

NEXTEL PARTNERS INC

Form 10-Q

May 03, 2006

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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 March 31, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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's classes of common stock, as of the latest practicable date:

Outstanding Title of Class	Number of Shares on May 2, 2006
Class A Common Stock	209,673,647 shares
Class B Common Stock	84,632,604 shares

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Consolidated Condensed Balance Sheets**

	March 31, 2006	December 31, 2005
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 195,539	\$ 150,403
Short-term investments	15,199	14,624
Accounts and notes receivable, net of allowance \$27,983 and \$27,267, respectively	263,620	265,720
Subscriber equipment inventory	98,881	98,003
Deferred current income taxes	173,750	78,027
Prepaid expenses	25,571	18,560
Other current assets	7,318	19,529
Total current assets	779,878	644,866
PROPERTY, PLANT AND EQUIPMENT, at cost	1,817,690	1,744,633
Less accumulated depreciation and amortization	(709,771)	(665,583)
Property, plant and equipment, net	1,107,919	1,079,050
OTHER NON-CURRENT ASSETS:		
FCC licenses, net of accumulated amortization of \$8,744	377,893	376,254
Deferred non-current income taxes	40,399	181,252
Debt issuance costs and other, net of accumulated amortization of \$8,089 and \$7,575, respectively	9,151	10,909
Goodwill	2,199	1,514
Other intangible assets, net of accumulated amortization of \$35 and \$22, respectively	70	83
Total non-current assets	429,712	570,012
TOTAL ASSETS	\$ 2,317,509	\$ 2,293,928
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 77,491	\$ 84,024
Accrued expenses and other current liabilities	111,085	117,446
Due to Nextel WIP	8,521	6,962

Total current liabilities	197,097	208,432
LONG-TERM OBLIGATIONS:		
Long-term debt	1,101,396	1,226,608
Deferred income taxes	149	
Other long-term liabilities	44,108	39,691
Total long-term obligations	1,145,653	1,266,299
TOTAL LIABILITIES	1,342,750	1,474,731
COMMITMENTS AND CONTINGENCIES (See Note 7)		
STOCKHOLDERS EQUITY:		
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, 209,107,039 and 200,072,729 shares, respectively, issued and outstanding, and paid-in capital	1,280,554	1,190,586
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	(479,426)	(545,454)
Deferred compensation		(64)
Accumulated other comprehensive income	934	1,432
Total stockholders equity	974,759	819,197
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,317,509	\$ 2,293,928

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 March 31,	
	2006	2005
	(Dollars in thousands, except per share amounts)	
	(Unaudited)	
REVENUES:		
Service revenues (earned from Nextel WIP \$58,758 and \$44,824, respectively)	\$ 468,011	\$ 378,858
Equipment revenues	31,158	25,226
Total revenues	499,169	404,084
OPERATING EXPENSES:		
Cost of service revenues (excludes depreciation of \$37,138 and \$32,499, respectively) (incurred from Nextel WIP \$35,844 and \$32,911; and Sprint Nextel \$885 and \$0, respectively)	113,918	98,626
Cost of equipment revenues	44,650	44,798
Selling, general and administrative (incurred from Nextel WIP \$10,342 and \$10,613 and Sprint Nextel \$282 and \$0, respectively)	162,649	138,299
Depreciation and amortization	44,586	40,753
Total operating expenses	365,803	322,476
INCOME FROM OPERATIONS	133,366	81,608
Interest expense, net of capitalized interest	(18,029)	(25,867)
Interest income	2,474	2,643
Loss on early retirement of debt	(81)	
INCOME BEFORE INCOME TAX PROVISION	117,730	58,384
Income tax provision	(51,702)	(1,852)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 66,028	\$ 56,532
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:		
Basic	\$ 0.23	\$ 0.21
Diluted	\$ 0.21	\$ 0.19
Weighted average number of shares outstanding		
Basic	290,006,980	267,091,076
Diluted	308,890,560	308,335,492

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 Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands)	
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 66,028	\$ 56,532
Adjustments to reconcile net income to net cash from operating activities		
Deferred income tax provision	45,594	762
Depreciation and amortization	44,586	40,753
Amortization of debt issuance costs	514	878
Bond discount amortization	13	269
Loss on early retirement of debt	81	
Stock based compensation	4,878	127
Other, net	145	(433)
Changes in current assets and liabilities:		
Accounts and notes receivable, net	2,100	(16,839)
Subscriber equipment inventory	(878)	19,385
Other current and long-term assets	6,622	(1,052)
Accounts payable, accrued expenses and other current liabilities	(7,742)	14,952
Operating advances due to (from) Nextel WIP	(1,539)	1,880
Net cash from operating activities	160,402	117,214
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(75,735)	(69,107)
FCC licenses	(1,639)	(60)
Proceeds from maturities of short-term investments	10,465	50,430
Proceeds from sales of short-term investments		19,659
Purchases of short-term investments	(11,014)	(38,203)
Other	(772)	
Net cash from investing activities	(78,695)	(37,281)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock options exercised	12,114	20,968
Proceeds from stock issued for employee stock purchase plan		630
Proceeds from sale lease-back transactions	2,256	405
Debt repayments	(50,000)	
Capital lease payments	(923)	(846)
Other	(18)	(4)
Net cash from financing activities	(36,571)	21,153

NET INCREASE IN CASH AND CASH EQUIVALENTS	45,136	101,086
CASH AND CASH EQUIVALENTS, beginning of period	150,403	147,484
CASH AND CASH EQUIVALENTS, end of period	\$ 195,539	\$ 248,570
SUPPLEMENTAL DISCLOSURES		
Cash paid for income taxes	\$ 33	\$
Retirement of long-term debt with common stock	\$ 74,218	\$ 19
Cash paid for interest, net of capitalized amount	\$ 26,515	\$ 29,117

See accompanying notes to consolidated condensed financial statements.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
March 31, 2006
(unaudited)

1. BASIS OF PRESENTATION

Our interim consolidated condensed financial statements for the three months ended March 31, 2006 and 2005 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, 2005 and quarterly filings on Form 10-Q filed with the SEC.

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 months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

2. OPERATIONS

Description of Business

Nextel Partners provides a wide array of digital wireless communications services throughout the United States, 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 (losses) 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 8).

The merger constituted a Nextel sale pursuant to our charter. On October 24, 2005 our Class A common stockholders voted to exercise the put right, as defined in our charter, to require Nextel WIP to purchase all our outstanding shares of Class A common stock. On December 20, 2005, we announced, along with Sprint Nextel, that the put price at which Nextel WIP will purchase our outstanding Class A common stock was determined to be \$28.50 per share. The transaction is subject to the customary regulatory approvals, including review by the FCC and review under the Hart-Scott-Rodino Act, and is expected to be completed by the end of the second quarter of 2006. On February 6, 2006, the Federal Trade Commission and the Department of Justice provided early termination of the waiting period under the Hart-Scott-Rodino Act for Sprint Nextel to purchase our outstanding Class A common stock. These financial statements relate only to Nextel Partners, Inc. and its subsidiaries prior to the consummation of the transaction.

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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 discussed in Note 8, we rely on Nextel WIP for the provision of certain services. For the foreseeable future, we will need to rely on Nextel WIP for the provision of these services, as we will not have the infrastructure to support those services. We may begin to build the infrastructure needed to support some or all of these 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 Attributable to Common Stockholders, Basic and Diluted

In accordance with Statement of Financial Accounting Standards (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 adjust 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 attributable to common stockholders calculation for the periods indicated:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except share and per share amounts)	
Income attributable to common stockholders (numerator for basic)	\$ 66,028	\$ 56,532
Effect of dilutive securities:		
Convertible Senior Notes	\$ 323	\$ 1,125
Adjusted Income attributable to common stockholders (numerator for diluted)	\$ 66,351	\$ 57,657
Gross weighted average common shares outstanding	290,044,480	267,193,826
Less: Weighted average shares subject to repurchase	(37,500)	(102,750)
Weighted average common shares outstanding basic (denominator for basic)	290,006,980	267,091,076
Effect of dilutive securities:		
Convertible Senior Notes	14,622,354	32,871,975
Stock options	4,225,570	8,284,331
Restricted stock (unvested)	35,656	88,110
Weighted average common shares outstanding diluted (denominator for diluted)	308,890,560	308,335,492
Net income per share attributable to common stockholders, basic	\$ 0.23	\$ 0.21
Net income per share attributable to common stockholders, diluted	\$ 0.21	\$ 0.19

For the three months ended March 31, 2006 and 2005, approximately 11,500 and 59,000 options, respectively, were excluded from the calculation of diluted earnings per common share as their exercise prices exceeded the average market price of our class A common stock.

Cash and Cash Equivalents

Cash equivalents include time deposits and highly-liquid investments with remaining maturities of three months or less at the time of purchase.

Short-Term Investments

Marketable debt and equity securities with original purchase maturities greater than three months are classified as short-term investments. Short-term investments at March 31, 2006 and December 31, 2005 consisted of U.S. government agency securities, commercial paper and corporate notes and bonds. We classify our investment securities as available-for-sale because the securities are not intended to be held-to-maturity and are not held

principally for the purpose of selling them in the near term. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are included in other comprehensive income.

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

Sale-Leaseback Transactions

We periodically enter into transactions whereby we transfer specified switching equipment and telecommunication towers and related assets to third parties, and subsequently lease all or a portion of these assets from these parties. During the three months ended March 31, 2006 and 2005 we received cash proceeds of approximately \$2,256,000 and \$405,000, respectively, for assets sold to third parties. Gains on sale-leaseback transactions are deferred and recognized over the lease term. Losses are recognized immediately into current earnings.

Leases

We lease various cell sites, equipment and office and retail facilities under operating leases. Leases for cell sites are typically five years with renewal options. The leases normally provide for the payment of minimum annual rentals and certain leases include provisions for renewal options of up to five years. Certain costs related to our cell sites are depreciated over a ten-year period on a straight-line basis, which represents the lesser of the lease term or economic life of the asset. The company calculates straight-line rent expense over the initial lease term and renewals that are reasonably assured. Office and retail facilities and equipment are leased under agreements with terms ranging from one month to twenty years. Leasehold improvements are amortized over the shorter of the respective lives of the leases or the useful lives of the improvements.

Intangible Assets and Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead are reviewed at least annually for impairment, and written down as a charge to results of operations only in the periods in which the recorded value of goodwill and certain intangibles exceeds fair value.

FCC operating licenses are recorded at historical cost. Our FCC licenses and the requirements to maintain the licenses are similar to other licenses granted by the FCC, including personal communications services (PCS) and cellular licenses, in that they are subject to renewal after the initial 10-year term. Historically, the renewal process associated with these FCC licenses has been perfunctory. The accounting for these licenses has historically not been constrained by the renewal and operational requirements.

We have determined that FCC licenses have indefinite lives; therefore, as of January 1, 2002, we no longer amortize the cost of these licenses. We performed an annual asset impairment analysis on our FCC licenses and to date we have determined there has been no impairment related to our FCC licenses. For our impairment analysis, we used the aggregate of all our FCC licenses, which constitutes the footprint of our portion of the Nextel Digital Wireless Network, as the unit of accounting for our FCC licenses based on the guidance in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets*.

During the third quarter of 2005, we acquired intangible assets that are subject to straight-line amortization over a 24-month term. As of March 31, 2006 there is approximately \$70,000 remaining to be amortized.

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

Income Taxes

The income tax provision for the three months ended March 31, 2006 and 2005 is comprised of: