NII HOLDINGS INC
Form 10-Q
May 06, 2009

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2009**
**OR**
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 0-32421**

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

| **Delaware** | **91-1671412** |
|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |
| **1875 Explorer Street, Suite 1000 Reston, Virginia** | **20190** |
| *(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 þ No o

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 o No o

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 þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

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

| Title of Class | Number of Shares Outstanding on May 1, 2009 |
|---|---|
| Common Stock, $0.001 par value per share | 165,782,002 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**INDEX**


| | | Page |
|---|---|---|
| **Part I. Financial Information.** | | |
| Item 1. | Financial Statements (Unaudited) | |
| | Condensed Consolidated Balance Sheets As of March 31, 2009 and December 31, 2008 | 2 |
| | Condensed Consolidated Statements of Operations and Comprehensive Income For the Three Months Ended March 31, 2009 and 2008 | 3 |
| | Condensed Consolidated Statement of Changes in Stockholders Equity For the Three Months Ended March 31, 2009 | 4 |
| | Condensed Consolidated Statements of Cash Flows For the Three Months Ended March 31, 2009 and 2008 | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 19 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 46 |
| Item 4. | Controls and Procedures | 47 |
| **Part II. Other Information.** | | |
| Item 1. | Legal Proceedings | 48 |
| Item 1A. | Risk Factors | 48 |
| Item 6. | Exhibits | 48 |

## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

### NII HOLDINGS, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS
**(in thousands, except par values)**
**Unaudited**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 1,156,451 | $ 1,243,251 |
| Short-term investments | 21,881 | 82,002 |
| Accounts receivable, less allowance for doubtful accounts of $34,255 and $27,875 | 468,802 | 454,769 |
| Handset and accessory inventory | 138,327 | 139,285 |
| Deferred income taxes, net | 132,128 | 138,610 |
| Prepaid expenses and other | 176,642 | 130,705 |
| Total current assets | 2,094,231 | 2,188,622 |
| **Property, plant and equipment, net** | 1,931,976 | 1,892,113 |
| **Intangible assets, net** | 300,610 | 317,878 |
| **Deferred income taxes, net** | 423,885 | 429,363 |
| **Other assets** | 324,290 | 265,440 |
| Total assets | $ 5,074,992 | $ 5,093,416 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | $ 147,850 | $ 136,442 |
| Accrued expenses and other | 399,490 | 446,270 |
| Deferred revenues | 114,050 | 116,267 |
| Accrued interest | 16,953 | 13,166 |
| Current portion of long-term debt | 132,030 | 99,054 |
| Total current liabilities | 810,373 | 811,199 |
| **Long-term debt** | 2,018,312 | 2,034,086 |
| **Deferred revenues** | 28,841 | 29,616 |
| **Deferred credits** | 131,511 | 147,743 |
| **Other long-term liabilities** | 165,061 | 158,652 |

| | | |
|---|---|---|
| Total liabilities | 3,154,098 | 3,181,296 |
| | | |
| **Commitments and contingencies (Note 6)** | | |
| **Stockholders equity** | | |
| Undesignated preferred stock, par value $0.001, 10,000 shares authorized 2009 and 2008, no shares issued or outstanding 2009 and 2008 | | |
| Common stock, par value $0.001, 600,000 shares authorized 2009 and 2008, 165,782 shares issued and outstanding 2009 and 2008 | 166 | 166 |
| Paid-in capital | 1,176,848 | 1,158,922 |
| Retained earnings | 1,364,045 | 1,293,407 |
| Accumulated other comprehensive loss | (620,165) | (540,375) |
| | | |
| Total stockholders equity | 1,920,894 | 1,912,120 |
| | | |
| Total liabilities and stockholders equity | $ 5,074,992 | $ 5,093,416 |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
**(in thousands, except per share amounts)**
**Unaudited**

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| **Operating revenues** | | |
| Service and other revenues | $ 910,307 | $ 947,750 |
| Digital handset and accessory revenues | 51,007 | 45,467 |
| | 961,314 | 993,217 |
| **Operating expenses** | | |
| Cost of service (exclusive of depreciation and amortization included below) | 255,899 | 258,509 |
| Cost of digital handsets and accessories | 145,249 | 134,689 |
| Selling, general and administrative | 315,026 | 314,069 |
| Depreciation | 86,352 | 86,347 |
| Amortization | 6,544 | 7,938 |
| | 809,070 | 801,552 |
| **Operating income** | 152,244 | 191,665 |
| **Other income (expense)** | | |
| Interest expense, net | (44,596) | (51,954) |
| Interest income | 12,653 | 18,940 |
| Foreign currency transaction (losses) gains, net | (7,314) | 2,905 |
| Other expense, net | (1,642) | (4,529) |
| | (40,899) | (34,638) |
| **Income before income tax provision** | 111,345 | 157,027 |
| **Income tax provision** | (40,707) | (50,192) |
| **Net income** | $ 70,638 | $ 106,835 |
| **Net income, per common share, basic** | $ 0.43 | $ 0.63 |
| **Net income, per common share, diluted** | $ 0.43 | $ 0.62 |
| **Weighted average number of common shares outstanding, basic** | 165,782 | 169,351 |
| **Weighted average number of common shares outstanding, diluted** | 166,043 | 177,970 |

| **Comprehensive (loss) income, net of income taxes** | | |
|---|---|---|
| Foreign currency translation adjustment | $ (80,156) | $ 36,599 |
| Reclassification for gains on derivatives included in other expense, net | (115) | (6) |
| Unrealized gains on derivatives, net | 481 | 97 |
| Other comprehensive (loss) income | (79,790) | 36,690 |
| Net income | 70,638 | 106,835 |
| Total comprehensive (loss) income | $ (9,152) | $ 143,525 |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**
**For the Three Months Ended March 31, 2009**
**(in thousands)**
**Unaudited**

| | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2009** | 165,782 | $ 166 | $ 1,158,922 | $ 1,293,407 | $ (540,375) | $ 1,912,120 |
| Net income | | | | 70,638 | | 70,638 |
| Other comprehensive loss | | | | | (79,790) | (79,790) |
| Share-based payment expense for equity-based awards | | | 17,926 | | | 17,926 |
| **Balance, March 31, 2009** | 165,782 | $ 166 | $ 1,176,848 | $ 1,364,045 | $ (620,165) | $ 1,920,894 |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Three Months Ended March 31, 2009 and 2008**
**(in thousands)**
**Unaudited**

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 70,638 | $ 106,835 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of debt financing costs | 1,837 | 1,965 |
| Depreciation and amortization | 92,896 | 94,285 |
| Provision for losses on accounts receivable | 25,922 | 18,368 |
| Foreign currency transaction losses (gains), net | 7,314 | (2,905) |
| Deferred income tax benefit | (5,640) | (13,288) |
| Share-based payment expense | 17,601 | 18,772 |
| Amortization of discount on convertible notes | 12,015 | 11,230 |
| Excess tax benefit from share-based payment | (296) | (4,147) |
| Contingency reversal, net of charges | (1,326) | |
| (Gain) loss on short-term investments | (22) | 2,987 |
| Accretion of asset retirement obligations | 1,955 | 1,762 |
| Other, net | 952 | (781) |
| Change in assets and liabilities: | | |
| Accounts receivable, gross | (54,628) | (43,074) |
| Handset and accessory inventory | (3,628) | (24,323) |
| Prepaid expenses and other | (49,586) | (23,657) |
| Other long-term assets | (21,223) | (32,803) |
| Accounts payable, accrued expenses and other | 35,368 | 37,729 |
| Current deferred revenue | 1,756 | 5,847 |
| Deferred revenue and other long-term liabilities | 5,495 | 4,153 |
| Net cash provided by operating activities | 137,400 | 158,955 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (182,991) | (206,169) |
| Payments for purchases of licenses and other | (2,836) | (1,926) |
| Proceeds from sales of short-term investments | 205,093 | 81,367 |
| Purchase of short-term investments | (144,242) | (78,193) |
| Transfers to restricted cash | (40,689) | (108) |
| Other | 74 | 103 |
| Net cash used in investing activities | (165,591) | (204,926) |
| **Cash flows from financing activities:** | | |
| Payments to purchase common stock | | (102,608) |
| Payments of short-term notes payable | (18,000) | |

| | | |
|---|---|---|
| Borrowings under syndicated loan facilities | | 125,000 |
| Proceeds from stock option exercises | | 192 |
| Excess tax benefit from share-based payment | 296 | 4,147 |
| Proceeds from tower financing transactions | | 27,271 |
| Repayments under capital leases, license financing, tower financing and other transactions | (1,831) | (1,826) |
| Net cash (used in) provided by financing activities | (19,535) | 52,176 |
| **Effect of exchange rate changes on cash and cash equivalents** | (39,074) | 9,054 |
| **Net (decrease) increase in cash and cash equivalents** | (86,800) | 15,259 |
| **Cash and cash equivalents, beginning of period** | 1,243,251 | 1,370,165 |
| **Cash and cash equivalents, end of period** | $ 1,156,451 | $ 1,385,424 |

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

**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 2008 annual report on Form 10-K. 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 income, net of taxes, are as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| Cumulative foreign currency translation adjustment | $ (619,172) | $ (539,016) |
| Unrealized losses on derivatives | (993) | (1,359) |
| | $ (620,165) | $ (540,375) |

***Supplemental Cash Flow Information.***

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| **Capital expenditures** | | |
| Cash paid for capital expenditures, including capitalized interest | $ 182,991 | $ 206,169 |
| Change in capital expenditures accrued and unpaid or financed, including accreted interest capitalized | (13,513) | (14,241) |
| | $ 169,478 | $ 191,928 |
| **Interest costs** | | |

| | | | | |
|---|---|---|---|---|
| Interest expense, net | $ | 44,596 | $ | 51,954 |
| Interest capitalized | | 2,260 | | 2,128 |
| | $ | 46,856 | $ | 54,082 |
| **Cash paid for interest, net of amounts capitalized** | $ | 21,331 | $ | 20,323 |
| **Cash paid for income taxes** | $ | 62,327 | $ | 42,612 |

For the three months ended March 31, 2009, we had $20.4 million in non-cash financing activities related to the short-term financing of imported handsets in Brazil, the financing of a mobile switching office in Peru and co-location capital lease obligations on our communication towers. For the three months ended March 31, 2008, we had $2.2 million in non-cash financing activities related to co-location capital lease obligations on our communication towers.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

***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 three months ended March 31, 2009, our calculation of diluted net income per share includes common shares resulting from shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans and our restricted stock. We did not include the common shares resulting from the potential conversion of our 3.125% convertible notes or our 2.75% 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 three months ended March 31, 2009, we did not include 11.9 million antidilutive stock options nor did we include an immaterial amount of antidilutive restricted stock in our calculation of diluted net income per common share for that period.

As presented for the three months ended March 31, 2008, our calculation of diluted net income per share includes common shares resulting from shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans and our restricted stock, as well as common shares resulting from the potential conversion of our 2.75% convertible notes. We did not include the common shares resulting from the potential 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 three months ended March 31, 2008, we did not include 6.2 million antidilutive stock options nor did we include an immaterial amount of antidilutive restricted stock 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.

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 three months ended March 31, 2009 and 2008:

| | **Three Months Ended March 31, 2009** | | | **Three Months Ended March 31, 2008** | | |
|---|---|---|---|---|---|---|
| | **Income (Numerator)** | **Shares (Denominator)** | **Per Share Amount** | **Income (Numerator)** | **Shares (Denominator)** | **Per Share Amount** |
| | **(in thousands, except per share data)** | | | | | |
| **Basic net income per share:** | | | | | | |
| Net income | $ 70,638 | 165,782 | $ 0.43 | $ 106,835 | 169,351 | $ 0.63 |
| **Effect of dilutive securities:** | | | | | | |
| Stock options | | 27 | | | 1,461 | |
| Restricted stock | | 234 | | | 168 | |
| Convertible notes, net of capitalized interest and taxes | | | | 3,216 | 6,990 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Diluted net income per share:** | | | | | | | | | |
| Net income | $ | 70,638 | 166,043 | $ | 0.43 | $ | 110,051 | 177,970 | $ | 0.62 |

***Purchase of Common Stock.*** In January 2008, our Board of Directors authorized a program to purchase shares of our common stock for cash. The Board approved the purchase of shares having an aggregate market value of up to $500.0 million, depending on market conditions and factors. As of March 31, 2008, we had purchased a total of 2,727,541 shares of our common stock for $102.6 million. During the remainder of 2008, we purchased an additional 2,827,492 shares of our common stock for $140.1 million. We did not purchase any shares of our common stock under this program during the first quarter of 2009. We treated purchases under this program as

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

effective retirements of the purchased shares and therefore reduced our reported shares issued and outstanding by the number of shares purchased. In addition, we recorded the excess of the purchase price over the par value of the common stock as a reduction to paid-in capital.

***Reclassifications.*** We have reclassified certain prior year amounts in our unaudited condensed consolidated financial statements to conform to our current year presentation. Specifically, for the three months ended March 31, 2008, we corrected the classification of $8.9 million from cost of service to cost of digital handset and accessory sales related to costs incurred in connection with replacement handsets sold to current customers. This revision did not have a material impact on previously reported balances.

***Adoption of FSP APB 14-1.*** On January 1, 2009, we adopted Financial Accounting Standards Board, or FASB, Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), or FSP APB 14-1. FSP APB 14-1 requires that issuers of certain convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, separately account for the liability and equity components (i.e. the embedded conversion option) of those debt instruments and recognize the accretion of the resulting discount on the debt as interest expense. FSP APB 14-1 is required to be applied retrospectively to convertible debt instruments within its scope that were outstanding during any period presented in financial statements issued after its adoption. The adoption of FSP APB 14-1 affected the accounting for:

our 2.875% convertible notes issued in 2004 and due 2034, of which 99.99% were converted into shares of our common stock in June 2007;

our 2.75% convertible notes issued in 2005 and due 2025; and

our 3.125% convertible notes issued in 2007 and due 2012.

The retroactive application of FSP APB 14-1 also resulted in the recognition of additional capitalized interest in the affected prior periods. See Note 5 for further information.

The following table sets forth the effect of the retrospective application of FSP APB 14-1 on certain previously reported line items (in thousands, except per share data):

| | Three Months Ended March 31, 2008 | | |
|---|---|---|---|
| **Condensed Consolidated Statement of Operations:** | **As Adjusted** | **As Previously Reported** | **Effect of Change** |
| Depreciation | $ 86,347 | $ 86,214 | $ 133 |
| Interest expense, net | (51,954) | (41,388) | (10,566) |
| Income before income tax provision | 157,027 | 167,726 | (10,699) |
| Income tax provision | (50,192) | (54,157) | 3,965 |
| Net income | 106,835 | 113,569 | (6,734) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income, per common share, basic | $ | 0.63 | $ | 0.67 | $ | (0.04) |
| Net income, per common share, diluted | $ | 0.62 | $ | 0.65 | $ | (0.03) |

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

| | As of December 31, 2008 | | |
|---|---|---|---|
| **Condensed Consolidated Balance Sheet:** | **As Adjusted** | **As Previously Reported** | **Effect of Change** |
| Property, plant and equipment, net | $ 1,892,113 | $ 1,887,315 | $ 4,798 |
| Deferred income taxes, net | 567,973 | 564,516 | 3,457 |
| Other assets | 265,440 | 268,399 | (2,959) |
| Long-term debt | 2,034,086 | 2,193,240 | (159,154) |
| Deferred credits | 147,743 | 108,526 | 39,217 |
| Paid-in capital | 1,158,922 | 954,192 | 204,730 |
| Retained earnings | 1,293,407 | 1,372,904 | (79,497) |

***New Accounting Pronouncements.*** In December 2007, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired and the expenses incurred in connection with the acquisition. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued Staff Position No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141(R)-1, which requires assets acquired and liabilities assumed in a business combination that arise from contingencies to be recognized at fair value as of the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, contingent assets acquired and liabilities assumed in a business combination should be accounted for in accordance with existing guidance. SFAS No. 141(R) and FSP 141(R)-1 are effective for fiscal years beginning after December 15, 2008. As a result, the provisions of SFAS No. 141(R) and FSP 141(R)-1 will affect business combinations that close on or after January 1, 2009. The nature and magnitude of the impact, if any, of SFAS No. 141(R) and FSP 141(R)-1 on our condensed consolidated financial statements will be dependent upon the nature, terms and size of any acquisitions consummated after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of Accounting Research Bulletin No. 51, or SFAS No. 160. SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. As a result, we will apply the provisions of SFAS No. 160 to any non-controlling interests acquired on or after January 1, 2009. The adoption of SFAS No. 160 in the first quarter of 2009 did not have a material impact on our condensed consolidated financial statements.

In December 2007, the FASB issued Emerging Issues Task Force, or EITF, Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock, or EITF 07-5. SFAS 133 states that contracts

which are both (1) indexed to the reporting entity s own stock and (2) classified as a component of stockholder s equity should not be accounted for as derivative instruments. EITF 07-5 provides that an entity should use a two-step approach in evaluating whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 07-5 did not impact our condensed consolidated financial statements.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133, or SFAS No. 161, which amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to require qualitative disclosure about objectives and strategies in using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about the underlying credit-risk-related contingent features in derivative agreements. SFAS No. 161 requires additional disclosures concerning the impact of derivative instruments reflected in an entity s financial statements; the manner in which derivative instruments and related hedged items are accounted for under SFAS No. 133; and the impact that derivative instruments and related hedged items may have on an entity s financial position, performance and cash flows. SFAS No. 161 is effective for financial statements issued in fiscal years beginning after November 15, 2008 and requires only additional disclosures concerning derivatives and hedging activities. The adoption of SFAS No. 161 in the first quarter of 2009 did not have a material impact on our condensed consolidated financial statements.

In April 2008, the FASB issued Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets, or FSP 142-3. FSP 142-3 amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets, in order to improve the consistency between the useful life of the recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. FSP 142-3 applies to: (1) intangible assets that are acquired individually or with a group of other assets, and (2) intangible assets acquired both in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applies to intangible assets acquired on or after January 1, 2009. The adoption of FSP 142-3 did not impact our condensed consolidated financial statements.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP 107-1 and APB 28-1. FSP 107-1 and APB 28-1 require quarterly disclosures of the fair value and carrying value of all financial instruments aggregated by major category and disclosures concerning the methods and assumptions used to estimate the instruments fair value. FSP 107-1 and APB 28-1 will be effective for interim reporting periods ending after June 15, 2009. We will adopt FSP 107-1 and APB 28-1 in the second quarter of 2009 and do not expect the adoption of FSP 107-1 and APB 28-1 to have a material impact on our condensed consolidated financial statements.

In April 2009, the FASB issued Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4, which provides guidance for determining when a market is no longer active and when market transactions may not be representative of fair value, which could impact the assumptions used in determining the fair value of financial instruments. FSP 157-4 will be effective for interim and annual reporting periods ending after June 15, 2009. We will adopt FSP 157-4 in the second quarter of 2009 and do not expect the adoption of FSP 157-4 to have a material impact on our condensed consolidated financial statements.

**Note 2. Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, or SFAS No. 157, which provides guidance for using fair value to measure assets and liabilities when required for recognition or disclosure purposes. In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157, or FSP 157-2,

which defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value on a recurring basis (at least annually). In accordance with SFAS No. 157 and FSP 157-2, we adopted SFAS No. 157 for financial assets and liabilities on January 1, 2008 and for non-financial assets and liabilities in the first quarter of 2009. The adoption of SFAS No. 157 with respect to our nonfinancial assets and

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

nonfinancial liabilities in the first quarter of 2009 did not have a material impact on our condensed consolidated financial statements.

SFAS No. 157 defines fair value, provides guidance for measuring fair value and requires certain disclosures with respect to the processes used to measure the fair value of financial assets and liabilities. SFAS No. 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Valuation techniques discussed under SFAS No. 157 include the market approach (comparable market prices), the income approach (present value of future income or cash flow based on current market expectations) and the cost approach (cost to replace the service capacity of an asset or replacement cost). SFAS No. 157 utilizes a three-tier fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value. The following is a brief description of the three levels in the fair value hierarchy:

*Level 1:* Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2:* Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.

*Level 3:* Unobservable inputs that reflect the reporting entity s own assumptions.

For assets and liabilities measured at fair value on a non-recurring basis, fair value may be derived using various valuation approaches including pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit curves, correlation, credit worthiness of the counterparty, option volatility and currency rates. In accordance with SFAS No. 157, the impact of our own credit spreads is also considered when measuring the fair value of liabilities. Where appropriate, valuation adjustments are made to account for various factors such as credit quality and model uncertainty. These adjustments are subject to judgment, are applied on a consistent basis and are based upon observable inputs where available. We generally subject all valuations and models to a review process initially and on a periodic basis thereafter. As fair value is a market-based measure, even when market assumptions are not readily available, our own assumptions are set to reflect those that we believe market participants would use when pricing the asset or liability at the measurement date. The fair values maximize the use of observable inputs and minimize the use of unobservable inputs, by generally requiring that the observable inputs be used when available, in measuring fair value for these items. Considerable judgment is required in interpreting market data to develop the estimates of fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The estimates presented below are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and valuation techniques may have a material effect on the estimated fair value amounts.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

The following is a description of the major categories of assets and liabilities measured at fair value on a recurring basis.

***Available-for-Sale Securities.***

Available-for-sale securities include short-term investments made by Nextel Brazil and short-term investments in an enhanced cash fund similar to, but not in the legal form of, a money market fund that invested primarily in asset-backed securities. In the first quarter of 2009, we received $15.2 million in distributions from the enhanced cash fund and recorded a pre-tax unrealized gain of $0.3 million in accumulated other comprehensive income due to a slight increase in the net asset value of the fund from December 31, 2008. As of March 31, 2009, the carrying value of our investment in the enhanced cash fund was $38.3 million, with approximately $20.2 million classified as a long-term asset. The short-term investments by Nextel Brazil are classified as Level 1 within the fair value hierarchy. The net asset value of the enhanced cash fund is classified as Level 3 within the fair value hierarchy at March 31, 2009 since certain significant inputs for the fair value measurement remain unobservable.

The following table sets forth the classification within the fair value hierarchy of our financial instruments measured at fair value on a recurring basis in the accompanying consolidated balance sheet as of March 31, 2009 (in thousands):

| | Fair Value Measurements as of March 31, 2009 Using the Fair Value Hierarchy | | | Fair Value as of | |
|---|---|---|---|---|---|
| **Financial Instruments** | **Level 1** | **Level 2** | **Level 3** | **March 31, 2009** | **December 31, 2008** |
| Short-term investment: | | | | | |
| Available-for-sale securities Nextel Brazil investments | $ 3,800 | $ | $ | $ 3,800 | $ 48,859 |
| Available-for-sale securities Enhanced cash fund | | | 18,081 | 18,081 | 33,144 |
| | 3,800 | | 18,081 | 21,881 | 82,003 |
| Long-term investment: | | | | | |
| Available-for-sale securities Enhanced cash fund | | | 20,186 | 20,186 | 20,016 |
| | $ 3,800 | $ | $ 38,267 | $ 42,067 | $ 102,019 |

The following table summarizes the changes in fair value of our Level 3 financial instruments measured at fair value on a recurring basis (in thousands):

**Three Months Ended**

| | | March 31, 2009 |
|---|---|---|
| Beginning balance | $ | 53,160 |
| Principal distributions | | (15,236) |
| Unrealized gain | | 322 |
| Realized gain on distributions | | 21 |
| Ending balance | $ | 38,267 |

During the three months ended March 31, 2008, we had no activity with respect to assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

**Note 3. Property, Plant and Equipment**

The components of our property, plant and equipment are as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| Land | $ 6,519 | $ 6,600 |
| Leasehold improvements | 84,865 | 84,663 |
| Digital mobile network equipment and network software | 2,296,319 | 2,216,212 |
| Office equipment, furniture and fixtures and other | 328,874 | 329,352 |
| Corporate aircraft capital lease | 31,450 | 31,450 |
| Less: Accumulated depreciation and amortization | (984,797) | (928,368) |
| | 1,763,230 | 1,739,909 |
| Construction in progress | 168,746 | 152,204 |
| | $ 1,931,976 | $ 1,892,113 |

**Note 4. Intangible Assets**

Our intangible assets consist of our licenses and trade name, all of which have finite useful lives, as follows:

| | March 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| | | | (in thousands) | | | |
| **Amortizable intangible assets:** | | | | | | |
| Licenses | $ 359,953 | $ (59,343) | $ 300,610 | $ 373,315 | $ (55,437) | $ 317,878 |
| Trade name and other | 1,372 | (1,372) | | 1,412 | (1,412) | |
| **Total intangible assets** | $ 361,325 | $ (60,715) | $ 300,610 | $ 374,727 | $ (56,849) | $ 317,878 |

Based solely on the carrying amount of amortizable intangible assets existing as of March 31, 2009 and current foreign currency exchange rates, we estimate amortization expense for each of the next five years ending December 31 to be as follows (in thousands):

| Years | Estimated Amortization Expense |
|---|---|
| 2009 | $ 25,982 |
| 2010 | 26,152 |
| 2011 | 26,152 |
| 2012 | 26,152 |
| 2013 | 26,026 |

Actual amortization expense to be reported in future periods could differ from these estimates as a result of additional acquisitions of intangibles, as well as changes in foreign currency exchange rates and other relevant factors. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Business Overview for more information related to changes in foreign currency exchange rates. During the three

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

months ended March 31, 2009 and 2008, we did not acquire, dispose of or write down any goodwill or intangible assets with indefinite useful lives.

**Note 5. Debt**

The components are as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| **3.125% convertible notes due 2012, net** | $ 1,069,189 | $ 1,059,997 |
| **2.75% convertible notes due 2025, net** | 333,673 | 330,850 |
| **Brazil syndicated loan facility** | 300,000 | 300,000 |
| **Mexico syndicated loan facility** | 203,136 | 205,863 |
| **Tower financing obligations** | 151,055 | 157,262 |
| **Capital lease obligations** | 66,364 | 68,167 |
| **Other** | 26,925 | 11,001 |
| Total debt | 2,150,342 | 2,133,140 |
| Less: current portion | (132,030) | (99,054) |
| | $ 2,018,312 | $ 2,034,086 |

***Convertible Notes.***

***3.125% Convertible Notes.*** The 3.125% notes are convertible into shares of our common stock at a conversion rate of 8.4517 shares per $1,000 principal amount of notes, or 10,142,040 aggregate common shares, representing a conversion price of about $118.32 per share. For the fiscal quarter ended March 31, 2009, 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 March 31, 2009. As a result, the conversion contingency was not met as of March 31, 2009.

***2.75% Convertible Notes.*** The 2.75% notes are convertible, at the option of the holder, into shares of our common stock at an adjusted conversion rate of 19.967 shares per $1,000 principal amount of notes, or 6,988,370 aggregate common shares, representing a conversion price of about $50.08 per share. For the fiscal quarter ended March 31, 2009, the closing sale price of our common stock did not exceed 120% of the conversion price of $50.08 per share for at least 20 trading days in the 30 consecutive trading days ending on March 31, 2009. As a result, the conversion contingency was not met as of March 31, 2009.

As a result of the adoption of FSP APB 14-1 on January 1, 2009, we were required to separately account for the debt and equity components of our 3.125% convertible notes and our 2.75% 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 and our 2.75% convertible notes were as follows (in thousands):

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | 3.125% Notes due 2012 | 2.75% Notes due 2025 | 3.125% Notes due 2012 | 2.75% Notes due 2025 |
| Principal amount of convertible notes | $ 1,200,000 | $ 349,996 | $ 1,200,000 | $ 349,996 |
| Unamortized discount on convertible notes | 130,811 | 16,323 | 140,003 | 19,146 |
| Net carrying amount of convertible notes | 1,069,189 | 333,673 | 1,059,997 | 330,850 |
| Carrying amount of equity component | 194,557 | 53,253 | 194,557 | 53,253 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

As of March 31, 2009, the unamortized discount on our 3.125% convertible notes and our 2.75% convertible notes had remaining recognition periods of approximately 38 months and 17 months, respectively.

The amount of interest expense recognized on our 3.125% convertible notes and our 2.75% convertible notes and effective interest rates for the three months ended March 31, 2009 and 2008 were as follows (dollars in thousands):

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | 3.125% Notes due 2012 | 2.75% Notes due 2025 | 3.125% Notes due 2012 | 2.75% Notes due 2025 |
| Contractual coupon interest | $ 9,375 | $ 2,406 | $ 9,375 | $ 2,406 |
| Amortization of discount on convertible notes | 9,192 | 2,823 | 8,578 | 2,652 |
| Interest expense, net | $ 18,567 | $ 5,229 | $ 17,953 | $ 5,058 |
| Effective interest rate on convertible notes | 7.15% | 6.45% | 7.15% | 6.45% |

***Syndicated Loan Facilities.*** In September 2007, Nextel Brazil entered into a $300.0 million syndicated loan facility. Of the total amount of the facility, $45.0 million is denominated in U.S. dollars with a floating interest rate based on LIBOR plus a specified margin ranging from 2.00% to 2.50% (Tranche A 3.19% and 3.43% as of March 31, 2009 and December 31, 2008, respectively). The remaining $255.0 million is denominated in U.S. dollars with a floating interest rate based on LIBOR plus a specified margin ranging from 1.75% to 2.25% (Tranche B 2.94% and 3.18% as of March 31, 2009 and December 31, 2008, respectively). Tranche A matures on September 14, 2014, and Tranche B matures on September 14, 2012.

In addition, a portion of Nextel Mexico s syndicated loan facility bears a floating interest rate based on LIBOR plus a specified margin. The interest rate on the portions of both the Brazil and Mexico syndicated loan facilities that have interest rates based on LIBOR are reset each quarter. If the LIBOR rate increases, Nextel Brazil and Nextel Mexico will incur increased interest expense related to their syndicated loans.

**Note 6. 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.

As of March 31, 2009 and December 31, 2008, Nextel Brazil had accrued liabilities of $19.1 million and $18.3 million, respectively, related to contingencies, all of which were classified in accrued contingencies reported as a component of other long-term liabilities. Of the total accrued liabilities as of March 31, 2009 and December 31, 2008, Nextel Brazil had $9.5 million and $9.2 million in 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 $216.7 million and $220.7 million as of March 31, 2009. 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 estimable.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

***Argentine Contingencies.***

As of March 31, 2009 and December 31, 2008, Nextel Argentina had accrued liabilities of $29.8 million and $35.0 million, respectively, related primarily to local turnover taxes, universal service tax and local government claims, all of which were classified in accrued contingencies and accrued non-income taxes reported as components of accrued expenses and other.

*Turnover Tax.* The government of the city of Buenos Aires imposes a turnover tax rate of 6% of revenues for cellular companies while maintaining a 3% rate for other telecommunications services. From a regulatory standpoint, we are not considered a cellular company, although, the city of Buenos Aires made claims to the effect that the higher turnover tax rate should apply to our services. As a result, until April 2006, Nextel Argentina paid the turnover tax at a rate of 3% and recorded a liability and related expense for the differential between the higher rate applicable to cellular carriers and the 3% rate, plus interest. In April 2006, following some adverse decisions by the city of Buenos Aires, Nextel Argentina decided to pay under protest $18.8 million, which represented the total amount of principal and interest, related to the city s turnover tax claims and subsequently paid an additional $4.2 million, plus interest, under protest, for the period April 2006 through December 2006 related to this tax. Nextel Argentina filed a lawsuit against the city of Buenos Aires to pursue the reimbursement of the $18.8 million paid under protest in April 2006.

In December 2006, the city of Buenos Aires issued new laws, which Nextel Argentina believes support its position that it should be taxed at the general 3% rate and not at the 6% cellular rate. Beginning in January 2007, Nextel Argentina determined that it would continue to accrue and pay only the 3% general turnover tax rate and would continue with its efforts to obtain reimbursement of amounts previously paid under protest in excess of that level.

In 2007, Nextel Argentina received a $4.2 million tax refund, plus interest, as the result of a resolution issued by the tax authorities of the city of Buenos Aires with respect to the amounts paid from April 2006 through December 2006 relating to this tax. Nextel Argentina believes that the tax refund clarifies and confirms that only the 3% general turnover tax rate is applicable to our services. The resolution also indicated that the city of Buenos Aires will defer the decision of the pending lawsuit to pursue the reimbursement of the $18.8 million paid under protest in April 2006 until the court issues a ruling on the case. In addition, Nextel Argentina unconditionally and unilaterally committed to donate $3.4 million to charitable organizations. Another provincial government has sought to impose similar increases in the turnover tax rate applicable to Nextel Argentina. Nextel Argentina continues to pay the turnover tax at the existing rate and accrues a liability for the incremental difference in the rate. As of March 31, 2009 and December 31, 2008, Nextel Argentina had accrued $8.5 million and $9.9 million, respectively, for local turnover taxes in this province, which are included as components of accrued expenses and other.

***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.

**Note 7. 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. 1995; Mexico 2001; Argentina 2002; Peru and Brazil 2004. 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.

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

The following table shows a reconciliation of our unrecognized tax benefits according to FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109, or FIN No. 48, for the three months ended March 31, 2009 (in thousands):

| | |
|---|---|
| Unrecognized tax benefits December 31, 2008 | $ 85,886 |
| Additions for current year tax positions | 862 |
| Additions for prior year tax positions | |
| Lapse of statute of limitations | (62) |
| Settlements with taxing authorities | |
| Foreign currency translation adjustment | (3,427) |
| Unrecognized tax benefits March 31, 2009 | $ 83,259 |

The unrecognized tax benefits as of December 31, 2008 and March 31, 2009 include $63.2 million and $60.6 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.

We assessed the realizability of our deferred tax assets during the first quarter of 2009, consistent with the methodology we employed for 2008, and determined that the realizability of those deferred assets has not changed for the markets in which we operate. 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 the retroactive adoption of FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion (Including Partial Cash Settlement), on January 1, 2009, we recorded an additional U.S. valuation allowance against our deferred tax assets. We believe it is reasonably possible that, within the next year, we will release some portion of the U.S. valuation allowance. The character of the valuation allowance that would likely be released would result in a reduction to the income tax expense.

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 we filed an annulment suit challenging the constructive denial. Resolution of the annulment suit is pending. We believe it is probable that we will recover this amount. Our condensed consolidated balance sheets as of March 31, 2009 and December 31, 2008 include $12.1 and $12.8 million, respectively, in income taxes receivable, which are included as components of other non-current assets. The income tax benefit for this item was related to our income tax provision for the years ended December 31, 2005, 2004 and 2003.

**Note 8. 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) Mexico, (2) Brazil, (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. Because we do not view share-based compensation as an important element

**NII HOLDINGS, INC. AND SUBSIDIARIES**

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

of operational performance, we recognize share-based payment expense at the corporate level and exclude it when evaluating the business performance of our segments.

| | Mexico | Brazil | Argentina | Peru | Corporate and other | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| **Three Months Ended March 31, 2009** | | | | | | | |
| Service and other revenues | $ 427,407 | $ 297,290 | $ 124,171 | $ 58,932 | $ 2,775 | $ (268) | $ 910,307 |
| Digital handset and accessory revenues | 17,622 | 18,791 | 7,995 | 6,593 | 6 | | 51,007 |
| Operating revenues | $ 445,029 | $ 316,081 | $ 132,166 | $ 65,525 | $ 2,781 | $ (268) | $ 961,314 |
| Segment earnings (losses) | $ 154,160 | $ 88,024 | $ 41,873 | $ 9,367 | $ (48,284) | $ | $ 245,140 |
| Management fee | (7,950) | | | | 7,950 | | |
| Depreciation and amortization | (39,009) | (33,388) | (9,851) | (7,272) | (3,376) | | (92,896) |
| Operating income (loss) | 107,201 | 54,636 | 32,022 | 2,095 | (43,710) | | 152,244 |
| Interest expense, net | (12,075) | (10,504) | 1,062 | (64) | (24,707) | 1,692 | (44,596) |
| Interest income | 10,856 | 1,239 | 208 | 40 | 2,002 | (1,692) | 12,653 |
| Foreign currency transaction (losses) gains, net | (9,540) | 2,395 | 5,081 | (109) | (5,141) | | (7,314) |
| Other (expense) income, net | (68) | (1,317) | 2 | | (259) | | (1,642) |
| Income (loss) before income tax | $ 96,374 | $ 46,449 | $ 38,375 | $ 1,962 | $ (71,815) | $ | $ 111,345 |
| Capital expenditures | $ 25,717 | $ 113,918 | $ 10,030 | $ 15,730 | $ 4,083 | $ | $ 169,478 |
| **Three Months Ended March 31, 2008** | | | | | | | |
| Service and other revenues | $ 493,315 | $ 286,316 | $ 114,967 | $ 51,696 | $ 1,782 | $ (326) | $ 947,750 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Digital handset and accessory revenues | 15,057 | 15,169 | 11,065 | 4,162 | 14 | | 45,467 |
| Operating revenues | $ 508,372 | $ 301,485 | $ 126,032 | $ 55,858 | $ 1,796 | $ (326) | $ 993,217 |
| Segment earnings (losses) | $ 191,752 | $ 81,390 | $ 39,378 | $ 12,061 | $ (38,631) | $ | $ 285,950 |
| Management fee | (8,398) | | | | 8,398 | | |
| Depreciation and amortization | (46,105) | (31,976) | (8,739) | (4,955) | (2,608) | 98 | (94,285) |
| Operating income (loss) | 137,249 | 49,414 | 30,639 | 7,106 | (32,841) | 98 | 191,665 |
| Interest expense, net | (16,062) | (13,265) | (658) | (17) | (23,920) | 1,968 | (51,954) |
| Interest income | 10,569 | 997 | 1,267 | 291 | 7,784 | (1,968) | 18,940 |
| Foreign currency transaction gains (losses), net | 4,160 | (1,747) | 430 | (191) | 253 | | 2,905 |
| Other (expense) income, net | (79) | (1,197) | 28 | 1 | (3,282) | | (4,529) |
| Income (loss) before income tax | $ 135,837 | $ 34,202 | $ 31,706 | $ 7,190 | $ (52,006) | $ 98 | $ 157,027 |
| Capital expenditures | $ 50,060 | $ 103,399 | $ 16,828 | $ 9,010 | $ 12,631 | $ | $ 191,928 |
| **March 31, 2009** | | | | | | | |
| Property, plant and equipment, net | $ 642,207 | $ 815,284 | $ 197,694 | $ 159,724 | $ 117,354 | $ (287) | $ 1,931,976 |
| Identifiable assets | $ 2,107,880 | $ 1,656,377 | $ 443,709 | $ 300,240 | $ 567,073 | $ (287) | $ 5,074,992 |
| **December 31, 2008** | | | | | | | |
| Property, plant and equipment, net | $ 687,839 | $ 725,893 | $ 212,907 | $ 151,034 | $ 114,727 | $ (287) | $ 1,892,113 |
| Identifiable assets | $ 2,122,161 | $ 1,492,488 | $ 451,694 | $ 291,825 | $ 735,535 | $ (287) | $ 5,093,416 |

**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

| | |
|---|---|
| Introduction | 20 |
| Business Overview | 20 |
| Handsets in Commercial Service | 25 |
| Critical Accounting Policies and Estimates | 25 |
| Ratio of Earnings to Fixed Charges | 25 |
| Reclassifications | 26 |
| Results of Operations | 26 |
| a. Consolidated | 27 |
| b. Nextel Mexico | 30 |
| c. Nextel Brazil | 33 |
| d. Nextel Argentina | 35 |
| e. Nextel Peru | 37 |
| f. Corporate and other | 39 |
| Liquidity and Capital Resources | 40 |
| Future Capital Needs and Resources | 41 |
| Forward Looking Statements | 44 |
| Effect of New Accounting Standards | 45 |

**Introduction**

The following is a discussion and analysis of:

- our consolidated financial condition and results of operations for the three-month periods ended March 31, 2009 and 2008; 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 2008 annual report on Form 10-K, including, but not limited to, the discussion regarding our critical accounting judgments, as described below. Historical results may not indicate future performance. See Forward Looking Statements for risks and uncertainties that may impact our future performance.

**Business Overview**

We provide wireless communication services, 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. We provide these services through operating companies located in selected Latin American markets under the Nextel™ brand, with our principal operations located in major business centers and related transportation corridors of Mexico, Brazil, Argentina, Peru and Chile. We provide our services in major urban and suburban centers with high population densities, which we refer to as major business centers, 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.

We use a wireless transmission technology called integrated digital enhanced network, or iDEN, developed by Motorola, Inc. to provide our digital mobile services on 800 MHz spectrum holdings in all of our markets. This technology, which is the only digital technology currently available that can be used on non-contiguous spectrum like ours, allows 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, including advanced calling features such as speakerphone, conference calling, voice-mail, call forwarding and additional line service;
- Nextel Direct Connect® service, which allows subscribers anywhere on our network to talk to each other instantly, on a push-to-talk basis, private one-to-one call or group call;
- International Direct Connect® service, together with Sprint Nextel Corporation and TELUS Corporation, which allows subscribers to communicate instantly across national borders with our subscribers in Mexico, Brazil, Argentina, Peru and Chile, with Sprint Nextel Corporation subscribers using compatible handsets in the United States and with TELUS subscribers using compatible handsets in Canada;
- text messaging services, mobile internet services, e-mail services including Blackberry™ services, location-based services, which include the use of Global Positioning System (GPS) technologies, digital media services and advanced Java™ enabled business applications; and

international roaming services.

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. We plan to continue to expand the coverage and capacity of our networks in our existing markets and increase our existing subscriber base while managing our costs in a manner designed to support that growth and improve our operating results. We will seek to add subscribers at rates and other terms that are competitive with other offerings in the market, but that are consistent with our strategy of finding the optimal balance of growth and profitability regardless of the competitive landscape. See Forward Looking Statements and Item 1A. Risk

20

Factors in our 2008 annual report on Form 10-K for information on risks and uncertainties that could affect our ability to reach these goals and the other objectives described below.

We may also explore financially attractive opportunities to expand our network coverage in areas that we do not currently 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 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 and data services, and can offer a larger variety of handsets with a wide range of prices, brands and features. 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-term growth prospects for our wireless communications services while offering the cost benefits associated with providing services in more concentrated population centers. 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 potential 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.

*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 are in the process of developing a high performance push-to-talk service that utilizes WCDMA technology in an effort to continually provide differentiated service to our customers. Our competitors have introduced competitive push-to-talk over cellular products, but we believe that the quality of our Direct Connect service 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. In addition, we have implemented proactive customer retention programs to increase customer satisfaction and retention.

*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 our coverage is not as extensive as in other markets. 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. In addition, we may consider selectively expanding into other Latin American countries where we do not currently operate. We are in the process of significantly expanding our service areas in Brazil in connection with our growth objectives and recently announced our plans to make additional investments in Brazil in order to add more capacity to Nextel Brazil s network, support its growth and expand its geographic coverage, including expansion into the northeast region of the country. 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 innovative data 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 hold 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.

Sprint Nextel Corporation is the largest customer of Motorola with respect to iDEN technology and, in the past, has provided significant support with respect to new product development for that technology. In recent years, Sprint Nextel Corporation has reduced its commitment to the development of new iDEN handsets and features, and there has been a decline in the number of handsets purchased by them; however, Sprint Nextel Corporation has recently announced the launch of several new iDEN handsets, and there has been an increase in the level of Sprint Nextel Corporation s advertising and promotion of iDEN services, including its Boost banded prepaid services. In light of the reduction in Sprint Nextel Corporation s development efforts, 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 addition, we have entered into arrangements with Motorola 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 may decline. Specifically, in September 2006, we entered into agreements 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.

During the first quarter of 2008, Motorola announced plans to separate its mobile devices division into a separate public entity through a spin-off of that division; however, in October 2008, Motorola announced its intention to delay this spin-off. While we cannot determine the impact of Motorola s planned separation of the mobile devices business on its iDEN business, Motorola s obligations under our existing agreements, including the obligation to supply us with iDEN handsets and network equipment, remain in effect.

*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 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

evaluating the feasibility of offering next generation voice and broadband data services in the future. This focus on offering innovative and differentiated services requires that we continue to invest in, evaluate and, if appropriate, deploy new services and enhancements to our existing services. In some cases, we will consider and pursue acquisitions of assets that include spectrum licenses to deploy these services, including in auctions of newly available spectrum and through transactions involving acquisitions of existing spectrum rights. We currently plan to participate in auctions and other transactions of this nature, particularly in Brazil and Mexico, to the extent new spectrum can be obtained at a reasonable cost with available financing and consistent with our overall technology strategy.

As part of our ongoing assessment of our ability to meet our customers current and future needs, we continually review alternate technologies to assess their technical performance, cost and functional capabilities. These reviews may involve the deployment of the technologies under consideration on a trial basis in order to evaluate their capabilities and the market demand for the supported services. We will deploy a new technology beyond the minimum levels required by the terms of our spectrum licenses only if it is warranted by expected customer demand and when the anticipated benefits of services supported by the new technology outweigh the costs of providing those services. Our decision whether and how to deploy alternative technologies, as well as our choice of alternative technologies, would likely be affected by a number of factors, including:

- types of features and services supported by the technology and our assessment of the demand for those features and services;

- the availability and pricing of related equipment, the spectrum bands available in our markets and whether other wireless carriers are operating or plan to operate a particular technology in those spectrum bands;

- our need to continue to support iDEN-based services for our existing customer base either on an ongoing or transitional basis; and

- the availability and terms of any financing that we would be required to raise in order to acquire the spectrum and fund the deployment of an alternative technology. See Future Capital Needs and Resources for more information.

Consistent with this strategy of pursuing new spectrum and technology opportunities, in July 2007, we participated in a spectrum auction and were awarded a nationwide license of 35 MHz of 1.9 GHz spectrum in Peru for a term of 20 years. The license under which the spectrum rights were granted requires us to deploy new network technology within specified timeframes throughout Peru, including in areas that we do not currently serve. We plan to develop and deploy a third generation network in Peru using this spectrum. The regulatory authorities in Peru recently approved our plans for the deployment of this new network. We believe that these plans will enable us to significantly increase the size of our opportunity in Peru by allowing us to offer new and differentiated services to a larger base of potential customers.

During 2008 and continuing into the first quarter of 2009, the global economic environment was characterized by a significant decline in economic growth rates, a marked increase in the volatility of foreign currency exchange rates, disruptions in the capital markets and a reduction in the availability of financing. These conditions are expected to continue at least for the remainder of 2009 with most economists predicting a significant slowing, and possibly a contraction, of economic growth both globally and in the markets in which we operate. We have also seen an increase in the inflation rates in some markets in which we operate, particularly in Argentina. While we believe that we will be able to continue to expand our business in this environment, these economic trends could affect our business in a number of ways by:

- reducing the demand for our services resulting from reduced discretionary spending;

increasing the level of competition among the other wireless service providers as we compete for a smaller number of potential customers, which could require us to offer more competitive service plans that could result in lower average revenue per subscriber; and

increasing the level of voluntary customer turnover due to increased competition and simultaneously increasing the levels of involuntary customer turnover and bad debt expense as customers find it more difficult to pay for services.

Historically, the value of the currencies of the countries in which we do business in relation to the U.S. dollar have been volatile. Recent weakness in the economies of those countries has led to increased volatility in these currencies. Because a significant portion of our outstanding debt is denominated in U.S. dollars and we report our results in U.S. dollars, significant fluctuations in foreign currency exchange rates can affect our reported results. For example, from September 30, 2008 to March 31, 2009, the exchange rate for the Mexican peso increased from 10.79 pesos per U.S. dollar to 14.33 pesos per U.S. dollar. These changes, as well as changes in the exchange rate for the Brazilian real, resulted in foreign currency transaction losses of $104.4 million during the fourth quarter of 2008 and $7.3 million during the first quarter of 2009. In addition, the depreciation in the values of the local currencies in the markets where we operate makes it more costly for us to service our U.S. dollar-denominated debt obligations and affects our operating results because we generate nearly all of our revenues in foreign currencies, but we pay for some of our operating expenses and capital expenditures in U.S. dollars. Further, because we report our results of operations in U.S. dollars, changes in relative foreign currency valuations have resulted in reductions in our reported revenues, operating income and earnings, as well as a reduction in the carrying value of our assets, including the value of cash investments held in local currencies during the fourth quarter of 2008 and the first quarter of 2009. Accordingly, if the values of local currencies in the countries in which our operating companies conduct business depreciate further relative to the U.S. dollar, we would expect our operating results in future periods, and the value of our assets held in local currencies, to continue to be adversely affected.

Deteriorating conditions in the economy and the capital markets have also resulted in significant increases in the cost of capital and have made it increasingly difficult for companies with operations in emerging markets to obtain debt or equity financing on acceptable terms. While a number of governments have taken actions in an effort to address liquidity issues in the financial markets and have undertaken various other initiatives designed to help relieve the credit crisis, the overall effects of these and other efforts on the financial markets are uncertain, and they may not have the intended effects. While we believe that our current cash balances and the funds we expect to generate in our business are sufficient to support our existing iDEN business and our current business plans, we have in the past and likely will in the future depend upon access to the credit and capital markets to help fund the growth of our business, for the acquisition of additional spectrum and for capital expenditures in connection with the expansion and improvement of our wireless networks and the deployment of new network technologies. If the present financial market conditions continue, we expect that our borrowing costs will increase to the extent that we incur new debt at comparatively higher interest rates and as a result of increases in the interest rates on our variable rate debt obligations, and it may be difficult for us to obtain funding on terms that are acceptable. These market conditions may limit our access to funding that may be needed to pursue our expansion plans and to acquire rights to use spectrum and deploy networks that use new technologies in our markets.

We have taken a number of actions to address the potential impact of these changes in the economic environment and capital markets, including:

implementing strategies designed to conserve our liquidity by increasing the cash generated by our operations and targeting our capital expenditures in areas with greater growth opportunities;

developing and implementing strategies to target, capture and retain profitable customers;

managing our subscriber and revenue growth consistent with our long term strategy of expanding our business while improving our profitability and cash flow generation;

- improving our efficiency by managing our growth in headcount and other expenses at levels consistent with our expectations regarding subscriber and revenue growth; and

- developing and implementing network expansion plans that are consistent with our long term strategy of meeting our customers demand for innovative high quality services while remaining consistent with our goal of preserving liquidity in light of the uncertain conditions in the capital markets.

We expect to continue to pursue these and other strategies as necessary to adapt our business plans in order to meet our long term business goals in a manner that takes into account the uncertainty of the current economic environment.

See Forward Looking Statements for information on risks and uncertainties that could affect the above objectives.

**Handsets in Commercial Service**

The table below provides an overview of our total handsets in commercial service in the countries indicated as of March 31, 2009 and December 31, 2008. 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.

| | Mexico | Brazil | Argentina | Peru | Chile | Total |
|---|---|---|---|---|---|---|
| | | | (handsets in thousands) | | | |
| Handsets in commercial service December 31, 2008 | 2,726 | 1,812 | 967 | 669 | 26 | 6,200 |
| Net subscriber additions | 90 | 127 | 11 | 35 | 3 | 266 |
| Handsets in commercial service March 31, 2009 | 2,816 | 1,939 | 978 | 704 | 29 | 6,466 |

**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 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 2008 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 three months ended March 31, 2009 compared to those discussed in our 2008 annual report of Form 10-K under Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Ratio of Earnings to Fixed Charges**

| Three Months Ended March 31, | |
|---|---|
| **2009** | **2008** |
| 2.90x | 3.36x |

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes plus fixed charges and amortization of capitalized interest less capitalized interest. Fixed charges consist of:

interest on all indebtedness, amortization of debt financing costs and amortization of original issue discount;

interest capitalized; and

the portion of rental expense we believe is representative of interest.

**Reclassifications**

We have reclassified certain prior year amounts in our unaudited condensed consolidated financial statements to conform to our current year presentation. Specifically, for the three months ended March 31, 2008, we corrected the classification of $8.9 million from cost of service to cost of digital handset and accessory sales related to costs incurred in connection with replacement handsets sold to current customers. This revision did not have a material impact on previously reported balances.

**Results of Operations**

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

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 digital handset and accessory sales. Cost of providing wireless service consists largely of costs of interconnection with local exchange carrier facilities and direct switch and transmitter and receiver site costs, including property taxes, expenses related to our handset maintenance programs, insurance costs, utility costs, maintenance costs, spectrum license fees and rent for the network switches and transmitter sites used to operate our networks. 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 to each other. 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 providers for wireless calls from our digital handsets that terminate on those providers 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 digital handsets in service and not necessarily by the number of customers, as one customer may purchase one or many digital 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 during the year.

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.

As further discussed in the notes to our condensed consolidated financial statements, we adjusted our condensed consolidated financial statements for the three months ended March 31, 2008 for the retrospective

application of Financial Accounting Standards Board, or FASB, Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), or FSP APB 14-1.

In accordance with accounting principles generally accepted in the United States, we translated the results of operations of our operating segments using the average exchange rates for the three months ended March 31, 2009 and 2008. The following table presents the average exchange rates we used to translate the results of operations of our operating segments, as well as changes from the average exchange rates utilized in the prior period. Because the U.S. dollar is the functional currency in Peru, Nextel Peru s results of operations are not significantly impacted by changes in the U.S. dollar to Peruvian sol exchange rate.

| | **Three Months Ended March 31,** | | |
|---|---|---|---|
| | **2009** | **2008** | **Percent Change** |
| Mexican peso | 14.36 | 10.81 | (32.8)% |
| Brazilian real | 2.31 | 1.74 | (32.8)% |
| Argentine peso | 3.54 | 3.16 | (12.0)% |

*a. Consolidated*

| | **March 31, 2009** | **% of Consolidated Operating Revenues** | **March 31, 2008** | **% of Consolidated Operating Revenues** | **Change from Previous Year Dollars** | **Change from Previous Year Percent** |
|---|---|---|---|---|---|---|
| | | | **(dollars in thousands)** | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 910,307 | 95% | $ 947,750 | 95% | $ (37,443) | (4)% |
| Digital handset and accessory revenues | 51,007 | 5% | 45,467 | 5% | 5,540 | 12% |
| | 961,314 | 100% | 993,217 | 100% | (31,903) | (3)% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (255,899) | (27)% | (258,509) | (26)% | 2,610 | (1)% |
| Cost of digital handset and accessory sales | (145,249) | (15)% | (134,689) | (14)% | (10,560) | 8% |
| | (401,148) | (42)% | (393,198) | (40)% | (7,950) | 2% |
| Selling and marketing expenses | (113,213) | (12)% | (127,224) | (13)% | 14,011 | (11)% |
| General and administrative expenses | (201,813) | (21)% | (186,845) | (19)% | (14,968) | 8% |
| Depreciation and amortization | (92,896) | (9)% | (94,285) | (9)% | 1,389 | (1)% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Operating income | | 152,244 | 16% | | 191,665 | 19% | | (39,421) | (21)% |
| Interest expense, net | | (44,596) | (5)% | | (51,954) | (5)% | | 7,358 | (14)% |
| Interest income | | 12,653 | 1% | | 18,940 | 2% | | (6,287) | (33)% |
| Foreign currency transaction (losses) gains, net | | (7,314) | (1)% | | 2,905 | | | (10,219) | *NM* |
| Other expense, net | | (1,642) | | | (4,529) | | | 2,887 | (64)% |
| Income before income tax provision | | 111,345 | 11% | | 157,027 | 16% | | (45,682) | (29)% |
| Income tax provision | | (40,707) | (4)% | | (50,192) | (5)% | | 9,485 | (19)% |
| Net income | $ | 70,638 | 7% | $ | 106,835 | 11% | $ | (36,197) | (34)% |

*NM-Not Meaningful*

During the first quarter of 2009, we continued to expand our subscriber base across all of our markets with most of this growth concentrated in Brazil and Mexico. We also experienced a higher consolidated customer turnover rate, which resulted primarily from the combined impact of weaker economic conditions in Mexico and

Argentina during the first quarter of 2009 and the more competitive sales environment in Mexico that arose during 2008. While we have implemented initiatives designed to stabilize our customer turnover rate, the economic environment and competitive conditions we face in our markets may adversely affect our ability to retain customers, particularly in Mexico.

We continued to invest in coverage expansion and network improvements in the first quarter of 2009, resulting in consolidated capital expenditures of $169.5 million, which represented a $22.5 million decrease from the first quarter of 2008. The majority of this investment occurred in Brazil where we continued to expand our coverage areas and enhance the quality and capacity of our networks, consistent with our plans to increase our customer base in that market. We expect that the amounts invested in Brazil to expand our network coverage and improve network quality and capacity will continue to represent the majority of our consolidated capital expenditure investments as we focus more resources on expanding in that market. In addition, our deployment of a next generation network in Peru will require additional significant capital expenditures. We will incur additional significant capital expenditures if we pursue our plans to acquire spectrum and deploy a next generation network in any of our other markets. See Future Capital Needs and Resources Capital Expenditures for more information.

Continuing the trend that began during 2008, the average values of the local currencies in each of our markets depreciated relative to the U.S. dollar during the first quarter of 2009. Our operating results for the remainder of 2009 will be adversely affected in comparison to prior periods if the values of the local currencies relative to the U.S. dollar remain at the average level that prevailed during the first quarter of 2009 or if those values depreciate further.

1. Operating revenues

The $37.4 million, or 4%, decrease in consolidated service and other revenues from the first quarter of 2008 to the first quarter of 2009 is primarily due to declines in average consolidated revenue per subscriber across all markets as a result of the depreciation of the average values of the local currencies in each of our markets relative to the U.S. dollar, continued competitive pressures in Mexico and an increase in the percentage of subscribers purchasing prepaid rate plans in Peru. These declines were partially offset by a 30% increase in the average number of total handsets in service, with most of that increase attributable to subscriber growth in Brazil and Mexico, which resulted from both the continued strong demand for our services and our balanced growth and expansion strategy in those markets.

2. Cost of revenues

The $10.6 million, or 8%, increase in consolidated cost of digital handset and accessory sales from the first quarter of 2008 to the same period in 2009 is largely due to an increase in consolidated handset upgrades for existing subscribers, primarily in Mexico, and, to a lesser extent, an increase in handset sales for new subscribers.

3. Selling and marketing expenses

The $14.0 million, or 11%, decrease in consolidated selling and marketing expenses from the first quarter of 2008 to the first quarter of 2009 is mostly due to a $11.9 million, or 22%, decrease in consolidated indirect commissions resulting from a decrease in indirect commission rates per gross subscriber addition, primarily in Mexico, partially offset by a 14% increase in total gross subscriber additions generated through external sales channels.

4. General and administrative expenses

The $15.0 million, or 8%, increase in consolidated general and administrative expenses from the first quarter of 2008 to the first quarter of 2009 is primarily due to the following:

a $7.6 million, or 41%, increase in consolidated bad debt expense, largely as a result of the weaker economic environment in Mexico; and

a $4.0 million, or 24%, increase in consolidated information technology expenses primarily as a result of an increase in information technology personnel and higher systems maintenance costs, both of which are related to our deployment of new billing systems in some of our markets.

5. Interest expense, net

The $7.4 million, or 14%, decrease in consolidated net interest expense from the first quarter of 2008 to the same period in 2009 is primarily due to a decrease in interest incurred under Nextel Mexico s syndicated loan facility as a result of the payments of principal in April 2008 and October 2008.

See Note 5 to our condensed consolidated financial statements for further information on the impact of the adoption of FSP APB 14-1 on our net interest expense.

6. Foreign currency transaction (losses) gains, net

Consolidated foreign currency transaction losses of $7.3 million for the first quarter of 2009 are primarily a result of the impact of the depreciation in the value of the Mexican peso relative to the U.S. dollar on Nextel Mexico s U.S. dollar-denominated net assets during the first quarter of 2009.

7. Income tax provision

The $9.5 million, or 19%, decrease in the consolidated income tax provision from the first quarter of 2008 to the same period in 2009 is primarily due to a $45.7 million, or 29%, decrease in income before taxes, partially offset by an increase in U.S. deferred tax expense resulting from an increase in the necessary valuation allowance against our deferred tax assets.

***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. Because we do not view share-based compensation as an important element of operational performance, we recognize share-based payment expense at the corporate level and exclude it when evaluating the business performance of our segments. The tables below provide a summary of the components of our consolidated segments for the three months ended March 31, 2009 and 2008. The results of Nextel Chile are included in Corporate and other. Both Nextel Mexico and Nextel Brazil s results of operations were significantly affected by the decline in the average values of the Mexican peso and the Brazilian real during the first quarter of 2009 compared to the average values of those currencies during the first quarter of 2008.

| Three Months Ended March 31, 2009 | Operating Revenues | % of Consolidated Operating Revenues | Cost of Revenues | % of Consolidated Cost of Revenues | Selling, General and Administrative Expenses | % of Consolidated Selling, General and Administrative Expenses | Segment Earnings (Losses) |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Nextel Mexico | $ 445,029 | 46% | $ (171,912) | 43% | $ (118,957) | 38% | $ 154,160 |
| Nextel Brazil | 316,081 | 33% | (134,424) | 33% | (93,633) | 30% | 88,024 |
| Nextel Argentina | 132,166 | 14% | (58,242) | 14% | (32,051) | 10% | 41,873 |
| Nextel Peru | 65,525 | 7% | (34,549) | 9% | (21,609) | 7% | 9,367 |
| Corporate and other | 2,781 | | (2,289) | 1% | (48,776) | 15% | (48,284) |
| Intercompany eliminations | (268) | | 268 | | | | |
| Total consolidated | $ 961,314 | 100% | $ (401,148) | 100% | $ (315,026) | 100% | |

| Three Months Ended March 31, 2008 | Operating Revenues | % of Consolidated Operating Revenues | Cost of Revenues | % of Consolidated Cost of Revenues | Selling, General and Administrative Expenses | % of Consolidated Selling, General and Administrative Expenses | Segment Earnings (Losses) |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |
| Nextel Mexico | $ 508,372 | 51% | $ (176,822) | 45% | $ (139,798) | 45% | $ 191,752 |
| Nextel Brazil | 301,485 | 30% | (128,531) | 33% | (91,564) | 29% | 81,390 |
| Nextel Argentina | 126,032 | 13% | (58,268) | 15% | (28,386) | 9% | 39,378 |
| Nextel Peru | 55,858 | 6% | (28,242) | 7% | (15,555) | 5% | 12,061 |
| Corporate and other | 1,796 | | (1,661) | | (38,766) | 12% | (38,631) |
| Intercompany eliminations | (326) | | 326 | | | | |
| Total consolidated | $ 993,217 | 100% | $ (393,198) | 100% | $ (314,069) | 100% | |

A discussion of the results of operations for each of our reportable segments is provided below.

*b. Nextel Mexico*

| | March 31, 2009 | % of Nextel Mexico s Operating Revenues | March 31, 2008 | % of Nextel Mexico s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 427,407 | 96% | $ 493,315 | 97% | $ (65,908) | (13)% |
| Digital handset and accessory revenues | 17,622 | 4% | 15,057 | 3% | 2,565 | 17% |
| | 445,029 | 100% | 508,372 | 100% | (63,343) | (12)% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (83,589) | (19)% | (97,337) | (19)% | 13,748 | (14)% |
| Cost of digital handset and accessory sales | (88,323) | (20)% | (79,485) | (16)% | (8,838) | 11% |
| | (171,912) | (39)% | (176,822) | (35)% | 4,910 | (3)% |
| Selling and marketing expenses | (53,724) | (12)% | (73,065) | (14)% | 19,341 | (26)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| General and administrative expenses | (65,233) | (14)% | (66,733) | (13)% | 1,500 | (2)% |
| Segment earnings | 154,160 | 35% | 191,752 | 38% | (37,592) | (20)% |
| Management fee | (7,950) | (2)% | (8,398) | (2)% | 448 | (5)% |
| Depreciation and amortization | (39,009) | (9)% | (46,105) | (9)% | 7,096 | (15)% |
| Operating income | 107,201 | 24% | 137,249 | 27% | (30,048) | (22)% |
| Interest expense, net | (12,075) | (3)% | (16,062) | (3)% | 3,987 | (25)% |
| Interest income | 10,856 | 3% | 10,569 | 2% | 287 | 3% |
| Foreign currency transaction (losses) gains, net | (9,540) | (2)% | 4,160 | 1% | (13,700) | *NM* |
| Other expense, net | (68) | | (79) | | 11 | (14)% |
| Income before income tax | $ 96,374 | 22% | $ 135,837 | 27% | $ (39,463) | (29)% |

*NM-Not Meaningful*

Nextel Mexico continues to be our largest and most profitable market segment, comprising 46% of our consolidated operating revenues and generating a 35% segment earnings margin for the three months ended March 31, 2009, which was slightly lower than the margin reported for the three months ended March 31, 2008.

During the three months ended March 31, 2009, Nextel Mexico s results of operations reflected lower average revenues per subscriber, as well as increased costs on a local currency basis, including network, personnel and other expenses, incurred in connection with the expansion of the coverage, and the quality and capacity of its network to support subscriber growth during the period.

The average value of the Mexican peso for the three months ended March 31, 2009 depreciated relative to the U.S. dollar by 33% compared to the average rates that prevailed during the three months ended March 31, 2008. While the average exchange rate of the Mexican peso continued to decline subsequent to December 31, 2008, the majority of this depreciation occurred during the fourth quarter of 2008. As a result, the components of Nextel Mexico s results of operations for the three months ended March 31, 2009 after translation into U.S. dollars reflect substantially lower U.S. dollar-denominated revenues and expenses than would have occurred if it were not for the impact of the depreciation in the average value of the peso relative to the U.S. dollar. Nextel Mexico s results will continue to be adversely affected in future periods if the average value of the Mexican peso relative to the U.S. dollar remains at its current levels or if the peso depreciates further.

During 2008, some of Nextel Mexico s competitors significantly lowered their prices for postpaid wireless services, offered free or significantly discounted handsets, specifically targeted some of Nextel Mexico s largest corporate customers, offered various incentives to Nextel Mexico s customers to switch service providers, including reimbursement of cancellation fees, and offered bundled telecommunications services that include local, long distance and data services. These competitive actions and practices largely remained in place during the first quarter of 2009. Nextel Mexico is addressing these competitive actions by, among other things, launching attractive commercial campaigns and offering both handsets and more competitive rate plans to new and existing customers. These competitive rate plans are designed to encourage increased usage of the Direct Connect feature, but have resulted in lower average revenues per subscriber. The weaker economic conditions and more competitive environment in Mexico also resulted in a higher customer turnover rate during 2009 compared to 2008 and in the addition of more subscribers with limited credit histories or higher credit risk. As Nextel Mexico continues to expand its customer base and continues to address a more competitive sales environment, Nextel Mexico s average revenue per subscriber could continue to decline on a local currency basis during 2009. In addition, while we have implemented initiatives that were designed to stabilize the customer turnover rate in Mexico, the pressures of the weaker economic environment combined with the competitive conditions we face there may adversely affect our ability to retain or attract customers.

Coverage expansion and network improvements in Mexico resulted in capital expenditures totaling $25.7 million for the three months ended March 31, 2009, which represents 15% of our consolidated capital expenditures for first three months of 2009 and which is a decrease from 26% of consolidated capital expenditures during the first three months of 2008. While we expect that Nextel Mexico will continue to represent a significant portion of our total capital expenditures in the future, as we continue to increase the coverage and capacity of our networks in our existing markets, we expect its percentage of total capital expenditures to decrease now that its expansion plans launched in 2005 are substantially complete and as we pursue more aggressive expansion plans in our other markets, mostly in Brazil. We expect subscriber growth in Mexico to continue as we build a customer base in new markets that were recently launched.

1. Operating revenues

The $65.9 million, or 13%, decrease in service and other revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily due to the 33% depreciation of the Mexican peso relative to the U.S. dollar, as well as a decline in average revenue per subscriber due to a weaker economic environment in Mexico and the launch of more competitive rate plans described above. These decreases were partially offset by a 26% increase in the average number of handsets in service resulting from growth in Nextel Mexico s existing markets, as well as the expansion of service coverage into new markets launched in 2008.

The $2.6 million, or 17%, increase in digital handset and accessory revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily the result of an increase in handset sales to new subscribers and an increase in handset upgrades to existing subscribers.

2. Cost of revenues

The $13.7 million, or 14%, decrease in cost of service from the three months ended March 31, 2008 to the same period in 2009 is principally a result of the following:

a $7.6 million, or 16%, decrease in interconnect costs, largely as a result of the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by a 4% increase in interconnect minutes of use; and

a $4.0 million, or 12%, decrease in direct switch and transmitter and receiver site costs due to the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by a 9% increase in the number of transmitter and receiver sites in service from March 31, 2008 to March 31, 2009 and an increase in software and hardware maintenance costs.

The $8.8 million, or 11%, increase in cost of digital handset and accessory sales from the three months ended March 31, 2008 to the same period in 2009 is primarily the result of an increase in handset sales to new subscribers and an increase in handset upgrades to existing subscribers, partially offset by a reduction in handset unit costs.

3. Selling and marketing expenses

The $19.3 million, or 26%, decrease in selling and marketing expenses from the three months ended March 31, 2008 to the same period in 2009 is primarily a result of the following:

an $11.1 million, or 28%, decrease in indirect commissions, primarily due to the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by a 6% increase in gross additions generated by Nextel Mexico s external sales channels;

a $4.5 million, or 21%, decrease in direct commissions and payroll expenses, principally due to the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by a 7% increase in gross subscriber additions generated by Nextel Mexico s internal sales personnel; and

a $3.1 million, or 29%, decrease in advertising costs primarily resulting from the depreciation of the Mexican peso relative to the U.S. dollar.

4. General and administrative expenses

The $1.5 million, or 2%, decrease in general and administrative expenses from the three months ended March 31, 2008 to the same period in 2009 is largely a result of the following:

a $3.8 million, or 16%, decrease in general corporate costs resulting from the depreciation of the Mexican peso relative to the U.S. dollar; and

a $3.0 million, or 12%, decrease in customer care expenses, primarily due to the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by an increase in payroll and employee related expenses caused by an increase in customer care personnel necessary to support Nextel Mexico s growing customer base; partially offset by

a $4.7 million, or 39%, increase in bad debt expense primarily due to a decrease in customer collections from new subscribers that have higher credit risk, as well as a change in the mix of Nextel Mexico s customer base toward more individual customers.

5. Depreciation and amortization

The $7.1 million, or 15%, decrease in depreciation and amortization from three months ended March 31, 2008 to the same period in 2009 is primarily due to the reduction in the carrying value of property, plant and equipment and intangible assets denominated in Mexican pesos as a result of the depreciation of the Mexican peso relative to the U.S. dollar, partially offset by higher depreciation related to an increase in Nextel Mexico s property, plant and equipment in service resulting from the build-out of Nextel Mexico s network in connection with its expansion plan.

6. Interest expense, net

The $4.0 million, or 25%, decrease in interest expense from the three months ended March 31, 2008 to the same period in 2009 is primarily due to a decrease in interest incurred under Nextel Mexico s syndicated loan facility as a result of the payments of principal in April 2008 and October 2008, as well as the impact of the depreciation of the Mexican peso relative to the U.S. dollar on interest obligations under Nextel Mexico s syndicated loan facility that are denominated in Mexican pesos.

7. Foreign currency transaction (losses) gains, net

Foreign currency transaction losses of $9.5 million for the three months ended March 31, 2009 are primarily due to the impact of the depreciation of the value of the Mexican peso against the U.S. dollar on Nextel Mexico s U.S. dollar-denominated net assets.

Foreign currency transaction gains of $4.2 million for the three months ended March 31, 2008 are primarily due to the impact of the appreciation of the value of the Mexican peso against the U.S. dollar on Nextel Mexico s U.S. dollar-denominated net liabilities.

*c. Nextel Brazil*

| | March 31, 2009 | % of Nextel Brazil s Operating Revenues | March 31, 2008 | % of Nextel Brazil s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 297,290 | 94% | $ 286,316 | 95% | $ 10,974 | 4% |
| Digital handset and accessory revenues | 18,791 | 6% | 15,169 | 5% | 3,622 | 24% |
| | 316,081 | 100% | 301,485 | 100% | 14,596 | 5% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (105,096) | (33)% | (100,469) | (33)% | (4,627) | 5% |
| Cost of digital handset and accessory sales | (29,328) | (9)% | (28,062) | (9)% | (1,266) | 5% |
| | (134,424) | (42)% | (128,531) | (42)% | (5,893) | 5% |
| Selling and marketing expenses | (37,699) | (12)% | (35,332) | (12)% | (2,367) | 7% |
| General and administrative expenses | (55,934) | (18)% | (56,232) | (19)% | 298 | (1)% |
| Segment earnings | 88,024 | 28% | 81,390 | 27% | 6,634 | 8% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Depreciation and amortization | (33,388) | (11)% | (31,976) | (11)% | (1,412) | 4% |
| Operating income | 54,636 | 17% | 49,414 | 16% | 5,222 | 11% |
| Interest expense, net | (10,504) | (3)% | (13,265) | (4)% | 2,761 | (21)% |
| Interest income | 1,239 | | 997 | | 242 | 24% |
| Foreign currency transaction gains (losses), net | 2,395 | 1% | (1,747) | (1)% | 4,142 | (237)% |
| Other expense, net | (1,317) | | (1,197) | | (120) | 10% |
| Income before income tax | $ 46,449 | 15% | $ 34,202 | 11% | $ 12,247 | 36% |

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 33% of consolidated revenues in the first quarter of 2009 compared to 30% for the same period in 2008, and its contribution to consolidated segment earnings margin increased from 27% in 2008 to 28% in 2009. Nextel Brazil has continued to experience growth in its existing markets and has made significant investments in new markets as a

result of increased demand for its services. Consistent with the expansion plans that we announced in 2007 and 2008, we have recently made significant investments in Brazil in order to add capacity to, and improve the quality of, Nextel Brazil s network to support its growth and expand its geographic coverage. Specifically, Nextel Brazil launched several large markets in its northeast region during the first quarter of 2009. Coverage expansion and network improvements resulted in capital expenditures of $113.9 million for the first quarter of 2009, which represented 67% of our consolidated capital expenditure investments during the quarter, compared to 54% in the first quarter of 2008. We believe that Nextel Brazil s quality improvements and network expansion are contributing factors to its low customer turnover rate and increased subscriber growth.

The average exchange rate of the Brazilian real for the three months ended March 31, 2009 depreciated relative to the U.S. dollar by 33% compared to the average rates that prevailed during the three months ended March 31, 2008. As a result, the components of Nextel Brazil s results of operations for the three months ended March 31, 2009, after translation into U.S. dollars, reflect significantly lower U.S. dollar-denominated revenues and expenses with respect to revenues that are earned and expenses that are paid in Brazilian reais than would have occurred if the Brazilian real had not depreciated relative to the U.S. dollar. The majority of this currency depreciation occurred during the fourth quarter of 2008. The average exchange rate of the Brazilian real was relatively stable compared to the average exchange rates Nextel Brazil experienced during the fourth quarter of 2008.

1. Operating revenues

The $11.0 million, or 4%, increase in service and other revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily a result of the following:

- a 40% increase in the average number of digital handsets in service resulting from growth in Nextel Brazil s existing markets and the expansion of service coverage into new markets in connection with its balanced growth and expansion objectives; partially offset by

- a decline in average revenue per subscriber primarily due to the 33% depreciation in the Brazilian real.

The $3.6 million, or 24%, increase in digital handset and accessory revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily due to an increase in handset upgrades for existing subscribers, as well as an increase in handset sales to new subscribers.

2. Cost of revenues

The $4.6 million, or 5%, increase in cost of service from the three months ended March 31, 2008 to the same period in 2009 is primarily due to the following:

- a $2.9 million, or 5%, increase in interconnect costs resulting from a 50% increase in interconnect minutes of use, which is partially offset by the depreciation of the real; and

- a $1.9 million, or 18%, increase in service and repair costs largely due to an increase in the cost of repairs per subscriber related to a change in the mix of handsets toward more mid and high tier handsets, partially offset by a decreased percentage of Nextel Brazil s subscriber base participating in its handset maintenance program.

The $1.3 million, or 5%, increase in cost of digital handset and accessory sales from the three months ended March 31, 2008 to the same period in 2009 is primarily due to an increase in handset upgrades for existing customers and an increase in handset sales to new subscribers, partially offset by a decrease in cost per handset sale as a larger proportion of these sales were sales of SIM cards.

3. Selling and marketing expenses

The $2.4 million, or 7%, increase in selling and marketing expenses from the three months ended March 31, 2008 to the same period in 2009 is principally due to the combination of an increase in advertising expenses resulting from the launch of new markets in connection with Nextel Brazil s northeast expansion plan, increased costs associated with the Blackberry launch that occurred in the first quarter of 2009 and an increase in gross subscriber additions generated through Nextel Brazil s external sales channels. These increases were partially offset

by a decrease in indirect commissions resulting from a reduction in average commission rates and the depreciation of the real.

*d. Nextel Argentina*

| | March 31, 2009 | % of Nextel Argentina s Operating Revenues | March 31, 2008 | % of Nextel Argentina s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 124,171 | 94% | $ 114,967 | 91% | $ 9,204 | 8% |
| Digital handset and accessory revenues | 7,995 | 6% | 11,065 | 9% | (3,070) | (28)% |
| | 132,166 | 100% | 126,032 | 100% | 6,134 | 5% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (44,773) | (34)% | (41,356) | (33)% | (3,417) | 8% |
| Cost of digital handset and accessory sales | (13,469) | (10)% | (16,912) | (13)% | 3,443 | (20)% |
| | (58,242) | (44)% | (58,268) | (46)% | 26 | |
| Selling and marketing expenses | (10,102) | (8)% | (9,663) | (8)% | (439) | 5% |
| General and administrative expenses | (21,949) | (16)% | (18,723) | (15)% | (3,226) | 17% |
| Segment earnings | 41,873 | 32% | 39,378 | 31% | 2,495 | 6% |
| Depreciation and amortization | (9,851) | (8)% | (8,739) | (7)% | (1,112) | 13% |
| Operating income | 32,022 | 24% | 30,639 | 24% | 1,383 | 5% |
| Interest expense, net | 1,062 | 1% | (658) | | 1,720 | (261)% |
| Interest income | 208 | | 1,267 | 1% | (1,059) | (84)% |
| Foreign currency transaction gains, net | 5,081 | 4% | 430 | | 4,651 | *NM* |
| Other income, net | 2 | | 28 | | (26) | (93)% |
| Income before income tax | $ 38,375 | 29% | $ 31,706 | 25% | $ 6,669 | 21% |

*NM-Not Meaningful*

Over the course of the last two years, the inflation rate in Argentina has risen significantly, and we expect that it may continue to remain elevated over the next several years. The higher inflation rate has affected costs that are incurred in Argentine pesos, including personnel costs in particular. In addition, in recent quarters, Nextel Argentina s customer turnover rate has increased because of the economic environment in Argentina. If the economic conditions in Argentina continue or worsen, Nextel Argentina s results of operations may be adversely affected.

The average value of the Argentine peso for the three months ended March 31, 2009 depreciated relative to the U.S. dollar by 12% from the three months ended March 31, 2008. As a result, the components of Nextel Argentina s results of operations for the three months ended March 31, 2009 after translation into U.S. dollars reflect significantly 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.

1. Operating revenues

The $9.2 million, or 8%, increase in service and other revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily due to a 17% increase in the average number of handsets in service, resulting from growth in Nextel Argentina s existing markets, partially offset by the depreciation of the Argentine peso relative to the U.S. dollar.

The $3.1 million, or 28%, decrease in digital handset and accessory revenues from the three months ended March 31, 2008 to the same period 2009 is mostly the result of a decrease in handset upgrades to existing subscribers, a slight decrease in handset sales to new subscribers and the depreciation of the Argentine peso relative to the U.S. dollar.

2. Cost of revenues

The $3.4 million, or 8%, increase in cost of service from the three months ended March 31, 2008 to the same period in 2009 is principally a result of the following:

a $2.5 million, or 23%, increase in service and repair costs, largely as a result of an increased number of claims per subscriber submitted under Nextel Argentina s handset maintenance program; and

a $2.1 million, or 24%, increase in direct switch and transmitter and receiver site costs due to a 19% increase in the number of transmitter and receiver sites in service from March 31, 2008 to March 31, 2009; partially offset by

a $1.4 million, or 7%, decrease in interconnect costs, largely as a result of the depreciation of the Argentine peso relative to the U.S. dollar as the interconnect minutes of use remained constant between the two periods.

The $3.4 million, or 20%, decrease in cost of digital handset and accessory sales from the three months ended March 31, 2008 to the same period in 2009 is primarily the result of a decrease in handset upgrades to existing subscribers, a slight decrease in handset sales to new subscribers and the depreciation of the Argentine peso relative to the U.S. dollar.

3. General and administrative expenses

The $3.2 million, or 17%, increase in general and administrative expenses from three months ended March 31, 2008 to the same period in 2009 is primarily a result of the following:

a $1.3 million, or 13%, increase in other general and administrative costs primarily due to an increase in payroll and related expenses caused by an increase in personnel and an increase in salaries consistent with the ongoing inflation in Argentina;

a $1.0 million, or 90%, increase in bad debt expense primarily due to an increase in customer turnover resulting from a decrease in customer collections; and

a $0.9 million, or 18%, increase in customer care expenses resulting from an increase in customer care personnel necessary to support a larger customer base and an increase in salaries consistent with the ongoing inflation in Argentina.

4. Foreign currency transaction gains, net

Foreign currency transaction gains of $5.1 million for the three months ended March 31, 2009 are primarily due to the impact of the depreciation of the value of the Argentine peso against the U.S. dollar on Nextel Argentina s U.S. dollar-denominated net assets.

*e. Nextel Peru*

| | March 31, 2009 | % of Nextel Peru s Operating Revenues | March 31, 2008 | % of Nextel Peru s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 58,932 | 90% | $ 51,696 | 93% | $ 7,236 | 14% |
| Digital handset and accessory revenues | 6,593 | 10% | 4,162 | 7% | 2,431 | 58% |
| | 65,525 | 100% | 55,858 | 100% | 9,667 | 17% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (21,100) | (32)% | (18,468) | (33)% | (2,632) | 14% |
| Cost of digital handset and accessory sales | (13,449) | (21)% | (9,774) | (18)% | (3,675) | 38% |
| | (34,549) | (53)% | (28,242) | (51)% | (6,307) | 22% |
| Selling and marketing expenses | (8,136) | (12)% | (6,268) | (11)% | (1,868) | 30% |
| General and administrative expenses | (13,473) | (21)% | (9,287) | (16)% | (4,186) | 45% |
| Segment earnings | 9,367 | 14% | 12,061 | 22% | (2,694) | (22)% |
| Depreciation and amortization | (7,272) | (11)% | (4,955) | (9)% | (2,317) | 47% |
| Operating income | 2,095 | 3% | 7,106 | 13% | (5,011) | (71)% |
| Interest expense, net | (64) | | (17) | | (47) | 276% |
| Interest income | 40 | | 291 | | (251) | (86)% |
| Foreign currency transaction losses, net | (109) | | (191) | | 82 | (43)% |
| Other income, net | | | 1 | | (1) | (100)% |
| Income before income tax | $ 1,962 | 3% | $ 7,190 | 13% | $ (5,228) | (73)% |

We are developing and deploying a third generation network in Peru in 2009 using 1.9 GHz spectrum we acquired in 2007. In 2008 the regulatory authorities in Peru approved our plans for the deployment of this new network. We believe that these plans will enable us to significantly increase the size of our opportunity in Peru by allowing us to offer new and differentiated services to a larger base of potential customers.

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.

1. Operating revenues

The $7.2 million, or 14%, increase in service and other revenues from the three months ended March 31, 2008 to the same period in 2009 is primarily due to a 38% increase in the average number of digital handsets in service, partially offset by a decrease in average revenue per subscriber mainly resulting from an increase in the percentage of subscribers in Nextel Peru s subscriber base who purchase service under its prepaid rate plans, which generally have lower average monthly revenues per subscriber.

The $2.4 million, or 58%, increase in digital handset and accessory revenues from the three months ended March 31, 2008 to the same period in 2009 is due primarily to an increase in handset upgrades for existing customers and an increase in handset sales to new subscribers.

2. Cost of revenues

The $2.6 million, or 14%, increase in cost of service from the three months ended March 31, 2008 to the same period in 2009 is largely a result of the following:

a 41% increase in direct switch and transmitter and receiver site costs due to an 18% increase in the number of sites in service from March 31, 2008 to March 31, 2009, as well as an increase in operating and maintenance costs per site; and

a 59% increase in service and repair costs largely due to an increased percentage of Nextel Peru s subscriber base participating in its handset maintenance program; partially offset by

a 10% decrease in interconnect costs largely due to the net effect of a reduction in the interconnect rates charged to Nextel Peru when Nextel Peru s subscribers make calls to customers with other service providers and a 4% increase in interconnect minutes of use.

The $3.7 million, or 38%, increase in cost of digital handsets and accessory sales from the three months ended March 31, 2008 to the same period in 2009 is the result of an increase in handset upgrade costs primarily due to an increase in handset upgrades for existing customers, an increase in handset sales to new subscribers and an increase in handset costs.

3. Selling and marketing expenses

The $1.9 million, or 30%, increase in selling and marketing expenses from the three months ended March 31, 2008 to the same period in 2009 is largely a result of an increase in indirect commissions primarily due to an increase in gross subscriber additions generated through Nextel Peru s external sales channels, partially offset by a decrease in indirect commission per gross subscriber addition and an increase in direct commissions and payroll expenses principally due to an increase in Nextel Peru s internal sales personnel.

4. General and administrative expenses

The $4.2 million, or 45%, increase in general and administrative expenses from the three months ended March 31, 2008 to the same period in 2009 is largely a result of an increase in bad debt expense primarily due to increased subscriber additions generated through retail channels who generally have a higher credit risk profile. As a result of this increase in bad debt expense, Nextel Peru implemented stricter credit policies during the first quarter of 2009. This increase in general and administrative expenses is also attributable to an increase in information technology costs mostly related to new technology initiatives and an increase in information technology personnel necessary to develop and deploy Nextel Peru s new network.

*f. Corporate and other*

| | March 31, 2009 | % of Nextel Peru s Operating Revenues | March 31, 2008 | % of Nextel Peru s Operating Revenues | Change from Previous Year Dollars | Percent |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 2,775 | 100% | $ 1,782 | 99% | $ 993 | 56% |
| Digital handset and accessory revenues | 6 | | 14 | 1% | (8) | (57)% |
| | 2,781 | 100% | 1,796 | 100% | 985 | 55% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation and amortization included below) | (1,609) | (58)% | (1,205) | (67)% | (404) | 34% |
| Cost of digital handset and accessory sales | (680) | (24)% | (456) | (25)% | (224) | 49% |
| | (2,289) | (82)% | (1,661) | (92)% | (628) | 38% |
| Selling and marketing expenses | (3,552) | (128)% | (2,896) | (161)% | (656) | 23% |
| General and administrative expenses | (45,224) | *NM* | (35,870) | *NM* | (9,354) | 26% |
| Segment losses | (48,284) | *NM* | (38,631) | *NM* | (9,653) | 25% |
| Management fee | 7,950 | 286% | 8,398 | *NM* | (448) | (5)% |
| Depreciation and amortization | (3,376) | (121)% | (2,608) | (145)% | (768) | 29% |
| Operating loss | (43,710) | *NM* | (32,841) | *NM* | (10,869) | 33% |
| Interest expense, net | (24,707) | *NM* | (23,920) | *NM* | (787) | 3% |
| Interest income | 2,002 | 72% | 7,784 | *NM* | (5,782) | (74)% |
| Foreign currency transaction (losses) gains, net | (5,141) | (185)% | 253 | 14% | (5,394) | *NM* |
| Other expense, net | (258) | (9)% | (3,282) | (183)% | 3,024 | (92)% |
| Loss before income tax | $ (71,814) | *NM* | $ (52,006) | *NM* | $ (19,808) | 38% |

*NM-Not Meaningful*

For the three months ended March 31, 2009 and 2008, corporate and other operating revenues and cost of revenues primarily represent the results of operations reported by Nextel Chile. We plan to expand the coverage and capacity of our network in Chile over the next several years, which will require additional investments in capital expenditures.

1. General and administrative expenses

The $9.4 million, or 26%, increase in general and administrative expenses from the first quarter of 2008 to the same period in 2009 is primarily due to an increase in corporate personnel expenses and increased consulting costs, both of which are largely related to the commencement of some of our new technology and other initiatives.

2. Interest income

The $5.8 million, or 74%, decrease in interest income from the first quarter of 2008 to the first quarter of 2009 is the result of lower average cash balances and a decrease in our short-term investments.



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3. Foreign currency transaction (losses) gains, net

Foreign currency transaction losses for the first quarter of 2009 are primarily due to the impact of the depreciation of the value of the Mexican peso relative to the U.S. dollar on the Mexican peso-denominated management fee due from Nextel Mexico.

**Liquidity and Capital Resources**

We derive our liquidity and capital resources primarily from cash flows from our operations. As of March 31, 2009, we had working capital, which is defined as total current assets less total current liabilities, of $1,283.9 million, a $93.5 million decrease compared to working capital of $1,377.4 million as of December 31, 2008, due to a combination of our use of cash for capital expenditures and a reduction in the value of our cash held in local currencies as a result of the decline in the value of those currencies relative to the U.S. dollar. Our working capital includes $1,156.4 million in cash and cash equivalents as of March 31, 2009, of which about 34% was held in currencies other than U.S. dollars, with a majority held in Mexican pesos, and $21.9 million of short-term investments. A substantial portion of our cash and cash equivalents held in U.S. dollars is maintained in U.S. treasury security funds, and our cash and cash equivalents held in local currencies is typically maintained in highly liquid overnight securities and certificates of deposit.

We recognized net income of $70.6 million for the three months ended March 31, 2009 compared to $106.8 million for the three months ended March 31, 2008. During the three months ended March 31, 2009 and 2008, our operating revenues more than offset our operating expenses, excluding depreciation and amortization, and our cash capital expenditures.

Because we report our results of operations in U.S. dollars, the declines in relative currency valuations that occurred during the first quarter of 2009 resulted in reductions in some of the reported values of our assets, including the values of cash and cash equivalents held in local currencies. For the three months ended March 31, 2009, the effect of exchange rate changes on consolidated cash and cash equivalents was a $39.1 million loss in the value of those assets. If the values of the currencies in the countries in which our operating companies conduct business relative to the U.S. dollar remain at the average levels that prevailed during the first quarter of 2009 or if these values depreciate further, we would expect the reported value of these assets held in local currencies to decrease further.

We believe our current working capital and anticipated future cash flows will be adequate to meet our cash needs for ongoing operations and capital expenditures, but our funding needs could be affected by a number of factors. Specifically, our liquidity could be negatively affected by a decrease in operating revenues resulting from a decline in demand for our products and services due to the significant downturn in the global economy or from a decline in the values of the currencies in the countries in which we conduct our business relative to the U.S. dollar among other factors. See Future Capital Needs and Resources *Future Outlook.*

***Cash Flows***

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 | Change |
|---|---|---|---|
| Cash and cash equivalents, beginning of year | $ 1,243,251 | $ 1,370,165 | $ (126,914) |
| Net cash provided by operating activities | 137,400 | 158,955 | (21,555) |
| Net cash used in investing activities | (165,591) | (204,926) | 39,335 |

| | | | |
|---|---|---|---|
| Net cash (used in) provided by financing activities | (19,535) | 52,176 | (71,711) |
| Effect of exchange rate changes on cash and cash equivalents | (39,074) | 9,054 | (48,128) |
| Cash and cash equivalents, end of year | $ 1,156,451 | $ 1,385,424 | $ (228,973) |

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 $137.4 million of cash during the first quarter of 2009, a $21.6 million, or 14%, decrease from the first quarter of 2008. The decrease in cash generated from operating activities was primarily due to the affect of depreciating foreign currencies in the markets where we do business on the value of cash in U.S. dollars and increased cash used for working capital.

We used $165.6 million of cash in our investing activities during the first quarter of 2009, a $39.3 million decrease from the first quarter of 2008 primarily due to a $15.2 million increase in distributions we received from our enhanced cash fund, which primarily consists of certain asset-backed and mortgage-backed securities, and a $23.2 million decrease in cash capital expenditures from $206.2 million in the first quarter of 2008 to $183.0 million in the first quarter of 2009. We expect to continue to focus our capital spending in Brazil, Mexico and Peru.

We used $19.5 million of cash in our financing activities during the first quarter of 2009, primarily due to $18.0 million in payments of short-term notes payable. Our financing activities provided us with $52.2 million of cash during the first quarter of 2008, primarily due to $125.0 million in borrowings under Nextel Brazil s syndicated loan facility and $27.3 million in proceeds from our towers financing transactions in Mexico and Brazil, partially offset by $102.6 million in cash we used to purchase shares of our common stock.

**Future Capital Needs and Resources**

***Capital Resources.*** Our ongoing capital resources depend on a variety of factors, including our existing cash and cash equivalents balances, the value of our short-term investments, cash flows generated by our operating companies and external financial sources that may be available.

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
- fluctuations 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;
- capital expenditures to expand and enhance our networks, as discussed below under Capital Expenditures;
- operating and capital expenditures related to the deployment of a next generation network in Peru;

future spectrum purchases;

operating expenses and capital expenditures related to the deployment of next generation networks in our other markets if we are successful in acquiring spectrum;

debt service requirements, including tower financing and capital lease obligations;

cash taxes; and

other general corporate expenditures.

***Capital Expenditures.*** Our capital expenditures, including capitalized interest, were $169.5 million for the three months ended March 31, 2009 and $191.9 million for the three months ended March 31, 2008. In each of these years, a substantial portion of our capital expenditures was invested in the expansion of the coverage and capacity of our networks in Mexico and Brazil. We expect to continue to focus our capital spending in these two markets, particularly in Brazil as we significantly expand the geographic coverage of Nextel Brazil s network, including expansion into the northeast region of the country, and as we expand that network s capacity to support Nextel Brazil s growth.

In addition, we currently plan to participate in spectrum auctions in our markets, including auctions that are expected to be conducted in Brazil and Mexico, and, if we are successful in acquiring spectrum in those auctions, to deploy next generation networks in those markets consistent with applicable regulatory requirements and our business strategy. The purchase of spectrum in these auctions and deployment of new next generation networks would result in a significant increase in our capital expenditures in the applicable markets although the amount and timing of those additional capital expenditures is dependent on, among other things, the timing of the auctions 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-term investments and proceeds from external financing that are or may become available. Our capital spending is expected to be driven by several factors, including:

- the extent to which we expand the coverage of our networks in new or existing market areas;
- 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 add capacity to our networks;
- the amount we spend to deploy the next generation network in Peru that utilizes the 1.9 GHz spectrum that we acquired in 2007;
- the costs we incur in connection with future spectrum acquisitions and the development and deployment of any future next generation networks in our other markets; and
- the costs we incur in connection with non-network related information technology projects.

Our future capital expenditures may be affected by future technology improvements and technology choices. For example, we have experienced voice quality problems related to certain types of calls made using the 6:1 voice coder technology, an upgrade to the iDEN technology used in our mobile network, and in some markets, we have adjusted the network software to reduce the number of calls completed using the 6:1 voice coder technology in order to balance our network capacity needs with the need to maintain voice quality. Because we have not used the 6:1 voice coder technology to its full capacity, we have invested more capital in our infrastructure to satisfy our network capacity needs than would have been necessary if we had been able to complete a higher percentage of calls using the technology, and we may make similar investments in the future as we optimize our network to meet our capacity and voice quality requirements. If we were to decide to significantly curtail the use of the 6:1 voice coder technology in all of our markets, these investments could be significant. See   Forward Looking Statements.

***Future Outlook.*** We believe that our current business plans, which contemplate significant expansion of our iDEN network in Brazil, continued coverage and capacity expansion of our iDEN networks in Mexico, Argentina and Chile, and the construction of a new, complementary next generation network in Peru, do not require us to raise additional external funding to enable us to operate and grow our business while servicing our debt obligations and that our current working capital and anticipated cash flows will be adequate to meet our cash needs to support our existing business.

Our funding needs could, however, be significantly affected by our plans to participate in auctions of spectrum rights in our markets including auctions that are expected to be conducted in Brazil and Mexico and by our plans to deploy next generation networks in those markets if we are successful in acquiring those spectrum rights. These plans, which are consistent with our business strategy of providing differentiated services to our customers, would require us to raise significant additional funding. The amounts and timing of those additional funding requirements would be affected by, among other things:

- the timing of the auctions, whether we are successful in acquiring spectrum in those auctions, and the amounts paid for the spectrum rights if we are successful;

- the nature and extent of any regulatory requirements that may be imposed regarding the timing and scope of the deployment of the new networks; and

our assessment of market conditions and their impact on both the business opportunities supported by the new networks and the availability of funding to support their construction.

Although we currently anticipate that most of those additional funding requirements will not arise until after 2009, we will continue to assess opportunities to raise additional funding as market conditions permit during the remainder of 2009 that could be used, among other purposes, to meet those requirements or to refinance our existing obligations. The indebtedness that we may incur in connection with these business expansion activities and for refinancing may be significant.

In making this assessment of our funding needs under our current plans and under our plans that contemplate the acquisition of spectrum and the deployment of next generation networks, we have considered:

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

expected cash flows from operations;

the anticipated level of capital expenditures, including minimum build-out requirements, relating to the deployment of the next generation network that utilizes the 1.9 GHz spectrum we acquired in Peru;

our expectation of the values of the currencies in the countries in which we conduct business relative to the U.S. dollar;

our scheduled debt service; and

income taxes.

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 and timing on our ability to generate net income, 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 further relative to the U.S. dollar;

if economic conditions in any of our markets change generally;

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 mobile wireless business.

Any of these events or circumstances could result in significant funding needs beyond those contemplated by our current plans as described above, and those funding needs could exceed our currently available funding sources, which

could require us to raise additional capital to meet those needs. Our ability to seek additional capital, if necessary, 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.

Recent financial market conditions in debt and equity markets in the United States and global markets have resulted in substantial decline in the amount of funding available to corporate borrowers. As a result, available funding is both more costly and provided on terms that are less favorable to borrowers than were previously available. If these conditions continue or worsen, it could be difficult or more costly for us to raise additional capital in order to meet our cash needs that result from the factors identified above including those that may result from our acquisition of spectrum and deployment of next generation networks, 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 *4. Our funding needs and debt service requirements could make us more dependent on external financing. If we are unable to obtain*

*financing, our business may be adversely affected.* and *5. Our current and future debt may limit our flexibility and increase our risk of default.* in our 2008 annual report on Form 10-K.

**Forward Looking Statements**

***Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.*** Certain statements made in this quarterly report on Form 10-Q are not historical or current facts, but deal with potential future circumstances and developments. They can be identified by the use of forward-looking words such as believes, expects, intends, plans, may, will, would, could, should or anticipates or other comparable words, or by discussions of strategy that i risks and uncertainties. We caution you that these forward-looking statements are only predictions, which are subject to risks and uncertainties, including technical uncertainties, financial variations and changes in the regulatory environment, industry growth and trend predictions. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from our current expectations regarding the relevant matter or subject area. The operation and results of our wireless communications business also may be subject to the effects of other risks and uncertainties in addition to the other qualifying factors identified in this Item, including, but not limited to:

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 exchange volatility in our markets as 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, including the impact of the recent disruption in global capital markets that have made it more difficult or costly to obtain funding on acceptable terms;

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 our mobile 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, including the timely development and availability of new handsets with expanded applications and features;

the risk of deploying new technologies, including the potential need for additional funding to support that deployment, the risk that new services supported by the new technology will not attract enough subscribers to support the related costs of deploying or operating the new technology, 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;

future legislation or regulatory actions relating to our SMR services, other wireless communications services or telecommunications generally;

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; and

other risks and uncertainties described in this quarterly report on Form 10-Q and from time to time in our other reports filed with the Securities and Exchange Commission, including in our 2008 annual report on Form 10-K.

**Effect of New Accounting Standards**

In December 2007, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired and the expenses incurred in connection with the acquisition. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued Staff Position No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141(R)-1, which requires assets acquired and liabilities assumed in a business combination that arise from contingencies to be recognized at fair value as of the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, contingent assets acquired and liabilities assumed in a business combination should be accounted for in accordance with existing guidance. SFAS No. 141(R) and FSP 141(R)-1 are effective for fiscal years beginning after December 15, 2008. As a result, the provisions of SFAS No. 141(R) and FSP 141(R)-1 will affect business combinations that close on or after January 1, 2009. The nature and magnitude of the impact, if any, of SFAS No. 141(R) and FSP 141(R)-1 on our condensed consolidated financial statements will be dependent upon the nature, terms and size of any acquisitions consummated after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of Accounting Research Bulletin No. 51, or SFAS No. 160. SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. As a result, we will apply the provisions of SFAS No. 160 to any non-controlling interests acquired on or after January 1, 2009. The adoption of SFAS No. 160 in the first quarter of 2009 did not have a material impact on our condensed consolidated financial statements.

In December 2007, the FASB issued Emerging Issues Task Force, or EITF, Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock, or EITF 07-5. SFAS 133 states that contracts which are both (1) indexed to the reporting entity s own stock and (2) classified as a component of stockholder s equity should not be accounted for as derivative instruments. EITF 07-5 provides that an entity should use a two-step approach in evaluating whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 07-5 did not impact our condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133, or SFAS No. 161, which amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to require qualitative disclosure about objectives and strategies in using derivatives, quantitative disclosures about fair value amounts of

gains and losses on derivative instruments, and disclosures about the underlying credit-risk-related contingent features in derivative agreements. SFAS No. 161 requires additional disclosures concerning the impact of derivative instruments reflected in an entity s financial statements; the manner in which derivative instruments and related hedged items are accounted for under SFAS No. 133; and the impact that derivative instruments and related hedged items may have on an entity s financial position, performance and cash flows. SFAS No. 161 is effective for financial statements issued in fiscal years beginning after November 15, 2008 and

requires only additional disclosures concerning derivatives and hedging activities. The adoption of SFAS No. 161 in the first quarter of 2009 did not have a material impact on our condensed consolidated financial statements.

In April 2008, the FASB issued Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets, or FSP 142-3. FSP 142-3 amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets, in order to improve the consistency between the useful life of the recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. FSP 142-3 applies to: (1) intangible assets that are acquired individually or with a group of other assets, and (2) intangible assets acquired both in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applies to intangible assets acquired on or after January 1, 2009. The adoption of FSP 142-3 did not impact our condensed consolidated financial statements.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP 107-1 and APB 28-1. FSP 107-1 and APB 28-1 require quarterly disclosures of the fair value and carrying value of all financial instruments aggregated by major category and disclosures concerning the methods and assumptions used to estimate the instruments fair value. FSP 107-1 and APB 28-1 will be effective for interim reporting periods ending after June 15, 2009. We will adopt FSP 107-1 and APB 28-1 in the second quarter of 2009 and do not expect the adoption of FSP 107-1 and APB 28-1 to have a material impact on our condensed consolidated financial statements.

In April 2009, the FASB issued Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4, which provides guidance for determining when a market is no longer active and when market transactions may not be representative of fair value, which could impact the assumptions used in determining the fair value of financial instruments. FSP 157-4 will be effective for interim and annual reporting periods ending after June 15, 2009. We will adopt FSP 157-4 in the second quarter of 2009 and do not expect the adoption of FSP 157-4 to have a material impact on our condensed consolidated financial statements.

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

Our revenues are primarily denominated in foreign currencies, while a significant portion of our operations are financed in U.S. dollars through our convertible notes, a portion of our syndicated loan facility in Mexico and our syndicated loan facility in Brazil. As a result, fluctuations in exchange rates relative to the U.S. dollar expose us to foreign currency exchange risks. These risks include the impact of translating our local currency reported earnings into U.S. dollars when the U.S. dollar strengthens against the local currencies of our foreign operations. In addition, Nextel Mexico, Nextel Brazil, Nextel Argentina and Nextel Chile purchase some capital assets and the majority of handsets in U.S. dollars, but generate revenue from their operations in local currency.

We occasionally enter into derivative transactions for hedging or risk management purposes. We have not and will not enter into any derivative transactions for speculative or profit generating purposes. As of March 31, 2009, we have not entered into any derivative transactions to hedge our foreign currency transaction risk during the first quarter of 2009 or any future period.

Interest rate changes expose our fixed rate long-term borrowings to changes in fair value and expose our variable rate long-term borrowings to changes in future cash flows. As of March 31, 2009, $1,821.9 million, or 79%, of our total consolidated debt was fixed rate debt, and the remaining $475.6 million, or 21%, of our total consolidated debt was variable rate debt. In July 2005, Nextel Mexico entered into an interest rate swap agreement to hedge the variability of future cash flows associated with the $31.0 million Mexican peso-denominated variable interest rate portion of its

syndicated loan facility. Under the interest rate swap, Nextel Mexico agreed to exchange the difference between the variable Mexican reference rate, TIIE, and a fixed interest rate, based on a notional amount of $31.4 million. The interest rate swap fixed the amount of interest expense associated with this portion of the Mexico syndicated loan facility commencing on August 31, 2005 and will continue over the life of the facility.

The table below presents principal amounts, related interest rates by year of maturity and aggregate amounts as of March 31, 2009 for our fixed rate debt obligations, including our convertible notes, our syndicated loan facilities in Mexico and Brazil, our tower financing obligations and our interest rate swap, all of which have been determined at their fair values. In addition, the $350.0 million repayment of the principal balance of our 2.75% convertible notes due 2025 is included in the table below in the column labeled thereafter. However, in accordance with the terms of these notes, if the notes are not converted, the noteholders have the right to require us to repurchase the notes in August 2010 at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest.

The changes in the fair values of our consolidated debt compared to their fair values as of December 31, 2008 reflect changes in applicable market conditions during the first quarter of 2009. All of the information in the table is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows associated with our consolidated long-term debt are denominated in U.S. dollars (US$), Mexican pesos (MP) and Brazilian reais (BR).

| Year of Maturity | | | | | | March 31, 2009 | | Decer |
|---|---|---|---|---|---|---|---|---|
| 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | Thereafter (dollars in thousands) | Total | Fair Value | Total |
| $ 17,237 | $ 3,064 | $ 22,313 | $ 1,201,191 | $ 1,191 | $ 350,019 | $ 1,595,015 | $ 1,201,422 | $ 1,579,6 |
| 4.2% | 8.9% | 9.9% | 3.1% | 7.3% | 2.8% | 3.2% | | 3 |
| $ 32,131 | $ 5,306 | $ 6,246 | $ 7,362 | $ 8,689 | $ 88,701 | $ 148,435 | $ 90,166 | $ 158,1 |
| 12.0% | 15.5% | 15.5% | 15.5% | 15.5% | 15.4% | 14.8% | | 14 |
| $ 2,928 | $ 3,409 | $ 4,153 | $ 4,975 | $ 6,086 | $ 56,925 | $ 78,476 | $ 31,855 | $ 77,9 |
| 19.5% | 20.2% | 20.6% | 21.3% | 21.9% | 24.0% | 23.1% | | 23 |
| $ 60,779 | $ 81,039 | $ 237,639 | $ 62,825 | $ 10,227 | $ 4,091 | $ 456,600 | $ 428,930 | $ 456,6 |
| 3.0% | 3.0% | 2.6% | 3.0% | 3.0% | 3.0% | 2.8% | | 2 |
| $ 18,955 | $ | $ | $ | $ | $ | $ 18,955 | $ 18,828 | $ 20,0 |
| 9.0% | | | | | | 9.0% | | 9 |
| $ 13,301 | $ | $ | $ | $ | $ | $ 13,301 | $ (134) | $ 13,3 |
| 10.8% | | | | | | 10.8% | | 10 |
| 9.0% | | | | | | 9.0% | | 9 |

**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 Securities and Exchange Commission 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 March 31, 2009, 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 effective.

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

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.

## 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 6 to our condensed consolidated financial statements above.

### Item 1A. Risk Factors.

With regard to the risk factor described in our 2008 annual report on Form 10-K under Item 1A. Risk Factors *1. Adverse changes in the economic environment in our markets and a decline in foreign exchange rates for currencies in our markets and increases in the cost of capital may adversely affect our growth and our operating results,* during the first quarter and continuing into the second quarter of 2009, economic activity continued to weaken in Mexico and in the other markets in which we operate, causing a decline in subscriber additions in Mexico and some of our other markets compared to 2008 levels. In addition, in the second quarter of 2009, the Mexican government and businesses in Mexico have taken measures as part of the effort to contain the spread of influenza caused by the H1N1 influenza virus that have contributed and may further contribute to this decline and the overall slowing of economic activity in Mexico. It is uncertain how long these or other similar measures will remain in effect. If these or similar measures remain in effect in Mexico, or if similar steps are taken in our other markets in response to a spread of the H1N1 influenza virus, it could result in a further weakening of the economies in our markets, which may adversely affect our results of operations.

Except as noted above, there have been no material changes in our risk factors from those disclosed in our 2008 annual report on Form 10-K.

### Item 6. Exhibits.

| Exhibit Number | Exhibit Description |
|---|---|
| 10.1 | Form of Executive Officer Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to NII Holdings Form 8-K, filed on April 22, 2009). |
| 10.2 | Form of Employee Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to NII Holdings Form 8-K, filed on April 22, 2009). |
| 10.3 | Form of Director Restricted Stock Award Agreement. |
| 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. |

**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/ CATHERINE E. NEEL

Catherine E. Neel
Vice President and Controller
(on behalf of the registrant and as
chief accounting officer)

Date: May 6, 2009

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