NEXTEL PARTNERS INC
Form 10-Q
May 10, 2005

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

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

o **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	**91-1930918**
(State or Other Jurisdiction of Incorporation or Organization)	*(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 þ **No** o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ **No** o

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

Outstanding Title of Class	Number of Shares on April 29, 2005
Class A Common Stock	183,870,066 shares
Class B Common Stock	84,632,604 shares

NEXTEL PARTNERS, INC.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets

	March 31, 2005	December 31, 2004
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 248,570	$ 147,484
Short-term investments	85,209	117,095
Accounts and notes receivable, net of allowance $17,738 and $15,874, respectively	207,793	190,954
Subscriber equipment inventory	30,210	49,595
Other current assets	33,240	31,388
Total current assets	605,022	536,516
PROPERTY, PLANT AND EQUIPMENT, at cost	1,603,567	1,546,685
Less accumulated depreciation and amortization	(544,681)	(503,967)
Property, plant and equipment, net	1,058,886	1,042,718
OTHER NON-CURRENT ASSETS:		
FCC licenses, net of accumulated amortization of $8,744	375,490	375,470
Debt issuance costs and other, net of accumulated amortization of $7,333 and $6,456, respectively	20,730	20,995
Total non-current assets	396,220	396,465
TOTAL ASSETS	$ 2,060,128	$ 1,975,699
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 97,898	$ 82,833
Accrued expenses and other current liabilities	98,500	115,447
Due to Nextel WIP	11,961	7,379
Total current liabilities	208,359	205,659
LONG-TERM OBLIGATIONS:		
Long-term debt	1,631,845	1,632,518
Deferred income taxes	54,726	53,964
Other long-term liabilities	33,908	32,243

Total long-term obligations		1,720,479		1,718,725
TOTAL LIABILITIES		1,928,838		1,924,384
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, 183,625,137 and 181,557,105 shares, respectively, issued and outstanding, and paid-in capital		1,050,964		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		(1,094,274)		(1,150,806)
Deferred compensation		(468)		(440)
Accumulated other comprehensive income		2,371		671
Total stockholders equity		131,290		51,315
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	2,060,128	$	1,975,699

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, 2005	2004 (As restated)
	(Dollars in thousands, except per share amounts) (Unaudited)	
REVENUES:		
Service revenues (earned from Nextel WIP $44,824 and $33,787, respectively)	$ 378,858	$ 287,262
Equipment revenues	25,226	20,870
Total revenues	404,084	308,132
OPERATING EXPENSES:		
Cost of service revenues (excludes depreciation of $32,499 and $29,696 respectively)	98,626	84,462
(incurred from Nextel WIP $32,911 and $26,324 and American Tower $3,092 and $2,463 respectively)		
Cost of equipment revenues	44,798	37,307
Selling, general and administrative (Incurred from Nextel WIP $10,613 and $5,522, respectively)	138,172	113,422
Stock based compensation (primarily selling, general and administrative related)	127	217
Depreciation and amortization	40,753	36,569
Total operating expenses	322,476	271,977
INCOME FROM OPERATIONS	81,608	36,155
Interest expense, net	(25,867)	(30,952)
Interest income	2,643	677
Loss on early retirement of debt		(1,558)
INCOME BEFORE INCOME TAX PROVISION	58,384	4,322
Income tax provision	(1,852)	(799)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 56,532	$ 3,523
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:		
Basic	$ 0.21	$ 0.01
Diluted	$ 0.19	$ 0.01

Weighted average number of shares outstanding		
Basic	267,091,076	262,398,591
Diluted	308,335,492	271,086,490

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,	
	2005	2004
		(As restated)
	(Dollars in thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 56,532	$ 3,523
Adjustments to reconcile net income to net cash from operating activities		
Deferred income tax provision	762	799
Depreciation and amortization	40,753	36,569
Amortization of debt issuance costs	878	1,143
Interest accretion for senior discount notes		20
Bond discount amortization	269	228
Loss on early retirement of debt		1,558
Fair value adjustments of derivative instruments	(2,006)	(1,134)
Stock based compensation	127	217
Other	1,573	(60)
Changes in current assets and liabilities:		
Accounts and notes receivable, net	(16,839)	(1,733)
Subscriber equipment inventory	19,385	(4,844)
Other current and long-term assets	(1,052)	3,688
Accounts payable, accrued expenses and other current liabilities	14,952	(1,632)
Operating advances due to (from) Nextel WIP	1,880	(534)
Net cash from operating activities	117,214	37,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(69,107)	(31,667)
FCC licenses	(60)	(2,336)
Proceeds from maturities of short-term investments	50,430	34,426
Proceeds from sales of short-term investments	19,659	198,409
Purchases of short-term investments	(38,203)	(222,967)
Net cash from investing activities	(37,281)	(24,135)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock options exercised	20,968	3,219
Proceeds from stock issued for employee stock purchase plan	630	620
Proceeds from sale lease-back transactions	405	389
Debt repayments		(13,678)
Capital lease payments	(846)	(776)
Debt and equity issuance costs	(4)	(275)

Net cash from financing activities		21,153		(10,501)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		101,086		3,172
CASH AND CASH EQUIVALENTS, beginning of period		147,484		122,620
CASH AND CASH EQUIVALENTS, end of period	$	248,570	$	125,792
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS				
Cash paid for income taxes	$		$	
Retirement of long-term debt with common stock	$	19	$	
Cash paid for interest, net of capitalized amount	$	29,117	$	42,774

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, 2005
(Unaudited)

1. BASIS OF PRESENTATION

Our interim consolidated condensed financial statements for the three months ended March 31, 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 SFAS No. 13, *Accounting for Leases* and 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 flow 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 March 31, 2004 and the consolidated statements of operations for the three months ended March 31, 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 months ended March 31, 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 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 Nextel Communications, Inc. (Nextel), govern the support services to be provided to us by Nextel WIP (see Note 8).

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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 are reliant 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.

In addition, if 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, 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 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 calculation for the periods indicated:

	For the Three Months Ended March 31,	
	2005	2004
		(As restated)
	(In thousands, except share and per share amounts)	
Income attributable to common stockholders (numerator for basic)	$ 56,532	$ 3,523
Effect of dilutive securities:		
Convertible Senior Notes	$ 1,125	
Adjusted Income attributable to common stockholders (numerator for diluted)	$ 57,657	$ 3,523
Gross weighted average common shares outstanding	267,193,826	262,568,591
Less: Weighted average shares subject to repurchase	(102,750)	(170,000)
Weighted average common shares outstanding basic (denominator for basic)	267,091,076	262,398,591
Effect of dilutive securities:		
Convertible Senior Notes	32,871,975	
Stock options	8,284,331	8,564,089
Restricted stock (unvested)	88,110	123,810
Weighted average common shares outstanding diluted (denominator for diluted)	308,335,492	271,086,490
Net income per share, basic	$ 0.21	$ 0.01
Net income per share, diluted	$ 0.19	$ 0.01

For the three months ended March 31, 2004, approximately 32.9 million shares issuable upon the assumed conversion of our $1^1/2$% senior convertible notes that could potentially dilute earnings per share in the future were excluded from the calculation of diluted earnings per common share due to their antidilutive effects. Additionally, for the three months ended March 31, 2005 and 2004, 59,000 and approximately 8.0 million 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 securities with original purchase maturities greater than three months are classified as short-term investments. Short-term investments at March 31, 2005 and December 31, 2004 consisted of U.S. government agency securities, U.S. Treasury securities, other asset backed securities, auction rate securities and commercial paper. We classify our investment securities as trading because the securities are bought and held principally for the purpose of selling them in the near term. Trading securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings.

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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, 2005 and 2004 we received cash proceeds of approximately $405,000 and $389,000, respectively, for assets sold to third parties. Gains on sale-leaseback transactions are deferred and recognized over the lease term.

Leases

We lease various cell sites, equipment and office 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 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.

FCC Licenses

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.

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. 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 analyses 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.*