

NII HOLDINGS INC  
Form 10-Q  
November 08, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

**b**            **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
                 **OF THE SECURITIES EXCHANGE ACT OF 1934**  
                 For the quarterly period ended September 30, 2011

**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: 0-32421

**NII HOLDINGS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or Other Jurisdiction of*  
  
*Incorporation or Organization)*  
**1875 Explorer Street, Suite 1000**

**91-1671412**  
*(I.R.S. Employer*  
  
*Identification No.)*  
**20190**

Edgar Filing: NII HOLDINGS INC - Form 10-Q

**Reston, Virginia**  
*(Address of Principal Executive Offices)*

*(Zip Code)*

**(703) 390-5100**

*(Registrant's telephone number, including area code)*

**Not Applicable**

*(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)*

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

*(Do not check if a smaller reporting company)*

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.

<b>Title of Class</b>	<b>Number of Shares Outstanding on November 1, 2011</b>
Common Stock, \$0.001 par value per share	171,172,656

**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b><u>Part I. Financial Information</u></b>	
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets As of September 30, 2011 and December 31, 2010</u>	2
<u>Condensed Consolidated Statements of Operations and Comprehensive Income For the Nine and Three Months Ended September 30, 2011 and 2010</u>	3
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity For the Nine Months Ended September 30, 2011</u>	4
<u>Condensed Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	27
<u>Item 3.</u> Quantitative and Qualitative Disclosures About Market Risk	55
<u>Item 4.</u> <u>Controls and Procedures</u>	55
<b><u>Part II. Other Information</u></b>	
<u>Item 1.</u> Legal Proceedings	57
<u>Item 1A.</u> Risk Factors	57
<u>Item 6.</u> Exhibits	57

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**NII HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par values)

Unaudited

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,230,002	\$ 1,767,501
Short-term investments	406,514	537,539
Accounts receivable, less allowance for doubtful accounts of \$62,431 and \$41,282	834,868	788,000
Handset and accessory inventory	241,053	227,191
Deferred income taxes, net	220,780	186,988
Prepaid expenses and other	308,992	393,658
<b>Total current assets</b>	<b>4,242,209</b>	<b>3,900,877</b>
<b>Property, plant and equipment, less accumulated depreciation of \$2,273,201 and \$2,028,266</b>	<b>3,103,515</b>	<b>2,960,046</b>
<b>Intangible assets, less accumulated amortization of \$140,107 and \$130,847</b>	<b>1,204,981</b>	<b>433,208</b>
<b>Deferred income taxes, net</b>	<b>396,471</b>	<b>486,098</b>
<b>Other assets</b>	<b>390,483</b>	<b>410,458</b>
<b>Total assets</b>	<b>\$ 9,337,659</b>	<b>\$ 8,190,687</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 249,680	\$ 300,030
Accrued expenses and other	895,272	827,253
Deferred revenues	159,323	158,690
Current portion of long-term debt	1,235,456	446,995
<b>Total current liabilities</b>	<b>2,539,731</b>	<b>1,732,968</b>
<b>Long-term debt</b>	<b>3,220,103</b>	<b>2,818,423</b>
<b>Deferred revenues</b>	<b>16,901</b>	<b>20,476</b>
<b>Deferred credits</b>	<b>67,109</b>	<b>88,068</b>
<b>Other long-term liabilities</b>	<b>271,175</b>	<b>211,179</b>
<b>Total liabilities</b>	<b>6,115,019</b>	<b>4,871,114</b>
<b>Commitments and contingencies (Note 5)</b>		
<b>Stockholders equity</b>		
Undesignated preferred stock, par value \$0.001, 10,000 shares authorized 2011 and 2010, no shares issued or outstanding 2011 and 2010		
Common stock, par value \$0.001, 600,000 shares authorized 2011 and 2010, 171,172 shares issued and outstanding 2011, 169,661 shares issued and outstanding 2010	171	169
Paid-in capital	1,434,318	1,364,705
Retained earnings	2,223,490	2,015,950
Accumulated other comprehensive loss	(435,339)	(61,251)

Edgar Filing: NII HOLDINGS INC - Form 10-Q

Total stockholders' equity	3,222,640	3,319,573
Total liabilities and stockholders' equity	\$ 9,337,659	\$ 8,190,687

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

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE INCOME****(in thousands, except per share amounts)****Unaudited**

	<b>Nine Months Ended, September 30,</b>		<b>Three Months Ended, September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating revenues</b>				
Service and other revenues	\$ 4,883,917	\$ 3,857,743	\$ 1,667,262	\$ 1,359,441
Digital handset and accessory revenues	240,050	223,475	83,755	86,710
	5,123,967	4,081,218	1,751,017	1,446,151
<b>Operating expenses</b>				
Cost of service (exclusive of depreciation and amortization included below)	1,356,119	1,090,671	462,463	394,795
Cost of digital handsets and accessories	646,800	541,729	225,145	186,793
Selling, general and administrative	1,835,651	1,396,996	682,002	502,312
Depreciation	467,502	379,981	158,879	132,157
Amortization	29,518	23,596	10,102	7,543
	4,335,590	3,432,973	1,538,591	1,223,600
<b>Operating income</b>	<b>788,377</b>	<b>648,245</b>	<b>212,426</b>	<b>222,551</b>
<b>Other expense</b>				
Interest expense, net	(270,419)	(262,458)	(93,545)	(83,458)
Interest income	24,968	23,772	9,157	9,850
Foreign currency transaction (losses) gains, net	(39,827)	27,354	(63,927)	28,406
Other expense, net	(16,766)	(11,393)	(8,408)	(3,530)
	(302,044)	(222,725)	(156,723)	(48,732)
<b>Income before income tax provision</b>	<b>486,333</b>	<b>425,520</b>	<b>55,703</b>	<b>173,819</b>
<b>Income tax provision</b>	<b>(278,793)</b>	<b>(183,055)</b>	<b>(58,540)</b>	<b>(55,307)</b>
<b>Net income (loss)</b>	<b>\$ 207,540</b>	<b>\$ 242,465</b>	<b>\$ (2,837)</b>	<b>\$ 118,512</b>
<b>Net income (loss), per common share, basic</b>	<b>\$ 1.22</b>	<b>\$ 1.45</b>	<b>\$ (0.02)</b>	<b>\$ 0.70</b>
<b>Net income (loss), per common share, diluted</b>	<b>\$ 1.20</b>	<b>\$ 1.42</b>	<b>\$ (0.02)</b>	<b>\$ 0.68</b>
<b>Weighted average number of common shares outstanding, basic</b>	<b>170,408</b>	<b>167,780</b>	<b>171,135</b>	<b>168,645</b>
<b>Weighted average number of common shares outstanding, diluted</b>	<b>172,913</b>	<b>176,925</b>	<b>171,135</b>	<b>175,303</b>

Edgar Filing: NII HOLDINGS INC - Form 10-Q

**Comprehensive (loss) income, net of income taxes**

Foreign currency translation adjustment	\$ (377,009)	\$ 78,779	\$ (555,136)	\$ 128,175
Other	2,921	(1,950)	3,386	(485)
Other comprehensive (loss) income	(374,088)	76,829	(551,750)	127,690
Net income (loss)	207,540	242,465	(2,837)	118,512
Total comprehensive (loss) income	\$ (166,548)	\$ 319,294	\$ (554,587)	\$ 246,202

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

Table of Contents

## NII HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2011

(in thousands)

Unaudited

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount				
<b>Balance, January 1, 2011</b>	169,661	\$ 169	\$ 1,364,705	\$ 2,015,950	\$ (61,251)	\$ 3,319,573
Net income				207,540		207,540
Other comprehensive loss, net of taxes					(374,088)	(374,088)
Exercise of stock options	1,521	2	24,899			24,901
Share-based payment expense for equity-based awards			45,872			45,872
Other	(10)		(1,158)			(1,158)
<b>Balance, September 30, 2011</b>	171,172	\$ 171	\$ 1,434,318	\$ 2,223,490	\$ (435,339)	\$ 3,222,640

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



**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Nine Months Ended September 30, 2011 and 2010

(in thousands)

Unaudited

	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 207,540	\$ 242,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt discount and financing costs	42,040	49,346
Depreciation and amortization	497,020	403,577
Provision for losses on accounts receivable	121,364	54,067
Foreign currency transaction losses (gains), net	39,827	(27,354)
Share-based payment expense	45,872	54,202
Other, net	3,941	(4,164)
Change in assets and liabilities:		
Accounts receivable, gross	(255,548)	(162,956)
Handset and accessory inventory	12,838	68,179
Prepaid expenses and other	(58,912)	34,451
Other long-term assets	(73,225)	(68,882)
Accounts payable, accrued expenses and other	266,979	107,746
Net cash provided by operating activities	849,736	750,677
<b>Cash flows from investing activities:</b>		
Capital expenditures	(732,752)	(506,385)
Purchase of long-term and short-term investments	(1,860,383)	(1,587,243)
Proceeds from sales of short-term investments	1,975,391	1,015,759
Payments for purchases of licenses	(99,893)	
Transfer from restricted cash	89,360	94,756
Transfer to restricted cash	(4,977)	(98,298)
Other, net	2,258	(53,681)
Net cash used in investing activities	(630,996)	(1,135,092)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of senior notes	750,000	
Purchases of convertible notes	(214,488)	(442,972)
Borrowings under syndicated loan facilities		80,000
Repayments under syndicated loan facilities and other transactions	(378,964)	(151,535)
Other, net	117,948	51,275
Net cash provided by (used in) financing activities	274,496	(463,232)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(30,735)</b>	<b>9,660</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>462,501</b>	<b>(837,987)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,767,501</b>	<b>2,504,064</b>

Edgar Filing: NII HOLDINGS INC - Form 10-Q

<b>Cash and cash equivalents, end of period</b>	\$ 2,230,002	\$ 1,666,077
---	--------------	--------------

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

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Unaudited****Note 1. Basis of Presentation**

**General.** Our unaudited condensed consolidated financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission, or the SEC. While they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, they reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for interim periods. In addition, the year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

You should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2010 and our quarterly reports on Form 10-Q for the three months ended March 31, 2011 and June 30, 2011. You should not expect results of operations for interim periods to be an indication of the results for a full year.

**Accumulated Other Comprehensive Loss.** The components of our accumulated other comprehensive loss, net of taxes, are as follows:

	September 30, 2011	December 31, 2010
	(in thousands)	
Cumulative foreign currency translation adjustment	\$ (433,342)	\$ (56,333)
Other	(1,997)	(4,918)
	\$ (435,339)	\$ (61,251)

**Supplemental Cash Flow Information.**

	Nine Months Ended September 30, 2011      2010	
	(in thousands)	
<b>Capital expenditures</b>		
Cash paid for capital expenditures, including interest capitalized on property, plant and equipment	\$ 732,752	\$ 506,385
Change in capital expenditures accrued and unpaid or financed, including accreted interest capitalized	125,492	34,629
	\$ 858,244	\$ 541,014
<b>Interest costs</b>		
Interest expense, net	\$ 270,419	\$ 262,458
Interest capitalized	55,817	7,085
	\$ 326,236	\$ 269,543

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

In June 2011, Nextel Brazil was granted spectrum licenses in the 1.8 GHz and 1.9/2.1 GHz spectrum bands in connection with its successful bids in the spectrum auction held in December 2010. The total purchase price of this spectrum was the equivalent of \$910.5 million. Nextel Brazil paid 10% of the purchase price upon the grant of the license and financed the remaining amount through deferred payment terms made available by the

---

**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Brazilian telecommunications regulator as part of the auction rules. See Note 3 for further information related to this financing. In the third quarter of 2011, we began capitalizing interest related to the construction of our third generation network in Brazil, which will continue until the network is complete.

For the nine months ended September 30, 2011, we had \$851.4 million in non-cash financing. Of this amount, \$689.8 million related to the long-term financing of the spectrum that was awarded to Nextel Brazil in June 2011 as described above and in Note 3. The remainder consisted primarily of non-cash financing related to the short-term financing of imported handsets and infrastructure in Brazil and co-location capital lease obligations on our communication towers. For the nine months ended September 30, 2010, we had \$98.5 million in non-cash financing, primarily related to the short-term financing of imported handsets and infrastructure in Brazil and co-location capital lease obligations on our communication towers.

**Revenue-Based Taxes.** We record revenue-based taxes and other excise taxes on a gross basis as a component of both service and other revenues and selling, general and administrative expenses in our condensed consolidated statement of operations. For the nine and three months ended September 30, 2011, we had \$187.6 million and \$64.7 million, respectively, in revenue-based taxes and other excise taxes. For the nine and three months ended September 30, 2010, we had \$136.9 million and \$49.2 million, respectively, in revenue-based taxes and other excise taxes.

**Net Income Per Common Share, Basic and Diluted.** Basic net income per common share includes no dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution of securities that could participate in our earnings, but not securities that are antidilutive, including stock options with an exercise price greater than the average market price of our common stock.

As presented for the nine months ended September 30, 2011, our calculation of diluted net income per share includes common shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans and restricted common shares issued under those plans. We did not include the common shares that could be issued upon conversion of our 3.125% convertible notes in our calculation of diluted net income per common share because their effect would have been antidilutive to our net income per common share for that period. Further, for the nine months ended September 30, 2011, we did not include 9.5 million common shares issuable upon exercise of stock options or an immaterial amount of our restricted common shares in our calculation of diluted net income per common share because their effect would also have been antidilutive to our net income per common share for that period.

As presented for the three months ended September 30, 2011, our calculation of diluted net loss per share is based on the weighted average number of common shares outstanding during the period and does not include other potential common shares, including shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans, restricted common shares issued under those plans and common shares resulting from the potential conversion of our 3.125% convertible notes, since their effect would be antidilutive to our net loss for that period.

As presented for the nine and three months ended September 30, 2010, our calculations of diluted net income per share include common shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans, restricted common shares issued under those plans and common shares that could be issued upon conversion of our 2.75% convertible notes. We did not include the common shares that could be issued upon conversion of our 3.125% convertible notes in our calculations of diluted net income per common share because their effect would have been antidilutive to our net income per common share for those periods. Further, for the nine and three months ended September 30, 2010, we did not include 9.9 million common shares issuable upon exercise of stock options or an immaterial amount of our restricted common shares in our calculations of diluted net income per common share because their effect would have been antidilutive to our net income per common share for those periods.

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables provide a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed in our condensed consolidated statements of operations for the nine and three months ended September 30, 2011 and 2010:

	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share data)						
<b>Basic net income per common share:</b>						
Net income	\$ 207,540	170,408	\$ 1.22	\$ 242,465	167,780	\$ 1.45
<b>Effect of dilutive securities:</b>						
Stock options		2,233			2,910	
Restricted stock		271			378	
Convertible notes, net of capitalized interest and taxes		1		8,186	5,857	
<b>Diluted net income per common share:</b>						
Net income on which diluted earnings per share is calculated	\$ 207,540	172,913	\$ 1.20	\$ 250,651	176,925	\$ 1.42
	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(in thousands, except per share data)						
<b>Basic net (loss) income per common share:</b>						
Net (loss) income	\$ (2,837)	171,135	\$ (0.02)	\$ 118,512	168,645	\$ 0.70
<b>Effect of dilutive securities:</b>						
Stock options					2,593	
Restricted stock					311	
Convertible notes, net of capitalized interest and taxes				1,532	3,754	
<b>Diluted net (loss) income per common share:</b>						
Net (loss) income on which diluted earnings per share is calculated	\$ (2,837)	171,135	\$ (0.02)	\$ 120,044	175,303	\$ 0.68

**Reclassifications.** We have reclassified some prior period amounts in our condensed consolidated financial statements to conform to our current year presentation.

**New Accounting Pronouncements.** In October 2009, the Financial Accounting Standards Board, or the FASB, updated its authoritative guidance for accounting for multiple deliverable revenue arrangements. The new guidance revises the criteria used to determine the separate units of accounting in a multiple deliverable arrangement and requires that total consideration received under the arrangement be allocated over the separate units of accounting based on their relative selling prices. This guidance also clarifies the methodology used in determining our best estimate of the selling price used in this allocation. The applicable revenue recognition criteria will be considered separately for the separate units of accounting. We adopted this new guidance on its effective date of January 1, 2011. Consistent with this guidance, we allocate revenue from transactions in which



**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

we offer wireless service in conjunction with the sale or rental of a handset between the two separate units of accounting. We base this allocation on the relative selling prices of the handset and the wireless service plan when sold separately. The amount of revenue that can be allocated to the handset is limited to amounts that are not contingent on our future provision of wireless service. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

In May 2011, the FASB updated its authoritative guidance on fair value measurement and disclosure. The updated guidance limits the use of valuation assumptions based on the highest and best use of an asset or liability to non-financial assets and liabilities. Financial assets and liabilities are presumed to derive their value from exchange transactions. In addition, the updated guidance clarifies that the principal market for an asset or liability is the market which has the greatest volume and level of activity for that asset or liability, which is not necessarily the market in which the reporting entity would be expected to engage in transactions with respect to that asset or liability. This updated guidance also requires additional quantitative and qualitative disclosures concerning Level 3 fair value measurement categories, disclosure of the reasoning for and impact of transfers of assets between Level 1 and Level 2 fair value measurements and disclosure of the reasons why a non-financial asset is not being used by the reporting entity in its highest and best use, if applicable. In addition, the updated guidance requires that all fair value measurements, whether recognized on the balance sheet or included in disclosures, be categorized in the fair value hierarchy with disclosure of that categorization. This updated authoritative guidance will become effective for fiscal periods beginning after December 15, 2011. Early adoption is not permitted. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB updated its authoritative guidance on the presentation of comprehensive income. This standard requires public companies to report other comprehensive income and its components either together with the presentation of net income in its statement of operations or as a separate statement of comprehensive income. The updated guidance eliminates the option to report other comprehensive income and its components within the statement of changes in stockholders' equity. This updated authoritative guidance will become effective for fiscal periods beginning after December 15, 2011. Because we currently report other comprehensive income and its components together with the presentation of net income in our condensed consolidated statement of operations, we do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements.

**Note 2. Intangible Assets**

In June 2011, Nextel Brazil was granted spectrum licenses in the 1.8 GHz and 1.9/2.1 GHz spectrum bands in connection with its successful bids in the spectrum auction held in December 2010. The total purchase price of this spectrum was the equivalent of \$910.5 million. We will begin amortizing these spectrum licenses over their 15-year estimated useful life when we begin offering services using the spectrum, which we expect to occur in mid-2012. As a result, we anticipate that amortization expense will increase significantly when we begin offering services using our third generation network in Brazil.



**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3. Debt**

	September 30, 2011	December 31, 2010
	(in thousands)	
<b>Senior notes, net</b>	\$ 2,031,439	\$ 1,279,524
<b>Convertible notes, net</b>	866,890	1,043,236
<b>Brazil spectrum license financing</b>	689,811	
<b>Syndicated loan facilities</b>	223,348	458,964
<b>Tower financing obligations</b>	154,167	175,932
<b>Capital lease obligations</b>	151,584	114,303
<b>Brazil import financing</b>	176,400	128,094
<b>Other</b>	161,920	65,365
<b>Total debt</b>	4,455,559	3,265,418
Less: current portion	(1,235,456)	(446,995)
	\$ 3,220,103	\$ 2,818,423

**7.625% Senior Notes due 2021.** In March 2011, we issued \$750.0 million aggregate principal amount of senior notes for which we received about \$735.6 million in cash proceeds, after deducting underwriting fees, commissions and offering expenses. We are amortizing the \$14.4 million we incurred in underwriting discounts and offering expenses into interest expense over the ten-year term of the notes. The notes are senior unsecured obligations of NII Capital Corp., a domestic subsidiary that we wholly own, and are guaranteed by us and by certain of our other domestic wholly-owned subsidiaries. The notes bear interest at a rate of 7.625% per year, which is payable semi-annually in arrears on April 1 and October 1, beginning on October 1, 2011 and will mature on April 1, 2021.

The notes are not entitled to any mandatory redemption or sinking fund. Prior to April 1, 2014, up to 35% of the aggregate principal amount of the notes may be redeemed with the net cash proceeds from specified equity offerings at a redemption price of 107.625% of their principal amount, plus accrued and unpaid interest. Such redemption may only be made if, after the redemption, at least 65% of the aggregate principal amount of the notes issued remains outstanding. In addition, prior to April 1, 2016, NII Capital Corp. may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus a make-whole premium and accrued and unpaid interest. At any time on or after April 1, 2016 and prior to maturity, the notes will be redeemable, in whole or in part, at the redemption prices presented below (expressed as percentages of principal amount), plus accrued and unpaid interest to the redemption date if redeemed during the 12-month period beginning on April 1 of the applicable year:

Year	Redemption Price
2016	103.813%
2017	102.541%
2018	101.271%
2019 and thereafter	100.000%

Upon the occurrence of specified events involving a change of control, holders of the notes may require us to purchase their notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. The indenture pursuant to which the notes were issued includes covenants that are substantially similar to the covenants (including the related qualifications and exceptions) contained in the indentures governing NII Capital Corp.'s 10.0% senior notes due 2016 and 8.875% senior notes due 2019.



**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Convertible Notes.**

**3.125% Convertible Notes.** In August and September 2011, we purchased \$211.7 million face amount of our 3.125% convertible notes through a combination of open market purchases and private transactions for an aggregate purchase price of \$213.0 million, plus accrued interest. In connection with these transactions, we incurred an immaterial amount of direct external costs, we recognized an immaterial loss on extinguishment of debt, and we allocated an immaterial amount of the purchase price to paid-in capital.

If certain events occur, the 3.125% notes that remain outstanding will be convertible into shares of our common stock at a conversion rate of 8.4517 shares per \$1,000 principal amount of notes, or 7,507,924 aggregate common shares, representing a conversion price of about \$118.32 per share. For the fiscal quarter ended September 30, 2011, the closing sale price of our common stock did not exceed 120% of the conversion price of \$118.32 per share for at least 20 trading days in the 30 consecutive trading days ending on September 30, 2011. As a result, the conversion contingency was not met as of September 30, 2011. The remaining balance of the 3.125% notes, which matures in May 2012, is included as a component of the current portion of long-term debt on our condensed consolidated balance sheet as of September 30, 2011.

**Adoption of Authoritative Guidance on Convertible Debt Instruments.** As a result of adopting the FASB's authoritative guidance on convertible debt instruments on January 1, 2009, we were required to separately account for the debt and equity components of our 3.125% convertible notes in a manner that reflects our nonconvertible debt (unsecured debt) borrowing rate. The debt and equity components recognized for our 3.125% convertible notes were as follows (in thousands):

	September 30, 2011 3.125% Notes due 2012	December 31, 2010 3.125% Notes due 2012
Principal amount of convertible notes	\$ 888,333	\$ 1,100,000
Unamortized discount on convertible notes	21,443	56,764
Net carrying amount of convertible notes	866,890	1,043,236
Carrying amount of equity component	192,083	193,941

As of September 30, 2011, the unamortized discount on our 3.125% convertible notes had a remaining recognition period of about 8 months.

The amount of interest expense recognized on our 3.125% convertible notes and our 2.75% convertible notes and effective interest rates for the nine and three months ended September 30, 2011 and 2010 were as follows (dollars in thousands):

	Nine Months Ended September 30,		
	2011 3.125% Notes due 2012	2010 3.125% Notes due 2012	2010 2.75% Notes due 2025
Contractual coupon interest	\$ 25,243	\$ 27,189	\$ 5,882
Amortization of discount on convertible notes	29,424	29,158	7,402
Interest expense, net	\$ 54,667	\$ 56,347	\$ 13,284
Effective interest rate on convertible notes	7.15%	7.15%	6.45%

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Months Ended September 30,		
	2011	2010	
	3.125% Notes due 2012	3.125% Notes due 2012	2.75% Notes due 2025
Contractual coupon interest	\$ 8,055	\$ 8,594	\$ 1,095
Amortization of discount on convertible notes	10,021	9,345	1,344
<b>Interest expense, net</b>	<b>\$ 18,076</b>	<b>\$ 17,939</b>	<b>\$ 2,439</b>
Effective interest rate on convertible notes	7.15%	7.15%	6.45%

**Brazil Spectrum License Financing.** As discussed above, in June 2011, Nextel Brazil was granted spectrum licenses in the 1.8 GHz and 1.9/2.1 GHz spectrum bands in connection with its successful bids in the spectrum auction held in December 2010. The total purchase price of this spectrum was the equivalent of \$910.5 million. Nextel Brazil paid 10% of the purchase price upon the grant of the license and financed the remaining amount through deferred payment terms made available by the Brazilian telecommunications regulator as part of the auction terms. The amount borrowed under the spectrum license financing is payable in six annual installments beginning in May 2014. Beginning June 1, 2011, interest accrues on the spectrum license financing at a rate of 1% per month. Interest is not required to be paid until May 2014. Beginning December 9, 2011 and annually thereafter, the payments will be adjusted for the Brazilian telecommunications industry inflation index. Because the spectrum license financing is denominated in Brazilian reais, the payments for principal and interest will fluctuate in U.S. dollars based on changes in the exchange rate of the Brazilian real relative to the U.S. dollar.

**Mexico Equipment Financing.** In July 2011, Nextel Mexico entered into a U.S. dollar-denominated loan agreement with the China Development Bank, under which Nextel Mexico will receive up to \$375.0 million to finance infrastructure equipment and assist in the deployment of its third generation network in Mexico. This equipment financing has a final maturity of ten years, with a three-year borrowing period and a seven-year repayment term commencing in 2014. As of September 30, 2011, we had not borrowed any amounts under this facility.

**Note 4. Fair Value Measurements**

The following tables set forth the classification within the fair value hierarchy of our financial instruments measured at fair value on a recurring basis in the accompanying condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010 (in thousands):

Financial Instruments	Fair Value Measurements as of September 30, 2011			Fair Value as of September 30, 2011
	Using the Fair Value Hierarchy			
	Level 1	Level 2	Level 3	
Short-term investments:				
Available-for-sale securities    Nextel Brazil investments	\$ 154,705	\$	\$	\$ 154,705

Financial Instruments	Fair Value Measurements as of December 31, 2010			Fair Value as of December 31, 2010
	Using the Fair Value Hierarchy			
	Level 1	Level 2	Level 3	
Short-term investment:				
Available-for-sale securities    Nextel Brazil investments	\$ 50,778	\$	\$	\$ 50,778



**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Other Financial Instruments.***

We estimate the fair value of our financial instruments other than our available-for-sale securities, including cash and cash equivalents, held-to-maturity investments, accounts receivable, accounts payable, derivative instruments and debt. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings contained in the condensed consolidated balance sheets approximate their fair values due to the short-term nature of these instruments. The fair values of our derivative instruments and non-current instruments are not material.

***Held-to-Maturity Investments.***

We periodically invest some of our cash holdings in certain securities that we intend to hold to maturity. These held-to-maturity securities include investments in U.S. treasury securities, as well as investments in corporate bonds, which consist of securities issued by U.S. government agencies and corporate debt securities backed by the U.S. government with maturities ranging from one to fourteen months. We account for held-to-maturity securities at amortized cost. We determined the fair value of our held-to-maturity investments in U.S. treasury securities based on quoted market prices for the individual instruments. In our judgment, these securities trade with sufficient daily observable market activity to support a Level 1 classification within the fair value hierarchy. We determined the fair value of our investments in corporate bonds based on reported trade data in a broker dealer market for the individual instruments. We consider these measurements to be Level 2 in the fair value hierarchy. The gross unrecognized holding gains and losses as of September 30, 2011 were not material. The carrying amounts and estimated fair values of our held-to-maturity investments as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)		(in thousands)	
Short-term investments:				
Held-to-maturity securities U.S. Treasuries	\$ 151,692	\$ 153,295	\$ 421,653	\$ 423,613
Held-to-maturity securities corporate bonds	100,117	100,878	65,108	65,392
	\$ 251,809	\$ 254,173	\$ 486,761	\$ 489,005

***Long-Term Debt Instruments.***

The carrying amounts and estimated fair values of our long-term debt instruments as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)		(in thousands)	
Senior notes	\$ 2,031,439	\$ 2,157,650	\$ 1,279,524	\$ 1,428,000
Convertible notes	866,890	897,216	1,043,236	1,078,000
Brazil spectrum license financing	689,811	727,177		
Syndicated loan facilities	223,348	214,946	458,964	457,187
Other	125,782	125,909	193,460	195,620

Edgar Filing: NII HOLDINGS INC - Form 10-Q

\$ 3,937,270	\$ 4,122,898	\$ 2,975,184	\$ 3,158,807
--------------	--------------	--------------	--------------

---

**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We estimated the fair values of our senior notes using quoted market prices in a broker dealer market and the fair values of our convertible notes using quoted prices in a traded exchange market, which may be adjusted for certain factors such as historical trading levels and market data for our senior notes, credit default spreads, stock volatility assumptions with respect to our convertible notes and other corroborating market or internally generated data. Because our fair value measurements include assumptions based on market data, corroborating market data and some broker internally generated information, we consider these estimates Level 2 in the fair value hierarchy.

We estimated the fair values of our syndicated loan facilities and Nextel Brazil's spectrum license financing using primarily Level 3 inputs such as U.S. Treasury yield curves, prices of comparable bonds, LIBOR and zero-coupon yield curves, U.S. treasury bond rates and credit spreads on comparable publicly traded bonds.

Other debt consists primarily of Brazilian credit paper and import financing agreements. We estimated the fair value of the Brazilian credit paper utilizing primarily Level 3 inputs such as U.S. treasury security yield curves, prices of comparable bonds, LIBOR and zero-coupon yield curves, Treasury bond rates and credit spreads on comparable publicly traded bonds. We believe that the fair value of our short-term credit paper and import financing agreements approximate their carrying value primarily because of the short maturities of the agreements prior to realization and consider these measurements to be Level 3 in the fair value hierarchy.

**Note 5. Commitments and Contingencies**

***Brazilian Contingencies.***

Nextel Brazil has received various assessment notices from state and federal Brazilian authorities asserting deficiencies in payments related primarily to value-added taxes, excise taxes on imported equipment and other non-income based taxes. Nextel Brazil has filed various administrative and legal petitions disputing these assessments. In some cases, Nextel Brazil has received favorable decisions, which are currently being appealed by the respective governmental authority. In other cases, Nextel Brazil's petitions have been denied, and Nextel Brazil is currently appealing those decisions. Nextel Brazil is also disputing various other claims. Nextel Brazil did not reverse any material accrued liabilities related to contingencies during the third quarter of 2011.

As of September 30, 2011 and December 31, 2010, Nextel Brazil had accrued liabilities of \$56.3 million and \$56.8 million, respectively, related to contingencies, all of which were classified in accrued contingencies reported as a component of other long-term liabilities and \$6.7 million of which related to unasserted claims. We currently estimate the range of reasonably possible losses related to matters for which Nextel Brazil has not accrued liabilities, as they are not deemed probable, to be between \$209.5 million and \$213.5 million as of September 30, 2011. We are continuing to evaluate the likelihood of probable and reasonably possible losses, if any, related to all known contingencies. As a result, future increases or decreases to our accrued liabilities may be necessary and will be recorded in the period when such amounts are determined to be probable and reasonably estimable.

***Legal Proceedings.***

We are subject to claims and legal actions that may arise in the ordinary course of business. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.



**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6. Income Taxes**

We are subject to income taxes in both the United States and the non-U.S. jurisdictions in which we operate. Certain of our entities are under examination by the relevant taxing authorities for various tax years. The earliest years that remain subject to examination by jurisdiction are: Chile 1993; U.S. 1999; Mexico 2003; Argentina 2004; Peru and Brazil 2006; Luxembourg, Netherlands and Spain 2009. We regularly assess the potential outcome of current and future examinations in each of the taxing jurisdictions when determining the adequacy of the provision for income taxes.

The following table shows a reconciliation of our unrecognized tax benefits according to the FASB's authoritative guidance on accounting for uncertainty in income taxes, for the nine months ended September 30, 2011 (in thousands):

Unrecognized tax benefits - December 31, 2010	\$ 102,880
Additions for current year tax positions	2,062
Additions for prior year tax positions	
Reductions for current year tax positions	
Reductions for prior year tax positions	(63,046)
Lapse of statute of limitations	(1,392)
Settlements with taxing authorities	
Foreign currency translation adjustment	(5,724)
<b>Unrecognized tax benefits - September 30, 2011</b>	<b>\$ 34,780</b>

The unrecognized tax benefits as of September 30, 2011 and December 31, 2010 include \$5.7 million and \$75.7 million, respectively, of tax benefits that could potentially reduce our future effective tax rate, if recognized.

We record interest and penalties associated with uncertain tax positions as a component of our income tax provision. During the first quarter of 2011, we reduced the amount of our unrecognized tax benefits by \$70.0 million due to the March 2011 decision by a Mexico court to deny our administrative petition related to the Federal income tax law covering deductions and gains from the sale of property.

We assessed the realizability of our deferred tax assets during the third quarter of 2011, consistent with the methodology we employed for 2010. In that assessment, we considered the reversal of existing temporary differences associated with deferred tax assets and liabilities, future taxable income, tax planning strategies and historical and future pre-tax book income (as adjusted for permanent differences between financial and tax accounting items) in order to determine if it is more-likely-than-not that the deferred tax asset will be realized. As a result of this assessment, we increased the valuation allowance on our U.S. companies' deferred tax assets by \$69.0 million, which we recorded as an increase to income tax expense. For our foreign companies, we determined that the realizability of their deferred assets had not changed. We will continue to evaluate the amount of the valuation allowance for all of our foreign and U.S. companies throughout the remainder of 2011 to determine the appropriate level of valuation allowance.

During 2004, Nextel Mexico amended its Mexican Federal income tax returns in order to reverse a benefit previously claimed for a disputed provision of the Federal income tax law covering deductions and gains from the sale of property. We filed the amended returns in order to avoid potential penalties, and we also filed administrative petitions seeking clarification of our right to the tax benefits claimed on the original income tax returns. The tax authorities constructively denied our administrative petitions in January 2005, and in May 2005,

**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

we filed an annulment suit challenging the constructive denial. In March 2011, we were officially notified that the courts denied our petition based on the economic substance of our interpretation. Therefore, during the first quarter of 2011, we reversed the income tax receivable on the financial statements and recorded a \$14.5 million increase in income tax expense with respect to this item.

**Note 7. Segment Reporting**

We have determined that our reportable segments are those that are based on our method of internal reporting, which disaggregates our business by geographical location. Our reportable segments are: (1) Brazil, (2) Mexico, (3) Argentina and (4) Peru. The operations of all other businesses that fall below the segment reporting thresholds are included in the Corporate and other segment below. This segment includes our Chilean operating companies and our corporate operations in the U.S. We evaluate performance of these segments and provide resources to them based on operating income before depreciation and amortization and impairment, restructuring and other charges, which we refer to as segment earnings.

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Brazil	Mexico	Argentina	Peru (in thousands)	Corporate and other	Intercompany Eliminations	Consolidated
<b>Nine Months Ended September 30, 2011</b>							
Operating revenues	\$ 2,629,469	\$ 1,732,515	\$ 478,696	\$ 264,071	\$ 22,643	\$ (3,427)	\$ 5,123,967
Segment earnings (losses)	\$ 828,664	\$ 590,466	\$ 127,174	\$ 26,399	\$ (294,713)	\$ 7,407	\$ 1,285,397
Less:							
Depreciation and amortization							(497,020)
Foreign currency transaction losses, net							(39,827)
Interest expense and other, net							(262,217)
Income before income tax provision							\$ 486,333
Capital expenditures	\$ 391,438	\$ 209,794	\$ 53,890	\$ 76,690	\$ 126,432	\$	\$ 858,244
<b>Nine Months Ended September 30, 2010</b>							
Operating revenues	\$ 1,863,894	\$ 1,563,651	\$ 410,882	\$ 228,204	\$ 17,084	\$ (2,497)	\$ 4,081,218
Segment earnings (losses)	\$ 565,127	\$ 571,977	\$ 106,950	\$ 20,606	\$ (212,838)	\$	\$ 1,051,822
Less:							
Depreciation and amortization							(403,577)
Foreign currency transaction gains, net							27,354
Interest expense and other, net							(250,079)
Income before income tax provision							\$ 425,520
Capital expenditures	\$ 284,758	\$ 81,867	\$ 30,723	\$ 55,965	\$ 87,701	\$	\$ 541,014
<b>Three Months Ended September 30, 2011</b>							
Operating revenues	\$ 909,749	\$ 577,201	\$ 167,133	\$ 90,244	\$ 7,770	\$ (1,080)	\$ 1,751,017
Segment earnings (losses)	\$ 250,320	\$ 186,856	\$ 40,900	\$ 11,346	\$ (110,989)	\$ 2,974	\$ 381,407
Less:							
Depreciation and amortization							(168,981)
Foreign currency transaction losses, net							(63,927)
Interest expense and other, net							(92,796)
Income before income tax provision							\$ 55,703
Capital expenditures	\$ 176,508	\$ 79,224	\$ 24,542	\$ 30,224	\$ 25,899	\$	\$ 336,397
<b>Three Months Ended September 30, 2010</b>							
Operating revenues	\$ 689,528	\$ 530,061	\$ 141,960	\$ 79,007	\$ 6,677	\$ (1,082)	\$ 1,446,151
Segment earnings (losses)	\$ 214,727	\$ 182,815	\$ 38,377	\$ 10,364	\$ (84,032)	\$	\$ 362,251
Less:							
Depreciation and amortization							(139,700)
Foreign currency transaction gains, net							28,406
Interest expense and other, net							(77,138)
Income before income tax provision							\$ 173,819

Edgar Filing: NII HOLDINGS INC - Form 10-Q

Capital expenditures	\$ 77,404	\$ 32,032	\$ 8,418	\$ 25,014	\$ 33,592	\$	\$ 176,460
<b>September 30, 2011</b>							
Identifiable assets	\$ 3,923,188	\$ 1,966,194	\$ 394,550	\$ 582,412	\$ 2,471,602	\$ (287)	\$ 9,337,659
<b>December 31, 2010</b>							
Identifiable assets	\$ 3,036,106	\$ 2,019,550	\$ 393,246	\$ 556,752	\$ 2,185,320	\$ (287)	\$ 8,190,687

**Table of Contents**

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 8. Condensed Consolidating Financial Statements**

In March 2011, we issued \$750.0 million in aggregate principal amount of 7.625% senior notes due 2021. In addition, during 2009, we issued senior notes totaling \$1.3 billion in aggregate principal amount comprised of our 10.0% senior notes due 2016 and our 8.875% senior notes due 2019. We refer to the senior notes issued in 2011 and 2009 collectively as the notes. All of these notes are senior unsecured obligations of NII Capital Corp., our wholly-owned subsidiary, and are guaranteed on a senior unsecured basis by NII Holdings and all of its current and future first tier and domestic restricted subsidiaries, other than NII Capital Corp. No foreign subsidiaries will guarantee the notes unless they are first tier subsidiaries of NII Holdings. These guarantees are full and unconditional, as well as joint and several.

As a result of the issuance of the notes and the related guarantees, we are required to provide certain condensed consolidating financial information. Included in the tables below are condensed consolidating balance sheets as of September 30, 2011 and December 31, 2010, as well as condensed consolidating statements of operations and cash flows for the nine and three months ended September 30, 2011 and 2010, of: (a) the parent company, NII Holdings, Inc.; (b) the subsidiary issuer, NII Capital Corp.; (c) the guarantor subsidiaries on a combined basis; (d) the non-guarantor subsidiaries of NII Holdings, Inc. on a combined basis; (e) consolidating adjustments; and (f) NII Holdings, Inc. and subsidiaries on a consolidated basis.

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET**

As of September 30, 2011

(in thousands)

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)(1)</b>	<b>Guarantor Subsidiaries(2)</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 1,096,187	\$ 3	\$ 12,143	\$ 1,121,669	\$	\$ 2,230,002
Short-term investments	251,809			154,705		406,514
Accounts receivable, net	7,918	67,139	155,125	841,338	(236,652)	834,868
Handset and accessory inventory				241,053		241,053
Deferred income taxes, net			5,328	227,697	(12,245)	220,780
Prepaid expenses and other	5,175		7,951	295,878	(12)	308,992
<b>Total current assets</b>	<b>1,361,089</b>	<b>67,142</b>	<b>180,547</b>	<b>2,882,340</b>	<b>(248,909)</b>	<b>4,242,209</b>
<b>Property, plant and equipment, net</b>			<b>171,285</b>	<b>2,932,517</b>	<b>(287)</b>	<b>3,103,515</b>
<b>Investments in and advances to affiliates</b>	<b>3,172,028</b>	<b>2,886,967</b>	<b>2,971,545</b>		<b>(9,030,540)</b>	
<b>Intangible assets, net</b>	<b>18,000</b>			<b>1,186,981</b>		<b>1,204,981</b>
<b>Deferred income taxes, net</b>	<b>6,032</b>			<b>396,471</b>	<b>(6,032)</b>	<b>396,471</b>
<b>Other assets</b>	<b>2,472,916</b>	<b>3,102,057</b>	<b>601,540</b>	<b>520,118</b>	<b>(6,306,148)</b>	<b>390,483</b>
<b>Total assets</b>	<b>\$ 7,030,065</b>	<b>\$ 6,056,166</b>	<b>\$ 3,924,917</b>	<b>\$ 7,918,427</b>	<b>\$ (15,591,916)</b>	<b>\$ 9,337,659</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable	\$	\$	\$ 5,723	\$ 243,957	\$	\$ 249,680
Accrued expenses and other	640,769	178,548	1,600,445	1,224,510	(2,749,000)	895,272
Deferred revenues				159,323		159,323
Current portion of long-term debt	866,890		12,203	356,363		1,235,456
<b>Total current liabilities</b>	<b>1,507,659</b>	<b>178,548</b>	<b>1,618,371</b>	<b>1,984,153</b>	<b>(2,749,000)</b>	<b>2,539,731</b>
<b>Long-term debt</b>	<b>23</b>	<b>2,031,440</b>	<b>59,945</b>	<b>1,128,695</b>		<b>3,220,103</b>
<b>Deferred revenues</b>				<b>16,901</b>		<b>16,901</b>
<b>Deferred credits</b>			<b>13,007</b>	<b>60,134</b>	<b>(6,032)</b>	<b>67,109</b>
<b>Other long-term liabilities</b>	<b>2,299,743</b>		<b>11,382</b>	<b>1,756,999</b>	<b>(3,796,949)</b>	<b>271,175</b>
<b>Total liabilities</b>	<b>3,807,425</b>	<b>2,209,988</b>	<b>1,702,705</b>	<b>4,946,882</b>	<b>(6,551,981)</b>	<b>6,115,019</b>
<b>Total stockholders equity</b>	<b>3,222,640</b>	<b>3,846,178</b>	<b>2,222,212</b>	<b>2,971,545</b>	<b>(9,039,935)</b>	<b>3,222,640</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 7,030,065</b>	<b>\$ 6,056,166</b>	<b>\$ 3,924,917</b>	<b>\$ 7,918,427</b>	<b>\$ (15,591,916)</b>	<b>\$ 9,337,659</b>

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

- (1) NII Capital Corp. is the issuer of our 7.625% senior notes due 2021, our 10.0% senior notes due 2016 and our 8.875% senior notes due 2019.
- (2) Represents our subsidiaries that have provided guarantees of the obligations of NII Capital Corp. under our 7.625% senior notes due 2021, our 10.0% senior notes due 2016 and our 8.875% notes due 2019.

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2010

(in thousands)

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 548,197	\$ 28	\$ 122,186	\$ 1,097,090	\$	\$ 1,767,501
Short-term investments	486,761			50,778		537,539
Accounts receivable, net				797,421	(9,421)	788,000
Handset and accessory inventory				227,191		227,191
Deferred income taxes, net			4,202	182,786		186,988
Prepaid expenses and other	2,776		5,439	385,477	(34)	393,658
<b>Total current assets</b>	<b>1,037,734</b>	<b>28</b>	<b>131,827</b>	<b>2,740,743</b>	<b>(9,455)</b>	<b>3,900,877</b>
<b>Property, plant and equipment, net</b>			107,030	2,853,303	(287)	2,960,046
<b>Investments in and advances to affiliates</b>	2,962,830	2,905,655	2,925,907		(8,794,392)	
<b>Intangible assets, net</b>				433,208		433,208
<b>Deferred income taxes, net</b>	7,712			486,098	(7,712)	486,098
<b>Other assets</b>	2,414,774	2,256,448	667,301	588,572	(5,516,637)	410,458
<b>Total assets</b>	<b>\$ 6,423,050</b>	<b>\$ 5,162,131</b>	<b>\$ 3,832,065</b>	<b>\$ 7,101,924</b>	<b>\$ (14,328,483)</b>	<b>\$ 8,190,687</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable	\$ 1,295	\$	\$ 2,314	\$ 296,421	\$	\$ 300,030
Accrued expenses and other	637,597	173,263	1,599,378	1,117,481	(2,700,466)	827,253
Deferred revenues				158,690		158,690
Current portion of long-term debt			1,729	445,266		446,995
<b>Total current liabilities</b>	<b>638,892</b>	<b>173,263</b>	<b>1,603,421</b>	<b>2,017,858</b>	<b>(2,700,466)</b>	<b>1,732,968</b>
<b>Long-term debt</b>	<b>1,043,258</b>	<b>1,279,524</b>	<b>39,334</b>	<b>456,307</b>		<b>2,818,423</b>
<b>Deferred revenues</b>				20,476		20,476
<b>Deferred credits</b>			21,427	74,352	(7,711)	88,068
<b>Other long-term liabilities</b>	1,421,327		9,773	1,607,024	(2,826,945)	211,179
<b>Total liabilities</b>	<b>3,103,477</b>	<b>1,452,787</b>	<b>1,673,955</b>	<b>4,176,017</b>	<b>(5,535,122)</b>	<b>4,871,114</b>
<b>Total stockholders equity</b>	<b>3,319,573</b>	<b>3,709,344</b>	<b>2,158,110</b>	<b>2,925,907</b>	<b>(8,793,361)</b>	<b>3,319,573</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 6,423,050</b>	<b>\$ 5,162,131</b>	<b>\$ 3,832,065</b>	<b>\$ 7,101,924</b>	<b>\$ (14,328,483)</b>	<b>\$ 8,190,687</b>





**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2011****(in thousands)**

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Operating revenues</b>	\$	\$	\$ 2,304	\$ 5,123,967	\$ (2,304)	\$ 5,123,967
<b>Operating expenses</b>						
Cost of revenues (exclusive of depreciation and amortization included below)			124	2,002,795		2,002,919
Selling, general and administrative	2,596	179	221,357	1,621,230	(9,711)	1,835,651
Management fee, royalty fee and other	(63,298)		(129,102)	184,993	7,407	
Depreciation and amortization			7,484	489,536		497,020
	(60,702)	179	99,863	4,298,554	(2,304)	4,335,590
<b>Operating income (loss)</b>	60,702	(179)	(97,559)	825,413		788,377
<b>Other income (expense)</b>						
Interest expense, net	(175,908)	(118,962)	(2,096)	(147,249)	173,796	(270,419)
Interest income	14,267	161,180	155	23,162	(173,796)	24,968
Foreign currency transaction losses, net	(4)			(39,823)		(39,827)
Equity in income of affiliates	285,458	391,912	396,362		(1,073,732)	
Other expense, net	(5,858)		(6)	(10,902)		(16,766)
	117,955	434,130	394,415	(174,812)	(1,073,732)	(302,044)
<b>Income before income tax benefit (provision)</b>	178,657	433,951	296,856	650,601	(1,073,732)	486,333
<b>Income tax benefit (provision)</b>	28,883	(12,059)	(30,931)	(254,239)	(10,447)	(278,793)
<b>Net income</b>	\$ 207,540	\$ 421,892	\$ 265,925	\$ 396,362	\$ (1,084,179)	\$ 207,540

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2010****(in thousands)**

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Operating revenues</b>	\$	\$	\$ 1,536	\$ 4,079,682	\$	\$ 4,081,218
<b>Operating expenses</b>						
Cost of revenues (exclusive of depreciation and amortization included below)			67	1,632,333		1,632,400
Selling, general and administrative	9,113	28	157,633	1,230,222		1,396,996
Management fee and other	(56,893)		(69,660)	126,553		
Depreciation and amortization			5,681	397,896		403,577
	(47,780)	28	93,721	3,387,004		3,432,973
<b>Operating income (loss)</b>	47,780	(28)	(92,185)	692,678		648,245
<b>Other income (expense)</b>						
Interest expense, net	(196,846)	(95,028)	(858)	(123,469)	153,743	(262,458)
Interest income	13,664	142,860	441	20,549	(153,742)	23,772
Foreign currency transaction gains, net				27,354		27,354
Equity in income of affiliates	306,596	365,932	431,194		(1,103,722)	
Other income (expense), net	4		158	(11,542)	(13)	(11,393)
	123,418	413,764	430,935	(87,108)	(1,103,734)	(222,725)
<b>Income before income tax benefit (provision)</b>	171,198	413,736	338,750	605,570	(1,103,734)	425,520
<b>Income tax benefit (provision)</b>	71,267	(22,689)	(50,113)	(184,228)	2,708	(183,055)
<b>Net income</b>	\$ 242,465	\$ 391,047	\$ 288,637	\$ 421,342	\$ (1,101,026)	\$ 242,465

Table of Contents

## NII HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Three Months Ended September 30, 2011

(in thousands)

	NII Holdings, Inc. (Parent)	NII Capital Corp. (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Operating revenues</b>	\$	\$	\$ 768	\$ 1,751,017	\$ (768)	\$ 1,751,017
<b>Operating expenses</b>						
Cost of revenues (exclusive of depreciation and amortization included below)			39	687,569		687,608
Selling, general and administrative	820	1	84,519	600,404	(3,742)	682,002
Management fee, royalty fee and other	(21,499)		(64,552)	83,077	2,974	
Depreciation and amortization			2,744	166,237		168,981
	(20,679)	1	22,750	1,537,287	(768)	1,538,591
<b>Operating income (loss)</b>	20,679	(1)	(21,982)	213,730		212,426
<b>Other income (expense)</b>						
Interest expense, net	(63,972)	(43,752)	(659)	(49,418)	64,256	(93,545)
Interest income	5,061	59,348	52	8,952	(64,256)	9,157
Foreign currency transaction losses, net	(4)			(63,923)		(63,927)
Equity in income of affiliates	32,243	54,002	56,282		(142,527)	
Other expense, net	(5,898)			(2,510)		(8,408)
	(32,570)	69,598	55,675	(106,899)	(142,527)	(156,723)
<b>Loss (income) before income tax benefit (provision)</b>	(11,891)	69,597	33,693	106,831	(142,527)	55,703
<b>Income tax benefit (provision)</b>	9,054	(3,033)	(11,304)	(50,549)	(2,708)	(58,540)
<b>Net (loss) income</b>	\$ (2,837)	\$ 66,564	\$ 22,389	\$ 56,282	\$ (145,235)	\$ (2,837)

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Three Months Ended September 30, 2010****(in thousands)**

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Operating revenues</b>	\$	\$	\$ 768	\$ 1,445,383	\$	\$ 1,446,151
<b>Operating expenses</b>						
Cost of revenues (exclusive of depreciation and amortization included below)			15	581,573		581,588
Selling, general and administrative	6,899	20	57,090	438,303		502,312
Management fee and other	(19,140)		(23,220)	42,360		
Depreciation and amortization			2,189	137,511		139,700
	(12,241)	20	36,074	1,199,747		1,223,600
<b>Operating income (loss)</b>	12,241	(20)	(35,306)	245,636		222,551
<b>Other income (expense)</b>						
Interest expense, net	(52,174)	(31,520)	(276)	(47,506)	48,018	(83,458)
Interest income	7,395	44,256	52	6,164	(48,017)	9,850
Foreign currency transaction gains, net				28,406		28,406
Equity in income of affiliates	140,687	147,679	161,875		(450,241)	
Other income (expense), net			3	(3,529)	(4)	(3,530)
	95,908	160,415	161,654	(16,465)	(450,244)	(48,732)
<b>Income before income tax benefit (provision)</b>	108,149	160,395	126,348	229,171	(450,244)	173,819
<b>Income tax benefit (provision)</b>	10,363	(3,862)	(2,326)	(67,299)	7,817	(55,307)
<b>Net income</b>	\$ 118,512	\$ 156,533	\$ 124,022	\$ 161,872	\$ (442,427)	\$ 118,512

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2011****(in thousands)**

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 207,540	\$ 421,892	\$ 265,925	\$ 396,362	\$ (1,084,179)	\$ 207,540
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(155,728)	(439,620)	(246,434)	623,077	860,901	642,196
Net cash provided by (used in) operating activities	51,812	(17,728)	19,491	1,019,439	(223,278)	849,736
<b>Cash flows from investing activities:</b>						
Capital expenditures	(99,208)			(633,544)		(732,752)
Purchase of long-term and short-term investments	(329,292)			(1,531,091)		(1,860,383)
Proceeds from sales of short-term investments	560,000			1,415,391		1,975,391
Payments for purchases of licenses				(99,893)		(99,893)
Transfers from restricted cash				89,360		89,360
Intercompany borrowings	(59,341)	(736,860)			796,201	
Return of capital	(124,202)				124,202	
Other, net	(276)			(2,443)		(2,719)
Net cash used in investing activities	(52,319)	(736,860)		(762,220)	920,403	(630,996)
<b>Cash flows from financing activities:</b>						
Proceeds from issuance of senior notes		750,000				750,000
Purchases of convertible notes	(214,488)					(214,488)
Repayments under syndicated loan facilities				(235,746)		(235,746)
Repayments under import financing				(91,378)		(91,378)
Capital contributions		103,202	21,000		(124,202)	
Proceeds from intercompany long-term loan	736,860			59,341	(796,201)	
Intercompany dividends		(84,139)	(139,139)		223,278	
Other, net	26,125	(14,500)	(11,395)	65,878		66,108
Net cash provided by (used in) financing activities	548,497	754,563	(129,534)	(201,905)	(697,125)	274,496
<b>Effect of exchange rate changes on cash and cash equivalents</b>						
				(30,735)		(30,735)
<b>Net increase (decrease) in cash and cash equivalents</b>						
	547,990	(25)	(110,043)	24,579		462,501
<b>Cash and cash equivalents, beginning of period</b>	548,197	28	122,186	1,097,090		1,767,501
<b>Cash and cash equivalents, end of period</b>	\$ 1,096,187	\$ 3	\$ 12,143	\$ 1,121,669	\$	\$ 2,230,002

**Table of Contents****NII HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2010****(in thousands)**

	<b>NII Holdings, Inc. (Parent)</b>	<b>NII Capital Corp. (Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 242,465	\$ 391,047	\$ 288,637	\$ 421,342	\$ (1,101,026)	\$ 242,465
Adjustments to reconcile net income to net cash (used in) provided by operating activities	(357,939)	(391,047)	(276,942)	500,204	1,033,936	508,212
Net cash (used in) provided by operating activities	(115,474)		11,695	921,546	(67,090)	750,677
<b>Cash flows from investing activities:</b>						
Capital expenditures	(25,831)			(480,554)		(506,385)
Proceeds from sales of short-term investments	50,000			965,759		1,015,759
Proceeds from intercompany long-term loan						
Transfers to restricted cash				(98,298)		(98,298)
Transfers from restricted cash				94,756		94,756
Purchase of long-term and short-term investments	(680,921)			(906,322)		(1,587,243)
Intercompany borrowings	(33,285)		64,355		(31,070)	
Other, net	(4,274)			(53,681)	4,274	(53,681)
Net cash (used in) provided by investing activities	(694,311)		64,355	(478,340)	(26,796)	(1,135,092)
<b>Cash flows from financing activities:</b>						
Borrowings under syndicated loan facilities				80,000		80,000
Repayments under syndicated loan facilities				(60,779)		(60,779)
Repayments under import financing				(66,540)		(66,540)
Purchases of convertible notes	(442,972)					(442,972)
Proceeds from intercompany long-term loan						
Intercompany dividends			(67,090)		67,090	
Other, net	40,522		(1,259)	(39,000)	26,796	27,059
Net cash used in financing activities	(402,450)		(68,349)	(86,319)	93,886	(463,232)
<b>Effect of exchange rate changes on cash and cash equivalents</b>						
				9,660		9,660
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,212,235)</b>		<b>7,701</b>	<b>366,547</b>		<b>(837,987)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,702,191</b>	<b>28</b>		<b>801,845</b>		<b>2,504,064</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 489,956</b>	<b>\$ 28</b>	<b>\$ 7,701</b>	<b>\$ 1,168,392</b>	<b>\$</b>	<b>\$ 1,666,077</b>

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

<u>Introduction</u>	28
<u>Business Overview</u>	28
<u>Recent Economic Trends</u>	32
<u>Handsets in Commercial Service</u>	32
<u>Critical Accounting Policies and Estimates</u>	33
<u>Results of Operations</u>	33
<u>a. Consolidated</u>	35
<u>b. Nextel Brazil</u>	38
<u>c. Nextel Mexico</u>	42
<u>d. Nextel Argentina</u>	44
<u>e. Nextel Peru</u>	46
<u>f. Corporate and other</u>	47
<u>Liquidity and Capital Resources</u>	48
<u>Future Capital Needs and Resources</u>	50
<u>Effect of New Accounting Standards</u>	53
<u>Forward Looking Statements</u>	53



## **Table of Contents**

### **Introduction**

The following is a discussion and analysis of:

our consolidated financial condition as of September 30, 2011 and December 31, 2010 and our consolidated results of operations for the nine- and three-month periods ended September 30, 2011 and 2010; and

significant factors which we believe could affect our prospective financial condition and results of operations.

You should read this discussion in conjunction with our annual report on Form 10-K and our quarterly reports on Form 10-Q for the three months ended March 31, 2011 and June 30, 2011, including, but not limited to, the discussion regarding our critical accounting policies and estimates, as described below. Historical results may not indicate future performance. See **Forward Looking Statements** and **Item 1A. Risk Factors** in our annual report on Form 10-K for risks and uncertainties that may impact our future performance.

We refer to our operating companies by the countries in which they operate, such as Nextel Brazil, Nextel Mexico, Nextel Argentina, Nextel Peru and Nextel Chile.

### **Business Overview**

We provide wireless communication services under the Nextel™ brand, primarily targeted at meeting the needs of customers who use our services in their businesses and individuals that have medium to high usage patterns, both of whom value our multi function handsets, including our Nextel Direct Connect® feature, and our high level of customer service. As we deploy our planned third generation networks using wideband code division multiple access, or WCDMA, technology in our markets, we plan to extend our target market to additional corporate customers and high-value consumers who exhibit above average usage, revenue and loyalty characteristics and who we believe will be attracted to the services supported by our new networks and the quality of our customer service. In September 2011, we launched a new brand identity in each of our markets and at the corporate level, which we believe will enhance the recognition of our brand and unify our brand identity across our markets as we expand to new customer segments. In connection with the launch of this new brand, we signed an amended trademark agreement with Nextel Communications, Inc., a subsidiary of Sprint Nextel Corporation, which enhances our existing right to use the Nextel brand in our markets.

We provide our services through operating companies located in selected Latin American markets, with our principal operations located in major business centers and related transportation corridors of Brazil, Mexico, Argentina, Peru and Chile. We provide our services in major urban and suburban centers with high population densities where we believe there is a concentration of the country's business users and economic activity. We believe that vehicle traffic congestion, low wireline service penetration and the expanded coverage of wireless networks in these major business centers encourage the use of the mobile wireless communications services that we offer. Our planned third generation networks are expected to serve both these major business centers and a broader geographic area in order to reach more potential customers and to meet the requirements of our spectrum licenses.

Our current networks utilize integrated digital enhanced network, or iDEN, technology developed by Motorola, Inc. to provide our mobile services on the 800 MHz spectrum holdings in all of our markets. Our existing third generation network in Peru utilizes, and our planned third generation networks in Brazil, Mexico and Chile will utilize, WCDMA technology, which is a standards-based technology that is being deployed by carriers throughout the world. These technologies allow us to use our spectrum efficiently and offer multiple wireless services integrated into a variety of handset devices.

The services we offer include:

mobile telephone service;

mobile broadband services in markets where we have deployed third generation networks;

Nextel Direct Connect® service, which allows subscribers who use our iDEN network to talk to each other instantly, on a push-to-talk basis, for private one-to-one calls or group calls;

---

**Table of Contents**

International Direct Connect® service, which allows subscribers who use our iDEN network to talk to each other instantly across national borders, including Sprint Nextel subscribers using compatible handsets in the United States, Intelfon subscribers in El Salvador and with TELUS Corporation subscribers using compatible handsets in Canada;

data services, including text messaging services, mobile internet services, e-mail services, an Android-based open operating system, location-based services, which include the use of Global Positioning System, or GPS, technologies, digital media services and advanced Java™ enabled business applications; and

international roaming services.

We plan to offer similar and additional voice and data services and applications on our planned third generation networks and recently launched high performance push-to-talk services on our third generation network that provides services on WCDMA networks in various metropolitan areas in Peru. In addition to our WCDMA network in Peru, we currently provide services on iDEN networks in the largest metropolitan areas in each of Brazil, Mexico, Argentina, Peru and Chile, as well as in various other cities in each of these countries.

Our goal is to generate increased revenues in our Latin American markets by providing differentiated wireless communications services that are valued by our customers while improving our profitability and cash flow over the long term. Our strategy for achieving that goal is based on several core principles, including targeting high value customers, providing differentiated services and delivering superior customer service. We will also achieve this goal by offering new and expanded products and services supported by our existing and planned third generation networks and by expanding our distribution channels by opening new, more cost effective points of sales and service.

We commercially launched our third generation network in Peru in 2010 and are currently in the process of designing and building third generation networks in Brazil, Chile and Mexico using spectrum licensed to us in Chile and Mexico in 2010 and spectrum licensed to us in Brazil in 2011. We expect to begin offering third generation services in Chile early in 2012 and in Brazil and Mexico in mid-2012.

We may also explore financially attractive opportunities to expand our network coverage in areas that we do not currently serve or plan to serve. Based on market data that continues to show lower wireless penetration in our markets relative to other regions of the world and our current market share in those markets, we believe that we can continue to generate growth in our subscriber base and revenues while improving our profitability and cash flow over the long term.

We believe that the wireless communications industry in the markets in which we operate has been and will continue to be highly competitive on the basis of price, the types of services offered, the diversity of handsets offered, speed of data access and the quality of service. In each of our markets, we compete with at least two large, well-capitalized competitors with substantial financial and other resources. Some of these competitors have the ability to offer bundled telecommunications services that include local, long distance, subscription television and data services, and can offer a larger variety of handsets with a wide range of prices, brands and features. In addition, the financial strength and operating scale of some of these competitors allows them to offer aggressive pricing plans, including those targeted at attracting our existing customers. Although competitive pricing of services and the variety and pricing of handsets are often important factors in a customer's decision making process, we believe that the users who primarily make up our targeted customer base are also likely to base their purchase decisions on quality of service and customer support, as well as on the availability of differentiated features and services, like our Direct Connect services, that make it easier for them to communicate quickly, efficiently and economically.

We have implemented a strategy that we believe will position us to achieve our long-term goal of generating profitable growth. The key components of that strategy are as follows:

*Focusing on Major Business Centers in Key Latin American Markets.* We operate primarily in large urban markets, including five of the six largest cities in Latin America, which have a concentration of medium to high usage business customers and consumers. We target these markets because we believe they have favorable long-

---

**Table of Contents**

term growth prospects for our wireless communications services while offering the cost benefits associated with providing services in more concentrated population centers. Our planned third generation networks are expected to serve both these major business centers and a broader geographic area in order to reach more potential customers and to meet the requirements of our spectrum licenses. In addition, the cities in which we operate account for a high proportion of total economic activity in each of their respective countries and provide us with a large prospective market. We believe that there are significant opportunities for growth in these markets due to the high demand for wireless communications services and the large number of potential customers within our targeted customer groups.

*Targeting High Value Customers.* Our main focus is on customers who purchase services under contract and primarily use our services in their businesses and on individuals that have medium to high usage patterns, both of whom value our multi-function handsets, including our Nextel Direct Connect feature and our high level of customer service. In our current customer base, our typical customer has between 3 and 30 handsets, and some of our largest customers have over 500 handsets; however, new customers that we have recently acquired generally have a lower number of handsets per customer, and we expect this trend to continue as we seek to extend our target market. As we deploy our planned third generation networks using WCDMA technology in our markets, we plan to extend our target market to additional corporate customers and high-value consumers who exhibit above average usage, revenue and loyalty characteristics and who we believe will be attracted to the services supported by our new networks and the quality of our customer service.

*Providing Differentiated Services.* We differentiate ourselves from our competitors by offering unique services like our push-to-talk service, which we refer to as Direct Connect. This service, which is available throughout our service areas, provides significant value to our customers by eliminating the long distance and domestic roaming fees charged by other wireless service providers, while also providing added functionality due to the near-instantaneous nature of the communication and the ability to communicate on a one-to-many basis. In addition, we recently launched a high performance push-to-talk service that utilizes WCDMA technology on our third generation network in Peru as part of our effort to continually provide differentiated service to our customers in connection with the deployment of our planned third generation networks. Our competitors have introduced competitive push-to-talk over cellular products, but we believe that the quality of our Direct Connect service on our existing iDEN networks, and on our WCDMA-based networks using the high performance push-to-talk service we recently launched in Peru, is superior at this time. We add further value by customizing data applications that enhance the productivity of our business customers, such as vehicle and delivery tracking, order entry processing and workforce monitoring applications.

*Delivering Superior Customer Service.* In addition to our unique service offerings, we seek to further differentiate ourselves by providing a higher level of customer service than our competitors. We work proactively with our customers to match them with service plans that offer greater value based on the customer's usage patterns. After analyzing customer usage and expense data, we strive to minimize a customer's per minute costs while increasing overall usage of our array of services, thereby providing higher value to our customers while increasing our monthly revenues. This goal is also furthered by our efforts during and after the sales process to educate customers about our services, multi-function handsets and rate plans. We have also implemented proactive customer retention programs in an effort to increase customer satisfaction and retention. In addition, we are currently making investments to improve the quality and scalability of our customer relationship management systems as part of our effort to provide superior customer service to our growing customer base.

*Selectively Expanding our Service Areas.* We believe that we have significant opportunities to grow through selective expansion of our service into additional areas in some of the countries in which we currently operate, particularly in Brazil where we have made significant additional investments to expand our service areas, including expansion into the northeast region of the country, and to add more capacity to Nextel Brazil's network to support its growth. Such expansion may involve building out certain areas in which we already have spectrum, obtaining additional spectrum in new areas which would enable us to expand our network service areas, and further developing our business in key urban areas. Our planned third generation networks are expected to serve both our existing major business centers and a broader geographic area in order to reach more potential customers and to meet the requirements of our spectrum licenses. We may also consider selectively

---

**Table of Contents**

expanding into other Latin American countries where we do not currently operate. See [Future Capital Needs and Resources](#) [Capital Expenditures](#) for a discussion of the factors that drive our capital spending.

*Preserving the iDEN Opportunity.* The iDEN networks that we operate allow us to offer differentiated services like Direct Connect while offering high quality voice telephony and other innovative services. The iDEN technology is unique in that it is the only widespread, commercially available technology that operates on non-contiguous spectrum, which is important to us because much of the spectrum that our operating companies currently utilize in each of the markets we serve is non-contiguous. Because Motorola is the sole supplier of iDEN technology, we are dependent on Motorola's support of the evolution of the iDEN technology and of the development of new features, functionality and handset models.

In the past, Nextel Communications was one of the largest purchasers of iDEN technology and provided significant support with respect to new product development for that technology. Sprint Nextel has announced plans to decommission its iDEN network over the next several years, which could affect Motorola's ability or willingness to provide support for the development of new iDEN handset models or enhancements to the features and functionality of our iDEN networks without us funding that development or agreeing to significant purchase commitments. We have increased our effort and support of iDEN handset product development and now lead the majority of that development activity in support of our customers' needs. In early 2011, Motorola completed a separation of its mobile devices and home division into two separate public entities: Motorola Mobility, Inc., to which our iDEN handset supply agreements have been assigned; and Motorola Solutions, Inc., to which our iDEN network infrastructure supply agreements have been assigned. In addition, we have entered into arrangements with Motorola that have now been assigned to and assumed by Motorola Solutions and Motorola Mobility and that are designed to provide us with a continued source of iDEN network equipment and handsets in an environment in which Sprint Nextel's purchases and support of future development of that equipment have declined. In August 2011, Google, Inc. announced its intent to acquire the Motorola Mobility entity. We do not currently expect any change to Motorola's commitment to deliver iDEN network equipment and handsets as a result of Google's planned acquisition of Motorola Mobility, which has not yet been completed. Examples of our existing arrangements with Motorola include:

Agreements we entered into with Motorola in September 2006 to extend our relationship with Motorola for the supply of iDEN handsets and iDEN network infrastructure through December 31, 2011. Under these agreements, Motorola agreed to maintain an adequate supply of the iDEN handsets and equipment used in our business for the term of the agreement and to continue to invest in the development of new iDEN devices and infrastructure features. In addition, we agreed to annually escalating handset volume purchase commitments and certain pricing parameters for handsets and infrastructure linked to the volume of our purchases. If we do not meet the specified handset volume commitments, we would be required to pay an additional amount based on any shortfall of actual purchased handsets compared to the related annual volume commitment.

An agreement we signed with Motorola, Inc., now Motorola Solutions, Inc., in October 2010, which provided for the extension of the terms of the iDEN network infrastructure agreement with Motorola until December 31, 2014. The extension of this infrastructure agreement will not impact any handset pricing terms or commitments.

An agreement we entered into with Motorola Mobility, Inc. in March 2011, which provided for the extension of the agreement under which Motorola will supply iDEN handsets to NII Holdings through 2014. In addition, we agreed to handset volume purchase commitments with respect to certain handset models and pricing parameters linked to the volume of our handset purchases. This agreement provided that Motorola Mobility, Inc. will continue to develop and deliver new handsets using the iDEN platform as we develop our third generation networks over coming years.

In addition, in July 2010, Motorola Solutions announced that it reached an agreement to sell certain of its operations relating to the manufacture of network equipment to Nokia Siemens Networks. Motorola Solutions has announced that the sale does not include its iDEN business, but it is uncertain whether Motorola Solutions' sale of its other network equipment businesses could affect its ability to support the iDEN infrastructure business. The obligations of both Motorola entities under our existing agreements, including the obligation to supply us with iDEN handsets and network equipment, remain in effect.

## Table of Contents

*Planning for the Future.* Another key component in our overall strategy is to expand and improve the innovative and differentiated services we offer and evaluate and deploy the technologies necessary to provide those services. One such initiative is to develop and offer a broader range of data services on our networks, including expanding our offering of third generation voice and broadband data services in the future. This focus on offering innovative and differentiated services makes it important that we continue to invest in, evaluate and, if appropriate, deploy new services and enhancements to our existing services.

During 2009 and 2010, we participated in spectrum auctions in Chile, Mexico and Brazil in order to acquire spectrum required to support our planned third generation networks. We commercially launched our third generation network in Peru in 2010 and are currently in the process of designing and building third generation networks in Brazil, Chile and Mexico using spectrum licensed to us. We expect to begin offering third generation services in Chile in early 2012 and in Brazil and Mexico in mid-2012. In addition, the Argentine government has announced plans to hold an auction of spectrum that would support a third generation network in March 2012, and we have notified the government of our interest in participating in this auction.

The following chart details our current material third generation spectrum holdings in each of our markets.

Country	Spectrum Band	Amount/Coverage
Brazil	1.9 GHz/2.1 GHz	20 MHz in 11 of 13 regions (includes all major metropolitan areas)
Mexico	1.7 GHz/2.1 GHz	30 MHz nationwide
Peru	1.9 GHz	35 MHz nationwide
Chile	1.7 GHz/2.1 GHz	60 MHz nationwide

We expect to pursue opportunities to acquire additional third generation spectrum in the future. Our decision whether to acquire rights to use additional spectrum would likely be affected by a number of factors, including the spectrum bands available for purchase, the expected cost of acquiring that spectrum and the availability and terms of any financing that we would be required to raise in order to acquire the spectrum and build the networks that will provide services that use that spectrum.

## Recent Economic Trends

Late in the third quarter of 2011, continued uncertainty in worldwide economic conditions drove a significant decline in the value of the currencies relative to the U.S. dollar in the markets where we operate. This volatility in foreign currency exchange rates has had and continues to have a significant effect on our reported results as nearly all of our revenues are earned in non-U.S. currencies, and a significant portion of our outstanding debt is denominated in U.S. dollars. While we have recently seen some improvement in foreign currency exchange rates, significant volatility in the global market persists, and current foreign currency exchange rates reflect a substantial reduction in value from those experienced earlier this year. If the values of local currencies in the countries in which our operating companies conduct business depreciate further relative to the U.S. dollar, our future operating results and the value of our assets held in local currencies will be adversely affected.

## Handsets in Commercial Service

The table below provides an overview of our total handsets in commercial service in the countries indicated as of September 30, 2011 and December 31, 2010. For purposes of the table, handsets in commercial service represent all handsets with active customer accounts on the networks in each of the listed countries.

	Brazil	Mexico	Argentina (handsets in thousands)	Peru	Chile	Total
Handsets in commercial service December 31, 2010	3,319	3,361	1,154	1,128	65	9,027
Net subscriber additions	604	262	100	244	8	1,218
Handsets in commercial service September 30, 2011	3,923	3,623	1,254	1,372	73	10,245



## **Table of Contents**

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon presently available information. Due to the inherent uncertainty involved in making those estimates, actual results reported in future periods could differ from those estimates.

As described in more detail in our annual report on Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations, we consider the following accounting policies to be the most important to our financial position and results of operations or policies that require us to exercise significant judgment and/or estimates:

revenue recognition;

allowance for doubtful accounts;

depreciation of property, plant and equipment;

amortization of intangible assets;

asset retirement obligations;

foreign currency;

loss contingencies;

stock-based compensation; and

income taxes.

There have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2011 compared to those discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K.

### **Results of Operations**

Operating revenues primarily consist of wireless service revenues and revenues generated from the sale of handsets and accessories. Service revenues primarily include fixed monthly access charges for mobile telephone service and two-way radio and other services, including revenues from calling party pays programs and variable charges for airtime and two-way radio usage in excess of plan minutes, long-distance charges, international roaming revenues derived from calls placed by our customers and revenues generated from broadband data services we provide on our third generation networks. Digital handset and accessory revenues represent revenues we earn on the sale of handsets and accessories to our customers.



## Edgar Filing: NII HOLDINGS INC - Form 10-Q

In addition, we also have other less significant sources of revenues. These revenues primarily include revenues generated from our handset maintenance programs, roaming revenues generated from other companies' customers that roam on our networks and co-location rental revenues from third-party tenants that rent space on our towers.

Cost of revenues primarily includes the cost of providing wireless service and the cost of handset and accessory sales. Cost of providing service consists of:

costs of interconnection with local exchange carrier facilities;

costs relating to terminating calls originated on our network on other carriers' networks;

direct switch, transmitter and receiver site costs, including property taxes;

expenses related to our handset maintenance programs; and

insurance costs, utility costs, maintenance costs, spectrum license fees and rent for the network switches and transmitter sites used to operate our mobile networks.

**Table of Contents**

Interconnection costs have fixed and variable components. The fixed component of interconnection costs consists of monthly flat-rate fees for facilities leased from local exchange carriers, primarily for circuits required to connect our transmitter sites to our network switches and to connect our switches. The variable component of interconnection costs, which fluctuates in relation to the volume and duration of wireless calls, generally consists of per-minute use fees charged by wireline and wireless carriers relating to wireless calls from our handsets that terminate on their networks. Cost of digital handset and accessory sales consists largely of the cost of the handset and accessories, order fulfillment and installation-related expenses, as well as write-downs of digital handset and related accessory inventory for shrinkage or obsolescence.

Our service and other revenues and the variable component of our cost of service are primarily driven by the number of handsets in service and not necessarily by the number of customers, as one customer may purchase one or many handsets. Our digital handset and accessory revenues and cost of digital handset and accessory sales are primarily driven by the number of new handsets placed into service, as well as handset upgrades provided to existing customers.

Selling and marketing expenses include all of the expenses related to acquiring customers.

General and administrative expenses include expenses related to revenue-based taxes, billing, customer care, collections including bad debt, repairs and maintenance of management information systems, spectrum license fees, corporate overhead and share-based payment for stock options and restricted stock.

In accordance with accounting principles generally accepted in the United States, we translated the results of operations of our operating segments using the average currency exchange rates for the nine and three months ended September 30, 2011 and 2010. The following table presents the average currency exchange rates we used to translate the results of operations of our operating segments into U.S. dollars, as well as changes from the average exchange rates utilized in prior periods. Because we treat the U.S. dollar as the functional currency in Peru, Nextel Peru's results of operations are not significantly impacted by changes in the U.S. dollar to Nuevo sol exchange rate.

	Nine Months Ended September 30,		
	2011	2010	Percent Change
Mexican peso	12.02	12.72	6%
Brazilian real	1.63	1.78	8%
Argentine peso	4.09	3.89	(5)%

	Three Months Ended September 30,		
	2011	2010	Percent Change
Mexican peso	12.25	12.81	4%
Brazilian real	1.64	1.75	6%
Argentine peso	4.17	3.94	(6)%

Late in the third quarter of 2011, foreign currency exchange rates reflected a significant decline in the value of the currencies relative to the U.S. dollar in the markets where we operate, particularly in Brazil and Mexico. This depreciation in relative currency values has continued, to some degree, in the fourth quarter of 2011. The following table presents the end-of-month currency exchange rates experienced in Mexico, Brazil and Argentina during each of the three months in the second and third quarters of 2011. If the values of the local currencies in the countries in which our operating companies conduct business remain at the levels that prevailed late in the third quarter of 2011 or depreciate further relative to the U.S. dollar, our future operating results and the values of our assets held in local currencies will be adversely affected.

	2011			2011		
	April	May	June	July	August	September
Mexican peso	11.59	11.63	11.84	11.65	12.41	13.42
Brazilian real	1.57	1.58	1.56	1.56	1.59	1.85
Argentine peso	4.08	4.09	4.11	4.15	4.20	4.21

**Table of Contents***a. Consolidated*

	September 30, 2011	% of Consolidated Operating Revenues	September 30, 2010 (dollars in thousands)	% of Consolidated Operating Revenues	Change from Previous Year Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 4,883,917	95%	\$ 3,857,743	95%	\$ 1,026,174	27%
Digital handset and accessory revenues	240,050	5%	223,475	5%	16,575	7%
	5,123,967	100%	4,081,218	100%	1,042,749	26%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization included below)						
	(1,356,119)	(26)%	(1,090,671)	(27)%	(265,448)	24%
Cost of digital handset and accessory sales	(646,800)	(13)%	(541,729)	(13)%	(105,071)	19%
	(2,002,919)	(39)%	(1,632,400)	(40)%	(370,519)	23%
Selling and marketing expenses	(617,509)	(12)%	(485,369)	(12)%	(132,140)	27%
General and administrative expenses	(1,218,142)	(24)%	(911,627)	(22)%	(306,515)	34%
Depreciation and amortization	(497,020)	(10)%	(403,577)	(10)%	(93,443)	23%
Operating income	788,377	15%	648,245	16%	140,132	22%
Interest expense, net	(270,419)	(5)%	(262,458)	(6)%	(7,961)	3%
Interest income	24,968		23,772		1,196	5%
Foreign currency transaction (losses) gains, net	(39,827)	(1)%	27,354		(67,181)	(246)%
Other expense, net	(16,766)		(11,393)		(5,373)	47%
Income before income tax provision	486,333	9%	425,520	10%	60,813	14%
Income tax provision	(278,793)	(5)%	(183,055)	(4)%	(95,738)	52%
Net income	\$ 207,540	4%	\$ 242,465	6%	\$ (34,925)	(14)%
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 1,667,262	95%	\$ 1,359,441	94%	\$ 307,821	23%
Digital handset and accessory revenues	83,755	5%	86,710	6%	(2,955)	(3)%
	1,751,017	100%	1,446,151	100%	304,866	21%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization included below)						
	(462,463)	(26)%	(394,795)	(27)%	(67,668)	17%
Cost of digital handset and accessory sales	(225,145)	(13)%	(186,793)	(13)%	(38,352)	21%
	(687,608)	(39)%	(581,588)	(40)%	(106,020)	18%
Selling and marketing expenses	(254,337)	(15)%	(169,555)	(12)%	(84,782)	50%
General and administrative expenses	(427,665)	(24)%	(332,757)	(23)%	(94,908)	29%
Depreciation and amortization	(168,981)	(10)%	(139,700)	(10)%	(29,281)	21%
Operating income	212,426	12%	222,551	15%	(10,125)	(5)%
Interest expense, net	(93,545)	(5)%	(83,458)	(6)%	(10,087)	12%
Interest income	9,157	1%	9,850	1%	(693)	(7)%
Foreign currency transaction (losses) gains, net	(63,927)	(4)%	28,406	2%	(92,333)	NM
Other expense, net	(8,408)	(1)%	(3,530)		(4,878)	138%

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

Income before income tax provision	55,703	3%	173,819	12%	(118,116)	(68)%
Income tax provision	(58,540)	(3)%	(55,307)	(4)%	(3,233)	6%
Net (loss) income	\$ (2,837)		\$ 118,512	8%	\$ (121,349)	(102)%

*NM-Not Meaningful*

**Table of Contents**

During the first nine months of 2011, we expanded our subscriber base across all of our markets with much of this growth concentrated in Brazil, Mexico and Peru. We continued to invest in coverage expansion and network improvements during the first nine months of 2011, resulting in consolidated capital expenditures of \$858.2 million, which represented a 59% increase from the first nine months of 2010. About half of this investment occurred in Brazil, with a substantial portion of the total investment related to the development and deployment of our third generation networks. We also continued to invest in order to enhance the quality and capacity of our iDEN networks. Under our current business plan, we expect to incur significant additional capital expenditures through the remainder of 2011 and in 2012 and 2013 as we pursue our strategy of building third generation networks in Brazil, Mexico and Chile in addition to our existing third generation network in Peru. We also expect to continue to incur capital expenditures related to the expansion of the coverage and improvement of the quality and capacity of our iDEN networks as we deploy our planned third generation networks. We may incur additional capital expenditures if we are able to acquire spectrum and deploy a third generation network in Argentina.

We believe that our planned deployment of third generation networks will enable us to offer new and differentiated services to a larger base of customers. We expect to incur significant expenses associated with the deployment phase of these networks, particularly general and administrative and selling and marketing expenses, but we do not expect a corresponding increase in operating revenues during the deployment phase. As a result, we anticipate our operating margins will likely be lower during the network deployment phase, particularly during the initial stages of deployment.

The average values of the local currencies in Brazil and Mexico appreciated relative to the U.S. dollar during the nine and three months ended September 30, 2011 compared to the same periods in 2010. Conversely, the average value of the Argentine peso depreciated relative to the U.S. dollar during the nine and three months ended September 30, 2011 compared to the same periods in 2010. As a result, the components of our consolidated results of operations for the nine and three months ended September 30, 2011, after translation into U.S. dollars, reflect more significant increases in U.S. dollar revenues and expenses than would have occurred if these currencies had not appreciated relative to the U.S. dollar. Late in the third quarter of 2011, continued uncertainty in worldwide economic conditions drove a significant decline in the value of currencies relative to the U.S. dollar in the markets where we operate. This volatility in foreign currency exchange rates has had and continues to have a significant effect on our reported results as nearly all of our revenues are earned in non-U.S. currencies. While we have recently seen some improvement in foreign currency exchange rates, significant volatility in the global market persists, and current foreign currency exchange rates reflect a substantial reduction in value from those experienced earlier this year. If the values of local currencies in the countries in which our operating companies conduct business remain at current levels or depreciate further relative to the U.S. dollar, our future reported operating results will be adversely affected.

#### 1. Operating revenues

The \$1,026.2 million, or 27%, and \$307.8 million, or 23%, increases in consolidated service and other revenues in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are largely the result of 21% and 20% increases in the average number of total handsets in service over both periods, which resulted from the continued demand for our services and the balanced growth and expansion strategies in our markets. These increases were also the result of increases in consolidated average revenue per subscriber, which resulted primarily from the appreciation in the average value of the Brazilian real.

#### 2. Cost of revenues

The \$265.4 million, or 24%, and \$67.7 million, or 17%, increases in consolidated cost of service in the nine and three months ended September 30, 2011 compared to the same periods in 2010 included:

\$128.3 million, or 23%, and \$27.0 million, or 13%, increases in consolidated interconnect expenses, largely in Brazil, resulting from increases in subscribers and the relative amount of minutes of use for calls that terminate on other carriers' networks and require the payment of call termination charges, partially offset by a reduction in mobile termination rates in Mexico that was ordered by the Mexican regulatory authorities in May 2011 and applied retroactively to January 1, 2011;

---

**Table of Contents**

\$73.2 million, or 27%, and \$24.4 million, or 25%, increases in consolidated site and switch expenses, due primarily to a one-time \$22.4 million refund of excess fees paid for spectrum use that Nextel Mexico received in the second quarter of 2010, as well as an increase in cell sites placed on-air from September 30, 2010 to September 30, 2011; and

\$40.9 million, or 112%, and \$10.6 million, or 59%, increases in consolidated managed services costs, primarily in Brazil, related to certain engineering activities managed by third-party vendors.

The \$105.1 million, or 19%, and \$38.4 million, or 21%, increases in consolidated cost of digital handset and accessory revenues in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are principally due to increases in handset upgrades for existing subscribers and, to a lesser extent, increases in the sale of higher cost handsets to new subscribers.

3. Selling and marketing expenses

Significant factors contributing to the \$132.1 million, or 27%, and \$84.8 million, or 50%, increases in consolidated selling and marketing expenses in the nine and three months ended September 30, 2011 compared to the same periods in 2010 included:

\$43.7 million, or 42%, and \$35.1 million, or 103%, increases in consolidated advertising costs, primarily in Brazil, related to new advertising campaigns launched in an effort to address Nextel Brazil's competitive landscape, as well as the launch of our new brand design during the third quarter of 2011;

\$25.2 million, or 122%, and \$21.9 million, or 323%, increases in consolidated other marketing expenses, primarily related to the launch of our new brand design, including remodeling of our stores and other sales outlets, during the third quarter of 2011; and

\$52.6 million, or 28%, and \$18.6 million, or 27%, increases in consolidated direct commissions and payroll expenses, mostly in Brazil and Mexico, due to increases in gross subscriber additions by internal market sales personnel, as well as increases in the number of sales and marketing personnel.

4. General and administrative expenses

Significant factors contributing to the \$306.5 million, or 34%, and \$94.9 million, or 29%, increases in consolidated general and administrative expenses in the nine and three months ended September 30, 2011 compared to the same periods in 2010 included:

\$120.3 million, or 25%, and \$16.5 million, or 9%, increases in consolidated general corporate costs, largely related to increases in revenue-based taxes in Brazil and higher personnel and consulting costs in some of our markets, which are primarily related to the development and deployment of our third generation networks and related initiatives;

\$70.9 million, or 29%, and \$24.6 million, or 28%, increases in consolidated customer care and billing operations expenses, mostly in Brazil, as a result of increases in customer care personnel necessary to support larger customer bases in our markets;

\$67.3 million, or 124%, and \$31.5 million, or 192%, increases in consolidated bad debt expense, principally related to Nextel Brazil's revenue growth and lower collection rates in Brazil resulting from changes to our credit procedures that resulted in the addition of some customers whose credit histories were less established; and

\$45.6 million, or 49%, and \$20.3 million, or 61%, increases in consolidated information technology costs, primarily related to the development and deployment of our third generation networks and other related initiatives.

5. Depreciation and amortization

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

The \$93.4 million, or 23%, and \$29.3 million, or 21%, increases in consolidated depreciation and amortization in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are the result of increases in consolidated property, plant and equipment in service caused by the continued expansion of the capacity of our iDEN network, as well as the deployment of our third generation networks.

**Table of Contents**

## 6. Foreign currency transaction (losses) gains, net

Foreign currency transaction losses of \$39.8 million and \$63.9 million during the nine and three months ended September 30, 2011 are largely the result of the impact of the depreciation in the value of the Brazilian real relative to the U.S. dollar on Nextel Brazil's net liabilities, primarily its syndicated loan facility.

Foreign currency transaction gains of \$27.4 million and \$28.4 million during the nine and three months ended September 30, 2010 are primarily the result of the impact of the appreciation in the value of the Brazilian real relative to the U.S. dollar on Nextel Brazil's net liabilities, primarily its syndicated loan facility, as well as the impact of the appreciation in the value of the Mexican peso relative to the U.S. dollar on corporate peso-denominated receivables due from Nextel Mexico.

## 7. Income tax provision

The \$95.7 million, or 52%, and \$3.2 million, or 6%, increases in the consolidated income tax provision in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are primarily due to significant variances in consolidated income before tax, an increase in the valuation allowance recorded against certain U.S. and Chilean deferred tax assets, the 2011 reversal of a \$14.5 million Mexico income tax benefit recognized on the sale of certain fixed assets, and the 2010 reversal of an \$11.4 million income tax reserve for uncertain tax positions.

**Segment Results**

We evaluate performance of our segments and provide resources to them based on operating income before depreciation and amortization and impairment, restructuring and other charges, which we refer to as segment earnings. The results of Nextel Chile are included in Corporate and other. A discussion of the results of operations for each of our reportable segments is provided below.

*b. Nextel Brazil*

	September 30, 2011	% of Nextel Brazil's Operating Revenues	September 30, 2010 (dollars in thousands)	% of Nextel Brazil's Operating Revenues	Change from Previous Year	
					Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 2,518,551	96%	\$ 1,766,464	95%	\$ 752,087	43%
Digital handset and accessory revenues	110,918	4%	97,430	5%	13,488	14%
	2,629,469	100%	1,863,894	100%	765,575	41%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(774,996)	(29)%	(606,077)	(33)%	(168,919)	28%
Cost of digital handset and accessory sales	(191,575)	(7)%	(132,268)	(7)%	(59,307)	45%
	(966,571)	(36)%	(738,345)	(40)%	(228,226)	31%
Selling and marketing expenses	(262,892)	(10)%	(196,184)	(11)%	(66,708)	34%
General and administrative expenses	(571,342)	(22)%	(364,238)	(19)%	(207,104)	57%
Segment earnings	\$ 828,664	32%	\$ 565,127	30%	\$ 263,537	47%





**Table of Contents**

	September 30, 2011	% of Nextel Brazil's Operating Revenues	September 30, 2010  (dollars in thousands)	% of Nextel Brazil's Operating Revenues	Change from Previous Year	
					Dollars	Percent
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 871,040	96%	\$ 650,031	94%	\$ 221,009	34%
Digital handset and accessory revenues	38,709	4%	39,497	6%	(788)	(2)%
	909,749	100%	689,528	100%	220,221	32%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(267,567)	(29)%	(215,355)	(31)%	(52,212)	24%
Cost of digital handset and accessory sales	(62,694)	(7)%	(46,224)	(7)%	(16,470)	36%
	(330,261)	(36)%	(261,579)	(38)%	(68,682)	26%
Selling and marketing expenses	(116,466)	(13)%	(72,379)	(11)%	(44,087)	61%
General and administrative expenses	(212,702)	(23)%	(140,843)	(20)%	(71,859)	51%
Segment earnings	\$ 250,320	28%	\$ 214,727	31%	\$ 35,593	17%

Over the last several years, Nextel Brazil's subscriber base has grown as a result of its continued focus on customer service and the expansion of the geographic coverage of its network. As a result, Nextel Brazil contributed 51% of our consolidated operating revenues for the nine months ended September 30, 2011 compared to 46% in the same period during 2010 and generated segment earnings margins of 32% in the first nine months of 2011 compared to 30% in the first nine months of 2010. Nextel Brazil has continued to experience growth in its existing markets and has continued to make investments in its newer markets as a result of increased demand for its services.

Late in the third quarter of 2011, Nextel Brazil began experiencing challenging economic conditions coupled with more promotional activity by its competitors, which resulted in lower revenue generated per subscriber unit and higher selling and marketing expenses during the third quarter of 2011 both in U.S. dollars and as percentages of operating revenues. Although we are taking actions to address the impact of the more aggressive pricing on service plans and other promotions being offered by our competitors in Brazil, we expect these competitive pressures to continue through the remainder of 2011. If our efforts prove unsuccessful, Nextel Brazil's results of operations will be adversely affected.

In addition, the Brazilian real experienced significant depreciation in value compared to the U.S. dollar late in the third quarter of 2011. While we have recently seen some improvement in the value of the Brazilian real relative to the U.S. dollar, the current foreign currency exchange rates reflect a substantial reduction in value of the real from those experienced earlier this year. If the value of the Brazilian real remains at current levels or depreciates further relative to the U.S. dollar, Nextel Brazil's results of operations will be adversely affected.

We continued to invest in Brazil throughout the first nine months of 2011 in order to develop and deploy our third generation network in Brazil and to improve the capacity and quality of Nextel Brazil's existing iDEN network. As a result, Nextel Brazil's capital expenditures represented 46% of consolidated total capital expenditures during the first nine months of 2011. We believe that the quality and capacity of Nextel Brazil's network, as well as its expanded coverage are contributing factors to its low customer turnover rate and increased subscriber growth.

In late 2010, Nextel Brazil participated in a series of spectrum auctions and was the successful bidder for 20 MHz of spectrum in 1.9/2.1 GHz spectrum bands in 11 of the 13 auction lots covering approximately 98% of the Brazilian population for \$714.4 million. Nextel Brazil also successfully bid on 20 MHz of spectrum in the

---

**Table of Contents**

1.8 GHz band in Rio de Janeiro for a total bid price of approximately \$121.7 million. Nextel Brazil plans to use the 1.9/2.1 GHz spectrum to support a third generation network that will utilize WCDMA technology and the 1.8 GHz spectrum to support its long-term strategy. The licenses relating to the spectrum won by Nextel Brazil in the auction were granted in June 2011. The development and deployment of a third generation network in Brazil using this spectrum will require us to make significant investments in capital expenditures. See Future Capital Needs and Resources Capital Expenditures for more information.

We believe that our planned deployment of a third generation network will enable us to offer new and differentiated services to a larger base of customers in Brazil. We expect to incur significant expenses associated with the deployment phase of this network, particularly general and administrative and selling and marketing expenses, but do not expect a corresponding increase in operating revenues during the deployment phase. As a result, we anticipate that Nextel Brazil's operating margins will be lower during the network deployment phase, particularly during the initial stages of deployment.

The average value of the Brazilian real for the nine and three months ended September 30, 2011 appreciated relative to the U.S. dollar by 8% and 6%, respectively, compared to the average rate that prevailed during the nine and three months ended September 30, 2010. As a result, the components of Nextel Brazil's results of operations for the nine and three months ended September 30, 2011, after translation into U.S. dollars, reflect more significant increases in U.S. dollar revenues and expenses than would have occurred if the Brazilian real had not appreciated relative to the U.S. dollar.

Nextel Brazil's segment earnings increased \$263.5 million, or 47%, and \$35.6 million, or 17%, in the nine and three months ended September 30, 2011 compared to the same periods in 2010 as a result of the following:

1. Operating revenues

Significant factors contributing to the \$752.1 million, or 43%, and \$221.0 million, or 34%, increases in service and other revenues in the nine and three months ended September 30, 2011 compared to the same periods in 2010 included 30% and 28% increases in Nextel Brazil's average number of handsets in service, as well as increases in average revenues per subscriber, primarily resulting from the effect of the appreciation of the Brazilian real.

2. Cost of revenues

The \$168.9 million, or 28%, and \$52.2 million, or 24%, increases in cost of service in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are primarily due to increases of \$98.9 million, or 30%, and \$28.3 million, or 23%, in interconnect costs due to an increase in the size of our subscriber base, as well as an increase in interconnect minutes of use for calls that terminate on other carriers networks. Despite these increases, Nextel Brazil's cost of service as a percentage of its total operating revenues decreased from 33% and 31% in nine and three months ended September 30, 2010 to 29% in the same periods in 2011, primarily due to increases in less costly mobile-to-mobile minutes of use as a result of Nextel Brazil's implementation of rate plans that encouraged more in-network calling.

Increases in handset upgrades for existing subscribers and, to a lesser extent, increases in the number of handset sales to new subscribers were key factors that contributed to the \$59.3 million, or 45%, and \$16.5 million, or 36%, increases in cost of digital handset and accessory revenues in the nine and three months ended September 30, 2011 compared to the same periods in 2010.

3. Selling and marketing expenses

The \$66.7 million, or 34%, and \$44.1 million, or 61%, increases in selling and marketing expenses in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are principally a result of \$32.0 million, or 65%, and \$30.0 million, or 179%, increases in advertising expenses as a result of new advertising campaigns launched in an effort to address the competitive landscape in Brazil, as well as the launch of our new brand design during the third quarter of 2011.

**Table of Contents**

4. General and administrative expenses

Significant factors contributing to the \$207.1 million, or 57%, and \$71.9 million, or 51%, increases in general and administrative expenses in the nine and three months ended September 30, 2011 compared to the same periods in 2010 included:

\$87.0 million, or 51%, and \$25.6 million, or 37%, increases in other general corporate costs due to increases in revenue-based taxes and higher payroll and related expenses associated with an increase in general and administrative personnel;

\$64.7 million, or 182%, and \$28.8 million, or 249%, increases in bad debt expense related to Nextel Brazil's operating revenue growth and decreases in collection rates resulting from changes to its credit procedures that resulted in the addition of some customers whose credit histories were less established. The higher levels of bad debt expense reflect the impact of these changes and, relative to operating revenues, represent increases from historic levels. While Nextel Brazil has made further adjustments to its credit procedures that are designed to address some of the factors that led to the increased bad debt expense, we expect to see additional increases in bad debt expense in the short-term, and we do not expect future bad debt levels to return to those experienced in periods prior to 2011 in the near future; and

\$47.3 million, or 40%, and \$17.3 million, or 39%, increases in customer care and billing operations due to higher payroll and related expenses associated with increases in customer care personnel necessary to support a larger customer base in Brazil.

**Table of Contents***c. Nextel Mexico*

	September 30, 2011	% of Nextel Mexico's Operating Revenues	September 30, 2010 (dollars in thousands)	% of Nextel Mexico's Operating Revenues	Change from Previous Year	
					Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 1,667,113	96%	\$ 1,494,008	96%	\$ 173,105	12%
Digital handset and accessory revenues	65,402	4%	69,643	4%	(4,241)	(6)%
	1,732,515	100%	1,563,651	100%	168,864	11%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)						
Cost of service (exclusive of depreciation and amortization)	(338,431)	(20)%	(269,874)	(17)%	(68,557)	25%
Cost of digital handset and accessory sales	(331,532)	(19)%	(303,934)	(20)%	(27,598)	9%
	(669,963)	(39)%	(573,808)	(37)%	(96,155)	17%
Selling and marketing expenses	(217,072)	(12)%	(199,434)	(12)%	(17,638)	9%
General and administrative expenses	(255,014)	(15)%	(218,432)	(14)%	(36,582)	17%
Segment earnings	\$ 590,466	34%	\$ 571,977	37%	\$ 18,489	3%
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 553,921	96%	\$ 503,289	95%	\$ 50,632	10%
Digital handset and accessory revenues	23,280	4%	26,772	5%	(3,492)	(13)%
	577,201	100%	530,061	100%	47,140	9%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)						
Cost of service (exclusive of depreciation and amortization)	(110,494)	(19)%	(107,918)	(20)%	(2,576)	2%
Cost of digital handset and accessory sales	(120,737)	(21)%	(103,025)	(20)%	(17,712)	17%
	(231,231)	(40)%	(210,943)	(40)%	(20,288)	10%
Selling and marketing expenses	(74,260)	(13)%	(65,286)	(13)%	(8,974)	14%
General and administrative expenses	(84,854)	(15)%	(71,017)	(13)%	(13,837)	19%
Segment earnings	\$ 186,856	32%	\$ 182,815	34%	\$ 4,041	2%

Nextel Mexico comprised 34% of our consolidated operating revenues and generated a 34% segment earnings margin for the first nine months of 2011, which is lower than the 37% margin reported for the first nine months of 2010. This year-over-year decrease in Nextel Mexico's segment earnings margin is largely the result of an increase in Nextel Mexico's cost of service, which reflects increases in interconnect minutes of use, as well as the impact of the receipt of a one-time refund of excess fees paid for spectrum use in the second quarter of 2010 on Nextel Mexico's site and switch expenses.

As a result of the spectrum auctions that were completed in 2010, a subsidiary of Nextel Mexico was awarded a nationwide license for 30 MHz of spectrum in the 1.7 GHz and 2.1 GHz bands during the fourth quarter of 2010, which we acquired to develop and deploy a third generation network in Mexico that will enable



---

**Table of Contents**

us to offer new and differentiated services to a larger base of customers in Mexico. We began offering limited third generation services in certain cities in Mexico in 2011, and we expect to begin providing more widely available third generation service offerings in Mexico in mid-2012. Development of the third generation network and investments in improvements in the capacity and quality of Nextel Mexico's existing iDEN network resulted in capital expenditures of \$209.8 million for the first nine months of 2011, which represents 24% of our consolidated total capital expenditures, and which represents an increase when compared to the same period in 2010. Continued development and deployment of our third generation network in Mexico will require significant investments in capital expenditures in Mexico. See "Future Capital Needs and Resources" "Capital Expenditures" for more information.

We expect to incur significant expenses associated with the deployment of our third generation network, particularly general and administrative and selling and marketing expenses, but do not expect a corresponding increase in operating revenues during the deployment phase. As a result, we anticipate that our operating margins will be lower during the network deployment phase, particularly during the initial stages of deployment.

The average value of the Mexican peso appreciated relative to the U.S. dollar by 6% and 4% in the nine and three months ended September 30, 2011 as compared to the average rate that prevailed during the nine and three months ended September 30, 2010. As a result, the components of Nextel Mexico's results of operations for the nine and three months ended September 30, 2011 after translation into U.S. dollars reflect higher U.S. dollar-denominated revenues and expenses than would have occurred if it were not for the impact of the appreciation in the average value of the peso relative to the U.S. dollar. Late in the third quarter of 2011, the Mexican peso experienced significant depreciation in value compared to the U.S. dollar. While we have recently seen some improvement in the value of the Mexican peso relative to the U.S. dollar, the current foreign currency exchange rates reflect a substantial reduction in value of the peso from those experienced earlier this year. If the value of the Mexican peso remains at current levels or depreciates further relative to the U.S. dollar, Nextel Mexico's results of operations will be adversely affected.

Nextel Mexico's segment earnings increased 3% and 2% in the nine and three months ended September 30, 2011 compared to the same periods in 2010 as a result of the following:

1. Operating revenues

The \$173.1 million, or 12%, and \$50.6 million, or 10%, increases in service and other revenues in the nine and three months ended September 30, 2011 compared to the same periods in 2010 are primarily due to increases in the average number of digital handsets in service resulting from subscriber growth across Nextel Mexico's markets.

2. Cost of revenues

The \$68.6 million, or 25%, increase in cost of service in the nine months ended September 30, 2011 compared to the same period in 2010 is primarily the result of a one-time \$22.4 million refund of excess fees paid for spectrum use that Nextel Mexico received in the second quarter of 2010 and an increase in interconnect minutes of use and related call termination charges, partially offset by a reduction in mobile termination rates. The change in Nextel Mexico's cost of service in the three months ended September 30, 2011 compared to the same period in 2010 was not material.

The \$27.6 million, or 9%, increase in cost of digital handset and accessory revenues in the nine month period ended September 30, 2011 compared to the same period in 2010 is primarily the result of an increase in handset subsidies associated with promotions that use high-tier handset models to attract and retain customers.

The changes in Nextel Mexico's cost of digital handset and accessory revenues in the three months ended September 30, 2011 compared to the same period in 2010 were not material.

**Table of Contents**

## 3. General and administrative expenses

The \$36.6 million, or 17%, increase in general and administrative expenses in the nine months ended September 30, 2011 compared to the same period in 2010 is primarily the result of higher payroll and related expenses associated with an increase in general and administrative personnel. The change in Nextel Mexico's general and administrative expenses in the three months ended September 30, 2011 compared to the same period in 2010 was not material.

The changes in Nextel Mexico's selling and marketing expenses in the nine and three months ended September 30, 2011 compared to the same periods in 2010 were not material.

## d. Nextel Argentina

	September 30, 2011	% of Nextel Argentina's Operating Revenues	September 30, 2010 (dollars in thousands)	% of Nextel Argentina's Operating Revenues	Change from Previous Year	
					Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 439,640	92%	\$ 376,572	92%	\$ 63,068	17%
Digital handset and accessory revenues	39,056	8%	34,310	8%	4,746	14%
	478,696	100%	410,882	100%	67,814	17%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(138,696)	(29)%	(131,645)	(32)%	(7,051)	5%
Cost of digital handset and accessory sales	(65,044)	(14)%	(56,586)	(14)%	(8,458)	15%
	(203,740)	(43)%	(188,231)	(46)%	(15,509)	8%
Selling and marketing expenses	(45,867)	(9)%	(36,259)	(9)%	(9,608)	26%
General and administrative expenses	(101,915)	(21)%	(79,442)	(19)%	(22,473)	28%
Segment earnings	\$ 127,174	27%	\$ 106,950	26%	\$ 20,224	19%
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 153,365	92%	\$ 128,856	91%	\$ 24,509	19%
Digital handset and accessory revenues	13,768	8%	13,104	9%	664	5%
	167,133	100%	141,960	100%	25,173	18%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(47,108)	(28)%	(44,052)	(31)%	(3,056)	7%
Cost of digital handset and accessory sales	(23,950)	(15)%	(20,408)	(14)%	(3,542)	17%
	(71,058)	(43)%	(64,460)	(45)%	(6,598)	10%
Selling and marketing expenses	(19,461)	(12)%	(12,925)	(9)%	(6,536)	51%
General and administrative expenses	(35,714)	(21)%	(26,198)	(19)%	(9,516)	36%



Edgar Filing: NII HOLDINGS INC - Form 10-Q

Segment earnings	\$ 40,900	24%	\$ 38,377	27%	\$ 2,523	7%
------------------	-----------	-----	-----------	-----	----------	----

**Table of Contents**

Over the course of the last several years, the inflation rate in Argentina has risen significantly, and we expect that it may continue to remain elevated in future years. The higher inflation rate has affected costs that are incurred in Argentine pesos, including personnel costs in particular. If the higher inflation rates in Argentina continue, Nextel Argentina's results of operations may be adversely affected.

The average values of the Argentine peso for the nine and three months ended September 30, 2011 depreciated relative to the U.S. dollar by 5% and 6%, respectively, when compared to the same periods in 2010. As a result, the components of Nextel Argentina's results of operations for the nine and three months ended September 30, 2011 after translation into U.S. dollars reflect lower U.S. dollar-denominated revenues and expenses than would have occurred if the Argentine peso had not depreciated relative to the U.S. dollar.

Nextel Argentina's segment earnings increased 19% in the nine months ended September 30, 2011 compared to the same period in 2010 primarily due to a \$63.1 million, or 17%, increase in service and other revenues resulting from an increase in the average number of digital handsets in service, as well as an increase in average revenue per subscriber, partially offset by increased selling and marketing and general and administrative expenses related to an increase in salaries, a higher turnover tax rate and an increase in sales by internal market personnel, resulting in higher commissions expense.

**Table of Contents**

The changes in Nextel Argentina's segment earnings and its components in the three months ended September 30, 2011 compared to the same period in 2010 were not material.

*e. Nextel Peru*

	September 30, 2011	% of Nextel Peru's Operating Revenues	September 30, 2010 (dollars in thousands)	% of Nextel Peru's Operating Revenues	Change from Previous Year	
					Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 239,487	91%	\$ 206,198	90%	\$ 33,289	16%
Digital handset and accessory revenues	24,584	9%	22,006	10%	2,578	12%
	264,071	100%	228,204	100%	35,867	16%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)						
	(80,165)	(30)%	(74,512)	(32)%	(5,653)	8%
Cost of digital handset and accessory sales	(55,404)	(21)%	(44,988)	(20)%	(10,416)	23%
	(135,569)	(51)%	(119,500)	(52)%	(16,069)	13%
Selling and marketing expenses	(46,806)	(18)%	(37,258)	(17)%	(9,548)	26%
General and administrative expenses	(55,297)	(21)%	(50,840)	(22)%	(4,457)	9%
Segment earnings	\$ 26,399	10%	\$ 20,606	9%	\$ 5,793	28%
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 82,282	91%	\$ 71,696	91%	\$ 10,586	15%
Digital handset and accessory revenues	7,962	9%	7,311	9%	651	9%
	90,244	100%	79,007	100%	11,237	14%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)						
	(27,807)	(31)%	(24,423)	(31)%	(3,384)	14%
Cost of digital handset and accessory sales	(16,892)	(19)%	(15,199)	(19)%	(1,693)	11%
	(44,699)	(50)%	(39,622)	(50)%	(5,077)	13%
Selling and marketing expenses	(15,433)	(17)%	(12,351)	(16)%	(3,082)	25%
General and administrative expenses	(18,766)	(20)%	(16,670)	(21)%	(2,096)	13%
Segment earnings	\$ 11,346	13%	\$ 10,364	13%	\$ 982	9%

In December 2009, we launched a third generation network in Peru using 1.9 GHz spectrum we acquired in 2007. We commercially launched high performance push-to-talk services on this third generation network in September 2011 following the earlier launch of data and voice services, and we will continue to develop and deploy transmitter and receiver sites in conjunction with the build-out of this network. We expect to continue to incur incremental expenses as we launch services in more markets and incorporate additional services and broader handset offerings in existing markets in Peru; however, we do not expect a corresponding increase in operating revenues during this initial deployment phase. We believe that this third generation network will enable us to offer new and differentiated services to a larger base of potential customers

in Peru.

**Table of Contents**

Because the U.S. dollar is Nextel Peru's functional currency, results of operations are not significantly impacted by changes in the U.S. dollar to Peruvian sol exchange rate.

Segment earnings increased 28% in the nine months ended September 30, 2011 compared to the same period in 2010, primarily due to a \$33.3 million, or 16%, increase in service and other revenues largely attributable to a 34% increase in average digital subscribers, partially offset by a decrease in average revenues per subscriber, which is attributable, in part, to an increase in the number of subscribers purchasing prepaid service plans, which generally produce lower monthly recurring revenues. The increase in Nextel Peru's service and other revenues was partially offset by a slight increase in cost of digital handset and accessory sales, and selling and marketing expenses. The changes in Nextel Peru's segment earnings and its components for the three months ended September 30, 2011 compared to the same period in 2010 were not material.

*f. Corporate and other*

	September 30, 2011	% of Corporate and other Operating Revenues	September 30, 2010 (dollars in thousands)	% of Corporate and other Operating Revenues	Change from Previous	
					Dollars	Percent
<b>Nine Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 22,553	100%	\$ 16,998	99%	\$ 5,555	33%
Digital handset and accessory revenues	90		86	1%	4	5%
	22,643	100%	17,084	100%	5,559	33%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(24,954)	(110)%	(9,525)	(56)%	(15,429)	162%
Cost of digital handset and accessory sales	(3,245)	(15)%	(3,953)	(23)%	708	(18)%
	(28,199)	(125)%	(13,478)	(79)%	(14,721)	109%
Selling and marketing expenses	(44,872)	(198)%	(16,234)	(95)%	(28,638)	176%
General and administrative expenses	(244,285)	NM	(200,210)	NM	(44,075)	22%
Segment losses	\$ (294,713)	NM	\$ (212,838)	NM	\$ (81,875)	38%
<b>Three Months Ended</b>						
Operating revenues						
Service and other revenues	\$ 7,734	100%	\$ 6,651	100%	\$ 1,083	16%
Digital handset and accessory revenues	36		26		10	38%
	7,770	100%	6,677	100%	1,093	16%
Cost of revenues						
Cost of service (exclusive of depreciation and amortization)	(9,799)	(126)%	(3,362)	(50)%	(6,437)	191%
Cost of digital handset and accessory sales	(872)	(11)%	(1,937)	(29)%	1,065	(55)%
	(10,671)	(137)%	(5,299)	(79)%	(5,372)	101%
Selling and marketing expenses	(28,717)	NM	(6,614)	(99)%	(22,103)	NM
General and administrative expenses	(79,371)	NM	(78,796)	NM	(575)	1%
Segment losses	\$ (110,989)	NM	\$ (84,032)	NM	\$ (26,957)	32%

*NM-Not Meaningful*

---

## **Table of Contents**

For the nine and three months ended September 30, 2011 and 2010, corporate and other operating revenues and cost of revenues primarily represent the results of operations reported by Nextel Chile. We are deploying a third generation network in Chile, which we believe will enable us to offer new and differentiated services to a larger base of potential customers. Deployment and expansion of this network in Chile resulted in capital expenditures totaling \$54.7 million for the nine months ended September 30, 2011, which represented 6% of our consolidated total capital expenditures for the first nine months of 2011. Deployment of our third generation network and other planned network expansions in Chile will require significant investments in capital expenditures over the next several years.

Segment losses increased in the nine and three months ended September 30, 2011 compared to the same periods in 2010 primarily due to following:

\$28.6 million and \$22.1 million increases in selling and marketing expenses largely related to the launch of our new brand design in September 2011; and

a \$44.1 million, or 22%, increase in general and administrative expenses in the nine months ended September 30, 2011 compared to the same period in 2010, largely due to increases in consulting expenses and, to a lesser extent, increases in corporate information technology costs, both of which are largely related to the planned launch of third generation networks and supporting systems in our markets, as well as other technology-related initiatives. We expect that corporate general and administrative expenses will continue to increase along with other operating expenses as we progress with the expansion plans and new technology initiatives in some of our markets.

### **Liquidity and Capital Resources**

We derive our liquidity and capital resources primarily from cash we raise in connection with external financings and cash flows from our operations. As of September 30, 2011, we had working capital, which is defined as total current assets less total current liabilities, of \$1,702.5 million, a \$465.4 million decrease compared to working capital of \$2,167.9 million as of December 31, 2010. The decrease in working capital was primarily a result of the reclassification of \$888.3 million of our 3.125% convertible notes, which will mature in June 2012, as a current portion of long-term debt, partially offset by about \$735.6 million in net proceeds received from the issuance of our 7.625% senior notes in March 2011. As of September 30, 2011, our working capital includes \$2,230.0 million in cash and cash equivalents, of which \$190.7 million was held in currencies other than U.S. dollars, with 76% of that amount held in Mexican pesos. As of September 30, 2011, our working capital also includes \$406.5 million in short-term investments, the majority of which was held in U.S. dollars. A substantial portion of our cash, cash equivalents and short-term U.S. dollar investments are held in money market funds and U.S. treasury securities, and our cash, cash equivalents and short-term investments held in local currencies are typically maintained in a combination of money market funds, highly liquid overnight securities and fixed income investments. The values of our cash, cash equivalents and short-term investments that are held in the local currencies of the countries in which we do business will fluctuate in U.S. dollars based on changes in the exchange rates of these local currencies relative to the U.S. dollar.

We recognized net income of \$207.5 million for the nine months ended September 30, 2011 and a net loss of \$2.8 million for the third quarter of 2011, compared to \$242.5 million and \$118.5 million for the nine and three months ended September 30, 2010. During the nine and three months ended September 30, 2011 and 2010, our operating revenues more than offset our operating expenses, excluding depreciation and amortization, and cash capital expenditures.

**Table of Contents**

In March 2011, we issued senior notes with \$750.0 million aggregate principal amount due at maturity that bear interest at a rate of 7.625% per year, which is payable semi-annually in arrears on April 1 and October 1, beginning on October 1, 2011. The notes will mature on April 1, 2021 when the entire principal amount will be due.

In June 2011, Nextel Brazil was granted spectrum licenses in the 1.8 GHz and 1.9/2.1 GHz spectrum bands in connection with its successful bids in the spectrum auction held in December 2010. The total purchase price of this spectrum was the equivalent of \$910.5 million. Nextel Brazil paid 10% of the purchase price upon the grant of the license and financed the remaining amount through deferred payment terms made available by the Brazilian telecommunications regulator as part of the auction terms. The amount borrowed under the spectrum license financing is payable in six annual installments beginning in May 2014. Beginning June 1, 2011, interest accrues on the spectrum license financing at a rate of 1% per month. Interest is not required to be paid until May 2014. Beginning December 9, 2011 and annually thereafter, the payments will be adjusted for the Brazilian telecommunications industry inflation index.

In July 2011, Nextel Mexico entered into a U.S. dollar-denominated loan agreement with the China Development Bank, under which Nextel Mexico will receive up to \$375.0 million to finance infrastructure equipment and assist in the deployment of its third generation network in Mexico. This equipment financing has a final maturity of ten years, with a three-year borrowing period and a seven-year repayment term commencing in 2014. To date, we have not borrowed any amounts under this facility.

We expect our current sources of funding, including our cash, cash equivalent and investment balances, our new equipment financing facility in Mexico, committed financings and other anticipated future cash flows from our operations will together be sufficient to meet our funding needs to support our current business, our planned deployment of third generation networks in Brazil, Mexico, Peru and Chile and the repayment of our outstanding borrowings at their scheduled maturities. Nonetheless, we plan to continue to evaluate funding opportunities and, if appropriate, access the credit and capital markets in order to reduce our capital costs, optimize our capital structure, and maintain or enhance our liquidity position. To meet these goals, we expect to pursue various financing alternatives, including U.S. capital market transactions, as well as locally-based vendor and bank financing opportunities. We would need to obtain additional funding beyond our current sources to fund the deployment of a third generation network in Argentina if we are able to acquire spectrum licenses there.

**Cash Flows**

	Nine Months Ended September 30,		
	2011	2010 (in thousands)	Change
Cash and cash equivalents, beginning of period	\$ 1,767,501	\$ 2,504,064	\$ (736,563)
Net cash provided by operating activities	849,736	750,677	99,059
Net cash used in investing activities	(630,996)	(1,135,092)	504,096
Net cash provided by (used in) financing activities	274,496	(463,232)	737,728
Effect of exchange rate changes on cash and cash equivalents	(30,735)	9,660	(40,395)
Cash and cash equivalents, end of period	\$ 2,230,002	\$ 1,666,077	\$ 563,925

As discussed above, one of the primary sources of our liquidity is our ability to generate positive cash flows from operations. The following is a discussion of the primary sources and uses of cash in our operating, investing and financing activities:

Our operating activities provided us with \$849.7 million of cash during the first nine months of 2011, a \$99.1 million, or 13%, increase from the first nine months of 2010, primarily due to higher operating income resulting from our profitable growth strategy.



---

## **Table of Contents**

We used \$631.0 million of cash in our investing activities during the first nine months of 2011, primarily due to \$732.8 million in cash capital expenditures as described below and \$99.9 million in payments for the purchase of licenses, the majority of which was related to the spectrum licenses Nextel Brazil was granted in June 2011, partially offset by \$115.0 million in net proceeds received from maturities of our short-term investments in Brazil and at the corporate level, resulting from a reduction in our overall level of investments, and the return of \$77.2 million in cash that secured performance bonds related to our spectrum acquisition in Chile.

We used \$1,135.1 million of cash in our investing activities during the first nine months of 2010, primarily due to \$571.5 million in net purchases of short- and long-term investments in both Brazil and at the corporate level and \$506.4 million in cash capital expenditures as described below.

Our financing activities provided us with \$274.5 million of cash during the first nine months of 2011, primarily due to \$750.0 million in gross proceeds that we received from the issuance of our 7.625% senior notes, partially offset by the purchase of \$211.7 million face amount of our 3.125% convertible notes, the repayment of \$235.7 million under our syndicated loan facilities in Mexico, Brazil and Peru and debt financing costs related to our 7.625% senior notes. We used \$463.2 million of cash in our financing activities during the nine months ended September 30, 2010, primarily due to \$443.0 million in purchases of our 3.125% convertible notes and our 2.75% convertible notes, as well as repayments of our short-term borrowings in Brazil, partially offset by \$80.0 million in borrowings under Nextel Peru's syndicated loan facility and borrowings under our short-term financings in Brazil.

### **Future Capital Needs and Resources**

Our business strategy contemplates the deployment of new third generation networks and the ongoing expansion of the capacity of our iDEN networks. Consistent with this strategy, we have: commercially launched services using a WCDMA-based third generation network in Peru, including the development and launch of high performance push-to-talk services on that network, and taken steps to deploy new third generation networks in Brazil, Mexico and Chile, with plans to begin offering third generation services in all three of these markets in 2012. We have also substantially expanded the coverage of our iDEN network, particularly in Brazil. We expect our capital expenditures will increase significantly in the remainder of 2011, and in 2012 and 2013 as we invest in the deployment of our third generation networks.

**Capital Resources.** Our ongoing capital resources depend on a variety of factors, including our existing cash, cash equivalents and investment balances, our new equipment financing agreement in Mexico, committed financings, cash flows generated by our operating companies and external financial sources that may be available. Our ongoing capital resources may also be affected by the availability of funding from external sources, including the availability of funding from the U.S. capital markets and from local vendor and bank financing or similar arrangements.

Our ability to generate sufficient net cash from our operating activities is dependent upon, among other things:

the amount of revenue we are able to generate and collect from our customers;

the amount of operating expenses required to provide our services;

the cost of acquiring and retaining customers, including the subsidies we incur to provide handsets to both our new and existing customers;

our ability to continue to increase the size of our subscriber base; and

changes in foreign currency exchange rates.

**Capital Needs and Contractual Obligations.** We currently anticipate that our future capital needs will principally consist of funds required for:

operating expenses relating to our networks;

---

**Table of Contents**

capital expenditures to expand and enhance our networks, as discussed below under Capital Expenditures;

operating expenses and capital expenditures related to the deployment of third generation networks in Brazil, Mexico, Peru and Chile and, if we are successful in acquiring spectrum, in Argentina;

payments in connection with existing and future spectrum purchases, including ongoing fees for spectrum use;

debt service requirements, including significant upcoming maturities on obligations such as our convertible notes that are due in 2012, as well as obligations relating to our tower financings and capital leases;

cash taxes; and

other general corporate expenditures.

In making assessments regarding our future capital needs and the capital resources available to meet those needs, we do not consider events that have not occurred like success in any particular auction and the costs of acquiring that spectrum or the costs of the related network deployment, other than in Brazil, Mexico, Peru and Chile, and we do not assume the availability of external sources of funding that may be available for these future events, including vendor financing or other available financing.

Other than the purchase of our 3.125% convertible notes, Nextel Brazil's spectrum license financing and the issuance of our 7.625% senior notes described above in the discussion of our capital resources, during the nine months ended September 30, 2011, there were no material changes to our contractual obligations as described in our annual report on Form 10-K for the year ended December 31, 2010.

**Capital Expenditures.** Our capital expenditures, including capitalized interest, were \$858.2 million for the nine months ended September 30, 2011 and \$541.0 million for the nine months ended September 30, 2010. In both years, a substantial portion of our capital expenditures was invested in the expansion of the coverage and improvement of the quality and capacity of our iDEN networks in Brazil and Mexico, as well as for the deployment of our third generation networks in Peru (primarily in 2010) and in Brazil, Mexico and Chile (primarily in 2011).

Our business strategy contemplates the deployment of new third generation networks, as well as the ongoing expansion of the capacity and enhancement of the quality of our iDEN networks. Consistent with this strategy, we have deployed and launched services using a WCDMA-based third generation network in Peru and are in the process of deploying similar networks in Chile, Brazil and Mexico. In addition, we plan to participate in the spectrum auction that is expected to be conducted in Argentina, and if we are successful in acquiring spectrum in that auction, we plan to deploy a third generation network there consistent with applicable regulatory requirements and our business strategy. We have also made, and will continue to make, substantial capital investments in our iDEN networks in all of our markets. The purchase of spectrum and deployment of new third generation networks across our markets, as well as our expansion of the capacity and enhancement of the quality of our iDEN networks, will result in a significant increase in our capital expenditures throughout the remainder of 2011, and in 2012 and 2013, with the amount and timing of those additional capital expenditures dependent on, among other things, our business plans, the payment rules associated with the spectrum and the nature and extent of any regulatory requirements that may be imposed regarding the timing and scope of the deployment of the new networks.

We expect to finance our capital spending for our existing and future network needs using the most effective combination of cash from operations, cash on hand, cash from the sale or maturity of our short- and long-term investments, borrowings under vendor financing facilities, including our equipment financing facility in Mexico and proceeds from external financing sources that are or may become available. We may also consider entering into strategic relationships with third parties that will provide additional funding to support our business plans. Our capital spending is expected to be driven by several factors, including:

the amount we spend to deploy the third generation networks in Brazil, Mexico, Peru and Chile;

the extent to which we expand the coverage of our networks in new or existing market areas;

**Table of Contents**

the number of additional transmitter and receiver sites we build in order to increase system capacity and maintain system quality and the costs associated with the installation of related switching equipment in some of our existing market areas;

the extent to which we must add capacity to our networks to meet the demand of our growing customer base;

the costs we incur in connection with future spectrum acquisitions and the development and deployment of any third generation networks in Argentina; and

the costs we incur in connection with non-network related information technology projects.

Our future capital expenditures may also be affected by future technology improvements and technology choices.

***Future Outlook.*** Our long-term business strategy contemplates the deployment of new third generation networks in Brazil, Mexico, Peru and Chile and the ongoing expansion of the capacity of our iDEN networks. We expect our capital expenditures will increase materially during the remainder of 2011, and in 2012 and 2013 as we invest in these networks. We expect our current cash, cash equivalents and investment balances, financing available under existing vendor financing facilities, including our equipment financing facility in Mexico, committed financings and other anticipated future cash flows will together be sufficient to meet our funding needs to support our current business, our planned deployment of third generation networks in Brazil, Mexico, Peru and Chile and the repayment of our outstanding borrowings at their scheduled maturities. However, we would need to obtain additional funding beyond our current sources to fund the deployment of a third generation network in Argentina if we are able to acquire spectrum licenses there.

The timing and amount of our future funding needs will also be affected by the need to repay or refinance our existing indebtedness, including the remaining \$888.3 million principal amount of our 3.125% convertible notes that mature in June 2012 and the \$223.3 million currently outstanding under our syndicated loan facilities, most of which is due in the next three years.

We are evaluating and pursuing various financing alternatives, including U.S. capital market transactions, as well as locally-based vendor and bank financing opportunities, that can be used to reduce our capital costs, optimize our capital structure, and maintain or enhance our liquidity position. We expect to continue to raise additional funding using one or more of these alternatives. Any indebtedness that we may incur during the remainder of 2011 and in subsequent years may be significant.

In making this assessment of our funding needs under our current business plans, we have considered:

cash and cash equivalents on hand and short- and long-term investments available to fund our operations;

expected cash flows from operations;

the cost and timing of spectrum payments, including ongoing fees for spectrum use;

the anticipated level of capital expenditures required to meet both minimum build-out requirements and our business plans for our planned deployment of third generation networks in Brazil, Mexico and Chile;

our assumption that there will not be significant fluctuations in values of the currencies in the countries in which we conduct business relative to the U.S. dollar;

our scheduled debt service, which includes significant maturities in the next several years; and

income taxes.

## **Table of Contents**

In addition to the factors described above, the anticipated cash needs of our business, as well as the conclusions presented herein as to the adequacy of the available sources of cash, could change significantly:

if our plans change;

if we decide to expand into new markets or expand our geographic coverage or network capacity in our existing markets beyond our current plans, as a result of the construction of additional portions of our networks or the acquisition of competitors or others;

if currency values in our markets depreciate relative to the U.S. dollar in a manner that is materially contrary to our expectations;

if economic conditions in any of our markets change;

if competitive practices in the mobile wireless telecommunications industry in certain of our markets change materially from those currently prevailing or from those now anticipated; or

if other presently unexpected circumstances arise that have a material effect on the cash flow or profitability of our business.

Any of these events or circumstances could result in significant funding needs beyond those contemplated by our current plans as described above, and could require us to raise even more capital than currently anticipated to meet those needs. Our ability to seek additional capital is subject to a variety of additional factors that we cannot presently predict with certainty, including:

the commercial success of our operations;

the volatility and demand of the capital markets; and

the future market prices of our securities.

Market conditions in debt and equity markets in the United States and global markets during 2008 and part of 2009 resulted in a substantial decline in the amount of funding available to corporate borrowers compared to prior periods as the global economic downturn affected both the availability and terms of financing. During the third quarter of 2011, there was a softening of global economic conditions, and markets also reflected an increase in volatility that we expect will continue for the remainder of the year. We anticipate that the conditions and related volatility in the capital markets could result in declines in the availability of funding similar to those experienced in 2008 and 2009, which could make it more difficult or more costly for us to raise additional capital in order to meet our future capital needs, and the related additional costs and terms of any financing we raise could impose restrictions that limit our flexibility in responding to business conditions and our ability to obtain additional financing. If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify. For more information, see Item 1A. Risk Factors included in our annual report on Form 10-K.

## **Effect of New Accounting Standards**

There were no new accounting standards issued during the nine months ended September 30, 2011 that materially impacted our condensed consolidated financial statements.

## **Forward-Looking Statements**

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

We include certain estimates, projections and other forward-looking statements in our annual, quarterly and current reports, as well as in other publicly available material. Statements regarding expectations, including forecasts regarding operating results and performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements.

These statements reflect management's judgments based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, management has made assumptions regarding, among other things, customer and network usage, customer growth and retention, pricing, operating costs, the timing of various events, the economic and regulatory environment and the foreign currency exchange rates of currencies in the countries in which our operating companies conduct business relative to the U.S. dollar.



**Table of Contents**

Future performance cannot be assured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause actual results to differ include:

our ability to attract and retain customers;

our ability to meet the operating goals established by our business plan;

general economic conditions in the United States or in Latin America and in the market segments that we are targeting for our services, including the impact of the current uncertainties in global economic conditions;

the political and social conditions in the countries in which we operate, including political instability, which may affect the economies of our markets and the regulatory schemes in these countries;

the impact of foreign currency exchange rate volatility in our markets when compared to the U.S. dollar and related currency depreciation in countries in which our operating companies conduct business;

our ability to access sufficient debt or equity capital to meet any future operating and financial needs;

reasonable access to and the successful performance of the technology being deployed in our service areas, and improvements thereon, including technology deployed in connection with the introduction of digital two-way mobile data or Internet connectivity services in our markets;

the availability of adequate quantities of system infrastructure and subscriber equipment and components at reasonable pricing to meet our service deployment and marketing plans and customer demand;

Motorola's ability and willingness to provide handsets and related equipment and software applications or to develop new technologies or features for us for use on our iDEN network, including the timely development and availability of new handsets with expanded applications and features;

the risk of deploying new third generation networks, including the potential need for additional funding to support that deployment, the risk that new services supported by the new networks will not attract enough subscribers to support the related costs of deploying or operating the new networks, the need to significantly increase our employee base and the potential distraction of management;

our ability to successfully scale our billing, collection, customer care and similar back-office operations to keep pace with customer growth, increased system usage rates and growth or to successfully deploy new systems that support those functions;

the success of efforts to improve and satisfactorily address any issues relating to our network performance;

## Edgar Filing: NII HOLDINGS INC - Form 10-Q

future legislation or regulatory actions relating to our SMR services, other wireless communications services or telecommunications generally and the costs and/or potential customer impacts of compliance with regulatory mandates;

the ability to achieve and maintain market penetration and average subscriber revenue levels sufficient to provide financial viability to our network business;

the quality and price of similar or comparable wireless communications services offered or to be offered by our competitors, including providers of cellular services and personal communications services;

market acceptance of our new service offerings;

equipment failure, natural disasters, terrorist acts or other breaches of network or information technology security; and

other risks and uncertainties described in this annual report on Form 10-K, including in Part I, Item 1A. Risk Factors, and in our other reports filed with the Securities and Exchange Commission, or the SEC.

The words may, could, estimate, project, forecast, intend, expect, believe, target, plan, providing guidance and similar expressions are used to identify forward-looking statements. Forward-looking statements are found throughout this Management's Discussion and Analysis of Financial Condition and

---

## **Table of Contents**

Results of Operations and elsewhere in this report. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Except as otherwise provided by law, we are not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report, including unforeseen events.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

In March 2011, we issued U.S. dollar-denominated fixed rate senior notes with \$750.0 million aggregate principal amount due at maturity that bear interest at a rate of 7.625% per year, which is payable semi-annually in arrears on April 1 and October 1, beginning on October 1, 2011. The notes will mature on April 1, 2021 when the entire principal amount will be due.

In June 2011, Nextel Brazil was granted spectrum licenses in the 1.8 GHz and 1.9/2.1 GHz spectrum bands in connection with its successful bids in the spectrum auction held in December 2010. The total purchase price of this spectrum was the equivalent of \$910.5 million. Nextel Brazil paid 10% of the purchase price upon the grant of the license and financed the remaining amount through deferred payment terms made available by the Brazilian telecommunications regulator as part of the auction terms. The amount borrowed under the spectrum license financing is payable in six annual installments beginning in May 2014. Beginning June 1, 2011, interest accrues on the spectrum license financing at a rate of 1% per month. Interest is not required to be paid until May 2014. Beginning December 9, 2011 and annually thereafter, the payments will be adjusted for the Brazilian telecommunications industry inflation index. Because the spectrum license financing is denominated in Brazilian reais, the payments for principal and interest will fluctuate in U.S. dollars based on changes in the exchange rate of the Brazilian real relative to the U.S. dollar.

In addition, in August and September 2011, we purchased \$211.7 million face amount of our 3.125% convertible notes through a combination of open market purchases and private transactions for an aggregate purchase price of \$213.0 million, plus accrued interest.

Other than the purchase of our 3.125% convertible notes, Nextel Brazil's spectrum license financing and the issuance of our 7.625% senior notes, during the nine months ended September 30, 2011, there were no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our annual report on Form 10-K for the year ended December 31, 2010.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the SEC and that such information is accumulated and communicated to the Company's management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

As of September 30, 2011, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out under the supervision and with the participation of our management teams in the United States and in our operating companies, including our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures were not effective due to a material weakness in the Company's internal controls over financial reporting. The material weakness we identified, which is more fully described in Item 9A. Controls and Procedures of our annual report on Form 10-K for the year ended December 31, 2010, related to the failure of the controls in our Brazil operating

**Table of Contents**

segment over the communication and incorporation of changes in Brazilian value-added tax laws into our reporting procedures. The underlying factors contributing to the control failure related to insufficient staffing, documentation and training, and underinvestment in systems, resulting in inappropriate reliance on manual procedures. The remediation plan that we have developed and are following addresses both the specific areas of the financial close process related to the errors that were identified in 2010, as well as the underlying factors contributing to the errors.

***Changes in Internal Control over Financial Reporting***

During the third quarter of 2011, management continued to make progress with regard to its remediation of the material weakness in our Brazil operating segment discussed in more detail above and in our quarterly report on Form 10-Q for the three months ended September 30, 2010. We have redesigned the areas of the financial close process related to the error identified in 2010, significantly increased our staffing levels, finalized documentation related to roles and responsibilities during the close process and provided training to facilitate our compliance with the ongoing and new procedures. We continue to develop and plan the implementation of system improvements that are expected to reduce our reliance on manual procedures. Because these system improvements are expected to be implemented early in 2012, we have also designed and implemented key controls, including additional validations and reviews performed on a monthly basis, to ensure the accuracy of our financial information until that time. We are currently testing these controls, and we plan to continue testing throughout the fourth quarter of 2011 and during our year-end financial close process. Based on the results of this testing, we will make a determination at year-end regarding the effectiveness of our remediation of the material weakness. Other than as noted above, there have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

We are subject to claims and legal actions that may arise in the ordinary course of business. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.

For information on our various loss contingencies, see Note 5 to our condensed consolidated financial statements above.

**Item 1A. Risk Factors.**

There have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K dated February 24, 2011.

**Item 6. Exhibits.****Exhibit**

<b>Number</b>	<b>Exhibit Description</b>
10.1*	Fourth Amended and Restated Trademark License Agreement, dated July 27, 2011, between Nextel Communications, Inc. and NII Holdings, Inc.
12.1*	Ratio of Earnings to Fixed Charges.
31.1*	Statement of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	Statement of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1*	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2*	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101*	The following materials from the NII Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

\* Submitted electronically herewith.

**Table of Contents**

**SIGNATURE**

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.

By: /s/ TERESA S. GENDRON  
Teresa S. Gendron  
Vice President and Controller

(on behalf of the registrant and as  
chief accounting officer)

Date: November 7, 2011

---

**Table of Contents****EXHIBIT INDEX****Exhibit**

<b>Number</b>	<b>Exhibit Description</b>
10.1*	Fourth Amended and Restated Trademark License Agreement, dated July 27, 2011, between Nextel Communications, Inc. and NII Holdings, Inc.
12.1*	Ratio of Earnings to Fixed Charges.
31.1*	Statement of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	Statement of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1*	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2*	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101*	The following materials from the NII Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

\* Submitted electronically herewith.