

NEXTEL PARTNERS INC
Form 10-Q
August 13, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____.

Commission file number: 000-29633

NEXTEL PARTNERS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

91-1930918
(I.R.S. Employer
Identification No.)

**4500 Carillon Point
Kirkland, Washington 98033
(425) 576-3600**

(Address of principal executive offices, zip code and telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

| Outstanding Title of Class | Number of Shares on August 1, 2001 |
|-----------------------------------|---|
| Class A Common Stock | 165,348,108 shares |
| Class B Common Stock | 79,056,228 shares |

NEXTEL PARTNERS, INC.

INDEX

PART I **FINANCIAL INFORMATION**

Item 1. Financial Statements

Condensed Consolidated Balance Sheets As of June 30, 2001 and December 31, 2000

Condensed Consolidated Statements of Operations Three and Six months ended June 30, 2001 and 2000

Condensed Consolidated Statement of Changes in Stockholders' Equity Six months ended June 30, 2001

Condensed Consolidated Statements of Cash Flows Six months ended June 30, 2001 and 2000

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PART II **OTHER INFORMATION**

Item 1. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NEXTEL PARTNERS, INC.
Condensed Consolidated Balance Sheets
(dollars in thousands)

| | June 30, 2001 | December 31, 2000 |
|---|--------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 336,992 | \$ 493,552 |
| Short-term investments | 293,085 | 434,794 |
| Accounts receivable, net of allowance \$2,273 and \$1,398, respectively | 55,870 | 34,912 |
| Subscriber equipment inventory | 4,893 | 3,146 |
| Other current assets | 11,236 | 17,522 |

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

| | | |
|--|---------------------|---------------------|
| Total current assets | 702,076 | 983,926 |
| PROPERTY, PLANT AND EQUIPMENT, at cost | 811,805 | 583,956 |
| Less - accumulated depreciation | (82,871) | (51,254) |
| Property, plant and equipment, net | 728,934 | 532,702 |
| OTHER NON-CURRENT ASSETS: | | |
| FCC operating licenses, net of accumulated amortization of \$6,008 and \$3,608, respectively | 266,717 | 245,295 |
| Debt issuance costs, net of accumulated amortization of \$7,187 and \$5,381, respectively, and other assets | 27,761 | 28,961 |
| Receivable from officer | 2,200 | 2,200 |
| Total non-current assets | 296,678 | 276,456 |
| TOTAL ASSETS | \$ 1,727,688 | \$ 1,793,084 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 96,198 | \$ 78,805 |
| Accrued expenses | 45,241 | 39,518 |
| Due to Nextel | 3,442 | 2,100 |
| Total current liabilities | 144,881 | 120,423 |
| LONG-TERM OBLIGATIONS | | |
| Credit facility - term B and C | 325,000 | 325,000 |
| 14% Senior discount notes due 2009 | 366,603 | 342,684 |
| 11% Senior notes due 2010 | 400,000 | 400,000 |
| Other long-term liabilities | 12,963 | 7,245 |
| Total long-term obligations | 1,104,566 | 1,074,929 |
| Total liabilities | 1,249,447 | 1,195,352 |
| COMMITMENTS AND CONTINGENCIES (See Notes) | | |
| REDEEMABLE PREFERRED STOCK, Series B redeemable 2010, par value \$.001 per share, 12% cumulative annual dividend; 13,110,000 shares issued and outstanding | 29,202 | 27,517 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, Class A, par value \$.001 per share, 165,348,108 and 165,015,002 shares, respectively, issued and outstanding, and paid-in capital | 865,127 | 864,706 |
| Common stock, Class B, par value \$.001 per share convertible, 79,056,228 shares issued and outstanding, and paid-in capital | 163,312 | 163,312 |
| Accumulated deficit | (543,801) | (405,773) |
| Subscriptions receivable from stockholders | (7,344) | (7,411) |
| Deferred compensation | (28,255) | (44,619) |
| Total stockholders' equity | 449,039 | 570,215 |

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 1,727,688 \$ 1,793,084

The accompanying notes are an integral part of these condensed consolidated financial statements. **NEXTEL PARTNERS, INC.**
Condensed Consolidated Statements of Operations
(dollars in thousands, except for share and per share amounts)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|--|-----------|--------------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| | (unaudited) | | (unaudited) | |
| REVENUES: | | | | |
| Service revenues (Received from Nextel WIP \$14,490, \$4,984, \$24,052, and \$8,830, respectively.) | \$ 82,912 | \$ 25,321 | \$ 145,995 | \$ 40,116 |
| Equipment revenues | 3,021 | 1,191 | 5,484 | 1,897 |
| Total revenues | 85,933 | 26,512 | 151,479 | 42,013 |
| OPERATING EXPENSES: | | | | |
| Cost of service revenues (Paid to Nextel WIP \$14,486, \$4,209, \$24,185, and \$6,370, respectively.) | 46,668 | 17,225 | 80,037 | 28,433 |
| Cost of equipment revenues | 12,885 | 6,159 | 24,516 | 9,609 |
| Selling, general and administrative (exclusive of stock based compensation expense shown below) (Paid to Nextel WIP \$1,324, \$831, \$2,175, and \$1,564, respectively.) | 49,453 | 28,683 | 92,854 | 48,514 |
| Stock based compensation | 7,931 | 17,017 | 15,617 | 35,053 |
| Depreciation and amortization | 19,825 | 7,525 | 34,186 | 12,564 |
| Total operating expenses | 136,762 | 76,609 | 247,210 | 134,173 |
| LOSS FROM OPERATIONS | (50,829) | (50,097) | (95,731) | (92,160) |
| Interest expense, net | (29,272) | (21,982) | (61,453) | (43,596) |
| Interest income | 9,132 | 16,265 | 22,628 | 28,077 |
| LOSS BEFORE INCOME TAX PROVISION | (70,969) | (55,814) | (134,556) | (107,679) |
| Income tax provision | - | - | - | - |
| LOSS BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | (70,969) | (55,814) | (134,556) | (107,679) |
| Extraordinary item loss on early retirement of debt, net of \$0 income tax | - | (23,485) | - | (23,485) |
| Cumulative effect of change in accounting principle, net of \$0 income tax | - | - | (1,787) | - |

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

| | | | | |
|--|----------|----------|-----------|-----------|
| NET LOSS | (70,969) | (79,299) | (136,343) | (131,164) |
| Mandatorily redeemable preferred stock dividends | (860) | (763) | (1,685) | (4,054) |

| | | | | |
|--|-------------|-------------|--------------|--------------|
| LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (71,829) | \$ (80,062) | \$ (138,028) | \$ (135,218) |
|--|-------------|-------------|--------------|--------------|

LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Loss before extraordinary item and cumulative effect of change in accounting principle | \$ (0.29) | \$ (0.24) | \$ (0.56) | \$ (0.66) |
| Extraordinary item | \$ - | \$ (0.10) | - | (0.14) |
| Cumulative effect of change in accounting principle | \$ - | \$ - | \$ (0.01) | \$ - |
| | \$ (0.29) | \$ (0.34) | \$ (0.57) | \$ (0.80) |

| | | | | |
|---|-------------|-------------|-------------|-------------|
| Weighted average number of shares outstanding | 244,344,552 | 236,362,555 | 244,279,686 | 168,682,309 |
|---|-------------|-------------|-------------|-------------|

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

NEXTEL PARTNERS, INC.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(dollars in thousands)
For the Six Months Ended June 30, 2001

| | Preferred Stock | | Class A Common Stock and Paid-In Capital | | Class B Common Stock and Paid-In Capital | | Other | | | | Totals | |
|--|-----------------|--------|--|------------|--|---------|----------------------|-----------------|---------------------|--------------------------|--------------|-----------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Warrants Outstanding | Paid-In Capital | Accumulated Deficit | Subscriptions Receivable | | Deferred Compensation |
| BALANCE | | | | | | | | | | | | |
| December 31, 1999 | 216,727,272 | \$ 36 | 9,593,328 | \$ 145,420 | - | \$ - | 3,847 | \$ 357,028 | \$ (134,966) | \$ (83,048) | \$ (117,701) | \$ 170,616 |
| Initial public offering conversion to common stock | | | | | | | | | | | | |
| Series A preferred stock | (125,834,646) | (21) | 125,834,646 | 208,163 | - | - | - | (208,142) | - | - | - | - |
| Series C preferred stock | (64,672,626) | (11) | - | - | 64,672,626 | 110,742 | - | (110,731) | - | - | - | - |
| Series D preferred stock | (13,110,000) | (2) | - | - | 13,110,000 | 22,266 | - | (22,264) | - | - | - | - |
| Series B preferred stock reclassified | (13,110,000) | (2) | - | - | - | - | - | (21,848) | - | - | - | (21,850) |
| Series B redeemable preferred stock dividend | - | - | - | - | - | - | - | - | (5,667) | - | - | (5,667) |
| Initial public offering stock issued | - | - | 27,025,000 | 540,500 | - | - | - | - | - | - | - | 540,500 |
| Net loss | - | - | - | - | - | - | - | - | (265,140) | - | - | (265,140) |
| | - | - | - | (31,223) | - | (5,957) | - | 5,957 | - | - | - | (31,223) |

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

| | | | | | | | | | | | | |
|---|---|------|-------------|------------|------------|------------|---------|------|-------------|------------|------------|------------|
| Equity issuance costs | | | | | | | | | | | | |
| Deferred compensation - options forfeited | - | - | - | (2,938) | - | - | - | - | - | - | 2,938 | - |
| Vesting of deferred compensation | - | - | - | - | - | - | - | - | - | - | 70,144 | 70,144 |
| Subscription receivable from stockholders | - | - | - | - | - | - | - | - | - | 75,637 | - | 75,637 |
| Warrants exercised by stockholders | - | - | 2,434,260 | 3,851 | - | - | (3,847) | - | - | - | - | 4 |
| Class B common stock issued | - | - | - | - | 1,273,602 | 36,261 | - | - | - | - | - | 36,261 |
| Stock options exercised | - | - | 85,000 | 142 | - | - | - | - | - | - | - | 142 |
| Stock issued for employee stock purchase plan | - | - | 42,768 | 791 | - | - | - | - | - | - | - | 791 |
| BALANCE | | | | | | | | | | | | |
| December 31, 2000 | - | - | 165,015,002 | 864,706 | 79,056,228 | 163,312 | - | - | (405,773) | (7,411) | (44,619) | 570,215 |
| Series B redeemable preferred stock dividend | - | - | - | - | - | - | - | - | (1,685) | - | - | (1,685) |
| Net loss | - | - | - | - | - | - | - | - | (136,343) | - | - | (136,343) |
| Deferred compensation - options forfeited | - | - | - | (747) | - | - | - | - | - | - | 747 | - |
| Vesting of deferred compensation | - | - | - | - | - | - | - | - | - | - | 15,617 | 15,617 |
| Subscription receivable from stockholders | - | - | - | - | - | - | - | - | - | 67 | - | 67 |
| Stock options exercised | - | - | 272,898 | 466 | - | - | - | - | - | - | - | 466 |
| Stock issued for employee stock purchase plan | - | - | 60,208 | 702 | - | - | - | - | - | - | - | 702 |
| BALANCE | | | | | | | | | | | | |
| June 30, 2001 (unaudited) | - | \$ - | 165,348,108 | \$ 865,127 | 79,056,228 | \$ 163,312 | \$ - | \$ - | \$(543,801) | \$ (7,344) | \$(28,255) | \$ 449,039 |

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

NEXTEL PARTNERS, INC.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

For the Six Months Ended
June 30,

2001

2000

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

| | (unaudited) | |
|---|------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (136,343) | \$ (131,164) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Cumulative effect of change in accounting principle | 1,787 | - |
| Depreciation and amortization | 34,186 | 12,564 |
| Amortization of debt issuance costs | 1,809 | 1,486 |
| Interest accretion for senior discount notes | 21,244 | 21,977 |
| Extraordinary loss on retirement of debt | - | 23,485 |
| Fair value adjustments of hedges | 2,083 | - |
| Stock based compensation | 15,617 | 35,053 |
| Allowance for doubtful accounts | 1,332 | (293) |
| Gain on deferred sale-leaseback | (298) | (110) |
| Loss on disposal of assets | 2 | - |
| Change in current assets and liabilities: | | |
| Accounts receivable | (22,290) | (9,172) |
| Subscriber equipment inventory | (1,747) | (4,911) |
| Other current assets | 6,237 | (3,501) |
| Accounts payable, accrued expenses and other liabilities | 4,613 | 11,258 |
| Operating advances due to/(from) Nextel WIP | 1,342 | (2,969) |
| Net cash used in operating activities | (70,426) | (46,297) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (211,089) | (122,228) |
| Proceeds from sale of assets | 5,473 | 6,422 |
| FCC licenses | (22,898) | (1,919) |
| Proceeds from sale (purchase) of short-term investments | 141,709 | (367,192) |
| Net cash used in investing activities | (86,805) | (484,917) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sale of common stock | - | 540,500 |
| Proceeds from borrowings | - | 200,000 |
| Payment to redeem 14% senior discount notes | - | (191,233) |
| Exercise warrants | - | 4 |
| Stock Options Exercised | 466 | - |
| Proceeds from stock issued for employee stock purchase plan | 702 | - |
| Restricted cash transfer | - | 175,000 |
| Proceeds from equity contributions | 67 | 36,506 |
| Equity costs | - | (31,091) |
| Debt issuance costs | (564) | (5,641) |
| Net cash provided by financing activities | 671 | 724,045 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (156,560) | 192,831 |

| | | |
|--|------------|------------|
| CASH AND CASH EQUIVALENTS, beginning of period | 493,552 | 154,273 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 336,992 | \$ 347,104 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS | | |
| Capitalized interest on accretion of senior discount notes | \$ 2,675 | \$ 5,513 |
| Accretion of redeemable preferred stock dividends | \$ 1,685 | \$ 4,054 |
| CASH PAID FOR INTEREST, net of capitalized amount | \$ 36,123 | \$ 13,316 |

The accompanying notes are an integral part of these condensed consolidated financial statements. **NEXTEL PARTNERS, INC.**
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION

Our interim financial statements for the three-month and six-month periods ended June 30, 2001 and 2000 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission on March 28, 2001.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2000 has been restated to reflect the impact of Staff Accounting Bulletin 101 (SAB 101), Revenue Recognition in Financial Statements. The results of operations for the three- and six-month periods ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

2. OPERATIONS

Description of Business

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

Our digital network (Nextel digital mobile network) has been developed with advanced mobile communication systems employing digital technology with a multi-site configuration permitting frequency reuse utilizing digital technology developed by Motorola (such technology is referred to as the integrated Digital Enhanced Network or iDEN). In January 1999, we entered into a joint venture agreement with Nextel WIP Corp., a wholly owned subsidiary of Nextel Communications, Inc., or Nextel. The Nextel relationship was created to accelerate the build-out of the Nextel digital mobile network by granting us the exclusive right to offer wireless communications services under the Nextel brand in selected mid-sized and smaller markets. Various operating agreements entered into by our subsidiaries and Nextel WIP (see Note 7) provide for support services to be provided by Nextel WIP, as required.

3. SIGNIFICANT ACCOUNTING POLICIES

Concentration of Risk

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

We are a party to certain equipment purchase agreements with Motorola (see Note 7). For the foreseeable future we expect that we will need to rely on Motorola for the manufacture of a substantial portion of the infrastructure equipment necessary to construct and make

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

operational our digital mobile network as well as for the provision of digital mobile telephone handsets and accessories.

As previously discussed, we are reliant on Nextel WIP for the provision of certain services. For the foreseeable future, we will need to rely on Nextel WIP for the provision of these services, as we will not have the infrastructure to support those services.

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of Nextel Partners, Inc. and our wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Net Loss per Share

As presented, basic and diluted loss per share are equal since common equivalent shares are excluded from the calculation of diluted earnings per share as their effects are antidilutive due to our net losses. For the three and six months ended June 30, 2001 and 2000, approximately 8.2 million and 4.7 million shares, respectively, of our Class A common stock subject to stock options were excluded from the calculation of common equivalent shares, as their effects are antidilutive.

The basic and diluted net loss per share for the three and six months ended June 30, 2001 and 2000 is computed based on the weighted average number of shares outstanding. The weighted average number of shares outstanding for the six months ended June 30, 2000 does not represent a complete reporting period since the initial public offering was consummated on February 25, 2000. In addition, net loss attributable to common stockholders increased by the amount of the accrued dividend on the Series B redeemable preferred stock.

Supplemental Cash Flow Information

The following table presents capital expenditures including the amounts that were accrued or financed and adjustments for non-cash capitalized interest:

| | For the Six Months Ended June 30, | |
|--|--|-------------|
| | 2001 | 2000 |
| | | |
| | (in thousands) | |
| Capital expenditures | \$ 228,410 | \$ 117,224 |
| Capitalized interest | 4,745 | 6,667 |
| Non-cash capitalized interest | (1,751) | (3,479) |
| Accrued capital expenditures and adjustments | (20,315) | 1,816 |
| Capital expenditures (reported) | \$ 211,089 | \$ 122,228 |

Sale-Leaseback Transactions

On October 13, 1999, we signed a Letter of Agreement with Nextel and some of its subsidiaries and Spectrasite Holdings, Inc. ("Spectrasite") and some of its subsidiaries to transfer specified telecommunication towers and related assets to Spectrasite for cash. Subsequently, we leased space on the telecommunication towers from Spectrasite pursuant to a master lease agreement. For the three months ended June 30, 2001 and 2000, we received cash proceeds of approximately \$2.5 million and \$900,000, respectively, and for the six months ended June 30, 2001 and 2000, we received cash proceeds of approximately \$5.5 million and \$6.4 million, respectively, for the assets sold to Spectrasite. These sale-leaseback transactions are accounted for as real estate lease agreements and normal sales-leasebacks. Any gain recognized on the sale of assets is deferred and amortized over the life of the lease.

FCC Licenses

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

FCC operating licenses are recorded at historical cost and are amortized using the straight-line method based on estimated useful lives of 40 years. Our FCC licenses and the requirements to maintain the licenses are similar to other licenses granted by the FCC, including Personal Communications Services (PCS) and cellular licenses in that they are subject to renewal after the initial 10-year term. Historically, the renewal process associated with these FCC licenses has been perfunctory. The accounting for these licenses has historically not been constrained by the renewal and operational requirements. Amortization begins with the commencement of service to customers in a particular market. Amortization expense of approximately \$1.3 million and \$639,000 was recorded for the three months ended June 30, 2001 and 2000, respectively, and approximately \$2.4 million and \$922,000 was recorded for the six months ended June 30, 2001 and 2000, respectively.

Interest Rate Risk Management

We use derivative financial instruments consisting of interest rate swap and interest rate protection agreements in the management of our interest rate exposure. In April 1999 and 2000, we entered into interest rate swap agreements for \$60 million and \$50 million, respectively, to partially hedge interest rate exposure with respect to our \$325 million term loans. This interest rate swap agreement has the effect of converting certain of our variable rate obligations to fixed rate obligations. Prior to January 1, 2001, amounts paid or received under the interest rate swap agreement were accrued as interest rates changed and were recognized over the life of the swap agreement as an adjustment to interest expense. The fair value of the swap agreement was not recognized in the consolidated financial statements since the swap agreement met the criteria for hedge accounting prior to adoption of SFAS 133.

On January 1, 2001, we adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS No. 138. These statements establish accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at fair value. The statements require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met, the changes in a derivative's fair value (for a cash flow hedge) are deferred in stockholders' equity as a component of comprehensive income. These deferred gains and losses are recognized as income in the period in which the hedge item and hedging instrument are settled. The ineffective portions of hedge returns are recognized as earnings. In accordance with SFAS 133, these swap agreements have been designated as ineffective cash flow hedges. Initial adoption resulted in the recording of an additional liability of \$1.8 million, with the offset recorded as a cumulative effect of change in accounting principle. For the three months ended June 30, 2001, we recorded a non-cash, non-operating charge of \$0.3 million related to the decline in the market value of interest rate swap agreements. For the six months ended June 30, 2001, we recorded a non-cash, non-operating charge of \$3.9 million related to the market value of interest rate swap agreements, of which \$1.8 million has been reflected as a cumulative effect of change in accounting principle, and the remainder has been reflected in interest expense.

We will not use financial instruments for trading or other speculative purposes, nor will we be a party to any leveraged derivative instrument. The use of derivative financial instruments is monitored through regular communication with senior management. We will be exposed to credit loss in the event of nonperformance by the counterparties. This credit risk is minimized by dealing with a group of major financial institutions with which we have other financial relationships. We do not anticipate nonperformance by these counterparties.

Revenue Recognition

In December 1999, the Securities and Exchange Commission issued SAB 101, effective January 1, 2000, which gives guidance on the conditions that must be met before revenue is recognized. During December 2000 we changed our revenue recognition policy for activation fees (included in service revenues) and equipment (phones) revenues in accordance with SAB 101. Under this new policy, our activation fees and phone revenues are deferred and recognized over three years, the expected life of the customer relationship. The decision to defer these revenues is based on the conclusion that the service contract and the phone revenue are multiple element arrangements or earnings processes that should not be separated. In other words, the service contract is essential to the functionality of the phone. Concurrently, the related costs for the phone equipment are deferred to the extent of deferred revenues, resulting in no change to EBITDA or net loss. The direct and incremental phone costs in excess of revenues generated from phone sales are expensed immediately as the amounts exceed our minimum contractual revenue.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 *Business Combinations* and SFAS No. 142 *Goodwill and Other Intangible Assets*. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles exceeds fair value. We are in the process of evaluating the financial statement impact of the adoption of SFAS Nos. 141 and 142.

4. PROPERTY AND EQUIPMENT

| | June 30, 2001 | December 31, 2000 |
|---------------------------------|------------------|----------------------|
| (in thousands) | | |
| Building and improvements | \$ 3,026 | \$ 2,774 |
| Equipment | 570,991 | 443,043 |
| Furniture and Fixtures | 23,937 | 21,641 |
| Less - accumulated depreciation | (82,871) | (51,254) |
| Subtotal | 515,083 | 416,204 |
| Construction in progress | 213,851 | 116,498 |
| Total property and equipment | \$ 728,934 | \$ 532,702 |

5. LONG-TERM DEBT

| | June 30, 2001 | December 31, 2000 |
|--|------------------|----------------------|
| (in thousands) | | |
| 14% Senior Redeemable Discount Notes due 2009, net of unamortized discount of \$153.4 million at June 30, 2001 and \$177.3 million at December 31, 2000 | \$ 366,603 | \$ 342,684 |
| 11% Senior Notes due 2010, interest payable semiannually in cash and in arrears | 400,000 | 400,000 |
| Bank Credit Facility Term B Loan, interest at Company's option, calculated on Administrative Agent's alternate base rate or reserve adjusted London Interbank Offered Rate (LIBOR) | 175,000 | 175,000 |
| Bank Credit Facility Term C Loan, interest at Company's option, calculated on Administrative Agent's alternate base rate or reserve adjusted LIBOR | 150,000 | 150,000 |
| Total long term debt | \$ 1,091,603 | \$ 1,067,684 |

Senior Redeemable Discount Notes

On January 29, 1999, we completed the issuance of Senior Redeemable Discount Notes due 2009 (the "1999 Notes"). The aggregate accreted value of the 1999 Notes was to increase from \$406.4 million at issuance at a rate of 14%, compounded semi-annually, to a final accreted value equal to a principal amount at maturity of \$800 million. On April 18, 2000 we redeemed 35% of the 1999 Notes for approximately \$191.2 million, net of an extraordinary loss of approximately \$23.5 million for early retirement of debt. The redemption was made with some of the proceeds received by us from our initial public offering of Class A common stock. The remaining aggregate accreted value of the 1999 Notes will increase at a rate of 14%, compounded semi-annually, to a final accreted value equal to a principal amount at maturity of \$520 million. Thereafter, the 1999 Notes bear interest at a rate of 14% per annum payable semi-annually in arrears.

The 1999 Notes contain certain covenants that limit, among other things, our ability to: (i) pay dividends, redeem capital stock or make certain other restricted payments or investments, (ii) incur additional indebtedness or issue preferred equity interests, (iii) merge, consolidate or

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

sell all or substantially all of our assets, (iv) create liens on assets, and (v) enter into certain transactions with affiliates or related persons. As of June 30, 2001, we were in compliance with applicable covenants.

Bank Credit Facility

On January 29, 1999, we, through OPCO, entered into a credit facility (Term B Loan) with a syndicate of banks and other financial institutions led by Donaldson, Lufkin and Jenrette Securities Corporation, as arranger (DLJSC), and DLJ Capital Funding, Inc., as syndication agent (DLJ Capital). The Term B Loan includes a \$175 million term loan facility and, initially, a \$100 million revolving credit facility. The Term B Loan has a maturity of nine years. The revolving credit facility terminates eight years from the initial funding. As of June 30, 2001, no amounts were outstanding under the \$100 million revolving credit facility.

On September 9, 1999, we, through OPCO, entered into an Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement) with a syndicate of banks and other financial institutions with DLJ Capital Funding, Inc. as syndication agent. The parties agreed to amend and restate in its entirety the credit agreement to, among other things, obtain from certain of the Lenders an additional term loan commitment (Term C Loan) in the maximum aggregate principal amount of \$150 million. The Term C Loan facility has a maturity of nine years. As of June 30, 2001, we were in compliance with applicable covenants under our bank credit facility.

11% Senior Notes

On March 10, 2000, we issued 11% Senior Notes due 2010 with an aggregate principal amount of \$200 million, and on July 27, 2000, issued an additional \$200 million of 11% Senior Notes, each in a private placement (the 2000 Notes). We exchanged the 2000 Notes issued in March 2000 and July 2000 for registered notes having the same financial terms and covenants. Interest accrues for the 2000 Notes at the rate of 11% per annum, payable semiannually in cash in arrears on March 15 and September 15 of each year. These notes contain certain financial and other covenants. As of June 30, 2001, we were in compliance with applicable covenants.

6. COMMITMENTS AND CONTINGENCIES

Regulatory Matters

The FCC issues Specialized Mobile Radio (SMR) licenses on both a site-specific and wide-area basis. Each license enables SMR carriers to provide service either on a site-specific basis, in specific 800 MHz Economic Areas (EA) or 900 MHz Metropolitan Trading Areas (MTA) in the United States. Currently, SMR licenses are issued for a period of ten years and are subject to certain construction and operational requirements.

In November 2000 the application to transfer ownership of the Option Territory licenses acquired on September 27, 2000 from Nextel WIP to us was completed. The FCC granted approval of our change control application on March 27, 2001, which allows for the transfer of the licenses from Nextel WIP to us.

The FCC has routinely granted license renewals providing the licensees have complied with applicable rules, policies and the Communications Act of 1934, as amended. We believe that we have met and will continue to meet all requirements necessary to secure the retention and renewal of our SMR licenses subsequent to the FCC approved transfer of the licenses from Nextel WIP.

7. RELATED PARTY TRANSACTIONS

Motorola Purchase Agreements

Pursuant to the equipment purchase agreements between ourselves and Motorola, and pursuant to purchase agreements between Nextel WIP and Motorola, Motorola provides the iDEN infrastructure and subscriber handset equipment to us throughout our markets (such equipment purchase agreements are referred to herein as the Equipment Purchase Agreements). We expect to rely on Motorola for the manufacture of a substantial portion of the equipment necessary to construct our portion of the Nextel digital mobile network and handset equipment for the foreseeable future. The Equipment Purchase Agreements govern our rights and obligations regarding purchases of system infrastructure equipment manufactured by Motorola and others.

For the three months ended June 30, 2001 and 2000, we purchased approximately \$58.4 million and \$35.8 million, respectively, and \$94.4 million and \$61.3 million for the six months ended June 30, 2001 and 2000, respectively, of infrastructure and other equipment, handsets, warranties and services from Motorola.

The Joint Venture Agreements

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

We and Nextel WIP entered into a joint venture agreement (the Joint Venture Agreement) dated January 29, 1999. The Joint Venture Agreement defines the relationships, rights and obligations between the parties.

The Roaming Agreement provides that each party pays the other's monthly roaming fees in an amount based on the actual system minutes generated by the respective subscribers of each Home Service Provider operating as authorized roamers in the Remote Service Provider's territory. For the three months ended June 30, 2001 and 2000, we earned approximately \$14.5 million and \$5.0 million, respectively, and for the six months ended June 30, 2001 and 2000, \$24.1 million and \$8.8 million, respectively, from Nextel customers roaming on our system, which amounts are included in service revenues.

During the first six months of 2001 and 2000, recorded as part of cost of service revenues, we paid Nextel WIP \$24.2 million and \$6.4 million, respectively, for various services, including specified telecommunications switching services, charges for our customers roaming on Nextel's system and other support costs. For the three months ended June 30, 2001 and 2000 we paid approximately \$14.5 million and \$4.2 million, respectively, for such services.

Under the Transition Services Agreement, certain telemarketing, customer care, fulfillment, activations and billing functions are made available to OPCO. For the three and six months ended June 30, 2001, we were charged approximately \$979,000 and \$1.6 million, respectively, for these services and \$605,000 and \$1.1 million, respectively, for the same periods in 2000. Nextel WIP also provided us access to certain back office and information systems platforms on an ongoing basis. We pay to Nextel a fee, based on Nextel's cost, for these services. For the three months ended June 30, 2001 and 2000 we were charged approximately \$345,000 and \$226,000, respectively, and for the six months ended June 30, 2001 and 2000 we were charged approximately \$623,000 and \$432,000, respectively, for these services. Both the transition and back office information services are included in selling, general and administrative expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Some statements and information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are not historical facts but are forward-looking statements. For a discussion of important factors that could cause results to differ materially from the forward-looking statements, including, but not limited to, factors associated with the build-out of our portion of the Nextel digital mobile network, actions of regulatory authorities and competitors and other factors, see Risk Factors.

Please read the following discussion together with the consolidated financial statements and the related notes included elsewhere in this report.

Overview

We provide digital wireless communications services in mid-sized and smaller markets throughout the United States. We hold or have the right to use wireless frequencies in 58 markets where over 50 million people, or Pops, live and work. We are licensed or have the right to operate in 15 of the top 100 metropolitan statistical areas in the United States ranked by population and 55 of the top 200 metropolitan statistical areas. As of June 30, 2001, we had commercial operations in markets with total Pops of approximately 42.4 million and the ability to offer service to, or cover, approximately 28.8 million Pops. These operational markets are in Alabama, Arkansas, Central Illinois, Florida, Georgia, Hawaii, Idaho, Indiana, Iowa, Kentucky, Louisiana, Minnesota, Mississippi, Nebraska, New York, Pennsylvania, Tennessee, Texas, Virginia, and Wisconsin.

As of June 30, 2001, we had approximately 358,900 digital subscribers. Our subscriber base grew 196.6% compared to June 30, 2000, with an ending subscriber count of approximately 121,000 for that period.

In June 2000 we introduced Wireless Web services (formerly known as Nextel Online) and by the end of 2000 we offered this data service in all of our launched markets. Wireless Web service provides Internet-capable subscriber units with wireless Internet services, including web-based applications and content. As of June 30, 2001, we had approximately 125,000 data subscribers.

Due to the continued development, build-out and enhancement of our portion of the Nextel digital mobile network, we expect to continue to experience negative operating margins. In addition, we anticipate costs such as site rentals, telecommunications expenses, network equipment and other capital items to increase. Sales and marketing expenses and general and administrative costs are also expected to increase with the commercialization of service in new markets.

Selected Consolidated Financial Data

The following tables present selected consolidated financial data derived from unaudited financial statements for the three and six months ended June 30, 2001 and 2000. In addition, operating data for the same periods are presented.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|---------------------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| | (unaudited) | | (unaudited) | |
| | (dollars in thousands except for per share data) | | | |
| Consolidated Statements of Operations Data: | | | | |
| Operating revenues: | | | | |
| Service revenues | \$ 82,912 | \$ 25,321 | \$ 145,995 | \$ 40,116 |
| Equipment revenues | 3,021 | 1,191 | 5,484 | 1,897 |
| Total revenues | 85,933 | 26,512 | 151,479 | 42,013 |
| Operating expenses: | | | | |
| Cost of service revenues | 46,668 | 17,225 | 80,037 | 28,433 |
| Cost of equipment revenues | 12,885 | 6,159 | 24,516 | 9,609 |
| Selling, general and administrative | 49,453 | 28,683 | 92,854 | 48,514 |
| EBITDA(1) | (23,073) | (25,555) | (45,928) | (44,543) |
| Stock based compensation | 7,931 | 17,017 | 15,617 | 35,053 |
| Depreciation and amortization | 19,825 | 7,525 | 34,186 | 12,564 |
| Total operating expenses | 136,762 | 76,609 | 247,210 | 137,173 |
| Operating income (loss) | (50,829) | (50,097) | (95,731) | (92,160) |
| Other income (expense): | | | | |
| Interest expense, net | (29,272) | (21,982) | (61,453) | (43,596) |
| Interest income | 9,132 | 16,265 | 22,628 | 28,077 |
| Total other (expense) | (20,140) | (5,717) | (38,825) | (15,519) |
| Loss before income tax provision | (70,969) | (55,814) | (134,556) | (107,679) |
| Income tax provision | | | | |
| Loss before extraordinary item and cumulative effect of change in accounting principle | (70,969) | (55,814) | (134,556) | (107,679) |
| Extraordinary item loss on early retirement of debt, net of \$0 income tax | | (23,485) | | (23,485) |
| Cumulative effect of change in accounting principle, net of \$0 income tax | | | (1,787) | |
| Net loss | (70,969) | (79,299) | (136,343) | (131,164) |
| Mandatorily redeemable preferred stock dividends | (860) | (763) | (1,685) | (4,054) |
| Loss attributable to common stockholders | \$ (71,829) | \$ (80,062) | \$ (138,028) | \$ (135,218) |
| Loss per share attributable to common stockholders, basic and diluted: | | | | |
| Loss before extraordinary item and cumulative effect of change in accounting principle attributable to common stockholders | \$ (0.29) | \$ (0.24) | \$ (0.56) | \$ (0.66) |
| Extraordinary item loss on early retirement of debt | \$ (0.10) | \$ (0.10) | \$ (0.01) | \$ (0.14) |
| Cumulative effect of change in accounting principle | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| Net loss per share attributable to common stockholders | \$ (0.29) | \$ (0.34) | \$ (0.57) | \$ (0.80) |

| | June 30, 2001 | December 31, 2000 |
|---|------------------|----------------------|
| (unaudited) | | |
| (dollars in thousands) | | |
| Consolidated Balance Sheet Data: | | |
| Cash and cash equivalents and short term investments(1)\$ | 630,077 | \$ 928,346 |
| Plant, property and equipment, net | 728,934 | 532,702 |
| FCC operating licenses, net | 266,717 | 245,295 |
| Total assets | 1,727,688 | 1,793,084 |
| Current liabilities | 144,881 | 120,423 |
| Long term debt | 1,091,603 | 1,067,684 |
| Series B redeemable preferred stock | 29,202 | 27,517 |
| Total stockholders' equity | 449,039 | 570,215 |

| | Six Months Ended June 30, | |
|---|---------------------------|-------------|
| | 2001 | 2000 |
| (unaudited) | | |
| (dollars in thousands) | | |
| Other Data: | | |
| Covered Pops (end of period) (millions) | 29 | 18 |
| Subscribers (end of period) | 358,900 | 121,000 |
| EBITDA as adjusted(2) | \$ (45,928) | \$ (44,543) |
| Capital expenditures(3) | \$ 228,410 | \$ 117,224 |

- (1) Short-term investments include marketable securities and corporate commercial paper with original purchase maturities greater than three months..
- (2) EBITDA as adjusted represents net loss before interest expense, interest income, depreciation, amortization, and stock-based compensation expense. EBITDA is commonly used to analyze companies on the basis of operating performance, leverage and liquidity. While EBITDA as adjusted should not be construed as a substitute for operating income or a better measure of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles, we have presented EBITDA as adjusted to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. EBITDA as adjusted is not a measure determined under generally accepted accounting principles. Also, EBITDA as adjusted as calculated above may not be comparable to similarly titled measures reported by other companies
- (3) Capital expenditures are exclusive of capitalized interest but include accrued or financed capital. Capital expenditures are required to purchase network equipment, such as switching and radio transmission equipment. Capital expenditures also include purchases of other equipment used for administrative purposes, such as office equipment and computer and telephone systems.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Revenues

Our primary sources of revenues are service revenues and equipment revenues. Service revenues increased 227.4% to \$82.9 million for the three months ended June 30, 2001 compared to \$25.3 million recognized during the three months ended June 30, 2000 (restated for SAB 101). Our service revenues consist of charges for airtime usage and monthly network access fees from providing integrated wireless services

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

within our territory, particularly mobile telephone and two-way radio dispatch services. Service revenues also include roaming revenues related to the use by Nextel subscribers on our portion of the Nextel digital mobile network. Roaming revenues for the second quarter of 2001 accounted for approximately 17.4% of our service revenues, as compared to 19.4% for the second quarter of 2000.

In December 2000 we changed our revenue recognition policy for activation fees (included in service revenues) and equipment (phones) revenues in accordance with the Securities and Exchange Commission Staff Accounting Bulletin 101 (SAB 101), Revenue Recognition in Financial Statements, effective January 1, 2000. This change in our revenue recognition policy became effective January 1, 2000 and as such, quarterly results for the three months ended June 30, 2000 have been restated. Under this new policy, our activation fees and phone revenues are deferred and recognized over three years, the expected life of the customer relationship. Concurrently, the related costs for the phone equipment are deferred to the extent of deferred revenues, resulting in no change to EBITDA or net loss. The direct and incremental phone costs in excess of revenues generated from phone sales are expensed immediately as the amounts exceed our minimum contractual revenue.

The following table shows results for the three months ended June 30, 2001 and 2000 without the impact of SAB 101.

| | For the Three Months Ended | |
|----------------------------|----------------------------|---------------|
| | June 30, 2001 | June 30, 2000 |
| | (Pre-SAB 101) | |
| Revenues: | | |
| Service revenues | \$ 83,394 | \$ 25,716 |
| Equipment revenues | 5,788 | 5,997 |
| Total revenues | \$ 89,182 | \$ 31,713 |
| Operating expenses: | | |
| Cost of equipment revenues | \$ 16,134 | \$ 11,360 |
| EBITDA | \$ (23,073) | \$ (25,555) |

Equipment revenues reported for the second quarter of 2001 adjusted in accordance with the implementation of SAB 101 were \$3.0 million compared to \$1.2 million reported for the second quarter of 2000, representing an increase of \$1.8 million, or 153.7%. Without adjusting for the impact of SAB 101, equipment revenues would have decreased 3.5% from the second quarter of 2000 to the second quarter of 2001 to \$5.8 million. Our equipment revenues consist of revenues received for wireless telephones and accessories purchased by our subscribers. Certain of our digital equipment sales are made through independent distributors under agreements allowing rights of return on merchandise unsold by the distributors. We defer recognition of such sales until the distributors sell the merchandise.

Total revenues increased 224.1% to \$85.9 million during the second quarter of 2001 as compared to \$26.5 million generated in the second quarter of 2000 restated for SAB 101. This growth in revenues was due to launching new markets along with increased revenues of approximately \$34.6 million, or 115.7%, from existing markets. The following table sets forth those markets launched during 2001:

| Markets | Market Launch |
|---|------------------------------|
| Roanoke, Lynchburg, Charlottesville, VA | 2 nd Quarter 2001 |
| Green Bay, Fond du Lac, Appleton, Sheboygan, WI | 2 nd Quarter 2001 |
| Eau Claire, La Crosse, WI | 2 nd Quarter 2001 |
| Duluth, MN | 2 nd Quarter 2001 |
| Rochester, Mankato, MN | 2 nd Quarter 2001 |
| Hattiesburg, Jackson, MS | 2 nd Quarter 2001 |
| Evansville, Owensboro KY/IN | 1 st Quarter 2001 |
| Laredo, TX | 1 st Quarter 2001 |
| Little Rock, AR | 1 st Quarter 2001 |
| Abilene, TX | 1 st Quarter 2001 |
| Terre Haute, IN | 1 st Quarter 2001 |
| Albany, GA | 1 st Quarter 2001 |
| Dothan, Auburn Opelika, AL | 1 st Quarter 2001 |

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Fayetteville-Springdale, Ft. Smith, Pine Bluff, AR
Columbus, GA/AL

1st Quarter 2001

1st Quarter 2001

Average revenue per unit, or ARPU, is an industry term that measures total service revenues per month from our subscribers divided by the average number of digital subscriber units in commercial service for that month. Our ARPU decreased \$2 to \$71 for the quarter ended June 30, 2001 as compared to \$73 for the quarter ended June 30, 2000. We attribute the lower ARPU to competitive pricing. The following table sets forth our recent revenues and ARPU:

| Revenues | | | | |
|---|---|---|---|---|
| (Dollar amounts in thousands, except for ARPU) | | | | |
| | For the Three Months Ended June 30, 2001 | % of Consolidated Revenues | For the Three Months Ended June 30, 2000 | % of Consolidated Revenues |
| Service and roaming revenues | \$ 82,912 | 96% | \$ 25,321 | 96% |
| Equipment revenues | 3,021 | 4% | 1,191 | 4% |
| Total revenues | \$ 85,933 | 100% | \$ 26,512 | 100% |
| ARPU (1) | \$ 71 | | \$ 73 | |

(1) ARPU was not adjusted for SAB 101 and does not include roaming revenues generated from the use by Nextel subscribers of our portion of the Nextel digital mobile network.

Cost of Service Revenues

Cost of service revenues consists primarily of network operating costs composed of site and switch rent, utilities, maintenance and interconnect charges. It also includes the amounts we must pay Nextel WIP when our customers roam onto Nextel's portion of the Nextel digital mobile network. These expenses depend mainly on the number of operating cell sites, total minutes of use and mix of minutes of use between interconnect and Nextel Direct Connect services.

For the second quarter of 2001, our cost of service revenues was \$46.7 million as compared to \$17.2 million for the same period in 2000, representing an increase of 170.9%. The increase in costs was primarily the result of bringing on-air approximately 1,020 additional cell sites during the period from June 30, 2000 to June 30, 2001 for a total of 2,021 operating cell sites as of June 30, 2001, as well as an increase in airtime usage. Increased airtime usage resulted from the growth in number of subscribers from 2000 along with the increased minutes of use per subscriber. We expect cost of service revenues to increase as we place more cell sites in service and the usage of minutes increases as our subscriber base grows.

Cost of Equipment Revenues

Cost of equipment revenues includes the cost of the subscriber wireless telephones and accessories sold by us. Our cost of equipment revenues reported for the second quarter of 2001 adjusted for SAB 101 was \$12.9 million. Without the effect of SAB 101, our cost of equipment revenues for the second quarter of 2001 would have been \$16.1 million compared to \$11.4 million for the same period in 2000, representing an increase of 42.0%. The increase in costs was related mostly to the growth in number of subscribers. As part of our business plan, we often offer our equipment at a discount or as part of a promotion. As a result, the difference between equipment revenues and cost of equipment revenues was a loss of \$9.9 million for the second quarter of 2001, adjusted for SAB 101, compared to a loss of \$5.0 million for the same period in 2000. Net equipment margin for the second quarter of 2001, without SAB 101, would have been a loss of \$10.3 million as compared to \$5.4 million for the same period in 2000. We expect to continue to employ these discounts and promotions in an effort to grow our number of subscribers. Therefore, for the foreseeable future, we expect that cost of equipment revenues will continue to exceed our equipment revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of sales and marketing expenses, customer care services and general and administrative costs. For the second quarter of 2001 these costs were \$49.5 million as compared to \$28.7 million for the same period in 2000, representing an increase of 72.4%.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Sales and marketing expenses relate to salaries for sales representatives and sales support personnel, and costs associated with indirect distribution channels, marketing and advertising programs. These expenses increased as a result of:

- increased sales and marketing activities to launch markets and grow our subscriber base;
- our hiring of additional sales and marketing employees to accommodate the growth in new and existing markets; and
- higher expenses related to higher sales from the indirect distribution channel.

General and administrative costs relate to corporate personnel overhead including tax, legal, planning, human resources, information technology, treasury, accounting and our customer care center operations. Our general and administrative costs increased as a result of our:

- hiring employees for our functional departments and offices to support the growth of the new and existing markets;
- staffing and operating our customer care and fulfillment service center in Las Vegas, NV to support the growing subscriber base; and
- hiring employees to maintain and support systems.

Stock-Based Compensation Expense

For the three months ended June 30, 2001 and 2000, we recorded stock-based compensation expense associated with our restricted stock purchase plan and employee stock options granted during 1999 of \$7.9 million and \$17.0 million, respectively. This expense is a non-cash expense. Prior to our initial public offering, grants were considered compensatory and accounted for on a basis similar to that used for stock appreciation rights. At our initial public offering (February 25, 2000), the intrinsic value of the options and restricted stock was recorded and is being amortized over the remaining vesting periods.

Depreciation and Amortization Expense

For the second quarter of 2001, our depreciation and amortization expense was \$19.8 million as compared to \$7.5 million for the same period in 2000, representing an increase of 163.5%. The \$12.3 million increase related primarily to depreciating the wireless network assets for the approximately 1,020 additional cell sites placed in service from June 30, 2000 to June 30, 2001, along with the costs related to the furniture and equipment purchased to set up the new offices and amortizing additional FCC-licensed radio spectrum associated with the new markets launched.

Interest Expense and Interest Income

Interest expense, net of capitalized interest, increased from \$22.0 million for the second quarter of 2000 to \$29.3 million for the same period in 2001, representing an increase of 33.2%. The increase was due to the issuance of \$200 million in 11% senior notes in July 2000 and the interest accretion on the 14% senior discount notes.

For the second quarter of 2001, interest income was \$9.1 million, compared to \$16.3 million for the same period in 2000, representing a decrease of 43.9%. This decrease was due to a reduction in our cash balance because of additional spending related to the network build-out and a decline in interest rates on our short term investments.

Net Loss

For the second quarter of 2001 we had losses attributable to common stockholders of approximately \$71.8 million as compared to a loss of \$80.1 million for the same period in 2000, representing a decrease of 10.3%. For 2000, we recorded a loss of \$23.5 million for the early retirement of 14% senior notes. Expenses for 2001 increased in all categories as we launched new markets, added subscriber usage to the network, hired staff for functional departments and offices, and increased marketing and sales activities for the newly launched markets. We anticipate reporting net losses for the foreseeable future as we grow and expand to meet the requirements of the business.

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Revenues

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Service revenues increased 263.9% to \$146.0 million for the six months ended June 30, 2001 as compared to \$40.1 million recognized during the six months ended June 30, 2000 (restated for SAB 101). Roaming revenues for the first six months of 2001 accounted for approximately 16.4% of our service revenues, as compared to 21.7% for the first six months of 2000.

The following table shows results for the six months ended June 30, 2001 and 2000 without the impact of SAB 101.

| | For the Six Months Ended | |
|----------------------------|---------------------------------|-----------------------------|
| | June 30, 2001 | June 30, 2000 |
| | (Pre-SAB 101) | |
| | <u> </u> | <u> </u> |
| Revenues: | | |
| Service revenues | \$ 146,828 | \$ 40,699 |
| Equipment revenues | 10,318 | 9,523 |
| | <u> </u> | <u> </u> |
| Total revenues | \$ 157,146 | \$ 50,222 |
| | <u> </u> | <u> </u> |
| Operating expenses: | | |
| Cost of equipment revenues | \$ 30,183 | \$ 17,818 |
| | <u> </u> | <u> </u> |
| EBITDA | \$ (45,928) | \$ (44,543) |
| | <u> </u> | <u> </u> |

Equipment revenues reported for the six months ended June 30, 2001 adjusted in accordance with the implementation of SAB 101 were \$5.5 million as compared to \$1.9 million reported for the same period in 2000, representing an increase of \$3.6 million, or 189.1%. Without adjusting for the impact of SAB 101, equipment revenues would have, increased 8.3%, or \$795,000, from the first six months of 2000 to the first six months of 2001 to \$10.3 million.

Total revenues increased 260.6% to \$151.5 million during the first six months of 2001 as compared to \$42.0 million generated in the first six months of 2000. This growth in revenues was due to launching new markets along with increased revenues of approximately \$41.6 million, or 118.8%, from existing markets.

Our ARPU increased \$1 to \$71 for the six months ended June 30, 2001, as compared to \$70 for the six months ended June 30, 2000. We credit the higher ARPU to increased minutes used by subscribers and additional features such as voice mail, short message services, Wireless Web services (formerly known as Nextel Online) and Nextel Worldwide products. The following table sets forth our recent revenues and ARPU:

| | Revenues | | | |
|------------------------------|---|---|---|---|
| | (Dollar amounts in thousands, except for ARPU) | | | |
| | For the Six Months Ended June 30, 2001 | % of Consolidated Revenues | For the Six Months Ended June 30, 2000 | % of Consolidated Revenues |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Service and roaming revenues | \$ 145,995 | 96% | \$ 40,116 | 95% |
| Equipment revenues | 5,484 | 4% | 1,897 | 5% |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total revenues | \$ 151,479 | 100% | \$ 42,013 | 100% |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| ARPU (1) | \$ 71 | | \$ 70 | |
| | <u> </u> | | <u> </u> | |

(1) ARPU was not adjusted for SAB 101 and does not include roaming revenues generated from the use by Nextel subscribers of our portion of the Nextel digital mobile network.

Cost of Service Revenues

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

For the first six months of 2001, our cost of service revenues was \$80.0 million as compared to \$28.4 million for the same period in 2000, representing an increase of 181.5%. The increase in costs was primarily the result of bringing on-air approximately 1,020 additional cell sites from June 30, 2000 to June 30, 2001, as well as an increase in airtime usage. Increased airtime usage resulted from the growth in number of subscribers from 2000 along with the increased minutes of use per subscriber. We expect cost of service revenues to increase as we place more cell sites in service and the usage of minutes increases as our subscriber base grows.

Cost of Equipment Revenues

Our cost of equipment revenues reported for the first six months of 2001 adjusted for SAB 101 was \$24.5 million. Without the effect of SAB 101, our cost of equipment revenues for the first six months of 2001 would have been \$30.2 million as compared to \$17.8 million for the same period in 2000, representing an increase of 69.4%. The increase in costs was related mostly to the growth in number of subscribers. As part of our business plan, we often offer our equipment at a discount or as part of a promotion. As a result, the difference between equipment revenues and cost of equipment revenues was a loss of \$19.0 million for the first six months of 2001, adjusted for SAB 101, as compared to a loss of \$7.7 million for the same period in 2000. Net equipment margin for the first six months of 2001, without SAB 101, would have been a loss of \$19.9 million as compared to \$8.3 million for the same period in 2000. We expect to continue to employ these discounts and promotions in an effort to grow our number of subscribers. Therefore, for the foreseeable future, we expect that cost of equipment revenues will continue to exceed our equipment revenues.

Selling, General and Administrative Expenses

For the first six months of 2001 selling, general and administrative expenses were \$92.9 million as compared to \$48.5 million for the same period in 2000, representing an increase of 91.4%.

Sales and marketing expenses increased as a result of:

- increased sales and marketing activities to launch markets and grow our subscriber base;
- our hiring of additional sales and marketing employees to accommodate the growth in new and existing markets; and
- higher expenses related to higher sales from the indirect distribution channel.

Our general and administrative costs increased as a result of our:

- hiring employees for our functional departments and offices to support the growth of the new and existing markets;
- staffing and operating our customer care and fulfillment service center in Las Vegas, NV to support the growing subscriber base; and
- hiring employees to maintain and support systems.

Stock-Based Compensation Expense

For the six months ended June 30, 2001 and 2000, we recorded stock-based compensation expense associated with our restricted stock purchase plan and employee stock options granted during 1999 of \$15.6 million and \$35.1 million, respectively. This expense is a non-cash expense. Prior to our initial public offering, grants were considered compensatory and accounted for on a basis similar to that used for stock appreciation rights. At our initial public offering (February 25, 2000), the intrinsic value of the options and restricted stock was recorded and is being amortized over the remaining vesting periods.

Depreciation and Amortization Expense

For the first six months of 2001, our depreciation and amortization expense was \$34.2 million as compared to \$12.6 million for the same period in 2000, representing an increase of 172.1%. The \$21.6 million increase related primarily to depreciating the wireless network assets for the approximately 1,020 additional cell sites placed in service from June 30, 2000 to June 30, 2001, along with the costs related to the furniture and equipment purchased to set up the new offices and amortizing additional FCC-licensed radio spectrum associated with the new markets launched.

Interest Expense and Interest Income

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Interest expense, net of capitalized interest, increased from \$43.6 million for the first six months of 2000 to \$61.5 million for the same period in 2001, representing an increase of 41%. The increase was due to the issuance of \$200 million in 11% senior notes in March 2000 and an additional \$200 million in 11% senior notes in July 2000, offset by the reduction in interest costs from redeeming 35% of the 14% senior discount notes in April 2000. Additionally, approximately \$2.1 million related to the fair market value adjustments of our hedges was included as interest expense in the first six months of 2001.

For the first six months of 2001, interest income was \$22.6 million, as compared to \$28.1 million for the same period in 2000, representing a decrease of 19.4%. This decrease was due to a reduction in our cash balance because of the additional spending related to the network build-out and a decline in interest rates on our short term investments.

Cumulative Effect of Change in Accounting Principle

Effective January 1, 2001, we adopted Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Certain Hedge Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133. SFAS 133 and 138 require a company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. We hold interest rate swap agreements to mitigate our interest rate risk. The initial adoption resulted in the recording of an additional liability of \$1.8 million, with the offset recorded as a cumulative effect of change in accounting principle.

Net Loss

For the first six months of 2001 we had losses attributable to common stockholders of approximately \$138.0 million as compared to a loss of \$135.2 million for the same period in 2000, representing an increase of 2.1%. The \$138.0 million loss for 2001 includes a charge of approximately \$1.8 million relating to the implementation of SFAS 133. In addition, the loss for 2000 includes an extraordinary item for \$23.5 million relating to the early retirement of the 14% senior notes. Expenses increased in all categories as we launched new markets, added subscriber usage to the network, hired staff for functional departments and offices, and increased marketing and sales activities for the newly launched markets. We anticipate reporting net losses for the foreseeable future as we grow and expand to meet the requirements of the business.

Liquidity and Capital Resources

Our primary liquidity needs arise from the capital requirements necessary to complete the build-out of our portion of the Nextel digital mobile network, including the future acquisitions of additional frequencies and the introduction of new services. We expect capital expenditures to include, among other things, switches, base radios, transmission towers, antennae, radio frequency engineering, and cell site construction. Currently, we estimate that capital requirements to build out our portion of the Nextel digital mobile network, including build-out of the markets we acquired from Nextel WIP on September 27, 2000, and operating losses and working capital for the period from inception through the end of 2003, will total approximately \$1.9 billion, including the in-kind contributions we have received from Nextel WIP and Motorola.

For the six months ended June 30, 2001, we used \$70.4 million in cash for operating activities, as compared to \$46.3 million for the same period in 2000. The increased use of funds for operating activities in 2001 was primarily due to expenses relating to hiring employees, network operating costs for additional sites placed in service, increased marketing and sales activities, and an increase in receivables due to additional customers.

Net cash used in investing activities during the first six months of 2001 was \$86.8 million, a decrease of \$398.1 million as compared to the same period in 2000. The reason for less cash used in investing activities for 2001 is due primarily to the receipt of proceeds from the sale of short-term investments versus the purchase of short-term investments for the same period in 2000, offset by an increase in capital expenditures for the network build-out. During the first six months of 2001, we invested \$211.1 million in capital expenditures, excluding \$1.8 million of non-cash capitalized interest, spent primarily to build out and expand coverage on the Nextel digital mobile network in Pennsylvania, Kentucky, Iowa, Nebraska, Florida, Texas, Alabama, Louisiana, Mississippi, Illinois, Idaho, Georgia, Minnesota, Wisconsin, North Dakota, Virginia, and West Virginia markets. During the same period in 2000, we invested \$122.2 million in capital expenditures, excluding \$3.5 million of non-cash capitalized interest, which was primarily for the Hawaii, upstate New York, Texas, Pennsylvania, Kentucky, Iowa, Nebraska and Florida markets. During the first six months of 2001 we also invested \$22.9 million, excluding \$924,000 of non-cash capitalized interest, in FCC licenses.

As we have seen consistent growth in customer usage and revenues, we have decided to accelerate capital spending on three projects from 2002 into 2001. These projects relate to:

change in our billing system;

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

the addition of a new call center, which will be opened at the beginning of the first quarter of 2002 as opposed to the end of the first quarter, in Panama City Beach, Florida; and

an additional switch that is likely to be located in Florida, which will come on line in mid-2002, and will eventually result in an expense savings by reducing our switch sharing costs.

These expenditures were initially scheduled to be made in 2002. These three projects will increase our capital expenditures by \$18 million for a total capital expenditure of \$380 million for 2001, of which most of the increase will be spent in the fourth quarter.

Sources of Funding

To date, third-party financing activities have provided all of our funding. As of June 30, 2001 these financings totaled approximately \$1.9 billion and included:

proceeds from cash equity contributions of \$195.5 million;

the offering of 14% senior discount notes for \$406.4 million, less \$191.2 million for the partial redemption of these notes in April 2000;

term loans incurred by our operating subsidiary in the aggregate principal amount of \$325.0 million;

the contribution by Nextel WIP of FCC licenses valued at \$178.3 million, in exchange for Class B common stock and Series B preferred stock;

the contribution by Motorola of a \$22.0 million credit to use against our purchases of Motorola-manufactured infrastructure equipment in exchange for common stock, all of which had been used by December 31, 1999;

net proceeds from the sale of Class A common stock in our initial public offering of \$510.8 million;

the offering of 11% senior notes for \$200.0 million in March 2000; and

the offering of an additional \$200.0 million in 11% senior notes in July 2000.

In addition, as of June 30, 2001, we had irrevocable commitments from our current stockholders to contribute an additional \$7.3 million.

Our 14% senior discount notes due February 1, 2009 were sold in January 1999. The notes were issued at a discount to their aggregate principal amount at maturity and generated aggregate gross proceeds to us of approximately \$406.4 million. In July 1999 we exchanged these notes for registered notes having the same financial terms and covenants as the notes issued in January 1999. Cash interest will not accrue on the notes prior to February 1, 2004. On April 18, 2000, we redeemed 35% of the accreted value of these outstanding notes for approximately \$191.2 million with proceeds from our initial public offering. The redemption payment of \$191.2 million included \$167.7 million of these outstanding notes plus a 14% premium of approximately \$23.5 million. The notes still outstanding will accrete in value representing the amortization of original issue discount at a rate of 14%, compounded semiannually, to an aggregate principal amount of \$520.0 million by February 1, 2004. As of June 30, 2001, the accreted value of the outstanding 14% senior discount notes was approximately \$366.6 million.

Nextel Partners Operating Corp., one of our wholly owned subsidiaries, entered into a credit facility in January 1999 with a syndicate of banks and other financial institutions led by Donaldson, Lufkin & Jenrette Securities Corporation, as arranger, DLJ Capital Funding, as syndication agent, and Bank of Montreal, as administrative agent. This credit facility was amended and restated in September 1999. The credit facility, as amended, includes a \$175 million term loan, a \$150 million term loan and a \$100 million reducing revolving credit facility. Subject to Nextel Partners Operating Corp.'s right in the future to seek an increase of up to an additional \$50 million, the credit facility may not exceed \$425 million. The \$175 million term loan matures on January 29, 2008, and the \$150 million term loan matures on July 29, 2008. The revolving credit facility will terminate on January 29, 2007. As of June 30, 2001, no amounts were outstanding under the \$100 million revolving credit facility.

The \$175 million and the \$150 million term loans both bear interest, at our option, at the administrative agent's alternate base rate or reserve-adjusted LIBOR plus, in each case, applicable margins. The applicable margin for the \$175 million term loan is 4.75% over LIBOR and 3.75% over the base rate of the higher of 0.5% per annum above the latest federal funds rate or the prime rate. The applicable margin for the \$150 million term loan is 4.25% over LIBOR and 3.25% over the base rate. For the revolving credit facility, the initial applicable margin is 4.25% over LIBOR and 3.25% over the base rate until consolidated EBITDA, as adjusted, is positive, at which time the applicable margin will be initially 4.0% over LIBOR and 3.0% over the base rate and thereafter will be determined on the basis of the ratio of total debt to annualized EBITDA, as adjusted, and will range between 2.25% and 3.75% over LIBOR and between 1.25% and 2.75% over the base rate.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Borrowings under the term loans are secured by a first priority pledge of all assets of our subsidiaries and a pledge of their capital stock. The credit facility contains financial and other covenants customary for the wireless industry. The credit facility also contains covenants requiring the maintenance of certain defined financial ratios and meeting operational targets including service revenues, subscriber units and network coverage. As of June 30, 2001 we were in compliance with all covenants associated with this credit facility.

On March 10, 2000, we issued \$200 million of 11% senior notes due 2010, and on July 27, 2000, we issued an additional \$200 million of 11% senior notes, each in a private placement. We subsequently exchanged all of the March 2000 and July 2000 notes for registered notes having the same financial terms and covenants as the privately placed notes. Interest accrues for these notes at the rate of 11% per annum, payable semiannually in cash in arrears on March 15 and September 15 of each year.

While we believe we have sufficient funds to complete the build-out of our existing markets, acquire additional frequencies and provide us with the working capital necessary to cover our debt service requirements and operating losses through 2003, which is when we anticipate achieving positive operating cash flow for the full fiscal year, we cannot assure you that additional funding will not be necessary. As of June 30, 2001, our cash and cash equivalents and short-term investments balance was approximately \$630.1 million. We could require additional financing to complete our existing portion of the Nextel digital mobile network, acquire additional FCC licenses, add capacity and offer additional services, and such additional financing might be expensive or impossible to obtain.

Equipment and Operating Agreements

Currently, our agreements with Nextel WIP allow us access to Nextel's switches and switching facilities. Nextel WIP has agreed to cooperate with us to establish a switch facility for our network and to deploy switches in our territory in a manner which best meets the following criteria:

- integration of our cell sites into Nextel's national switching infrastructure;
- shared coverage of Nextel Direct Connect service to communities of interest;
- minimized costs to us and to Nextel; and
- maximized quality of service to our customers and to Nextel customers.

These criteria provide for a flexible construction schedule of switches to serve our territory, depending on the existing switches in Nextel's territory and the amount of customer traffic handled by any one switch. We have the option of installing our own switching facilities within our territory. However, our deployment of any switching facility requires coordination with Nextel WIP and may require Nextel WIP's approval. Our agreements with Nextel WIP require us to implement and install appropriate switch elements as the number of our subscribers and cell site levels increases. For example, we will need to install a mobile switching office for every 120,000 subscriber units or a base site controller for every 50 operational cell sites. We believe that we have sufficient funds for these installations under our current business plans. We are currently constructing one switch in Kentucky, which will be fully operational in the third quarter of 2001. In addition, we have started to work on another switch in Iowa with an anticipated operational date during the first quarter of 2002.

RISK FACTORS

The following risk factors and other information included in this Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

RISK FACTORS RELATING TO NEXTEL PARTNERS

We have a history of operating losses, expect to continue to incur substantial operating losses in the future and may not be able to generate the earnings necessary to fund our operations, sustain the continued growth of our business or repay our debt obligations.

We did not commence commercial operations until January 29, 1999, and the portion of the Nextel digital mobile network we acquired on that date only had a few months of operating history. Since then, we have had a history of operating losses, and, as of June 30, 2001, we had incurred accumulated deficit of approximately \$543.8 million. We expect to continue to incur substantial operating losses and to generate negative cash flow from operating activities at least through 2003. We cannot assure you that we will become profitable or sustain profitability in the future. If we fail to complete the commercial launch of our portion of the Nextel digital mobile network on schedule or if we fail to achieve significant and sustained growth in our revenues and earnings from operations, we will not have sufficient cash to fund our current operations, sustain the continued growth of our business or repay our debt obligations. Our failure to fund our operations or continued growth

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

would have an adverse impact on our financial condition, and our failure to make any required payments would result in defaults under all of our debt agreements, which could result in the cessation of our business.

We must complete our portion of the Nextel digital mobile network by set deadlines, offer certain services and meet performance requirements or otherwise risk termination of our agreements with Nextel WIP, which would eliminate our ability to carry out our current business plan and strategy.

Our operating agreements with Nextel WIP require us to construct our portion of the Nextel digital mobile network to specific standards and by set deadlines, offer certain services and meet performance requirements. Our failure to meet any of these requirements could constitute a material default under the operating agreements that would give Nextel WIP the right to terminate these agreements, including our right to use the Nextel brand. The non-renewal or termination of the Nextel WIP operating agreements would eliminate our ability to carry out our current business plan and strategy and adversely affect our financial condition.

Our success is dependent, in part, on Nextel completing its portion of the Nextel digital mobile network and continuing to build and sustain customer support of its brand and the Motorola iDEN technology, and if Nextel experiences financial or operational difficulties our business would be adversely affected.

Our business plan depends, in part, on Nextel completing its portion of the Nextel digital mobile network on schedule and continuing to build and sustain customer support of its brand and the Motorola iDEN technology. If Nextel encounters financial problems or operating difficulties relating to its portion of the Nextel digital mobile network or experiences a significant decline in customer acceptance of its products or the Motorola iDEN technology, our affiliation with and dependence on Nextel may adversely affect our business, including the quality of our services, the ability of our customers to roam within the entire network and our ability to attract and retain new customers. Additional information regarding Nextel and its domestic digital mobile network business can be found in Nextel's Annual Report on Form 10-K for the year ended December 31, 2000 and Nextel's other filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934 under SEC file number 0-19656. You should read these filings to more fully understand the risks presented by our affiliation with Nextel.

Our business strategy depends on the successful and continued integration of our portion of the digital mobile network with Nextel's portion.

Pursuant to our operating agreements with Nextel WIP, Nextel WIP provides us with important services and assistance, including a license to use the Nextel brand name and the sharing of switches that direct calls to their destinations. These services are critical to the successful integration of our portion of the Nextel digital mobile network with Nextel's portion, which is essential to the overall success of our business.

Moreover, our business plan depends on our ability to implement an integrated customer service, network management and billing system with Nextel's systems to allow our respective portions of the Nextel digital mobile network to operate together, and provide our and Nextel's customers with seamless service. Integration requires that numerous and diverse computer hardware and software systems work together. Any failure to integrate these information systems on schedule may have an adverse effect on our results of operations.

Difficulties in constructing and operating our portion of the Nextel digital mobile network could increase the estimated costs and delay the scheduled completion of the network, thereby adversely affecting our ability to generate revenue.

The development and operation of our portion of the Nextel digital mobile network involves a high degree of risk. Before we are in a position to commence operations in our undeveloped markets, we will need to:

- select and acquire appropriate sites for our transmission equipment, or cell sites;

- purchase and install low power transmitters, receivers and control equipment, or base radio equipment;

- build out the physical infrastructure;

- obtain interconnection services from local telephone service carriers on a timely basis; and

- test the network.

Our ability to perform these necessary steps successfully may be hindered by, among other things, any failure:

- to lease or obtain rights to sites for the location of our base radio equipment;

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

to obtain necessary zoning and other local approvals with respect to the placement, construction and modification of our facilities;

to acquire additional necessary radio frequencies from third parties or to exchange radio frequency licenses with Nextel WIP;

to commence and complete the construction of sites for our equipment in a timely and satisfactory manner; and

to obtain necessary approvals, licenses and permits from federal, state and local agencies, including land use regulatory approvals and approval from the Federal Aviation Administration with respect to the transmission towers that we will be using.

Before fully implementing our portion of the Nextel digital mobile network in a new market area or expanding coverage in an existing market area, we must complete systems design work, find appropriate sites and construct necessary transmission structures, receive regulatory approvals, free up frequency channels now devoted to non digital transmissions and begin systems optimization. These processes may take weeks or months to complete, and may be hindered or delayed by many factors, including unavailability of antenna sites at optimal locations, land use and zoning controversies and limitations of available frequencies. In addition, we may experience cost overruns and delays not within our control caused by acts of governmental entities, design changes, material and equipment shortages, delays in delivery and catastrophic occurrences. Any failure to construct our portion of the Nextel digital mobile network on a timely basis may affect our ability to provide services in our markets on a schedule consistent with our current business plan, and any significant delays could have a material adverse effect on our business. Moreover, if we fail to launch two or more markets in any year within 180 days of the scheduled launch date, or if we fail to complete the build out of two or more markets in any year within 180 days of the scheduled build out date, we could be in default of our operating agreements with Nextel WIP, which would impede our ability to execute our business plan.

We may be required to implement material changes to our business operations to the extent these changes are adopted by Nextel, which may not be beneficial to our business.

If Nextel adopts material changes to its operations, including the adoption of new technology, our operating agreements with Nextel WIP give it the right to require similar changes to our operations. The failure to implement required changes could, under certain circumstances, trigger the ability of Nextel WIP to terminate its operating agreements with us. Even if the required change is beneficial to Nextel, the effect on our business may differ due to differences in markets and customers. We cannot assure you that such changes would not adversely affect our business plan.

Our highly leveraged capital structure limits our ability to obtain additional financing and could adversely affect our business in several other ways.

The level of our outstanding debt greatly exceeds the level of our revenues and stockholders equity. As of June 30, 2001, we had approximately \$1.2 billion of total indebtedness outstanding, including \$325 million outstanding under our credit facility, \$366.6 million of senior discount notes outstanding at their accreted value and \$400 million of senior notes outstanding. This indebtedness represented approximately 70% of our total capitalization at that date. As of June 30, 2001, we also had \$29.2 million of mandatorily redeemable preferred stock outstanding, including accrued dividends.

Our large amount of existing indebtedness, and the fact that we may need to incur additional debt in the future, could significantly impact our business for the following reasons:

it limits our ability to obtain additional financing, if needed, to complete the build out of our portion of the Nextel digital mobile network, to cover our cash flow deficit or for working capital, other capital expenditures, debt service requirements or other purposes;

it means that we will need to dedicate a substantial portion of our operating cash flow to fund interest expense on our credit facility and other indebtedness, thereby reducing funds available for our build out, operations or other purposes;

it makes us vulnerable to interest rate fluctuations because our credit facility term loan bears interest at variable rates;

it limits our ability to compete with competitors who are not as highly leveraged, especially those who may be able to price their service packages at levels below that which we can or are willing to match; and

it limits our ability to react to changing market conditions, changes in our industry and economic downturns.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. These factors include, among other things, our ability to:

successfully implement our business plan and related strategy, including the construction and operation of our portion of the Nextel digital mobile network;

obtain and retain a significant number of subscribers; and

achieve significant and sustained growth in our revenues and earnings from operations.

Based on our current level of operations and anticipated cost savings and operating improvements, we believe our cash flow from operations, available cash and available borrowings under our credit facility will be adequate to meet our future liquidity until we become cash flow positive, which we anticipate will not occur before 2003.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to pay our indebtedness, including obligations under our credit facility or our senior discount notes or existing senior notes, or to fund our other liquidity needs. Moreover, the fund raising efforts of Nextel or any of its affiliates may also adversely affect our ability to raise additional funds.

In the future we may need to refinance our indebtedness, and our ability to refinance our indebtedness will depend on many factors, some of which are beyond our control, and we cannot assure you that we will be able to do so.

We expect that we may be required to refinance our current indebtedness. Our ability to refinance our indebtedness will depend on, among other factors, our financial condition at the time of the refinancing, the restrictions contained in the instruments governing our indebtedness then outstanding and other factors beyond our control, including market conditions. If our indebtedness cannot be repaid at maturity or refinanced, then we will be able to meet our obligations under our debt agreements, which could result in the cessation of our business.

Our existing debt agreements contain restrictive and financial covenants that limit our operating flexibility.

Our credit facility and the indentures governing our existing senior notes and senior discount notes contain covenants that, among other things, restrict our ability to take specific actions even if we believe them to be in our best interest. These include restrictions on our ability to:

incur additional debt;

pay dividends or distributions on, or redeem or repurchase, capital stock;

create liens on assets;

make investments, loans or advances;

issue or sell capital stock of certain of our subsidiaries;

enter into transactions with affiliates;

enter into a merger, consolidation or sale of assets; or

engage in any business other than telecommunications.

In addition, the credit facility imposes financial covenants which require our principal subsidiary to comply with specified financial ratios and tests, including minimum interest coverage ratios, maximum leverage ratios, minimum service revenues, minimum subscriber units and covered Pops, minimum EBITDA requirements and minimum fixed charge coverage ratios. We cannot assure you that we will be able to meet these requirements or satisfy these covenants in the future, and if we fail to do so, our debts could become immediately payable at a time when we are unable to pay them, which could adversely affect our ability to carry out our business plan and would have a negative impact on

our financial condition.

If an event constituting a change of control occurs, we may be required to redeem all of our outstanding notes even if our credit facility prohibits such a redemption or we lack the resources to make such a redemption.

Upon the occurrence of a defined change of control under the indentures governing our senior discount notes and our existing senior notes, other than a change of control involving certain of our existing stockholders, we could be required to redeem our senior discount notes and our existing senior notes. Our credit facility prohibits us, except under certain circumstances, from redeeming any of our senior discount notes and our existing senior notes before their stated maturity. In the event we become subject to a change of control at a time when we are prohibited from redeeming our senior discount notes and our existing senior notes, our failure to redeem our senior discount notes and our existing senior notes would constitute an event of default under the respective indentures, which would in turn result in a default under the credit facility. Any default under our indentures or credit facility could result in an acceleration of such indebtedness, which would harm our financial condition and could adversely impact our ability to implement our business plan. Moreover, even if we obtained consent under our credit facility, we cannot assure you that we would have sufficient resources to redeem our senior discount notes and our existing senior notes and still have sufficient funds available to successfully pursue our business plan.

Our future performance will depend on our and Nextel's ability to succeed in the highly competitive wireless communications transmission industry.

Our ability to compete effectively with established and prospective wireless communications service providers depends on many factors, including:

If the wireless communications technology used by Nextel and us does not perform in a manner that meets customer expectations, we will be unable to attract and retain customers. Customer acceptance of the services we offer is and will continue to be affected by technology-based differences and by the operational performance and reliability of system transmissions on the Nextel digital mobile network. If we are unable to address and resolve satisfactorily performance or other transmission quality issues as they arise, including transmission quality issues on Nextel's portion of the Nextel digital mobile network, or if these issues limit our ability to expand our network coverage or capacity as currently planned, or place either Nextel or us at a competitive disadvantage to other wireless service providers in our markets, we may have difficulty attracting and retaining customers, which would adversely affect our revenues.

If we or Nextel cannot expand, provide and maintain our respective system coverage on a nationwide basis in the United States, then our growth and operations would be adversely affected. We will not be able to provide roaming system coverage comparable to that currently available through roaming arrangements from cellular and some personal communication services operators unless and until we and Nextel substantially complete a nationwide digital mobile network. This places us at a competitive disadvantage, as some other providers currently have roaming agreements that provide coverage of each other's markets throughout the United States, including areas where our portion and/or Nextel's portion of the Nextel digital mobile network has not been or will not be built. In addition, some of our competitors provide their customers with subscriber units with both digital and analog capability, which expands their coverage, while we and Nextel have only digital capability. We cannot assure you that we will be able to achieve sufficient system coverage or that a sufficient number of customers or potential customers will be willing to accept system coverage limitations as a trade-off for the enhanced multi-function wireless communications package we provide on our portion and Nextel's portion of the Nextel digital mobile network.

Neither we nor Nextel have the extensive direct and indirect channels of distribution for the Nextel digital mobile network products and services that are available to some of our competitors. The lack of this distribution channel could adversely affect our operating results. Many of our competitors have established extensive networks of retail locations and multiple distribution channels, and so enjoy a competitive advantage over us in these areas. We have increased the proportion of our digital mobile network customers that we obtain through our indirect distributor network, and we currently anticipate that we will rely more heavily on indirect distribution channels to achieve greater market penetration for our digital wireless service offerings. However, as we expand our retail subscriber base through increased reliance on indirect distribution channels and as price competition in the wireless industry intensifies, our average revenue per digital subscriber unit may decrease and our customer retention may be adversely affected.

If we cannot offer pricing packages attractive to customers, our revenues may be adversely affected, which could adversely affect our operating results.

If our competitors provide two-way radio dispatch services, we will lose a competitive advantage. Our two-way radio dispatch services are currently not available through traditional cellular or personal communication services providers; however, if either personal communication services or cellular operators provide two-way radio dispatch or comparable services in the future, our competitive advantage may be impaired, which could have an adverse effect on our revenue.

We may face pressure to reduce our prices, which would adversely affect our operating results.

We expect that as the number of wireless communications providers in our market areas increases, including providers of both digital and analog services, our competitors' prices in these markets will decrease. We may encounter further market pressures to:

reduce our digital mobile network service offering prices;

restructure our digital mobile network service offering packages to offer more value; or

respond to particular short-term, market-specific situations, for example, special introductory pricing or packages that may be offered by new providers launching their service in a particular market.

A reduction in our pricing could have an adverse effect on our revenue and operating results.

Our equipment is more expensive than the equipment of some of our competitors, which may adversely affect our growth and operating results.

We currently market multi-function digital wireless telephones, providing mobile telephone and private and group dispatch service, in addition to paging and alphanumeric short-text messaging. Our mobile telephones are, and are likely to remain, significantly more expensive than mobile analog telephones and are, and are likely to remain, somewhat more expensive than digital cellular or personal communication services telephones that do not incorporate a comparable multi-function capability. Although we believe that our multi-function wireless telephones currently are competitively priced compared to multi-function digital cellular and personal communication services telephones, the higher cost of our equipment may make it more difficult or less profitable to attract customers who do not place a high value on our unique multi-service offering. This may reduce our growth opportunities or profitability.

Our network must have sufficient capacity to support our anticipated customer growth.

Our business plan depends on assuring that our portion of the Nextel digital mobile network has adequate capacity to accommodate anticipated new customers and the related increase in usage of our network. This plan relies on:

the ability to obtain additional radio spectrum when and where required;

the availability of wireless telephones of the appropriate model and type to meet the demands and preferences of our customers; and

the ability to obtain additional cell sites and other infrastructure equipment.

We cannot assure you that we will not experience unanticipated difficulties in obtaining these items, which could adversely affect our ability to build our portion of the network.

We have potential systems limitations on adding customers, which may adversely affect our growth and performance.

Critical to our business plan is our success in attracting and retaining large numbers of customers to our portion of the Nextel digital mobile network to generate revenue. In order to do so, we must develop effective procedures for customer activation, customer service, billing and other support services. Even if our system is functional on a technical basis, we may encounter other factors that could adversely affect our ability to successfully add customers to our portion of the Nextel digital mobile network, including:

inadequate or inefficient information systems, business processes and related support functions, especially as related to customer service and accounts receivable collection; and

an inappropriately long length of time between a customer's order and activation of service for that customer, especially since the current activation time is longer than that of some of our competitors.

Customer reliance on our customer service functions may increase as we add new customers. Our inability to timely and efficiently meet the demands for services could decrease or postpone subscriber growth, or delay or otherwise impede billing and collection of amounts owed, which would adversely affect our revenues.

We are dependent on our current key personnel and our success depends upon our continued ability to attract, train and retain additional qualified personnel.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

The loss of one or more key employees could impair our ability to successfully build out and operate our portion of the Nextel digital mobile network. We believe that our future success will also depend on our continued ability to attract and retain highly qualified technical and management personnel. We believe that there is and will continue to be intense competition for qualified personnel in the wireless communications industry. We may not be successful in retaining our key personnel or in attracting and retaining other highly qualified technical and management personnel.

The transmission technology used in the Nextel digital mobile network is different from that used by most other wireless carriers, and, as a result, we might not be able to keep pace with industry standards if more widely-used technologies advance.

The Nextel digital mobile network uses scattered, non-contiguous radio spectrum near the frequencies used by cellular carriers. Because of their fragmented character, these frequencies traditionally were only usable for two-way radio calls, such as those used to dispatch taxis and delivery vehicles. Nextel became able to use these frequencies to provide a wireless telephone service competitive with cellular carriers only when Motorola developed a proprietary technology it calls iDEN. We and Nextel are currently the only major U.S. wireless service providers utilizing iDEN technology on a nationwide basis, and iDEN phones are not currently designed to roam onto other wireless networks.

Our operating agreements with Nextel WIP require us to use the iDEN technology in our system and prevent us from adopting any new communications technology without Nextel WIP's consent. Future technological advancements may enable other wireless technologies to equal or exceed our current levels of service, and render iDEN technology obsolete. If Motorola is unable to upgrade or improve iDEN technology or develop other technology to meet future advances in competing technologies on a timely basis, or at an acceptable cost, because of the restrictive provisions in our agreements, we will be less able to compete effectively and could lose customers to our competitors.

We are dependent on Motorola for telecommunications equipment necessary for the operation of our business, and any failure of Motorola to perform would adversely affect our operating results.

Motorola is currently our sole-source supplier of transmitters used in our network and wireless telephone equipment used by our customers, and we rely, and expect to continue to rely, on Motorola to manufacture a substantial portion of the equipment necessary to construct our portion of the Nextel digital mobile network. We expect that for the next few years, Motorola, and competing manufacturers who are licensed by Motorola, will be the only manufacturers of wireless telephones that are compatible with the Nextel digital mobile network. If Motorola becomes unable to deliver such equipment, or refuses to do so on reasonable terms, then we may not be able to service our existing subscribers or add new subscribers and our business would be adversely affected. Motorola and its affiliates engage in wireless communications businesses and may in the future engage in additional businesses that do or may compete with some or all of the services we offer. We cannot assure you that any potential conflict of interest between us and Motorola will not adversely affect our ability to receive equipment in the future. In addition, the failure by Motorola to deliver necessary technology improvements and enhancements and system infrastructure and subscriber equipment on a timely, cost-effective basis would have an adverse effect on our growth and operations. We generally have been able to obtain adequate quantities of base radios and other system infrastructure equipment from Motorola, and adequate volumes and mix of wireless telephones and related accessories from Motorola, to meet subscriber and system loading rates, but we cannot assure you that quantities will be sufficient in the future. Additionally, in the event of shortages of that equipment, our agreements with Nextel WIP provide that available supplies of this equipment would be allocated proportionately among Nextel and us.

We are considering implementing third-generation services in the future. However, if we are unable to do so, or if we are not able to do so in an economical and competitively effective fashion, our operations and growth could be adversely affected.

Over the next several years we are considering implementing new digital technology, sometimes referred to as 3G or third-generation technology, which could facilitate high-speed, high-volume wireless voice and data transmission and other advanced digital services. Together with Nextel, we are presently evaluating standards and assessing the potential demand for these third-generation wireless services. However, significant capital expenditures would likely be required in implementing this third-generation technology, and there can be no guarantee that this technology would provide the advantages that we would expect. As there are several types of third generation technologies that may not be fully compatible with each other or with other currently deployed digital technologies, if the type of technology that we either choose to deploy or are required to deploy to maintain compatibility with the technology chosen by Nextel Communications does not gain widespread acceptance or perform as expected, or if our competitors develop third-generation technology that is more effective or economical than ours, our business may be adversely affected.

We may not be able to obtain additional spectrum, which may adversely impact our ability to implement our business plan.

We may seek to acquire additional spectrum, including through participation as a bidder or member of a bidding group in government-sponsored auctions of spectrum. We may not be able to accomplish any spectrum acquisition or the necessary additional capital for that purpose may not be available on acceptable terms, or at all. If sufficient additional capital is not available, to the extent we are able to complete any spectrum acquisition, the amount of funding available to us for our existing businesses would be reduced. Even if we are able to acquire spectrum, we may still require additional capital to finance the pursuit of any new business opportunities associated with our acquisitions of additional spectrum, including those associated with the potential provision of any new third generation or 3G wireless services. This

additional capital may not be available.

We cannot be sure that any future spectrum auctions will occur or, if so, on their currently announced schedules. For example, the Federal Communications Commission already has postponed on several occasions the auction for the majority of the 700 MHz spectrum now being used by broadcast television stations, and that auction is currently postponed indefinitely. We also cannot be sure:

in which auctions we will participate, alone or as a member of a bidding group;

whether we or any bidding group in which we are a participant will be a successful bidder and will be awarded spectrum licenses in any auction; and

what amounts would be required to be bid to prevail in any auction.

RISK FACTORS RELATING TO OUR INDUSTRY

Concerns that the use of wireless telephones may pose health and safety risks may discourage the use of our wireless telephones.

Media reports have suggested that, and studies are currently being undertaken to determine whether, radio frequency emissions from enhanced specialized mobile radio, or ESMR, cellular and personal communications service, or PCS, wireless telephones may be linked with health risks, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. The actual or perceived risk of portable telephones could adversely affect us through a reduced subscriber growth rate, a reduction in subscribers, reduced network usage per subscriber or through reduced financing available to the mobile communications industry.

Litigation by individuals alleging injury from health effects associated with radio frequency emissions from mobile phones has been brought against us and other mobile wireless carriers and manufacturers. In addition, purported class action litigation has been filed seeking to require all handsets to include an ear-piece that would enable use of mobile handsets without holding them against the user's head. While it is not possible to predict the outcome of this litigation, circumstances surrounding it could increase the cost of our handsets as well as increase other costs of doing business.

Some state and local legislatures have passed or are considering legislation that would restrict the use of wireless telephones while driving automobiles due to safety concerns. The passage or proliferation of this type of legislation could decrease demand for our services.

Regulatory authorities exercise considerable power over our operations, which could be exercised against our interests and impose additional unanticipated costs.

The FCC and state telecommunications authorities regulate our business to a substantial degree. The regulation of the wireless telecommunications industry is subject to constant change. New rules and regulations may be adopted pursuant to the Communications Act of 1934, as amended. The Telecommunications Act of 1996 provided for significant deregulation of the U.S. telecommunications industry and such legislation remains subject to judicial review and additional FCC rulemaking. As a result, we cannot predict the effect that the legislation and any FCC rulemaking may have on our future operations. We must comply with all applicable regulations to conduct our business. Modifications of our business plans or operations to comply with changing regulations or certain action taken by regulatory authorities might increase our costs of providing service and adversely affect our financial condition. We anticipate FCC regulation or Congressional legislation that creates additional spectrum allocations that may also have the effect of adding new entrants into the mobile telecommunications market.

The FCC has the right to revoke licenses at any time for cause, including failure to comply with the terms of the licenses, failure to continue to qualify for the licenses, malfeasance or other misconduct. In addition, at the end of a ten-year term, we will have to apply to the FCC for renewal of some of our licenses to provide our core services, which combine wireless telephone service with dispatch and paging features. We cannot assure you that these licenses will be renewed.

RISK FACTORS RELATING TO OUR CAPITAL STRUCTURE

Nextel WIP has approval rights that allow it to exert significant influence over our operations, and it can acquire additional shares of our stock.

Pursuant to our amended shareholders' agreement and operating agreements, the approval of the director designated by Nextel WIP, and/or of Nextel WIP itself, is required in order for us to:

make a material change in our technology;

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

modify our business objectives in any way that is inconsistent with our objectives under our material agreements, including our operating agreements with Nextel WIP;

dispose of all or substantially all of our assets;

make a material change in or broaden the scope of our business beyond our current business objectives; or

enter into any agreement the terms of which would be materially altered in the event that Nextel WIP either exercises or declines to exercise its rights to acquire additional shares of our stock under the terms of the amended shareholders' agreement or our restated certificate of incorporation.

These approval rights relate to significant transactions, and decisions by the Nextel WIP-designated director could conflict with those of our other directors, including our independent directors.

The amended shareholders' agreement does not prohibit Nextel WIP or any of our other stockholders or any of their respective affiliates from purchasing shares of our Class A common stock in the open market. Any such purchases would increase the voting power and influence of the purchasing stockholder, and could result in a change of control of us. Additionally, if we experience a change of control, Nextel WIP could purchase all of our licenses for \$1.00, provided that it enters into a royalty-free agreement with us to allow us to use the licenses in our territory for as long as our operating agreements with Nextel WIP remain in effect. Such an agreement would be subject to approval by the FCC.

Under certain circumstances, Nextel WIP has the ability to purchase, and the majority of our Class A stockholders can cause Nextel WIP to purchase, all of our outstanding stock.

Under our restated certificate of incorporation and our operating agreements, in certain circumstances and subject to certain limitations, Nextel WIP has the ability to purchase, or to cause and fund a redemption by us, of all of the outstanding shares of our Class A common stock. In addition, under the provisions of our restated certificate of incorporation, upon the occurrence of certain events, the holders of a majority of our outstanding Class A common stock can require Nextel WIP to purchase, or to cause and fund a redemption by us of, all the outstanding shares of our Class A common stock.

Certain significant stockholders represented on our board of directors can exert significant influence over us and may have interests that conflict with those of our stockholders.

As of June 30, 2001, our officers, directors and greater than 5% stockholders together controlled approximately 72.6% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to control the management and affairs of our company and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company.

In addition, under our amended shareholders' agreement, Nextel WIP, Madison Dearborn Partners and Eagle River each have the right to designate a member to our six-member board of directors. We cannot be certain that any conflicts that arise between the interests of our company and those of these stockholders will always be resolved in our favor. Moreover, as described above, Nextel WIP has certain approval rights that allow it to exert significant influence over our operations.

DLJ Merchant Banking, Madison Dearborn Partners and Eagle River each own significant amounts of our capital stock and each currently has a representative on our board of directors. Each of these entities or their affiliates has significant investments in other telecommunications businesses, some of which may compete with us currently or in the future. We do not have a noncompetition agreement with any of our stockholders, and thus their or their affiliates' current and future investments could create conflicts of interest.

Anti-takeover provisions affecting us could prevent or delay a change of control that stockholders may favor.

Provisions of our organizational documents, amended shareholders' agreement, operating agreements and Delaware law may discourage, delay or prevent a merger or other change of control that stockholders may consider favorable. We have authorized the issuance of blank check preferred stock and have imposed certain restrictions on the calling of special meetings of stockholders. If we experience a change of control, Nextel WIP could purchase all of our licenses for \$1.00, provided that it enters into a royalty-free agreement with us to allow us to use the frequencies in our territory for as long as our operating agreements remain in effect. Such an agreement would be subject to approval by the FCC. Moreover, a change of control could trigger an event of default under provisions in our credit facility and the indentures governing our senior discount notes and our existing senior notes. These provisions could have the effect of delaying, deferring or preventing a change of control in our company, discourage bids for our Class A common stock at a premium over the market price, lower the market price of, and the voting and other rights of the holders of, our Class A common stock, or impede the ability of the holders of our Class A common stock to change

our management.

Our Series B preferred stock has a preference in a liquidation to our common stock, can be redeemed by us at any time and must be redeemed for cash in 2010.

Upon any liquidation of our company, holders of our Series B preferred stock would be entitled to receive, prior to receipt of any funds by the holders of our common stock, an aggregate liquidation preference equal to \$21,850,000, plus dividends accrued on such amount from the date of issuance up to the liquidation date equal to 12% per year, compounded quarterly. As of June 30, 2001, we had \$29.2 million of Series B preferred stock outstanding, including accrued dividends. In addition, we can redeem all of our Series B preferred stock at any time upon payment of the accreted liquidation preference. We must redeem all such shares in February 2010, and we cannot guarantee that we will have sufficient cash from operations at that time to make such redemption.

Our stock price is likely to be volatile.

The market price of our Class A common stock has been in the past and is likely to continue to be volatile and could be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

quarterly variations in our or Nextel's operating results;

variations in our or Nextel's operating results from the expectations of securities analysts and investors;

changes in expectations as to our or Nextel's future financial performance, including financial estimates by securities analysts and investors;

changes in laws and regulations affecting the telecommunications industry;

announcements by third parties or us of significant claims or proceedings against us;

changes in market valuations of Nextel or other telecommunications companies;

announcements of technological innovations or new services by us, Nextel or our competitors;

announcements by us, Nextel or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

additions or departures of key personnel;

future sales of our Class A common stock; and

stock market price and volume fluctuations.

Our restated certificate of incorporation contains provisions that allow us to redeem shares of our securities in order to maintain compliance with applicable federal and state telecommunications laws and regulations.

Our business is subject to regulation by the FCC and state regulatory commissions or similar state regulatory agencies in the states in which we operate. This regulation may prevent some investors from owning our securities, even if that ownership may be favorable to us. The FCC and some states have statutes or regulations that would require an investor who acquires a specified percentage of our securities or the securities of one of our subsidiaries to obtain approval to own those securities from the FCC or the applicable state commission. Moreover, our restated certificate of incorporation allows us to redeem shares of our stock from any stockholder in order to maintain compliance with applicable federal and state telecommunications laws and regulations.

FORWARD-LOOKING STATEMENTS

Our forward-looking statements are subject to a variety of factors that could cause actual results to differ materially from current beliefs.

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

Some statements and information contained in this report are not historical facts, but are forward-looking statements. They can be identified by the use of forward-looking words such as believes, expects, plans, may, will, would, could, should or anticipates or comparable words, or by discussions of strategy that involve risks and uncertainties. We warn you that these forward-looking statements are only predictions, subject to risks and uncertainties, including financial, regulatory environment, industry growth and trend predictions. Actual events or results can differ materially from those expressed or implied as a result of a variety of factors, including those set forth above under Risk Factors. Such forward-looking statements include, but are not limited to, statements with respect to the following:

- our plan for meeting our scheduled build-out for commercial launch of markets within our portion of the Nextel digital mobile network;
- our business plan, its advantages and our strategy for implementing our plan;
- general economic conditions in the geographic areas and occupational markets that we are targeting in our portion of the Nextel digital mobile network;
- our expectation regarding the continued successful performance and market acceptance of the technology we use;
- our ability to attract and retain sufficient subscribers;
- our anticipated capital expenditures and funding requirements, including our ability to access sufficient debt or equity capital to meet operating and financing needs;
- the availability of adequate quantities of system infrastructure and subscriber equipment and components to meet our service deployment, marketing plans and customer demand;
- the ability to achieve and maintain market penetration and average subscriber revenue levels sufficient to provide financial viability;
- our ability to timely and successfully accomplish required scale-up of our billing, collection, customer care and similar back-office operations to keep pace with customer growth, increased system usage rates and growth in levels of accounts receivables;
- the quality and price of similar or comparable wireless communications services offered or to be offered by our competitors, including providers of PCS and cellular services;
- future legislation or regulatory actions relating to specialized mobile radio services, other wireless communications services or telecommunications services generally; and
- other risks and uncertainties described from time to time in our reports filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks arising from changes in interest rates. Our primary interest rate exposure results from changes in LIBOR or the prime rate which are used to determine the interest rate applicable to the term loans of our subsidiary under our credit facility. In April 1999 and 2000, we entered into interest rate swap agreements for \$60 million and \$50 million of these borrowings, respectively, to partially hedge our interest rate exposure. Interest rate swaps have the effect of converting the applicable variable rate obligations to fixed or other variable rate obligations. Our potential loss over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate of all our variable rate obligations would be approximately \$2.2 million.

In January 1999, we issued our 14% senior discount notes, and in each of March 2000 and July 2000, we issued our 11% senior notes. While fluctuations in interest rates may affect the fair value of these notes, interest expense will not be affected due to the fixed interest rate of these notes.

We do not use financial instruments for trading or other speculative purposes.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Edgar Filing: NEXTEL PARTNERS INC - Form 10-Q

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. We currently are not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, prospects, financial condition and operating results.

Item 4. Submission of Matters to a Vote of Security Holders

On May 1, 2001, we held our 2001 annual meeting of stockholders in Bellevue, Washington. Only holders of record of our class A common stock and class B common stock on the record date of March 15, 2001 were entitled to vote at the annual meeting. Each holder of record of class A common stock and class B common stock at the close of business on the record date was entitled to one vote per share on each matter voted upon by the stockholders at the annual meeting. There was no opposition to the nominees of the Board of Directors and all such nominees were elected to serve as our directors. Set forth below is information regarding the shares voted in the election of our directors. No other matters were submitted to a vote.

| Name | Votes | |
|-----------------|-------------|-----------|
| | For | Withheld |
| John Chapple | 226,465,679 | 2,610,891 |
| Timothy Donahue | 226,467,759 | 2,608,811 |
| Andrew Sinwell | 228,315,319 | 761,251 |
| Andrew Rush | 228,353,167 | 761,789 |
| Dennis Weibling | 228,352,780 | 762,176 |
| Steven Dodge | 228,340,431 | 736,139 |

Item 6. Exhibits and Reports on Form 8-K

(a) List of Exhibits.

| Exhibit Number | Exhibit Description |
|----------------|--|
| 10.6 (a) | Second Amendment to IPO Approval and Lockup Agreement dated July 25, 2001 among Nextel WIP Corp., Nextel Partners, Inc., DLJ Merchant Banking Partners, II, L.P., Madison Dearborn Capital Partners II, L.P., Eagle River Investments, LLC, John Chapple, John Thompson, David Thaler, David Aas, Perry Satterlee, Mark Fanning, and Donald Manning. |
| 10.60 | Lease Agreement dated May 2001 between The St. Joe Company and Nextel WIP Lease Corporation. |

(b) Reports on Form 8-K:

1. Current report on Form 8-K dated and filed April 12, 2001 with Securities and Exchange Commission reporting under Item 5 excerpts of an investor presentation by our Chief Financial Officer and Treasurer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NEXTEL PARTNERS, INC.

Date: August 13, 2001

By: /s/ JOHN D. THOMPSON

John D. Thompson
Chief Financial Officer and Treasurer