

NEXTEL PARTNERS INC  
Form 10-Q  
November 09, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

(Mark One)

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

**For the quarterly period ended September 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: 000-29633**

**NEXTEL PARTNERS, INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**91-1930918**

*(I.R.S. Employer  
Identification No.)*

**4500 Carillon Point**

**Kirkland, Washington 98033**

**(425) 576-3600**

*(Address of principal executive offices, zip code and 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 .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

Indicate the number of shares outstanding of each of the issuer classes of common stock, as of the latest practicable date:

<b>Outstanding Title of Class</b>	<b>Number of Shares on October 31, 2005</b>
Class A Common Stock	186,069,711 shares
Class B Common Stock	84,632,604 shares

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NEXTEL PARTNERS, INC. AND SUBSIDIARIES  
Consolidated Condensed Balance Sheets**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
<b>(Dollars in thousands, except per share amounts) (Unaudited)</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 195,675	\$ 147,484
Short-term investments	29,402	117,095
Accounts and notes receivable, net of allowance \$29,516 and \$15,874, respectively	250,957	190,954
Subscriber equipment inventory	103,916	49,595
Deferred current income taxes	37,539	
Other current assets	35,370	31,388
<b>Total current assets</b>	<b>652,859</b>	<b>536,516</b>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost</b>	<b>1,701,136</b>	<b>1,546,685</b>
Less accumulated depreciation and amortization	(623,120)	(503,967)
<b>Property, plant and equipment, net</b>	<b>1,078,016</b>	<b>1,042,718</b>
<b>OTHER NON-CURRENT ASSETS:</b>		
FCC licenses, net of accumulated amortization of \$8,744	376,203	375,470
Deferred non-current income taxes	250,600	
Debt issuance costs and other, net of accumulated amortization of \$8,963 and \$6,456, respectively	17,960	20,995
Goodwill	1,514	
Other intangible assets, net of accumulated amortization of \$9 and \$0, respectively	96	
<b>Total non-current assets</b>	<b>646,373</b>	<b>396,465</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,377,248</b>	<b>\$ 1,975,699</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 73,413	\$ 82,833
Accrued expenses and other current liabilities	121,901	115,447
Current portion of long-term debt	140,094	
Due to Nextel WIP	4,636	7,379

Total current liabilities	340,044	205,659
<b>LONG-TERM OBLIGATIONS:</b>		
Long-term debt	1,339,226	1,632,518
Deferred income taxes		53,964
Other long-term liabilities	37,196	32,243
Total long-term obligations	1,376,422	1,718,725
<b>TOTAL LIABILITIES</b>	<b>1,716,466</b>	<b>1,924,384</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 8)</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, no par value, 100,000,000 shares authorized, no shares issued and outstanding		
Series B Preferred stock, par value \$.001 per share, 13,110,000 shares authorized, no shares outstanding		
Common stock, Class A, par value \$.001 per share, 500,000,000 shares authorized, 185,886,368 and 181,557,105 shares, respectively, issued and outstanding, and paid-in capital	1,074,579	1,029,193
Common stock, Class B, par value \$.001 per share convertible, 600,000,000 shares authorized, 84,632,604 shares, issued and outstanding, and paid-in capital	172,697	172,697
Accumulated deficit	(587,873)	(1,150,806)
Deferred compensation	(124)	(440)
Accumulated other comprehensive income	1,503	671
Total stockholders equity	660,782	51,315
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,377,248</b>	<b>\$ 1,975,699</b>

See accompanying notes to consolidated condensed financial statements.

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**NEXTEL PARTNERS, INC. AND SUBSIDIARIES**  
**Consolidated Condensed Statements of Operations**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
	(As restated)		(As restated)	
	(Dollars in thousands, except per share amounts)			
	(Unaudited)			
<b>REVENUES:</b>				
Service revenues (earned from Nextel WIP \$57,809, \$42,738, \$153,392 and \$113,315 respectively)	\$ 445,235	\$ 337,152	\$ 1,234,513	\$ 936,646
Equipment revenues	27,904	22,676	77,532	65,954
Total revenues	473,139	359,828	1,312,045	1,002,600
<b>OPERATING EXPENSES:</b>				
Cost of service revenues (excludes depreciation of \$34,981, \$30,337, \$101,174 and \$89,614 respectively) (incurred from Nextel WIP \$36,638, \$31,258, \$103,474 and \$86,292; American Tower \$2,892, \$2,896, \$8,949 and \$7,835 and Sprint Nextel \$433, \$0, \$433, \$0 respectively)	115,600	93,718	318,097	266,253
Cost of equipment revenues	47,093	36,534	138,007	114,358
Selling, general and administrative (Incurred from Nextel WIP \$10,356, \$4,595, \$31,217 and \$16,223 and Sprint Nextel \$149, \$0, \$149, \$0, respectively)	151,380	127,160	434,767	358,390
Stock based compensation (primarily selling, general and administrative related)	319	(22)	567	532
Depreciation and amortization	43,779	37,311	125,965	110,510
Total operating expenses	358,171	294,701	1,017,403	850,043
	114,968	65,127	294,642	152,557

INCOME FROM  
OPERATIONS

Interest expense, net	(23,404)	(23,460)	(73,630)	(81,708)
Interest income	2,009	823	5,662	1,802
Loss on early retirement of debt			(824)	(54,971)

## INCOME BEFORE INCOME

TAX PROVISION	93,573	42,490	225,850	17,680
Income tax (provision) benefit	340,943	(8,081)	337,083	(246)

NET INCOME  
ATTRIBUTABLE TO  
COMMON  
STOCKHOLDERS

\$	434,516	\$	34,409	\$	562,933	\$	17,434
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NET INCOME PER SHARE  
ATTRIBUTABLE TO  
COMMON  
STOCKHOLDERS, BASIC  
AND DILUTED:

Basic	\$	1.61	\$	0.13	\$	2.10	\$	0.07
Diluted	\$	1.41	\$	0.12	\$	1.83	\$	0.06

Weighted average number of  
shares outstanding

Basic	269,902,776	263,945,444	268,569,342	263,134,769
Diluted	308,648,741	304,833,454	309,438,709	269,973,801

See accompanying notes to consolidated condensed financial statements.

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**NEXTEL PARTNERS, INC. AND SUBSIDIARIES**  
**Consolidated Condensed Statements of Cash Flows**

**For the Nine Months Ended  
September 30,**

**2005****2004****(As restated)****(Dollars in thousands)****(Unaudited)****CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 562,933	\$ 17,434
Adjustments to reconcile net income to net cash from operating activities		
Deferred income tax provision (benefit)	(343,081)	246
Depreciation and amortization	125,965	110,510
Amortization of debt issuance costs	2,640	3,009
Interest accretion for senior discount notes		20
Bond discount amortization	835	720
Loss on early retirement of debt	824	54,971
Fair value adjustments of derivative instruments and investments	(2,326)	(2,760)
Stock based compensation	567	532
Other, net	1,391	(233)
Changes in current assets and liabilities:		
Accounts and notes receivable, net	(60,003)	(33,624)
Subscriber equipment inventory	(54,307)	(17,483)
Other current and long-term assets	(2,125)	(5,523)
Accounts payable, accrued expenses and other current liabilities	22,757	6,590
Operating advances due to (from) Nextel WIP	(5,003)	(2,691)
Net cash from operating activities	251,067	131,718

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Capital expenditures	(192,492)	(103,372)
FCC licenses	(618)	(3,650)
Proceeds from maturities of short-term investments	118,567	77,603
Proceeds from sales of short-term investments	19,659	313,611
Purchases of short-term investments	(49,672)	(360,365)
Other	(1,662)	
Net cash from investing activities	(106,218)	(76,173)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from borrowings	550,000	724,565
Stock options exercised	43,147	10,774
Proceeds from stock issued for employee stock purchase plan	1,982	1,827
Proceeds from sale lease-back transactions	13,036	1,211
Debt repayments	(701,221)	(788,909)



Capital lease payments	(2,595)	(2,380)
Debt and equity issuance costs	(1,007)	(3,308)
Net cash from financing activities	(96,658)	(56,220)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	48,191	(675)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	147,484	122,620
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 195,675	\$ 121,945
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for income taxes	\$ 4,615	\$
Retirement of long-term debt with common stock	\$ 45	\$
Cash paid for interest, net of capitalized amount	\$ 76,488	\$ 94,762

See accompanying notes to consolidated condensed financial statements.

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**NEXTEL PARTNERS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements**  
**September 30, 2005**  
**(unaudited)**

**1. BASIS OF PRESENTATION**

Our interim consolidated condensed financial statements for the three and nine months ended September 30, 2005 and 2004 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim financial reporting. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations for interim financial statements. These consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2004 and quarterly filings on Form 10-Q filed with the SEC.

During the course of preparing our consolidated financial statements for the year ended December 31, 2004, we determined that based on clarification from the SEC we did not comply with the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 13, *Accounting for Leases*, and Financial Accounting Standards Board ( FASB ) Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*. Accordingly, we modified our accounting to recognize rent expense, on a straight-line basis, over the initial lease term and renewal periods that are reasonably assured. As the modifications related solely to accounting treatment, they did not affect our historical or future cash flows or the timing of payments under our relevant leases. As such, we restated certain prior periods, including our previously issued consolidated balance sheet as of September 30, 2004 and the consolidated statements of operations for the three and nine months ended September 30, 2004. Please refer to Note 4 to the accompanying consolidated condensed financial statements for a further discussion of this restatement.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments and accruals), which are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year ending December 31, 2005.

**2. OPERATIONS**

***Description of Business***

Nextel Partners provides a wide array of digital wireless communications services throughout the United States, primarily to business users, utilizing frequencies licensed by the Federal Communications Commission ( FCC ). Our operations are primarily conducted by Nextel Partners Operating Corp. ( OPCO ), a wholly owned subsidiary. Substantially all of our assets, liabilities, operating income and cash flows are within OPCO and our other wholly owned subsidiaries.

Our digital network ( Nextel Digital Wireless Network ) has been developed with advanced mobile communication systems employing digital technology developed by Motorola, Inc. ( Motorola ) (such technology is referred to as the integrated Digital Enhanced Network or iDEN ) with a multi-site configuration permitting frequency reuse. Our principal business objective is to offer high-capacity, high-quality, advanced communication services in our territories throughout the United States targeted toward mid-sized and rural markets. Various operating agreements entered into by our subsidiaries and Nextel WIP Corp. ( Nextel WIP ), an indirect wholly owned subsidiary of Sprint Nextel Corporation ( Sprint Nextel ) following the merger of Nextel Communications, Inc. ( Nextel ) and Sprint Corporation ( Sprint ) on August 12, 2005, govern the support services to be provided to us by Nextel WIP (see Note 9).

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**NEXTEL PARTNERS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**

**3. SIGNIFICANT ACCOUNTING POLICIES**

***Concentration of Risk***

We believe that the geographic and industry diversity of our customer base minimizes the risk of incurring material losses due to concentration of credit risk.

We are a party to certain equipment purchase agreements with Motorola. For the foreseeable future we expect that we will need to rely on Motorola for the manufacture of a substantial portion of the infrastructure equipment necessary to construct and make operational our portion of the Nextel Digital Wireless Network as well as for the provision of digital mobile telephone handsets and accessories.

As previously discussed, we rely on Nextel WIP for the provision of certain services. For the foreseeable future, we intend to continue to rely on Nextel WIP for the provision of these services, as we do not currently have the infrastructure to support those services. We may begin to build the infrastructure needed to support some or all of those services to the extent that Nextel WIP will no longer provide them to us as a result of the merger between Sprint and Nextel. To the extent that Nextel WIP's failure or refusal to provide us with these services is a violation of our joint venture or other agreements with Nextel WIP, we will pursue appropriate legal and equitable remedies available to us.

If Sprint Nextel encounters financial or operating difficulties relating to its portion of the Nextel Digital Wireless Network, or experiences a significant decline in customer acceptance of its services and products, or refuses to provide us with these services in violation of our agreements, and we are unable to replace these services timely, our business may be adversely affected, including the quality of our services, the ability of our customers to roam within the entire network and our ability to attract and retain customers.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

***Principles of Consolidation***

The consolidated condensed financial statements include our accounts and those of our wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

***Net Income per Share***

In accordance with SFAS No. 128, *Computation of Earnings Per Share*, basic earnings per share is computed by dividing income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share adjusts basic earnings per common share for the effects of potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our stock option plan and outstanding unvested restricted stock using the treasury stock method and the dilutive effects of shares issuable upon the conversion of our convertible senior notes using the if-converted method.

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**NEXTEL PARTNERS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**

The following schedule is our net income per share calculation for the periods indicated:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>(As restated)</b>		<b>(As restated)</b>
	<b>(In thousands, except share and per share amounts)</b>			
Income attributable to common stockholders (numerator for basic)	\$ 434,516	\$ 34,409	\$ 562,933	\$ 17,434
Effect of dilutive securities:				
Convertible Senior Notes	673	1,125	2,020	&#15