

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

ALAMOSA HOLDINGS INC
Form 10-Q
August 15, 2003

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 QUARTER ENDED JUNE 30, 2003.

OR

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

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)

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 14, 2003, 94,650,963 shares of common stock, \$0.01 par value per share, were issued and outstanding.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

ALAMOSA HOLDINGS, INC.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2003 (unaudited) and December 31, 2002

Consolidated Statements of Operations for the three months and six months ended June 30, 2003 and 2002

Consolidated Statements of Cash Flows for the six months ended June 30, 2003 and 2002

Notes to the Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALAMOSA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(dollars in thousands, except share information)

JUNE 30, 2003

DEC 31, 2002

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

ASSETS

Current assets:

| | | | |
|-------------------------------------|----|--------|----|
| Cash and cash equivalents | \$ | 88,904 | \$ |
| Restricted cash | | 9,748 | |
| Customer accounts receivable, net | | 27,656 | |
| Receivable from Sprint | | 22,704 | |
| Interest receivable | | 404 | |
| Inventory | | 5,421 | |
| Prepaid expenses and other assets | | 7,618 | |
| Deferred customer acquisition costs | | 8,414 | |
| Deferred tax asset | | 5,988 | |

Total current assets 176,857

| | | | |
|-----------------------------|--|---------|--|
| Property and equipment, net | | 434,187 | |
| Debt issuance costs, net | | 30,916 | |
| Intangible assets, net | | 468,388 | |
| Other noncurrent assets | | 7,699 | |

Total assets \$ 1,118,047

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | | |
|--|----|--------|----|
| Accounts payable | \$ | 9,698 | \$ |
| Accrued expenses | | 36,777 | |
| Payable to Sprint | | 25,921 | |
| Interest payable | | 22,317 | |
| Deferred revenue | | 21,892 | |
| Current maturities of long term debt | | 7,500 | |
| Current installments of capital leases | | 698 | |

Total current liabilities 124,803

Long term liabilities:

| | | | |
|-------------------------------|--|---------|--|
| Capital lease obligations | | 973 | |
| Other noncurrent liabilities | | 9,598 | |
| Deferred tax liability | | 17,642 | |
| Senior secured debt | | 192,500 | |
| 12 7/8% senior discount notes | | 286,239 | |
| 12 1/2% senior notes | | 250,000 | |
| 13 5/8% senior notes | | 150,000 | |

Total long term liabilities 906,952

Total liabilities 1,031,755

Commitments and contingencies (see Note 11) --

Stockholders' equity:

| | | | |
|---|--|-----------|--|
| Preferred stock, \$.01 par value; 10,000,000 shares authorized; no shares issued | | -- | |
| Common stock, \$.01 par value; 290,000,000 shares authorized, 94,650,963 and 94,171,938 shares issued and outstanding, respectively | | 947 | |
| Additional paid-in capital | | 800,543 | |
| Accumulated deficit | | (713,914) | |
| Unearned compensation | | (215) | |

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

| | | |
|--|--------------|----|
| Accumulated other comprehensive loss, net of tax | (1,069) | |
| Total stockholders' equity | 86,292 | |
| Total liabilities and stockholders' equity | \$ 1,118,047 | \$ |

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

3

ALAMOSA HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(dollars in thousands, except per share amounts)

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR TH |
|---|--|-----------|---------|
| | 2003 | 2002 | 2003 |
| Revenues: | | | |
| Subscriber revenues | \$ 114,550 | \$ 92,580 | \$ 218, |
| Roaming revenues | 35,040 | 33,457 | 66, |
| Service revenues | 149,590 | 126,037 | 285, |
| Product sales | 5,804 | 4,752 | 11, |
| Total revenue | 155,394 | 130,789 | 296, |
| Costs and expenses: | | | |
| Cost of service and operations (excluding non-cash compensation of \$4 and \$0 for the three months ended June 30, 2003 and 2002, respectively, and \$8 and \$0 for the six months ended June 30, 2003 and 2002, respectively) | 80,282 | 85,289 | 159, |
| Cost of products sold | 12,399 | 9,113 | 25, |
| Selling and marketing (excluding non-cash compensation of \$4 and \$0 for the three months ended June 30, 2003 and 2002, respectively and \$8 and \$0 for the six months ended June 30, 2003 and 2002, respectively) | 26,584 | 26,960 | 54, |
| General and administrative expenses (excluding non-cash compensation of \$191 and \$0 for the three months ended June 30, 2003 and 2002, respectively, and \$224 and \$0 for the six months ended June 30, 2003 and 2002, respectively) | 5,918 | 3,053 | 9, |
| Depreciation and amortization | 27,419 | 26,344 | 54, |
| Impairment of property and equipment | 34 | 1,332 | |
| Non-cash compensation | 199 | -- | |

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

| | | | |
|--|-------------|-------------|---------|
| Total costs and expenses | 152,835 | 152,091 | 304, |
| | ----- | ----- | ----- |
| Income (loss) from operations | 2,559 | (21,302) | (7, |
| Interest and other income | 249 | 871 | |
| Interest expense | (25,951) | (25,820) | (52, |
| | ----- | ----- | ----- |
| Loss before income tax benefit | (23,143) | (46,251) | (59, |
| Income tax benefit | 4,480 | 17,515 | 10, |
| | ----- | ----- | ----- |
| Net loss | \$ (18,663) | \$ (28,736) | \$ (49, |
| | ===== | ===== | ===== |
| Net loss per common share, basic and diluted | \$ (0.20) | \$ (0.31) | \$ (0 |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding, basic and diluted | 93,747,117 | 92,915,638 | 93,626, |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of the consolidated financial statement

4

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

| | |
|--|-------------------------------|
| | FOR THE SIX MONTHS EN 2003 |
| | ----- |
| Cash flows from operating activities: | |
| Net loss | \$ (49,194) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Non-cash compensation | 240 |
| Provision for bad debts | 10,000 |
| Non-cash interest expense (benefit) on derivative instruments | (261) |
| Depreciation and amortization of property and equipment | 34,268 |
| Amortization of intangible assets | 20,033 |
| Amortization of financing costs included in interest expense | 2,237 |
| Amortization of discounted interest | 198 |
| Deferred tax benefit | (10,248) |
| Interest accreted on discount notes | 17,377 |
| Impairment of property and equipment | 394 |
| Increase (decrease) in: | |
| Receivables | (1,543) |

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

| | |
|---|------------|
| Inventory | 1,989 |
| Prepaid expenses and other assets | (1,378) |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | (4,608) |
| | ----- |
| Net cash provided by (used in) operating activities | 19,504 |
| | ----- |
| Cash flows from investing activities: | |
| Proceeds from sale of assets | 2,454 |
| Purchases of property and equipment | (19,196) |
| Other | -- |
| | ----- |
| Net cash used in investing activities | (16,742) |
| | ----- |
| Cash flows from financing activities: | |
| Borrowings under senior secured debt | -- |
| Stock options exercised | -- |
| Shares issued to employee stock purchase plan | 127 |
| Payments on capital leases | (699) |
| Change in restricted cash | 24,977 |
| | ----- |
| Net cash provided by financing activities | 24,405 |
| | ----- |
| Net increase (decrease) in cash and cash equivalents | 27,167 |
| Cash and cash equivalents at beginning of period | 61,737 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 88,904 |
| | ===== |
| Supplemental disclosure of non-cash financing and investing activities: | |
| Capitalized lease obligations incurred | \$ 73 |
| Change in accounts payable for purchases of property and equipment | \$ (6,790) |

The accompanying notes are an integral part of the consolidated financial statement

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

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited consolidated balance sheet as of June 30, 2003, the

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

unaudited consolidated statements of operations for the three months and six months ended June 30, 2003 and 2002, the unaudited consolidated statements of cash flows for the six months ended June 30, 2003 and 2002, 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 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, 2002. 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, 2003 are not necessarily indicative of results that may be expected for the year ending December 31, 2003.

Basic and diluted net loss per share of common stock is computed by dividing net loss 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 8,440,710 and 5,834,359 shares of common stock at June 30, 2003 and 2002, respectively. In addition, 800,000 shares of restricted stock that were awarded in October and December of 2002 have been excluded from the weighted-average outstanding number of common shares for the three and six months ended June 30, 2003. These shares will be 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.

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 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 financial statements as the "Company."

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

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

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."

6

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

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 the Over-the-Counter Bulletin Board under the symbol "ALMO."

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 Company has incurred substantial net losses and negative cash flow from operations since inception. Expenses are expected to exceed revenues until the Company establishes a sufficient subscriber base. Management expects operating losses to continue for the foreseeable future. However, management expects operating losses to decrease in the future as the Company obtains more subscribers.

As of June 30, 2003, the Company had \$88,904 in cash and cash equivalents plus an additional \$9,748 in restricted cash held in escrow for debt service requirements. The Company also had \$25,000 remaining on the revolving portion of the Senior Secured Credit Facility subject to the restrictions discussed below.

On September 26, 2002 the Company entered into the sixth amendment to the amended and restated credit agreement relative to the Senior Secured Credit Facility, which among other things, modified certain financial and statistical covenants as discussed in Note 8. As a result of the amendment, the Company is required to maintain a minimum cash balance of \$10,000.

The September 26, 2002 amendment also placed restrictions on the ability to draw on the \$25,000 revolving portion of the Senior Secured Credit Facility. The first \$10,000 can be drawn if cash balances fall below \$15,000 and the Company substantiates through tangible evidence the need for such advances. The remaining \$15,000 is available only at such time as the leverage ratio is less than or equal to 5.5 to 1. As of June 30, 2003, the Company's leverage ratio was 9.35 to 1.

Although management does not currently anticipate the need to raise additional capital in the upcoming year, the Company's funding status

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

is dependent on a number of factors influencing projections of earnings and operating cash flows including average monthly revenue per user ("ARPU"), cash cost per user ("CCPU"), customer churn and cost per gross addition ("CPGA").

Should actual results differ significantly from these assumptions, the Company's liquidity position could be adversely affected and the Company 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 Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. No stock-based employee compensation cost is reflected in the consolidated statements of operations for the three months or six months ended June 30, 2003 or 2002, 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 and six month periods ended June 30, 2003 relate to shares of restricted stock awarded to officers 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

7

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

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, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net loss -- as reported | \$ (18,663) | \$ (28,736) | \$ (49,194) | \$ (56,869) |
| Less stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects | (1,917) | (1,200) | (3,348) | (2,225) |
| | ----- | ----- | ----- | ----- |

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

| | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|
| Net loss -- pro forma | \$ (20,580) | \$ (29,936) | \$ (52,542) | \$ (59,094) |
| | ===== | ===== | ===== | ===== |
| Net loss per share -- as reported | | | | |
| Basic and diluted | \$ (0.20) | \$ (0.31) | \$ (0.53) | \$ (0.61) |
| | ===== | ===== | ===== | ===== |
| Net loss per share -- pro forma | | | | |
| Basic and diluted | \$ (0.22) | \$ (0.32) | \$ (0.56) | \$ (0.64) |
| | ===== | ===== | ===== | ===== |

5. ACCOUNTS RECEIVABLE

CUSTOMER ACCOUNTS RECEIVABLE - Customer accounts receivable represent 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 \$7.8 million and \$8.5 million at June 30, 2003 and December 31, 2002, respectively.

RECEIVABLE FROM SPRINT - Receivable from Sprint in the accompanying consolidated balance sheets consists of the following:

| | JUNE 30, 2003 | DECEMBER 31, |
|--|---------------|--------------|
| | ----- | ----- |
| | (unaudited) | |
| Net roaming receivable | \$ 7,136 | \$ 3,554 |
| Access and interconnect revenue receivable (payable) | (181) | (188) |
| Accrued service revenue | 3,203 | 3,345 |
| Customer payments due from Sprint | 11,959 | 21,136 |
| Other amounts due from Sprint | 587 | 2,475 |
| | ----- | ----- |
| | \$ 22,704 | \$ 30,322 |
| | ===== | ===== |

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 travel 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.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

(dollars in thousands, except as noted)

Access and interconnect revenue receivable represents net amounts due from Sprint for calls originated by a local exchange carrier ("LEC") or an interexchange carrier ("IXC") that terminate on the Company's network. Under the Company's affiliation agreements with Sprint, Sprint collects this revenue from other carriers and remits 92% of those collections to the Company. The \$181 and \$188 amounts owed to Sprint at June 30, 2003 and December 31, 2002, respectively, are the result of rate adjustments on previously collected amounts.

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

Customer payments due from Sprint relate to amounts that have been collected by Sprint at the end of the period which were not remitted to the Company until the subsequent period. Customer payments are processed daily by Sprint and the Company receives its share of such collections on a weekly basis under the terms of the affiliation agreements.

Included in the December 31, 2002 balance of customer payments due from Sprint is \$12,209 in amounts that were due to the Company related to payments that Sprint had collected from customers from April 2000 to December 2002 that had not been passed on to the Company due to the methodology that had been previously used by Sprint to allocate cash received from customers. These amounts were collected in January and February 2003.

Included in the June 30, 2003 balance of customer payments due from Sprint is \$3,907 in amounts that were due to the Company related to payments that Sprint had collected from customers from April 2002 to June 2003 that had not been passed on to the Company due to the methodology that had been used by Sprint to allocate cash received from customers.

6. PROPERTY AND EQUIPMENT

Property and equipment are stated net of accumulated depreciation of \$156.5 million and \$122.9 million at June 30, 2003 and December 31, 2002, respectively.

7. 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 is being amortized using the straight-line method over the estimated life of the acquired subscribers or approximately 3 years.

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

| | | |
|---------------------------------------|---------------------------------------|----------------------------|
| Intangible assets consist of: | JUNE 30, 2003 ----- (unaudited) | DECEMBER 31, 2002 ----- |
| Sprint affiliate and other agreements | \$ 532,200 | \$ 532,200 |
| Accumulated amortization | (70,575) | (55,000) |
| Subtotal | ----- 461,625 | ----- 477,200 |
| Subscriber base acquired | 29,500 | 29,500 |
| Accumulated amortization | (22,737) | (17,000) |
| Subtotal | ----- 6,763 | ----- 12,500 |
| Intangible assets, net | \$ 468,388 ===== | \$ 488,700 ===== |

Amortization expense relative to intangible assets was \$20,033 for the six months ended June 30, 2003 and will be \$20,034 for the remainder of 2003.

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

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

YEAR ENDED DECEMBER 31,

| | |
|------------|------------|
| 2003 | \$ 40,067 |
| 2004 | 32,079 |
| 2005 | 30,234 |
| 2006 | 30,234 |
| 2007 | 30,234 |
| Thereafter | 325,573 |
| | ----- |
| | \$ 488,421 |
| | ===== |

8. LONG-TERM DEBT

Long-term debt consists of the following:

| | JUNE 30, 2003 | DECEMBER 31, 2002 |
|--|---------------|-------------------|
| | ----- | ----- |
| | (unaudited) | |
| 12 7/8% senior discount notes | \$ 286,239 | \$ 268,862 |
| 12 1/2% senior notes | 250,000 | 250,000 |
| 13 5/8% senior notes | 150,000 | 150,000 |
| Senior secured debt | 200,000 | 200,000 |
| | ----- | ----- |
| Total debt | 886,239 | 868,862 |
| Less current maturities | (7,500) | -- |
| | ----- | ----- |
| Long-term debt, excluding current maturities | \$ 878,739 | \$ 868,862 |
| | ===== | ===== |

SENIOR UNSECURED OBLIGATIONS

SENIOR DISCOUNT NOTES - On December 23, 1999, Alamosa (Delaware) filed a registration statement with the Securities and Exchange Commission for the issuance of \$350 million face amount of Senior Discount Notes (the "12 7/8% Notes Offering"). The 12 7/8% Notes Offering was completed on February 8, 2000 and generated net proceeds of approximately \$181 million after underwriters' commissions and expenses of approximate \$6.1 million. The 12 7/8% senior discount notes ("12 7/8% Senior Discount Notes") mature in ten years (February 15, 2010) and carry a coupon rate of 12 7/8% Senior Discount Notes, and provide for interest deferral for the first five years. The 12 7/8% Senior Discount Notes will accrete to their \$350 million face

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

amount by February 8, 2005, after which, interest will be paid in cash semiannually. The proceeds of the 12 7/8% Senior Discount Notes Offering were used to prepay the existing credit facility, to pay costs to build out additional areas within the Company's existing territories, to fund operating working capital needs and for other general corporate purposes.

12 1/2% SENIOR NOTES - On January 31, 2001, Alamosa (Delaware) consummated the offering (the "12 1/2% Notes Offering") of \$250 million aggregate principal amount of senior notes (the "12 1/2% Senior Notes"). The 12 1/2% Senior Notes mature in ten years (February 1, 2011), carry a coupon rate of 12 1/2%, and are payable semiannually on February 1 and August 1, beginning on August 1, 2001. The net proceeds from the sale of the 12 1/2% Senior Notes were approximately \$241 million, after deducting the commissions and estimated offering expenses.

Approximately \$59.0 million of the proceeds of the 12 1/2% 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 12 1/2% Senior Notes and the 12 7/8% Senior Discount Notes, and the balance was used for general corporate purposes of Alamosa (Delaware), including, accelerating coverage within the existing territories of Alamosa (Delaware); the build-out of additional areas within its existing territories; expanding its existing territories; and pursuing additional telecommunications business opportunities or acquiring other telecommunications businesses or assets.

13 5/8% SENIOR NOTES - On August 15, 2001, Alamosa (Delaware) issued \$150 million face amount of Senior Notes (the "13 5/8% Senior Notes"). The 13 5/8% Senior Notes mature in ten years (August 15, 2011) and carry a coupon rate of 13 5/8% payable semiannually on February 15 and August 15, beginning on February 15, 2002. The net proceeds from the sale of the 13 5/8% Senior Notes were approximately \$141.5 million, after deducting the commissions and estimated offering expenses. Approximately \$66 million of the proceeds were used to pay down a portion of the Senior Secured Credit Facility discussed below. 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. The balance was used for general corporate purposes.

SENIOR SECURED OBLIGATIONS

SENIOR SECURED CREDIT FACILITY - On February 14, 2001, the Company, 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

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

amount of up to \$25 million.

On September 26, 2002, the Company further amended the Senior Secured Credit Facility, to among other things, modify certain financial and statistical covenants. Under the Senior Secured Credit Facility, interest will accrue, at Alamosa Holdings, LLC's option: (i) at the London Interbank Offered Rate adjusted for any statutory reserves ("LIBOR"), or (ii) the base rate which is generally the higher of the administrative agent's base rate, the federal funds effective rate plus 0.50% or the administrative agent's base CD rate plus 0.50%, in each case plus an interest margin which was initially 4.00% for LIBOR borrowings and 3.00% for base rate borrowings. The applicable interest margins are subject to reductions under a pricing grid based on ratios of Alamosa Holdings, LLC's total debt to its earnings before interest, taxes, depreciation and amortization ("EBITDA"). The interest rate margins will increase by an additional 200 basis points in the event Alamosa Holdings, LLC fails to pay principal, interest or other amounts as they become due and payable under the Senior Secured Credit

11

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

Facility. As of June 30, 2003 the interest margin was 4.00% for LIBOR borrowings and 3.00% for base rate borrowings.

The weighted average interest rate on the outstanding borrowings under this facility at June 30, 2003 is 5.35%. Alamosa Holdings, LLC is also required to pay quarterly in arrears a commitment fee on the unfunded portion of the commitment of each lender. The commitment fee accrues at a rate per annum equal to (i) 1.50% on each day when the utilization (determined by dividing the total amount of loans plus outstanding letters of credit under the Senior Secured Credit Facility by the total commitment amount under the Senior Secured Credit Facility) of the Senior Secured Credit Facility is less than or equal to 33.33%, (ii) 1.25% on each day when utilization is greater than 33.33% but less than or equal to 66.66% and (iii) 1.00% on each day when utilization is greater than 66.66%. The Company has 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 10.

Alamosa Holdings, LLC is also required to pay a separate annual administration fee and a fee on the aggregate face amount of outstanding letters of credit, if any, under the revolving credit facility.

As of June 30, 2003, Alamosa Holdings, LLC had drawn \$200 million under the term portion of the Senior Secured Credit Facility. Any amount outstanding at the end of the 12-month period will amortize quarterly beginning May 14, 2004. The first such quarterly principal reduction of \$7,500 will be due in May 2004 and is presented as a current liability in the accompanying balance sheet. The September 26, 2002 amendment placed restrictions on the ability to draw the \$25 million revolving portion. The first \$10 million can be drawn if cash balances fall below \$15 million and the Company substantiates through tangible evidence the

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

need for such advances. The remaining \$15 million is available only at such time as the leverage ratio is less than or equal to 5.5 to 1. No advances have been drawn on the revolving portion of the Senior Secured Credit Facility. Any balance outstanding under the revolving portion of the Senior Secured Credit Facility will begin reducing quarterly in amounts to be agreed beginning May 14, 2004.

Pursuant to the Senior Secured Credit Facility, the Company is subject to financial and statistical covenants, including covenants with respect to the ratio of EBITDA to total cash interest expense. Stage I covenants were applicable through March 31, 2003 and provided for:

- o minimum numbers of subscribers;
- o providing coverage to a minimum number of residents;
- o minimum service revenue;
- o minimum EBITDA;
- o ratio of senior debt to total capital;
- o ratio of total debt to total capital; and
- o maximum capital expenditures.

As of March 31, 2003, the Company became subject to the following Stage II covenants:

- o ratio of senior debt to EBITDA; and
- o ratio of total debt to EBITDA.

Beginning April 1, 2003, the Company became subject to the following additional Stage II covenants:

- o ratio of EBITDA to consolidated cash interest expense;
- o ratio of EBITDA to total fixed charges (the sum of debt service, capital expenditures and taxes); and
- o ratio of EBITDA to pro forma debt service.

9. INCOME TAXES

The income tax benefit represents the anticipated recognition of the Company's deductible net operating loss carry forwards. This benefit is being recognized based on an assessment of the combined expected future taxable income of the Company and expected reversals of the temporary differences from acquisitions closed in

12

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

2001. Due to the Company's limited operating history and lack of positive taxable earnings, a valuation allowance has been established during 2003 as the deferred tax asset is expected to exceed the deferred tax liabilities. The establishment of this valuation allowance in the six months ended June 30, 2003 has resulted in an effective tax rate of 17.24 percent compared to 37.87 percent for the six months ended June 30, 2002.

10. HEDGING ACTIVITIES AND COMPREHENSIVE INCOME

The Company follows the provisions of SFAS No. 133, "Accounting for

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

Derivatives and Hedging Activities" in its accounting for 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. Approximately \$1,289 in cash settlements under derivative instruments classified as hedges is included in interest expense for the six months ended June 30, 2003.

As of June 30, 2003, the Company has recorded \$2,679 in "other noncurrent liabilities" relative to the fair value of derivative instruments including \$1,829 representing derivative instruments that qualify for hedge accounting under SFAS No. 133. During the six month period ended June 30, 2003, the Company recognized gains of \$481 (net of income tax benefit of \$195) in other comprehensive income. During the six month period ended June 30, 2002, the Company recognized losses of \$248 (net of income tax benefit of \$151) in other comprehensive income. Other comprehensive income appears as a separate component of Stockholders' Equity as "Accumulated other comprehensive income," as illustrated below:

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Net loss | \$ (18,663) | \$ (28,736) | \$ (49,194) | \$ (56,869) |
| Change in fair values of derivative instruments, net of income tax expense (benefit) of \$80, \$(330), \$195 and \$(151), respectively | 293 | (540) | 481 | (248) |
| Comprehensive loss | \$ (18,370) | \$ (29,276) | \$ (48,713) | \$ (57,117) |

11. COMMITMENTS AND CONTINGENCIES

ACCESS REVENUE REFUND - On July 3, 2002, the Federal Communications Commission issued a ruling on a dispute between AT&T, as an interexchange carrier ("IXC"), and Sprint Spectrum L.P., a Commercial Mobile Radio Service ("wireless carrier"). This ruling addressed the wireless carrier charging terminating access fees to the IXC for calls terminated on a wireless network indicating such fees could be assessed; however the IXC would only be obligated to pay such fees if a contract was in place providing for the payment of access charges. As a result of this ruling, Sprint has requested that the Company refund approximately \$1.4 million of a total \$5.6 million in amounts that had been previously paid to the Company by Sprint relative to terminating access fees. Although the Company has contested the refund of these amounts, a liability has been recorded relative to this contingency in the consolidated financial statements as of June 30, 2003.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

LITIGATION - The Company has been named as a defendant in a number of purported securities class actions in the United States District Court for the Southern District of New York, arising out of its initial public offering (the "IPO"). Various underwriters of the IPO also are named as defendants in the actions. The action against the Company is one of more than 300 related class actions which have been consolidated and are pending in the same court. The complainants seek to recover damages and allege, among other things, that the registration statement and prospectus filed with the Securities and Exchange Commission for purposes of the IPO were false

13

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

and misleading because they failed to disclose that the underwriters allegedly (i) solicited and received commissions from certain investors in exchange for allocating to them shares of common stock in connection with the IPO, and (ii) entered into agreements with their customers to allocate such stock to those customers in exchange for the customers agreeing to purchase additional Company shares in the aftermarket at pre-determined prices. On February 19, 2003, the Court granted motions by the Company and 115 other issuers to dismiss the claims under Rule 10b-5 of the Exchange Act which had been asserted against them. The Court denied the motions by the Company and virtually all of the other issuers to dismiss the claims asserted against them under Section 11 of the Securities Act. The Company maintains insurance coverage which may mitigate its exposure to loss in the event that this claim is not resolved in the Company's favor.

On January 23, 2001, the 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 among other things. On September 27, 2002, the Court entered an Agreed Order Compelling Arbitration. The parties are in the process of selecting a panel of three arbitrators. The Company believes that there is no basis for Mr. Brantley's claim and intends to vigorously defend the lawsuit.

On January 8, 2003, a claim was made against the Company by Southwest Antenna and Tower, Inc. ("SWAT") in the Second Judicial District Court, County of Bernalillo, State of New Mexico, for monies due on an open account. SWAT sought to recover approximately \$2.0 million from the Company relative to work performed by SWAT during 2000 for Roberts Wireless Communications, LLC which was acquired by the Company in the first quarter of 2001. This claim was settled for \$0.875 million during the second quarter of 2003.

In addition to the above, 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

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

adverse impact on the Company's financial position, results of operations or liquidity.

12. EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 telecommunication facilities, primarily consisting of cell sites and switch site operating leases, the Company has evaluated the impact of the adoption of SFAS No. 143 as of January 1, 2003 and determined that a liability cannot 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. In addition to cell sites and switch site operating leases, the Company also has leases for office and retail locations that are subject to the provisions of SFAS No. 143. The adoption of SFAS No. 143 to leased office and retail locations did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002," which rescinded or amended various existing standards. One change addressed by this standard pertains to treatment of extinguishments of debt as an extraordinary item. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and states that an extinguishment of debt cannot be classified as an extraordinary item unless it meets the unusual or infrequent criteria outlined in Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary,

14

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

Unusual and Infrequently Occurring Events and Transactions." The provisions of this statement are effective for fiscal years beginning after May 15, 2002 and extinguishments of debt that were previously classified as an extraordinary item in prior periods that do not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. The adoption of SFAS No. 145 in the quarter ending March 31, 2003 has resulted in a reclassification of the loss on extinguishment of debt that the Company previously reported as an extraordinary item for the year ended December 31, 2001.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002 and the adoption of this statement did not have a material impact on the Company's results of operations, financial position or cash flows.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure," which is an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this statement are effective for fiscal years ending after and interim periods beginning after December 15, 2002. As the Company continues to account for stock-based employee compensation using the intrinsic value method under APB Opinion No. 25, the Company, as required, has only adopted the revised disclosure requirements of SFAS No. 148 as of December 31, 2002 as discussed in Note 4.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) and is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of this statement is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF Abstract No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" in January 2003. This abstract addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, it addresses how consideration should be measured and allocated to the separate units of accounting in the arrangement. The guidance in this abstract is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003 and the Company has evaluated the impact of the adoption of the provisions of this abstract as of July 1, 2003.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

The Company has elected to apply the accounting provisions of this abstract on a prospective basis beginning July 1, 2003. Under the accounting provisions of this abstract, the Company will allocate amounts charged to customers between the sale of handsets and other equipment and the sale of wireless telecommunication services. In many cases, this will result in all amounts collected from the customer upon activation of the handset being allocated to the sale of the handset. As a result of this treatment, activation fees included in the consideration at the time of sale will be recorded as handset revenue. Prior to the adoption of the provisions of

15

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

this abstract the Company had deferred activation fee revenue as well as activation costs in a like amount and amortized these revenues and costs over the average life of the Company's subscribers. The existing deferred revenue and costs at July 1, 2003 will continue to be amortized.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for guarantees issued after December 31, 2002, while the disclosure requirements were effective for financial statements for periods ending after December 15, 2002. At December 31, 2002, the Company had not entered into any material arrangement that would be subject to the disclosure requirements of FIN 45. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46" or the "Interpretation"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. For public entities with VIEs created before February 1, 2003, the implementation and disclosure requirements of FIN 46 are effective no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. For VIEs created after January 31, 2003, the requirements are effective immediately. The

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

Company does not believe that the adoption of FIN 46 will have a material impact on its consolidated financial statements.

16

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q 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 quarterly report on Form 10-Q regarding our financial position and liquidity are forward-looking statements. These forward-looking statements also include:

- o forecasts of growth in the number of consumers using wireless personal communications services and in estimated populations;
- o statements regarding our anticipated revenues, expense levels, liquidity, capital resources and operating losses; and
- o 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 ("Cautionary Statements") are further disclosed in our annual report on Form 10-K for the year ended December 31, 2002 under the sections "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Important factors that could cause actual results to differ materially from those in the forward-looking statements included herein include, but are not limited to:

- o our dependence on our affiliation with Sprint;
- o the ability of Sprint to alter fees paid or charged to us under our affiliation agreements;
- o our limited operating history and anticipation of future losses;
- o our dependence on back office services provided by Sprint;
- o potential fluctuations in our operating results;
- o changes or advances in technology;

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

- o competition in the industry and markets in which we operate;
- o our ability to attract and retain skilled personnel;
- o our potential need for additional capital or the need for refinancing existing indebtedness;
- o our potential inability to expand our services and related products in the event of substantial increases in demand for these services and related products;
- o changes in government regulation;
- o future acquisitions;
- o general economic and business conditions; and

17

- o effects of mergers and consolidations within the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry.

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.

DEFINITIONS OF OPERATING AND NON-GAAP FINANCIAL MEASURES

We provide reader's financial measures generated using generally accepted accounting principles ("GAAP") and using adjustments to GAAP ("Non-GAAP"). These financial measures reflect industry conventions or standard measures of liquidity, profitability or performance commonly used by the investment community for comparability purposes. The Non-GAAP financial measures and other operating metrics used in this document include the following:

- o Earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as net income (loss) plus net interest expense, depreciation expense, amortization expense and other non-cash expense items. EBITDA is a measure used by the investment community for comparability as well as in our debt covenants for compliance purposes and is not intended to represent the results of our operations in accordance with GAAP.
- o Free cash flow is defined as EBITDA less net cash requirements for capital expenditures and debt service requirements.
- o Average monthly revenue per user ("ARPU") is a measure used to determine the monthly subscriber revenue earned for subscribers based in our territory. This measure is determined based on subscriber revenues in our consolidated statement of operations and our average subscribers during the period.
- o Cash cost per user ("CCPU") is a measure of the costs to operate our business on a per user basis consisting of costs of service and operations and general and administrative expenses in our

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

consolidated statement of operations, plus handset subsidies on equipment sold to existing subscribers. These costs are allocated across average subscribers during the period to calculate this measure.

- o Customer churn is used to measure the rate at which subscribers based in our territory deactivate service on a voluntary or involuntary basis. We calculate churn based on the number of subscribers deactivated (net of transfers out of our service area and those who deactivated within 30 days of activation) as a percentage of our average subscriber base during the period.
- o Cost per gross addition ("CPGA") is used to measure the costs incurred to add new subscribers in our territory. This measure includes handset subsidies on new subscriber activations, commissions, rebates and other selling and marketing costs and is calculated based on product sales revenue, cost of products sold and selling and marketing expenses in our consolidated statement of operations net of handset subsidies on equipment sold to existing subscribers allocated over the total number of subscribers activated in our territory during the period.

GENERAL

Since our inception in 1998, we have incurred substantial costs in connection with negotiating our contracts with Sprint, obtaining our debt financing, completing our public equity offerings, engineering our wireless PCS network, developing our business infrastructure and building out our portion of the PCS network of Sprint. Prior to the launch of our first market in June 1999, we did not have any markets in operation and we had no customers. At June 30, 2003, we had approximately 677,000 subscribers. As of June 30, 2003, our accumulated deficit is \$713.9 million and we have incurred a significant amount of capital expenditures in connection with constructing our portion of the PCS network of Sprint and developing our business infrastructure including the establishment of our retail distribution channels. While we anticipate losses to continue, we expect revenue to continue to increase as our subscriber base increases.

18

On July 17, 1998, we entered into our original affiliation agreements with Sprint. We subsequently amended our original agreements in 1999 to add additional territories to our licensed area. In the first quarter of 2001, we completed the acquisitions of three additional PCS Affiliates of Sprint, bringing our total licensed POPs to approximately 15.8 million at June 30, 2003.

As a PCS Affiliate of Sprint, we have the exclusive right to provide wireless, mobility communications network services under the Sprint brand name in our licensed territory. We are responsible for building, owning and managing the portion of the PCS network of Sprint located in our territory. We offer national plans designed by Sprint and intend to offer local plans tailored to our market demographics. Our portion of the PCS network of Sprint is designed to offer a seamless connection with the 100% digital PCS nationwide wireless network of Sprint. We market wireless products and services through a number of distribution outlets located in our territories, including our own retail stores, major national distributors and local third party distributors.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

We recognize revenues from our subscribers, proceeds from the sales of handsets and accessories through channels controlled by us and fees from Sprint and other wireless service providers when their customers roam onto our portion of the PCS network of Sprint. Sprint retains 8% of all collected service revenue from our subscribers (not including products sales) and fees collected from other wireless service providers when their customers roam onto our portion of the PCS network of Sprint. We report the amount retained by Sprint as an operating expense. In addition, Sprint bills our subscribers for taxes, handset insurance, equipment and Universal Service Fund charges which we do not record. Sprint collects these amounts from the subscribers and remits them to the appropriate entity.

As part of our affiliation agreements with Sprint, we have the option of contracting with Sprint to provide back office services such as customer activation, handset logistics, billing, customer care and network monitoring services. We have elected to delegate the performance of these services to Sprint to take advantage of their economies of scale, to accelerate our build-out and market launches and to lower our initial capital requirements. The cost for these services is primarily on a per subscriber and per transaction basis and is recorded as an operating expense.

CRITICAL ACCOUNTING POLICIES

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of an entity. To aid in that understanding, we have identified our "critical accounting policies." These policies have the potential to have a more significant impact on our consolidated financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - Estimates are used in determining our allowance for bad debts and are based on our historical collection experience, current trends, credit policy, a percentage of our accounts receivable by aging category and expectations of future bad debts based on current collection activities. In determining the allowance, we consider historical write-offs of our receivables and our history is somewhat limited due to the number of changes that have historically been made to credit policies. We also look at current trends in the credit quality of our customer base as well as changes in the credit policies. Under PCS service plans from Sprint, customers who do not meet certain credit criteria can nevertheless select any plan offered, subject to an account spending limit, referred to as ASL, to control credit exposure. Account spending limits range from \$125 to \$200 and generally require deposits in the amount of the limit that could be credited against future billings. In May 2001, the deposit requirement was eliminated on certain, but not all, credit classes ("NDASL"). As a result, a significant amount of our customer additions during 2001 were under the NDASL program. The NDASL program was replaced by the "Clear Pay" program in November 2001, which reinstated the deposit requirement for certain of the lowest credit class customers, and features increased back office controls with respect to collection efforts. We reinstated the deposit for customers in other credit classes on the Clear Pay program as of February 24, 2002 and we believe that this program, referred to as Clear Pay II, has reduced our bad debt exposure.

REVENUE RECOGNITION - We record equipment revenue for the sale of handsets and accessories to customers in our retail stores and to local resellers in our territories. We do not record equipment revenue on handsets and accessories purchased by our customers from national resellers or directly from Sprint. Our customers pay an activation fee when they initiate service. In the past, we have deferred this activation fee and recorded the activation fee

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

revenue over the

19

estimated average life of our customers which ranges from 12 to 36 months depending on credit class and based on our past experience. We recognize revenue from our customers as they use the service. Additionally, we provide a reduction of recorded revenue for billing adjustments and billing corrections.

We recognize revenue for product sales in connection with our sales of handsets and accessories through our retail stores and our local indirect retailers. The cost of handsets sold generally exceeds the retail sales price as we subsidize the price of handsets for competitive reasons. For handsets sold through channels controlled by Sprint that are activated by a subscriber in our territory, we reimburse Sprint for the amount of subsidy incurred by them in connection with the sale of these handsets.

Effective July 1, 2003, we have adopted the accounting provisions of Emerging Issues Task Force ("EITF") Abstract No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables." See further discussion under Recently Issued Accounting Pronouncements in this section.

LONG-LIVED ASSET RECOVERY - Long-lived assets, consisting primarily of property, equipment and intangibles, comprise approximately 81 percent of our total assets as of June 30, 2003. Changes in technology or in our intended use of these assets may cause the estimated period of use or the value of these assets to change. In addition, changes in general industry conditions such as increased competition, lower ARPU, etc., could cause the value of certain of these assets to change. We monitor the appropriateness of the estimated useful lives of these assets. Whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable, we review the respective assets for impairment. In performing this test, assets are grouped according to identifiable cash flow streams and the undiscounted cash flow over the life of the asset group is compared to the carrying value of the asset group. Estimates and assumptions used in both estimating the useful life and evaluating potential impairment issues require a significant amount of judgment.

INCOME TAXES - We utilize an asset and liability approach to accounting for income taxes, wherein deferred taxes are provided for book and tax basis differences for assets and liabilities. In the event differences exist between book and tax basis of our assets and liabilities that result in deferred assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is made. A valuation allowance is provided for the portion of deferred tax assets for which there is sufficient uncertainty regarding our ability to recognize the benefits of those assets in future years.

Deferred taxes are provided for those items reported in different periods for income tax and financial reporting purposes. The net deferred tax asset was fully reserved through December 31, 2000 because of uncertainty regarding our ability to recognize the benefit of the asset in future years. In connection with the acquisitions completed by the Company in 2001, a significant deferred tax liability was recorded relative to intangibles. The reversal of the timing differences which gave rise to the deferred tax liability will allow us to benefit from the deferred tax asset. As such, the valuation allowance against the deferred tax asset was reduced in 2001 to account for the expected benefit to be realized. Prior to February 1, 2000, our predecessor operated as a limited liability company ("LLC") under which losses for income tax purposes were

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

utilized by the LLC members on their income tax returns. Subsequent to January 31, 2000, we became a C-corp for federal income tax purposes and therefore subsequent losses became net operating loss carryforwards to us. We continue to evaluate the likelihood of realizing the benefits of deferred tax items. Should events or circumstances indicate that it is warranted, a valuation allowance will again be established. During the first quarter of 2003 we reinstated a valuation allowance due to the fact that the timing differences that give rise to the deferred tax asset are expected to exceed the timing differences that give rise to the deferred tax liabilities and there is uncertainty as to whether we will recognize the benefit of those deferred taxes in future periods.

RELIANCE ON THE TIMELINESS AND ACCURACY OF DATA RECEIVED FROM SPRINT - We place significant reliance on Sprint as a service provider in terms of the timeliness and accuracy of financial and statistical data related to customers based in our service territory that we receive on a periodic basis from Sprint. We make significant estimates in terms of cash flow, revenue, cost of service, selling and marketing costs and the adequacy of our allowance for uncollectible accounts based on this data we receive from Sprint. We obtain assurance as to the accuracy of this data 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 could have a material adverse effect on our results of operations and cash flow.

20

CONSOLIDATED RESULTS OF OPERATIONS (DOLLARS IN THOUSANDS)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2003 COMPARED TO THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2002

SUBSCRIBER GROWTH AND KEY PERFORMANCE INDICATORS - We had total subscribers of approximately 677,000 at June 30, 2003 compared to approximately 571,000 at June 30, 2002. This growth of approximately 106,000 subscribers or 19 percent year over year compares to 81 percent growth from June 30, 2001 to June 30, 2002. The decline in the rate of growth from 2002 to 2003 is due to the fact that markets were being launched during 2001 where our coverage area increased from 4.5 million to 11.2 million covered POPs. During 2002 our coverage area increased from 11.2 million to 11.8 million covered POPs as we had substantially completed the build-out of our network by the end of 2001. During the second quarter of 2003 our coverage area increased to 11.9 million covered POPs.

Monthly churn for the second quarter of 2003 was approximately 2.5 percent compared to approximately 3.2 percent for the second quarter of 2002. This level of churn in the second quarter of 2003 also represented an improvement over the first quarter of 2003 where we experienced monthly churn of 3.0 percent. Increases in churn negatively impact our operations as we incur significant up front costs in acquiring customers. Churn increased significantly during 2002 as the result of a significantly higher level of involuntary deactivations of subscribers for non-payment. This was driven by the addition of a significant number of sub-prime credit quality subscribers in 2001 under the Clear Pay/NDASL program. We reinstated deposit requirements for sub-prime credit quality subscribers in our markets in February 2002 and began to see the impact of this change in the form of decreasing churn beginning in the fourth quarter of 2002 where churn declined to 3.4 percent from 3.8 percent in the third quarter of 2002. This trend has continued through the first six months of 2003.

Our CPGA includes handset subsidies on new subscriber activations, and

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

selling and marketing costs and was approximately \$375 per gross addition in the second quarter of 2003, which was consistent with the \$377 per gross addition in the second quarter of 2002. Our CPGA increased \$33 in the second quarter of 2003 over the \$342 per gross addition we experienced in the first quarter of 2003. As overall subscriber growth on a national basis has declined, competition among the wireless communications providers has become more intense. As a result of this competition for both new subscribers and existing subscribers from other carriers, promotional efforts have increased in terms of handset rebates and other promotional activities which increases the up front costs in acquiring customers.

SERVICE REVENUE - Service revenues consist of revenue from subscribers and roaming revenue earned when customers from other carriers roam onto our portion of the PCS network of Sprint. Subscriber revenue consists of payments received from our subscribers for monthly service under their service plans. Subscriber revenue also includes activation fees and charges for the use of various features including PCS Vision, the wireless web, voice activated dialing, etc.

Subscriber revenues were \$114,550 for the quarter ended June 30, 2003 compared to \$92,580 for the quarter ended June 30, 2002. This increase of 24 percent was primarily due to the 19 percent increase in our subscriber base discussed above. The percentage increase in revenue was more than the percentage increase in subscribers due to a one time revenue adjustment of \$5.4 million in the second quarter of 2002 relative to an FCC ruling regarding terminating access charges. Subscriber revenues were \$218,574 for the six months ended June 30, 2003 compared to \$186,078 for the six months ended June 30, 2002. This increase of 17 percent was also primarily due to the increase in the subscriber base after considering the one time revenue adjustment in the second quarter of 2002. ARPU decreased in the second quarter of 2003 to \$57 compared to \$59 (before the one time revenue adjustment discussed previously) in the second quarter of 2002. ARPU decreased in the first six months of 2003 to \$56 compared to \$59 (before the one time revenue adjustment discussed previously) in the first six months of 2002. This decrease is attributable to lower monthly recurring charges for plans with larger buckets of minutes being offered as a result of the increased level of competition in the marketplace. The larger buckets of minutes result in fewer minutes over plan and less revenue from those overage minutes.

Roaming revenue is comprised of revenue from Sprint and other PCS subscribers based outside of our territories that roam onto our portion of the PCS network of Sprint. We have a reciprocal roaming rate arrangement with Sprint where per minute charges for inbound and outbound roaming relative to Sprint subscribers are identical. This rate was 10 cents per minute during 2002. During 2003 this reciprocal rate decreased to 5.8 cents per minute. The decline in

rates was offset by increases in roaming minutes due to the fact that we added additional base stations after the second quarter of 2002 which allowed us to capture additional roaming traffic as well as the growth in the customer bases of Sprint and other PCS providers. Sprint has indicated that the reciprocal rate for 2003 of 5.8 cents per minute represents a fair and reasonable return on the cost of the underlying network based on an agreement in principle reached with Sprint in 2001. This rate went into effect on January 1, 2003. We have not agreed that 5.8 cents per minute represents a fair and reasonable return on the underlying network and are currently in discussions with Sprint as to the determination of this rate. The toll rate for long distance charges associated

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

with Sprint roaming is expected to remain at approximately 2 cents per minute. We have also experienced a significant increase in the volume of inbound roaming traffic from PCS providers other than Sprint which traffic is settled at rates separately negotiated by Sprint on our behalf with the other PCS providers. We had approximately 395 million minutes of inbound roaming traffic in the second quarter of 2003 compared to approximately 265 million minutes of inbound roaming traffic in the second quarter of 2002. The increase in minutes offset by the decrease in rates accounted for the 5 percent overall increase in roaming revenue to \$35,040 in the second quarter of 2003 from \$33,457 in the second quarter of 2002. We had approximately 735 million minutes of inbound roaming traffic in the first six months of 2003 compared to approximately 476 million minutes of inbound roaming traffic in the first six months of 2002. The increase in minutes offset by the decrease in rates accounted for the 11 percent overall increase in roaming revenue to \$66,830 in the first six months of 2003 from \$60,025 in the first six months of 2002.

PRODUCT SALES AND COST OF PRODUCTS SOLD - We record revenue from the sale of handsets and accessories, net of an allowance for returns, as product sales. Product sales revenue and costs of products sold are recorded for all products that are sold through our retail stores as well as those sold to our local indirect agents. The cost of handsets sold generally exceeds the retail sales price as we subsidize the price of handsets for competitive reasons. Sprint's handset return policy allows customers to return their handsets for a full refund within 14 days of purchase. When handsets are returned to us, we may be able to reissue the handsets to customers at little additional cost to us. However, when handsets are returned to Sprint for refurbishing, we receive a credit from Sprint, which is less than the amount we originally paid for the handset.

Product sales revenue for the second quarter of 2003 was \$5,804 compared to \$4,752 for the second quarter of 2002. Cost of products sold for the second quarter of 2003 was \$12,399 compared to \$9,113 for the second quarter of 2002. As such the subsidy on handsets sold through our retail and local indirect channels was \$6,595 in the second quarter of 2003 and \$4,361 in the second quarter of 2002. On a per activation basis (excluding handsets sold to existing subscribers), the subsidy was approximately \$117 per activation in the second quarter of 2003 and approximately \$94 per activation in the second quarter of 2002. Product sales revenue for the first six months of 2003 was \$11,098 compared to \$13,073 for the first six months of 2002. Cost of products sold for the first six months of 2003 was \$25,243 compared to \$23,230 for the first six months of 2002. As such the subsidy on handsets sold through our retail and local indirect channels was \$14,145 in the first six months of 2003 and \$10,157 in the first six months of 2002. On a per activation basis (excluding handsets sold to existing subscribers), the subsidy was approximately \$116 per activation in the first six months of 2003 and approximately \$97 per activation in the first six months of 2002. The increase in subsidy per activation in 2003 compared to 2002 is due to more aggressive promotional efforts, which involved a higher level of instant rebates and other discounts on handset prices for competitive reasons.

COST OF SERVICE AND OPERATIONS (EXCLUDING NON-CASH COMPENSATION) - Cost of service and operations includes the costs of operating our portion of the PCS network of Sprint. These costs include items such as outbound roaming fees, long distance charges, tower leases and maintenance as well as backhaul costs. In addition, it includes the fees we pay to Sprint for our 8 percent affiliation fee, back office services such as billing and customer care as well as our provision for estimated uncollectible accounts. Expenses of \$81,454 in the second quarter of 2003 were approximately 4 percent less than the \$85,289 incurred in the second quarter of 2002. Expenses of \$160,771 in the first six months of 2003 were approximately 2 percent less than the \$163,818 incurred in the first six months of 2002. Network operating costs remained relatively stable as our network build-out is substantially complete and we are beginning to

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

realize the benefits of our capital investment as we continue to add subscribers to the network. The improvements noted in overall cost of service and operations were primarily driven by reduced bad debt expense in 2003 compared to 2002 as we begin to see the benefit of reinstating deposits requirements in 2002. Total minutes of use on our network were 1.5 billion minutes in the second quarter of 2003 compared to 1,005 million minutes in the second quarter of 2002 for an increase in traffic of 49 percent. Total minutes of use on our network were 2.8 billion minutes in the first six months of 2003 compared to 1.9 billion minutes in the first six months of 2002 for an increase in traffic of 47 percent.

22

SELLING AND MARKETING (EXCLUDING NON-CASH COMPENSATION) - Selling and marketing expenses include advertising, promotion, sales commissions and expenses related to our distribution channels including our retail store expenses. In addition, we reimburse Sprint for the subsidy on handsets sold through national retail stores due to the fact that these retailers purchase their handsets from Sprint. This subsidy is recorded as a selling and marketing expense. The amount of handset subsidy included in selling and marketing was \$3,826 and \$4,462 in the second quarter of 2003 and 2002, respectively. The amount of handset subsidy included in selling and marketing was \$8,172 and \$7,865 in the first six months of 2003 and 2002, respectively. Total selling and marketing expenses of \$26,584 in the second quarter of 2003 were consistent with the \$26,960 incurred in the second quarter of 2002. Total selling and marketing expenses of \$54,730 in the first six months of 2003 were consistent with the \$55,857 incurred in the first six months of 2002.

GENERAL AND ADMINISTRATIVE EXPENSES (EXCLUDING NON-CASH COMPENSATION) - General and administrative expenses include corporate costs and expenses such as administration and finance. General and administrative expenses of \$5,918 in the second quarter of 2003 were 94 percent higher than the \$3,053 incurred in the second quarter of 2002. General and administrative expenses of \$9,583 in the first six months of 2003 were 41 percent higher than the \$6,788 incurred in the first six months of 2002. The increase in 2003 has been the result of increased professional fees related to various efforts in preparing for the reporting requirements under the Sarbanes-Oxley Act of 2002 and professional fees and other expenses associated with advisory services in the evaluation of strategic business opportunities and long-term business planning.

DEPRECIATION AND AMORTIZATION - Depreciation and amortization includes depreciation of our property, plant and equipment as well as amortization of intangibles. Depreciation is calculated on the straight line method over the estimated useful lives of the underlying assets and totaled \$17,403 in the second quarter of 2003 which was 8 percent higher than the \$16,141 recorded in the second quarter of 2002. Depreciation totaled \$34,268 in the first six months of 2003 which was 10 percent higher than the \$31,072 recorded in the first six months of 2002. The increase in 2003 is due to the increase in depreciable costs as a result of our capital expenditures in the last half of 2002 and the first half of 2003.

Amortization expense relates to intangible assets recorded in connection with the acquisitions closed in the first quarter of 2001. We recorded two identifiable intangibles in connection with each of the acquisitions consisting of values assigned to the agreements with Sprint and the customer base acquired. Amortization expense of \$10,016 in the second quarter of 2003 was consistent with the \$10,203 in the second quarter of 2002. Amortization expense of \$20,033 in the first six months of 2003 was consistent with the \$20,135 in the first six months of 2002.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

IMPAIRMENT OF PROPERTY AND EQUIPMENT - We recorded impairments of property and equipment in the second quarter and first six months of 2003 of \$34 and \$394, respectively, compared to \$1,332 in the second quarter and first six months of 2002. The decrease in 2003 is attributable to a switch site location that was abandoned in 2002 resulting in a charge of \$1,332 in the second quarter of 2002.

NON-CASH COMPENSATION - Non-cash compensation expense of \$199 in the second quarter of 2003 included \$161 in compensation to directors in the form of the issuance of 105,000 shares of our common stock. The remaining \$38 in non-cash compensation for the quarter related to shares of restricted stock that were awarded to our officers in October and December of 2002. Certain of our officers received a total of 800,000 shares of restricted stock at a discount to market price that will vest over a three-year period. Compensation expense relative to the difference between the market price of the stock and the price the officers paid for the stock will be recognized over the vesting period during which the restrictions lapse. Non-cash compensation expense of \$240 in the first six months of 2003 includes the \$161 related to director compensation discussed above as well as \$79 relative to the vesting of restricted stock. We had no non-cash compensation expense in the second quarter or first six months of 2002.

OPERATING INCOME (LOSS) - Our operating income for the second quarter of 2003 was \$2,559 compared to a loss of \$21,302 for the second quarter of 2002 representing an improvement of \$23,861. Our operating loss for the first six months of 2003 was \$7,588 compared to \$43,056 for the first six months of 2002 representing an improvement of \$35,468. This improvement is primarily attributable to the leverage we are beginning to experience in spreading our fixed costs over a larger base of subscribers.

INTEREST AND OTHER INCOME - Interest and other income represents amounts earned on the investment of excess equity and debt offering proceeds. Income of \$249 in the second quarter of 2003 was 71 percent less than the \$871

23

earned in the second quarter of 2002. Income of \$634 in the first six months of 2003 was 71 percent less than the \$2,204 earned in the first six months of 2002. The decrease in interest earned is due to the fact that excess cash and investments were liquidated during 2002 in connection with funding our capital expenditures and operating cash flow losses as well as making interest payments from restricted cash.

INTEREST EXPENSE - Interest expense for the second quarter and first six months of 2003 includes non-cash interest accreted on our 12 7/8% Senior Discount Notes of \$8,825 and \$17,377, respectively, as well as interest accrued on the two senior notes issued during 2001 and interest on our senior secured debt. Total interest expense of \$25,951 in the second quarter of 2003 is consistent with the expense of \$25,820 in the second quarter of 2002. Total interest expense of \$52,488 in the first six months of 2003 is 4 percent higher than expense of \$50,674 in the first six months of 2002 primarily due to the increased level of advances under senior secured borrowings.

INCOME TAXES

We account for income taxes in accordance with SFAS No. 109 "Accounting

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

for Income Taxes." As of December 31, 2000, the net deferred tax asset consisted primarily of temporary differences related to the treatment of organizational costs, unearned compensation, interest expense and net operating loss carry forwards. The net deferred tax asset was fully offset by a valuation allowance as of December 31, 2000 because there was sufficient uncertainty as to whether we would recognize the benefit of those deferred taxes in future periods. In connection with the mergers completed in the first quarter of 2001, we recorded significant deferred tax liabilities due to differences in the book and tax basis of the net assets acquired particularly due to the intangible assets recorded in connection with the acquisitions.

The reversal of the timing differences which gave rise to these deferred tax liabilities will allow us to realize the benefit of timing differences which gave rise to the deferred tax asset. As a result, we released the valuation allowance during the second quarter of 2001. Prior to 2001, all deferred tax benefit had been fully offset by an increase in the valuation allowance such that there was no financial statement impact with respect to income taxes. With the reduction of the valuation allowance in 2001, we began to reflect a net deferred tax benefit in our consolidated statement of operations. During the first quarter of 2003 we reinstated a valuation allowance due to the fact that the timing differences that give rise to the deferred tax asset are expected to exceed the timing differences that give rise to the deferred tax liabilities and there is uncertainty as to whether we will recognize the benefit of those deferred taxes in future periods.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES - Operating cash flows were \$19,504 in the first six months of 2003 and negative \$24,828 in the first six months of 2002. The increase in operating cash flows of \$44,332 is primarily related to a decrease in net loss before non-cash items of \$27,042 coupled with working capital changes of \$17,290.

INVESTING ACTIVITIES - Our investing cash flows were a negative \$16,742 in the first six months of 2003 compared to a negative \$66,581 in the first six months of 2002. Our cash capital expenditures for the first six months of 2003 totaled \$19,196 while our cash capital expenditures for the first six months of 2002 totaled \$67,001.

FINANCING ACTIVITIES - Our financing cash flows decreased in the first six months of 2003 to \$24,405 from \$48,438 in the first six months of 2002. In 2003, we received \$24,977 in restricted cash which was released from escrow to make interest payments on the 12 1/2% Senior Notes and the 13 5/8% Senior Notes. In 2002 we received \$12,838 in proceeds representing the remaining borrowings under the term portion of our Senior Secured Credit Facility as well as \$35,535 in restricted cash which was released from escrow to make interest payments on the 12 1/2% Senior Notes and the 13 5/8% Senior Notes.

CAPITAL REQUIREMENTS

Our capital expenditure requirements for 2003 are expected to be approximately \$40 to \$50 million. Operating cash flow is expected to continue to increase in 2003 as we continue to realize the benefits of the subscriber growth that we have experienced over the past three years. We expect to generate free cash flow in 2003 and believe we have sufficient liquidity as discussed below.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

LIQUIDITY

Since inception, we have financed our operations through capital contributions from our owners, through debt financing and through proceeds generated from public offerings of our common stock. We have incurred substantial net losses and negative cash flow from operations since inception. Expenses are expected to exceed revenues until we establish a sufficient subscriber base. We expect operating losses to continue for the foreseeable future. However, we expect operating losses to decrease in the future as we obtain more subscribers.

EDC CREDIT FACILITY - We entered into a credit agreement with Nortel effective June 10, 1999, which was amended and restated on February 8, 2000. On June 23, 2000, Nortel assigned the entirety of its loans and commitments to Export Development Corporation ("EDC"), and Alamosa and EDC entered into the credit facility with EDC (the "EDC Credit Facility"). The EDC Credit Facility was paid in full in the first quarter of 2001 with proceeds from the Senior Secured Credit Facility described below.

COMMON STOCK - On October 29, 1999, we filed a registration statement with the Securities and Exchange Commission for the sale of 10,714,000 shares of our common stock (the "Initial Offering"). The Initial Offering became effective and the shares were issued on February 3, 2000 at the initial price of \$17.00 per share. Subsequently, the underwriters exercised their over-allotment option for an additional 1,607,100 shares. We received net proceeds of approximately \$193.8 million after commissions of \$13.3 million and expenses of approximately \$1.5 million. The proceeds of the Initial Offering were used for the build out of our portion of the PCS network of Sprint, to fund operating capital needs and for other corporate purposes.

On November 13, 2001, we completed an underwritten secondary offering of our common stock pursuant to which certain of our stockholders sold an aggregate of 4,800,000 shares at a public offering price of \$14.75 per share. We did not receive any proceeds from the sale of these shares, but the underwriters were granted an option to purchase up to 720,000 additional shares of common stock to cover over-allotments. This option was exercised on November 16, 2001 and we received net proceeds from the sale of these shares after offering costs of approximately \$9.1 million which will be used for general corporate purposes.

SENIOR NOTES - On February 8, 2000, Alamosa (Delaware) issued \$350.0 million face amount of senior discount notes (the "12 7/8% Senior Discount Notes"). The 12 7/8% Senior Discount Notes mature in ten years (February 15, 2010), carry a coupon rate of 12 7/8%, and provide for interest deferral for the first five years. The 12 7/8% Senior Discount Notes will accrete to their \$350 million face amount by February 8, 2005, after which interest will be paid in cash semiannually.

On January 31, 2001, Alamosa (Delaware) issued \$250.0 million face amount of senior notes (the "12 1/2% Senior Notes"). The 12 1/2% Senior Notes mature in ten years (February 1, 2011), carry a coupon rate of 12 1/2%, payable semiannually on February 1 and August 1, beginning on August 1, 2001.

On August 15, 2001, Alamosa (Delaware) issued \$150.0 million face amount of senior notes (the "13 5/8% Senior Notes"). The 13 5/8% Senior Notes mature in ten years (August 15, 2011), carry a coupon rate of 13 5/8%, payable semiannually on February 15 and August 15, beginning on February 15, 2002.

SENIOR SECURED CREDIT FACILITY - On February 14, 2001, we entered into a \$280.0 million Senior Secured Credit Facility with Citicorp USA, as administrative agent and collateral agent; Toronto Dominion (Texas), Inc., as

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

syndication agent; First Union National Bank, as documentation agent; EDC as co-documentation agent; and a syndicate of banking and financial institutions. The Senior Secured Credit Facility was closed and initial funding of \$150 million was made on February 14, 2001 in connection with the completion of the acquisitions of two PCS Affiliates of Sprint. A portion of the proceeds of the Senior Secured Credit Facility were used (i) to pay the cash portion of the merger consideration for the acquisitions, (ii) to refinance existing indebtedness under our credit facility with EDC and under the existing credit facilities of the acquired companies, and (iii) to pay transaction costs. This facility was amended in March 2001 to increase the maximum borrowings to \$333 million as a result of the acquisition of another PCS Affiliate of Sprint. The facility was again amended in August 2001 to, among other things, modify financial covenants and reduce the maximum borrowing to \$225 million of which \$200 million is outstanding as of June 30, 2003. The remaining proceeds will be used for general corporate purposes, including funding capital expenditures, subscriber acquisition and marketing costs, purchase of spectrum and working capital needs.

25

On September 26, 2002 we entered into the sixth amendment to the amended and restated credit agreement relative to the Senior Secured Credit Facility which among other things, modified certain financial and statistical covenants. As a result of the amendment, we are required to maintain a minimum cash balance of \$10 million.

The September 26, 2002 amendment also placed restrictions on the ability to draw on the \$25 million revolving portion of the Senior Secured Credit Facility. The first \$10 million can be drawn if cash balances fall below \$15 million and we substantiate through tangible evidence the need for such advances. The remaining \$15 million is available only at such time as the leverage ratio is less than or equal to 5.5 to 1. As of June 30, 2003, our leverage ratio was 9.35 to 1.

The terms of this credit facility contain numerous financial and other covenants the violation of which could be deemed an event of default by the lenders. Should we be deemed to be in default, the lenders can declare the entire outstanding borrowings immediately due and payable or exercise other rights and remedies. Such an event would likely have a material adverse impact to us.

As of June 30, 2003, we had \$88,904 in cash and cash equivalents plus an additional \$9,748 in restricted cash held in escrow for debt service requirements. We also had \$25,000 remaining on the revolving portion of the Senior Secured Credit Facility subject to the restrictions discussed previously. We believe that this \$123,652 in cash and available borrowings is sufficient to fund our working capital, capital expenditure and debt service requirements through the point where such requirements will be funded through free cash flow.

Although, we do not anticipate the need to raise additional capital in the upcoming year, our funding status is dependent on a number of factors influencing our projections of operating cash flows including those related to subscriber growth, ARPU, churn and CPGA. Should actual results differ significantly from these assumptions, our liquidity position could be adversely affected and we could be in a position that would require us to raise additional capital which may or may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our ability to achieve our intended business objectives.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

INFLATION - We believe that inflation has not had a significant impact in the past and is not likely to have a significant impact in the foreseeable future on our results of operations.

FUTURE TRENDS THAT MAY AFFECT OPERATING RESULTS, LIQUIDITY AND CAPITAL RESOURCES

We may not be able to sustain our planned growth or obtain sufficient revenue to achieve and sustain profitability. Recently, we have experienced slowing net customer growth. Net customer growth was approximately 48,000 net subscribers in the first quarter of 2002, 20,000 net subscribers in the second quarter of 2002, 20,000 net subscribers in the third quarter of 2002 and improved to 31,000 net subscribers in the fourth quarter of 2002 due to seasonal activity. We added 24,000 net subscribers in the second quarter of 2003, which was less than the 31,000 net subscribers added in the first quarter of 2003. The trend of slowing subscriber growth experienced during 2002 is attributable to increased churn and competition, slowing wireless subscriber growth and weakened consumer confidence. The improvement in the first half of 2003 is primarily attributable to decreased churn resulting from measures put in place in 2002 to slow the addition of subscribers with sub-prime credit characteristics. We are currently experiencing net losses as we continue to add subscribers, which requires a significant up-front investment in acquiring those subscribers. If the current trend of slowing net customer growth does not improve, it will lengthen the amount of time it will take for us to reach a sufficient number of customers to achieve free cash flow, which in turn will have a negative impact on liquidity and capital resources. Our business plan reflects continuing growth in subscribers and eventual free cash flow in 2003 as the cash flow generated by the growing subscriber base exceeds costs incurred to acquire new customers.

We may continue to experience higher costs to acquire customers. For the second quarter of 2003, our CPGA was \$375 per activation compared to \$342 per activation in the first quarter of 2003. The fixed costs in our sales and marketing organization are being allocated among a smaller number of activations due to the slowdown in subscriber growth. In addition, handset subsidies have been increasing due to more aggressive promotional efforts. With a higher CPGA, customers must remain on our network for a longer period of time at a stable ARPU to recover those acquisitions costs.

26

We may continue to experience a higher churn rate. Our average customer monthly churn (net of deactivations that take place within 30 days of the activation date) for 2002 was 3.4 percent. This rate of churn is the highest that we have experienced on an annual basis since the inception of the Company and compares to 2.7 percent in 2001. We expect that in the near term churn will remain higher than historical levels as a result of a greater percentage of sub-prime versus prime credit class customers imbedded in the subscriber base in our territory as a result of various programs that were run during 2001 and the first two months of 2002 which encouraged sub-prime credit individuals to subscribe to our service. We have experienced a significantly higher rate of involuntary deactivations due to non-payment relative to these customers. During the second quarter of 2003 we experienced an improvement in our churn rate to 2.5 percent compared to 3.0 percent in the first quarter of 2003. If the improvement in churn we experienced in the first six months of 2003 does not continue or if churn increases over the long-term, we would lose the cash flow attributable to these customers and have greater than projected losses.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

We may experience a significantly lower reciprocal roaming rate with Sprint in 2003 and thereafter. Under our original agreements with Sprint, Sprint had the right to change the reciprocal roaming rate. On April 27, 2001, we entered into an agreement with Sprint which reduced the reciprocal roaming rate from 20 cents per minute to 15 cents per minute beginning June 1, 2001, and to 12 cents per minute on October 1, 2001. For 2002, the rate was 10 cents per minute. On January 1, 2003, the reciprocal rate was reduced to 5.8 cents per minute which Sprint has indicated represents a fair and reasonable return on the cost of the underlying network based on an agreement in principle reached with Sprint in 2001. We have not agreed that 5.8 cents per minute represents a fair and reasonable return on the cost of the underlying network and are currently in discussions with Sprint as to the determination of this rate. We are currently a net receiver of roaming with Sprint meaning that other PCS customers roam onto our network at a higher rate than our customers roam onto other portions of the PCS network of Sprint. The ratio of inbound to outbound Sprint PCS travel minutes was 1.1 to 1 for the second quarter of 2003 and we expect this margin to trend close to 1 to 1 over time.

Our ability to borrow funds under the revolving portion of the Senior Secured Credit Facility may be limited due to our failure to maintain or comply with the restrictive financial and operating covenants contained in the agreements covering our Senior Secured Credit Facility. We amended our credit agreement on September 26, 2002 and modified certain of the financial and operating covenants and are in compliance with the lending agreement at June 30, 2003. We believe we will meet the requirements of these covenants in future periods, however, if we do not, our ability to access the remaining \$25,000 in the form of the revolving portion of the Senior Secured Credit Facility could be limited which could have a material adverse impact on our liquidity.

We may incur significant handset subsidy costs for existing customers who upgrade to a new handset. As our customer base matures and technological advances in our services take place, more existing customers will begin to upgrade to new handsets to take advantage of these services. We have limited historical experience regarding the rate at which existing customers upgrade their handsets and if more customers upgrade than we are currently anticipating, it could have a material adverse impact on our earnings and cash flows.

We may not be able to access the credit or equity markets for additional capital if the liquidity discussed above is not sufficient for the cash needs of our business. We continually evaluate options for additional sources of capital to supplement our liquidity position and maintain maximum financial flexibility. If the need for additional capital arises due to our actual results differing significantly from our business plan or for any other reason, we may be unable to raise additional capital.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the 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 our leased telecommunication facilities, primarily consisting of cell sites and switch site operating leases, we have evaluated the impact of the adoption of SFAS No. 143 as of January 1, 2003 and determined that a liability cannot be reasonably estimated due to (1) our 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) our inability to estimate a potential range of settlement dates due to our ability to renew site leases after the initial

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

lease expiration and (3) our limited experience in abandoning cell site locations and actually incurring remediation costs.

27

In addition to cell sites and switch site operating leases, we also have leases for office and retail locations that are subject to the provisions of SFAS No. 143. The adoption of SFAS No. 143 to leased office and retail locations did not have a material impact on our consolidated results of operations, financial position or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002," which rescinded or amended various existing standards. One change addressed by this standard pertains to treatment of extinguishments of debt as an extraordinary item. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and states that an extinguishment of debt cannot be classified as an extraordinary item unless it meets the unusual or infrequent criteria outlined in Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The provisions of this statement are effective for fiscal years beginning after May 15, 2002 and extinguishments of debt that were previously classified as an extraordinary item in prior periods that do not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. The adoption of SFAS No. 145 in the quarter ending March 31, 2003 has resulted in a reclassification of the loss on extinguishment of debt that we previously reported as an extraordinary item for the year ended December 31, 2001.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002 and the adoption of this statement did not have a material impact on our results of operations, financial position or cash flows.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure," which is an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this statement are effective for fiscal years ending after and interim periods beginning after December 15, 2002. As we continue to account for stock-based employee compensation using the intrinsic value method under APB Opinion No. 25, we, as required, have only adopted the revised disclosure requirements of SFAS No. 148 as of December 31, 2002.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and is not expected to have a material impact on our results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) and is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of this statement is not expected to have a material impact on our results of operations, financial position or cash flows.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF Abstract No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" in January 2003. This abstract addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, it addresses how consideration should be measured and allocated to the separate units of accounting in the arrangement. The guidance in this abstract is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003 and we have evaluated the impact of the adoption of the provisions of this abstract as of July 1, 2003.

We have elected to apply the accounting provisions of this abstract on a prospective basis beginning July 1, 2003. Under the accounting provisions of this abstract, we will allocate amounts charged to customers between the sale

28

of handsets and other equipment and the sale of wireless telecommunication services. In many cases, this will result in all amounts collected from the customer upon activation of the handset being allocated to the sale of the handset. As a result of this treatment, activation fees included in the consideration at the time of sale will be recorded as handset revenue. Prior to the adoption of the provisions of this abstract, we had deferred activation fee revenue as well as activation costs in a like amount and amortized these revenues and costs over the average life of our subscribers. The existing deferred revenue and costs at July 1, 2003 will continue to be amortized.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for guarantees issued after December 31, 2002, while the disclosure requirements were effective for financial statements for periods ending after December 15, 2002. At December 31, 2002, we had not entered into any material arrangement that would be subject to the disclosure requirements of FIN 45. The adoption of FIN 45 did not have a material impact on our consolidated financial statements.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

46" or the "Interpretation"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. For public entities with VIEs created before February 1, 2003, the implementation and disclosure requirements of FIN 46 are effective no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. For VIEs created after January 31, 2003, the requirements are effective immediately. We do not believe that the adoption of FIN 46 will have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in commodity futures trading activities and do not enter into derivative financial instrument transactions for trading or other speculative purposes. We also do not engage in transactions in foreign currencies that could expose us to market risk.

We are subject to some interest rate risk on our senior Secured Credit Facility and any future floating rate financing.

GENERAL HEDGING POLICIES - We enter into interest rate swap and collar agreements to manage our exposure to interest rate changes on our variable rate term portion of our Senior Secured Credit Facility. We seek to minimize counterparty credit risk through stringent credit approval and review processes, the selection of only the most creditworthy counterparties, continual review and monitoring of all counterparties, and through legal review of contracts. We also control exposure to market risk by regularly monitoring changes in interest rate positions under normal and stress conditions to ensure that they do not exceed established limits. Our derivative transactions are used for hedging purposes only and comply with Board-approved policies. Senior management receives frequent status updates of all outstanding derivative positions.

INTEREST RATE RISK MANAGEMENT - Our interest rate risk management program focuses on minimizing exposure to interest rate movements by setting an optimal mixture of floating and fixed-rate debt. We utilize interest rate swaps and collars to adjust our risk profile relative to our floating rate Senior Secured Credit Facility. We have hedges in place on approximately 42 percent of the outstanding advances under our Senior Secured Credit Facility at June 30, 2003.

The following table presents the estimated future outstanding long-term debt at the end of each year and future required annual principal payments for each year then ended associated with the senior discount notes, capital leases and

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

the credit facility financing based on our projected level of long-term indebtedness:

| | YEARS ENDING DECEMBER 31, | | | |
|------------------------------------|---------------------------|---------|---------|---------|
| | 2003 | 2004 | 2005 | 2006 |
| | (DOLLARS IN MILLIONS) | | | |
| Fixed Rate Instruments | | | | |
| 12 7/8% senior discount notes (4) | \$ 305 | \$ 345 | \$ 350 | \$ 350 |
| Fixed interest rate | 12.875% | 12.875% | 12.875% | 12.875% |
| Principal payments | -- | -- | -- | -- |
| 12 1/2% senior notes | 250 | 250 | 250 | 250 |
| Fixed interest rate | 12.500% | 12.500% | 12.500% | 12.500% |
| Principal payments | -- | -- | -- | -- |
| 13 5/8% senior notes | 150 | 150 | 150 | 150 |
| Fixed interest rate | 13.625% | 13.625% | 13.625% | 13.625% |
| Principal payments | -- | -- | -- | -- |
| Capital leases | | | | |
| Annual minimum lease payments (1) | \$ 1.332 | \$.596 | \$.170 | \$.150 |
| Average Interest Rate | 12.000% | 12.000% | 12.000% | 12.000% |
| Variable Rate Instruments: | | | | |
| Senior Secured Credit Facility (2) | \$ 200 | \$ 178 | \$ 133 | \$ 83 |
| Average Interest Rate (3) | 7.25% | 7.25% | 7.25% | 7.25% |
| Principal payments | -- | 22 | 45 | 50 |

- (1) These amounts represent the estimated minimum annual payments due under our estimated capital lease obligations for the periods presented.
- (2) The amounts represent estimated year-end balances under the credit facility based on a projection of the funds borrowed under that facility pursuant to our current plan of network build-out.
- (3) Interest rate on the Senior Secured Credit Facility advances equal, at our option, either (i) the London Interbank Offered Rate adjusted for any statutory reserves ("LIBOR"), or (ii) the base rate which is generally the higher of the administrative agent's base rate, the federal funds effective rate plus 0.50% or the administrative agent's base CD rate plus 0.50%, in each case plus an interest margin which is initially 4.00% for LIBOR borrowings and 3.00% for base rate borrowings as of June 30, 2003. The applicable interest margins are subject to reductions under a pricing grid based on ratios of our total debt to our earnings before interest, taxes, depreciation and amortization ("EBITDA"). The interest rate margins will increase by an additional 200 basis points in the event we fail to pay principal, interest or other amounts as they become due and payable under the Senior Secured Credit Facility.
- (4) Interest will accrete on the senior discount notes through February 2005 at which time the notes will begin to require cash payments of interest with the first semi-annual cash interest payment due in August 2005.

We are also required to pay quarterly in arrears a commitment fee on the unfunded portion of the commitment of each lender. The commitment fee accrues at a rate per annum equal to (i) 1.50% on each day when the utilization (determined by dividing the total amount of loans plus outstanding letters of credit under the Senior Secured Credit Facility by the total commitment amount

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

under the Senior Secured Credit Facility) of the Senior Secured Credit Facility is less than or equal to 33.33%, (ii) 1.25% on each day when utilization is greater than 33.33% but less than or equal to 66.66% and (iii) 1.00% on each day when utilization is greater than 66.66%. We have entered into derivative hedging instruments to hedge a portion of the interest rate risk associated with borrowings under the Senior Secured Credit Facility. For purposes of this table, we have used an assumed average interest rate of 7.25%.

Our primary market risk exposure relates to:

- o the interest rate risk on long-term and short-term borrowings;
- o our ability to refinance our senior discount notes at maturity at market rates; and
- o the impact of interest rate movements on our ability to meet interest expense requirements and meet financial covenants.

30

As a condition to the Senior Secured Credit Facility, we must maintain one or more interest rate protection agreements in an amount equal to a portion of the total debt under the credit facility. We do not hold or issue financial or derivative financial instruments for trading or speculative purposes. While we cannot predict our ability to refinance existing debt or the impact that interest rate movements will have on our existing debt, we continue to evaluate our financial position on an ongoing basis.

At June 30, 2003, we had entered into the following interest rate swaps:

| INSTRUMENT ----- | NOTIONAL ----- | TERM ----- | FAIR VALUE ----- |
|----------------------------|-------------------|---------------|---------------------|
| 4.9475% Interest rate swap | \$ 21,690 | 3 years | \$ (836) |
| 4.9350% Interest rate swap | \$ 28,340 | 3 years | (993) |
| | | | ----- |
| | | | \$ (1,829) |
| | | | ===== |

These swaps are designated as cash flow hedges such that the fair value is recorded as a liability in the June 30, 2003 consolidated balance sheet with changes in fair value (net of tax) shown as a component of other comprehensive income.

We also entered into an interest rate collar with the following terms:

| NOTIONAL ----- | MATURITY ----- | CAP STRIKE PRICE ----- | FLOOR STRIKE PRICE ----- | FAIR VALUE ----- |
|-------------------|-------------------|---------------------------|-----------------------------|---------------------|
| \$28,340 | 5/15/04 | 7.00% | 4.12% | \$ (850) |

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

This collar does not receive hedge accounting treatment such that the fair value is reflected as a liability in the June 30, 2003 consolidated balance sheet and the change in fair value has been reflected as an adjustment to interest expense.

In addition to the swaps and collar discussed above, we purchased an interest rate cap in February 2002 with a notional amount of \$5,000 and a strike price of 7.00%. This cap does not receive hedge accounting treatment and the fair value reflected in the consolidated balance sheet at June 30, 2003 is less than \$1.

These fair value estimates are subjective in nature and involve uncertainties and matters of considerable judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

31

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have been named as a defendant in a number of purported securities class actions in the United States District Court for the Southern District of New York, arising out of our initial public offering (the "IPO"). Various underwriters of the IPO also are named as defendants in the actions. The action against us is one of more than 300 related class actions which have been consolidated and are pending in the same court. The complainants seek to recover damages and allege, among other things, that the registration statement and prospectus filed with the Securities and Exchange Commission for purposes of the IPO were false and misleading because they failed to disclose that the

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

underwriters allegedly (i) solicited and received commissions from certain investors in exchange for allocating to them shares of common stock in connection with the IPO, and (ii) entered into agreements with their customers to allocate such stock to those customers in exchange for the customers agreeing to purchase additional Company shares in the aftermarket at pre-determined prices. On February 19, 2003, the Court granted motions by us and 115 other issuers to dismiss the claims under Rule 10b-5 of the Exchange Act which had been asserted against them. The Court denied the motions by us and virtually all of the other issuers to dismiss the claims asserted against them under Section 11 of the Securities Act. We maintain insurance coverage which may mitigate our exposure to loss in the event that this claim is not resolved in our favor.

On January 23, 2001, the 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 us and our Chairman, David E. Sharbutt in the District Court of Lubbock County, Texas, 22nd Judicial District, alleging wrongful termination among other things. On September 27, 2002, the Court entered an Agreed Order Compelling Arbitration. The parties are in the process of selecting a panel of three arbitrators. We believe that there is no basis for Mr. Brantley's claim and intend to vigorously defend the lawsuit.

On January 8, 2003, a claim was made against us by Southwest Antenna and Tower, Inc. ("SWAT") in the Second Judicial District Court, County of Bernalillo, State of New Mexico, for monies due on an open account. SWAT sought to recover approximately \$2.0 million from the Company relative to work performed by SWAT during 2000 for Roberts Wireless Communications, LLC which was acquired by us in the first quarter of 2001. This claim was settled for \$0.875 million during the second quarter of 2003.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

32

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Annual Meeting of Stockholders held on May 29, 2003, the stockholders voted on:

- 1) the election of four directors for a term of three years expiring in 2006:

| | For | Withheld |
|----------------------|------------|-----------|
| | ----- | ----- |
| Scotty Hart | 78,651,847 | 242,635 |
| Dr. Allen T. McInnes | 76,623,328 | 2,271,154 |
| Michael V. Roberts | 77,796,514 | 1,097,968 |
| David E. Sharbutt | 78,620,628 | 273,854 |

- 2) the approval of an amendment to our Amended and Restated Employee Stock

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

Purchase Plan to authorize for issuance an additional 2,500,000 shares of common stock

| For | Against | Abstain |
|---------------------|--------------------|------------------|
| ----- 76,583,741 | ----- 2,179,108 | ----- 131,633 |

- 3) ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the year ending December 31, 2003

| For | Against | Abstain |
|---------------------|--------------------|-----------------|
| ----- 72,634,675 | ----- 6,217,837 | ----- 41,971 |

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) The following set forth those exhibits filed pursuant to Item 601 of Regulation S-K:

EXHIBIT INDEX

| Exhibit Number | Exhibit Title |
|----------------|--|
| ----- 31.1 | ----- Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

- (b) The following sets forth the reports on Form 8-K that have been filed during the quarter for which this report is filed:

Current Report on Form 8-K filed on May 19, 2003 (Items 7 and 12).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Edgar Filing: ALAMOSA HOLDINGS INC - Form 10-Q

ALAMOSA HOLDINGS, INC.
Registrant

/s/ DAVID E. SHARBUTT

David E. Sharbutt
Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

/s/ KENDALL W. COWAN

Kendall W. Cowan
Chief Financial Officer
(Principal Financial and Accounting
Officer)

34

EXHIBIT INDEX

| Exhibit Number | Exhibit Title |
|----------------|--|
| ----- | ----- |
| 31.1 | Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |