historical Performance of the Underlying Asset

The following table sets forth the high and low closing prices of the Underlying Asset from the first quarter of 2011 through January 27, 2014.

The historical prices of the Underlying Asset are provided for informational purposes only. You should not take the historical prices of the Underlying Asset as an indication of its future performance, which may be better or worse than the prices set forth below.

		High (\$)	Low (\$)
2011	First Quarter	61.91	55.31
	Second Quarter	63.87	57.10
	Third Quarter	60.80	46.66
	Fourth Quarter	55.57	46.45
2012	First Quarter	55.80	49.15
	Second Quarter	55.51	46.55
	Third Quarter	55.15	47.62
	Fourth Quarter	56.88	51.96
2013	First Quarter	59.89	56.90
	Second Quarter	63.53	57.03
	Third Quarter	65.05	57.55
	Fourth Quarter	67.06	62.71
2014	First Quarter (through January 27, 2014)	67.13	64.55