ALAMOSA HOLDINGS INC
Form 10-Q
August 09, 2005
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2005
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to
COMMISSION FILE NUMBER: 0-32357

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES [X] NO [ ]

As of August 5, 2005, 162,787,435 shares of common stock, $0.01 par value per share, were issued and outstanding.

ALAMOSA HOLDINGS, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALAMOSA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(dollars in thousands, except share information)

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		

Cash and cash equivalents	$ 69,298	$ 129,917
Short term investments	90,642	50,418
Customer accounts receivable, net	85,399	44,687
Receivable from Sprint	20,677	24,809
Interest receivable	228	216
Inventory	13,845	9,136
Prepaid expenses and other assets	19,476	13,170
Deferred customer acquisition costs	5,614	6,337
Deferred tax asset	4,450	4,230
Total current assets	309,629	282,920
Property and equipment, net	539,684	441,808
Debt issuance costs, net	8,561	9,086
Early redemption option on preferred stock	7,451	21,387
Goodwill	245,087	—
Intangible assets, net	793,839	416,716
Other noncurrent assets	5,671	4,188
Total assets	$ 1,909,922	$ 1,176,105
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 29,207	$ 24,692
Accrued expenses	55,007	43,916
Payable to Sprint	35,902	35,852
Interest payable	23,589	21,076
Deferred revenue	25,844	22,549
Current installments of capital leases	110	110
Total current liabilities	169,659	148,195
Long term liabilities:		
Capital lease obligations	695	749
Other noncurrent liabilities	9,413	5,835
Deferred tax liability	33,844	16,362
Senior notes	1,092,872	739,141
Total long term liabilities	1,136,824	762,087
Total liabilities	1,306,483	910,282
Commitments and contingencies (see Note 15)	—	—
Mandatorily redeemable convertible preferred stock:		
Series B preferred stock, $.01 par value; 750,000 shares authorized; 225,363 and 478,987 shares issued and outstanding, respectively	75,820	161,148
Series C preferred stock, $.01 par value; 500,000 shares authorized; no shares issued	—	—
Total mandatorily redeemable convertible preferred stock	75,820	161,148
Stockholders' equity:		
Preferred stock, $.01 par value; 8,750,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value; 290,000,000 shares authorized; 162,659,994 and 114,895,245 shares issued and outstanding, respectively	1,627	1,149
Additional paid-in capital	1,285,186	860,425
Accumulated deficit	(757,080)	(756,834)
Unearned compensation	(2,114)	(65)
Total stockholders' equity	527,619	104,675

Total liabilities and stockholders' equity	$ 1,909,922	$ 1,176,105

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Revenues:				
Subscriber revenues	$ 237,692	$ 133,569	$ 427,672	$ 258,315
Roaming and wholesale revenues	89,967	51,705	158,144	94,858
Service revenues	327,659	185,274	585,816	353,173
Product sales	11,720	8,055	21,335	16,846
Total revenue	339,379	193,329	607,151	370,019
Costs and expenses:				
Cost of service and operations (excluding depreciation shown separately below of $25,250 and $16,962 for the three months ended June 30, 2005 and 2004, respectively, and $46,658 and $33,936 for the six months ended June 30, 2005 and 2004, respectively, and excluding non-cash compensation of $(6) and $2 for the three months ended June 30, 2005 and 2004, respectively, and $69 and $4 for the six months ended June 30, 2005 and 2004, respectively)	162,596	91,062	284,871	177,278
Cost of products sold	29,953	16,379	58,532	36,162
Selling and marketing (excluding non-cash compensation of $(3) and $2 for the three months ended June 30, 2005 and 2004, respectively, and $42 and $4 for the six months ended June 30, 2005 and 2004, respectively)	46,011	31,839	91,288	62,832
General and administrative expenses (excluding non-cash compensation of $725 and $21 for the three months ended June 30, 2005 and 2004, respectively, and $1,376 and $43 for the six months ended June 30, 2005 and 2004, respectively)	9,135	5,706	18,315	11,423
Merger related expenses	—	—	1,280	—
Depreciation and amortization	55,905	25,523	96,559	52,907
Loss on disposal of property and equipment	131	2,604	107	2,910
Non-cash compensation	716	25	1,487	51

Total costs and expenses	304,447	173,138	552,439	343,563
Income from operations	34,932	20,191	54,712	26,456
Loss on debt extinguishment	(482)	—	(482)	(13,101)
Gain (loss) on derivative instruments	(14,925)	(11,926)	(14,076)	746
Interest and other income	1,573	221	2,673	389
Interest expense	(25,295)	(18,952)	(47,649)	(37,187)
Loss before income taxes	(4,197)	(10,466)	(4,822)	(22,697)
Income tax benefit (expense)	4,193	(240)	4,576	(557)
Net loss	(4)	(10,706)	(246)	(23,254)
Preferred stock dividend	(851)	(2,576)	(3,000)	(5,796)
Preferred stock conversion premium	(4,777)	(6,441)	(5,506)	(6,441)
Net loss attributable to common stockholders	$ (5,632)	$ (19,723)	$ (8,752)	$ (35,491)
Net loss per common share, basic and diluted	$ (0.04)	$ (0.19)	$ (0.06)	$ (0.36)
Weighted average common shares outstanding, basic and diluted	157,080,740	101,885,776	143,090,447	98,688,272

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

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

	For the six months ended June 30,	
	2005	2004
Cash flows from operating activities:		
Net loss	$ (246)	$ (23,254)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash compensation	1,487	51
Non-cash interest expense on derivative instruments	—	6
Non-cash accretion of asset retirement obligations	144	91
Non-cash (gain) loss on derivative instruments	14,076	(746)
Provision for bad debts	5,173	4,114
Depreciation and amortization of property and equipment	48,681	35,945
Amortization of intangible assets	47,878	16,962
Amortization of financing costs included in interest expense	454	488
Amortization of debt premium	(1,442)	—
Loss on debt extinguishment	482	13,101
Interest accreted on discount notes	13,171	12,056
Deferred income taxes	(220)	—
Loss on disposal of property and equipment	107	2,910
Merger related expenses	1,280	—

(Increase) decrease in:				
Receivables		(985)		(12,579)
Inventory		(378)		17
Prepaid expenses and other assets		(1,394)		1,633
Increase (decrease) in:				
Accounts payable and accrued expenses		(54,271)		10,891
Net cash provided by operating activities		73,997		61,686
Cash flows from investing activities:				
Proceeds from sale of assets		214		380
Purchases of property and equipment		(65,617)		(42,636)
Acquisition of business, net of cash paid		(69,831)		—
Merger related expenses		(436)		—
Change in restricted cash		—		1
Change in short term investments		4,400		(50,119)
Net cash used in investing activities		(131,270)		(92,374)
Cash flows from financing activities:				
Proceeds from issuance of senior notes		—		250,000
Redemption of senior notes		(6,800)		—
Repayments of borrowings under senior secured debt		—		(200,000)
Merger related expenses		(844)		—
Debt issuance costs		—		(8,100)
Preferred stock dividends		(3,793)		(6,053)
Preferred stock conversion premium		—		(116)
Stock options exercised		7,876		719
Shares issued to employee stock purchase plan		267		492
Proceeds from restricted stock sales		2		—
Payments on capital leases		(54)		(330)
Net cash provided by (used in) financing activities		(3,346)		36,612
Net increase (decrease) in cash and cash equivalents		(60,619)		5,924
Cash and cash equivalents at beginning of period		129,917		99,644
Cash and cash equivalents at end of period	$	69,298	$	105,568
Supplemental disclosure of non-cash financing and investing activities:				
Stock issued in business combination	$	330,848	$	—
Warrants assumed in business combination		2,568		—
Fair value of assets acquired in business combination		879,084		—
Fair value of liabilities assumed in business combination		(441,518)		—
Conversion of preferred stock		85,328		65,626
Preferred stock issued in debt exchange		—		51
Non-cash fixed asset additions		127		—
Asset retirement obligations capitalized		321		75
Capitalized lease obligations incurred		—		67
Change in accounts payable for purchases of property and equipment		3,855		(11,186)

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

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

1. BASIS PRESENTATION OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited consolidated balance sheets at June 30, 2005 and December 31, 2004, the unaudited consolidated statements of operations for the three months and six months ended June 30, 2005 and 2004, the unaudited consolidated statements of cash flows for the six months ended June 30, 2005 and 2004 and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required annually by accounting principles generally accepted in the United States of America. The financial information presented should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2004. 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, 2005 are not necessarily indicative of results that may be expected for the year ending December 31, 2005.

Basic and diluted net loss per share of common stock is computed by dividing net loss attributable to common stockholders for each period by the weighted-average outstanding number of common shares. No conversion of common stock equivalents has been assumed in the calculations since the effect would be antidilutive. As a result, the number of weighted-average outstanding common shares as well as the amount of net loss per share are the same for basic and diluted net loss per share calculations for all periods presented. Common stock equivalents excluded from diluted net loss per share calculations consisted of options to purchase 2,347,601 and 2,929,360 shares of common stock for the three months ended June 30, 2005 and 2004, respectively. Options to purchase 2,549,241 and 3,009,924 shares of common stock for the six months ended June 30, 2005 and 2004, respectively, have been excluded from diluted net loss per share calculations. Also excluded from diluted net loss per share calculations for all periods presented is the impact of the Series B mandatorily redeemable convertible preferred stock outstanding during the period as the inclusion of the impact of the conversion of this preferred stock would be antidilutive. The number of shares of Series B mandatorily redeemable convertible preferred stock outstanding was 225,363 and 484,585 at June 30, 2005 and 2004, respectively.

In addition, unvested shares of restricted stock awarded to officers and directors have been excluded from the basic weighted-average outstanding number of common shares for the three months and six months ended June 30, 2005 and 2004. For the three months ended June 30, 2005 and 2004, 457,501 and 400,000 shares, respectively, have been excluded. For the six months ended June 30, 2005 and 2004, 457,501 and 400,000 shares respectively have been excluded. For purposes of determining the diluted weighted-average outstanding number of common shares, the shares of restricted stock, which are unvested, are not included in the three and six months ended June 30, 2005 and 2004 as the effect would be antidilutive.

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 services under the Sprint brand name in a territory encompassing approximately 23.2 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, 6

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

Southeastern, 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).

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

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

On February 15, 2005, Alamosa Holdings completed the acquisition of AirGate PCS, Inc. ("AirGate"), as discussed in Note 4. The acquisition was treated as a purchase and the results of operations of AirGate are included in the Company's consolidated results of operations from the date of acquisition. Alamosa Holdings and its subsidiaries are collectively referred to in these consolidated financial statements as the "Company," "we," "us" or "our."

Alamosa Holdings common stock is quoted on Nasdaq under the symbol "APCS."

See Note 17 for recent developments in the Company's relationship with Sprint.

3. LIQUIDITY AND CAPITAL RESOURCES

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

While the Company has incurred net losses since inception and incurred negative cash flows from operating activities in the past, the Company generated approximately $130 million and $74 million of cash flows from operating activities for the year ended December 31, 2004 and the six months ended June 30, 2005, respectively.

As of June 30, 2005, the Company had $69 million in cash and cash equivalents as well as $91 million in short-term investments, which the Company believes will be sufficient to fund expected capital expenditures and to cover its working capital and debt service requirements (including dividends on preferred stock) for at least the next 12 months.

The Company's future liquidity will be dependent on a number of factors influencing its projections of operating cash flows, including those related to subscriber growth, average revenue per user, average monthly churn and cost per gross addition. Should actual results differ significantly from these assumptions, the Company's liquidity position could be adversely affected and it could be in a position that would require it to raise additional capital which may or may

7

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

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. MERGERS AND ACQUISITIONS

AirGate PCS - The Company completed the acquisition of AirGate on February 15, 2005. AirGate was a PCS affiliate of Sprint with 7.4 million licensed population ("POPs") in the Southeastern United States. This acquisition increased the Company's covered POPs by approximately 6.4 million and included the acquisition of approximately 415,000 subscribers. The transaction increased the size and scale of the Company's operations and provided synergies in the form of the elimination of certain fixed costs in AirGate's historical activity. The transaction was accounted for under the purchase method of accounting and the results of the acquired company are included in these consolidated financial statements from the date of acquisition.

The merger consideration consisted of 26.1 million shares of Alamosa Holdings common stock valued at $12.66 per share, representing the average closing price of Alamosa Holdings common stock from February 10, 2005 to February 15, 2005, and approximately $100.0 million in cash plus direct transaction costs of approximately $6.3 million. The Company also assumed the debt of AirGate in the transaction, which had a fair value of approximately $348.4 million as of February 15, 2005.

The Company obtained an independent valuation of AirGate to allocate the purchase price. The result of the allocation is as follows:

Consideration:		
Common stock issued	$	330,848
Common stock warrants assumed		383
Cash consideration to AirGate stockholders		100,001
Total consideration		431,232
Direct transaction costs		6,334
Long-term debt assumed		348,391
Other liabilities assumed (including deferred taxes)		93,127
Total purchase price		879,084
Allocated to:		

Current assets		130,946
Property and equipment		77,085
Other tangible non-current assets		966
Intangible assets (other than goodwill)		425,000
Goodwill	$	245,087

The unaudited pro forma condensed consolidated statements of operations for the three months ended June 30, 2004 and for the six months ended June 30, 2005 and 2004 set forth below present the results of operations as if the acquisition had occurred at the beginning of each period and are not necessarily indicative of future results or actual results that would have been achieved had these acquisitions occurred as of the beginning of the period.

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

	For the three months ended June 30, 2004	For the six months ended June 30 2005	2004
Total revenues	$ 278,459	$ 655,455	$ 532,370
Loss before income tax	(19,620)	(14,284)	(51,188)
Income tax (expense) benefit	(450)	10,374	(1,268)
Net loss	(20,070)	(3,910)	(52,456)
Preferred stock dividends	(2,576)	(3,000)	(5,796)
Preferred stock conversion premium	(6,441)	(5,506)	(6,441)
Net loss attributable to common stockholders	$ (29,087)	$ (12,416)	$ (64,693)
Basic and diluted net loss per share	$ (0.23)	$ (0.08)	$ (0.52)
Weighted average common shares outstanding, basic and diluted	128,018,996	149,732,039	124,821,492

Cleartalk — The Company entered into a purchase agreement with NTCH Colorado, Inc. ("NTCH") in February 2005 with respect to the purchase of certain assets in the Grand Junction, Colorado Basic Trading Area ("BTA"). NTCH operates a wireless telecommunication network in the Grand Junction, Colorado BTA under the brand name Cleartalk. In accordance with the purchase agreement, the Company will acquire subscribers and wireless tower space from NTCH and NTCH will eliminate the Cleartalk brand from the Grand Junction BTA. The commencement date of this agreement is September 1, 2005, at which time the purchase price will be fixed based on the number of Cleartalk subscribers that have been successfully converted to the Company's network. The agreement also provides for the Company to reimburse NTCH for lost earnings during the transition period, which is the period from the execution of the agreement in February 2005 through the commencement date of September 1, 2005.

The consideration to the seller will be in the form of a monthly cash payment for five years from the commencement date. This payment will be consideration for (i) subscribers successfully converted, (ii) rental payment for space on telecommunication towers owned by the seller and (iii) the elimination of the Cleartalk brand in the Grand Junction

BTA. The purchase price will be allocated to the assets received based on relative fair value.

5. STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. No stock-based employee compensation cost related to option grants is reflected in the consolidated statements of operations for the three months and six months ended June 30, 2005 or 2004, as all options granted by the Company had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Non-cash compensation expense reflected in the consolidated statements of operations for the three month and six month periods ended June 30, 2005 and 2004 is related to the vesting of shares of restricted stock awarded to officers and directors and unrestricted shares of stock awarded to directors and is not related to the granting of stock options. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

9

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

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Net loss – as reported	$ (4)	$ (10,706)	$ (246)	$ (23,254)
Add: stock-based employee compensation included in reported net loss, net of related tax	716	25	1,487	51
Deduct: stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,588)	(1,595)	(3,368)	(2,780)
Net loss – pro forma	(876)	(12,276)	(2,127)	(25,983)
Preferred stock dividend	(851)	(2,576)	(3,000)	(5,796)
Preferred stock conversion premium	(4,777)	(6,441)	(5,506)	(6,441)
Net loss attributable to common stockholders – pro forma	$ (6,504)	$ (21,293)	$ (10,633)	$ (38,220)
Net loss per share – as reported Basic and diluted	$ (0.04)	$ (0.19)	$ (0.06)	$ (0.36)
Net loss per share – pro forma Basic and diluted	$ (0.04)	$ (0.21)	$ (0.07)	$ (0.39)

6. ACCOUNTS RECEIVABLE

Customer accounts receivable — Customer accounts receivable represent amounts owed to the Company by subscribers for PCS service. Customer accounts receivable do not bear interest.

The amounts presented in the consolidated balance sheets are net of an allowance for uncollectible accounts of $9,375 and $5,728 at June 30, 2005 and December 31, 2004, respectively. Estimates are used in determining the allowance for uncollectible accounts and are based on the Company's historical collection experience, current trends, credit policy, a percentage of accounts receivable by aging category and expectations of future bad debts based on current collection activities. In determining the allowance, the Company considers historical write-offs of its receivables as well as historical changes in its credit policies. The Company also takes into consideration current trends in the credit quality of its customer base.

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

	June 30, 2005	December 31, 2004
Net roaming receivable	$ 15,098	$ 20,948
Accrued service revenue	4,219	2,910
Other amounts due from Sprint	1,360	951
	$ 20,677	$ 24,809

Net roaming receivable includes net travel revenue due from Sprint relative to PCS subscribers based outside of the Company's licensed territory who utilize the Company's portion of the PCS network of Sprint. The net roaming 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. The receivable is recorded net due to a right of offset with respect to the receivable from/payable to Sprint with respect to travel and the fact that the activity has historically been settled on a net basis by Sprint. In addition, net roaming receivable also includes amounts due from Sprint, which have been collected from other PCS providers and wholesale customers for their customers' usage of the Company's portion of the PCS network of Sprint.

10

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

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

Other amounts due from Sprint at June 30, 2005 and December 31, 2004 primarily consist of universal service fund recoveries and interconnect revenue receivable.

7. PROPERTY AND EQUIPMENT

Property and equipment are stated net of accumulated depreciation and amortization of $294.9 million and $246.4 million at June 30, 2005 and December 31, 2004, respectively.

8. ASSET RETIREMENT OBLIGATIONS

For the Company's leased telecommunications facilities, primarily consisting of cell sites and switch site operating leases and operating leases for retail and office space, the Company has adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," as of January 1, 2003. The obligations associated with the Company's operating leases primarily relate to the restoration of the leased sites to specified conditions described in the respective lease agreements. For purposes of determining the amounts recorded as asset retirement obligations associated with the respective leases, the Company has estimated the costs by type of lease to be incurred upon the termination of the lease for restoration costs, as adjusted for expected inflation. These costs have been discounted back to the origination of the lease using an appropriate discount rate to determine the amount of obligation to be recorded upon the inception of the lease. The liability is accreted up to the expected settlement amount over the life of the lease using the effective interest method. A corresponding asset is recorded at the inception of the lease in the same amount as the asset retirement obligation. This asset is depreciated using the same method and life of similar network assets or leasehold improvements.

The following table illustrates the activity with respect to asset retirement obligations for the three months and six months ended June 30, 2005 and 2004:

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Balance at beginning of period	$ 3,070	$ 1,887	$ 2,212	$ 1,813
Obligation assumed in connection with acquisition of AirGate	—	—	575	—
Initial obligation recorded during the period	108	46	321	75
Obligations settled during the period	—	—	—	—
Accretion of obligation during the period	74	46	144	