

NEXTEL PARTNERS INC  
Form 10-K  
March 27, 2003

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2002

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)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**  
**None**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**  
**Class A Common Stock, \$0.001 par value**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Based on the closing sales price on June 28, 2002, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$299,342,756.

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 March 10, 2003
Class A Common Stock	171,944,083 shares
Class B Common Stock	79,056,228 shares

### DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders scheduled to be held on May 8, 2003, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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## NEXTEL PARTNERS, INC.

### FORM 10-K

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**PART I*****Item 1. Business*****Overview**

We provide digital mobile communications services using the Nextel brand name in mid-sized and tertiary markets throughout the United States. We offer digital cellular services; Direct Connect® (the long-range digital walkie-talkie service); wireless data services, including email; text messaging; and Nextel Online®, which provides wireless access to the Internet and an organization's internal databases and other applications. We hold licenses for wireless frequencies in markets where over 53 million people, or Pops, live and work. We have constructed and operate a digital mobile network compatible with the digital mobile network constructed and operated by Nextel Communications, Inc. ("Nextel") in targeted portions of these markets, including 13 of the top 100 metropolitan statistical areas and 57 of the top 200 metropolitan statistical areas in the United States ranked by population. Our combined "Nextel Digital Mobile Network" constitutes one of the largest fully integrated digital wireless communications systems in the United States, covering 197 of the top 200 metropolitan statistical areas in the United States at the end of 2002. As of December 31, 2002 we had approximately 877,800 digital handsets in service in our markets.

Our relationship with Nextel was created to accelerate the build-out and expand the reach of the Nextel Digital Mobile Network. In January 1999, we entered into a joint venture agreement with Nextel WIP Corp. ("Nextel WIP"), an indirect wholly owned subsidiary of Nextel. Nextel, through Nextel WIP, contributed to us cash, licenses for wireless frequencies and granted us the exclusive right to use the Nextel brand name in exchange for ownership in us and our commitment to build out our compatible digital mobile network in selected markets and corridors, in most cases adjacent to operating Nextel markets. As of December 31, 2002, Nextel WIP owned 31.6% of our common stock and is our largest stockholder. By the end of 2002, we had successfully built all of the markets we were initially required to build under our 1999 agreement with Nextel. Since 1999 we have exercised options to expand our network into additional markets. By December 31, 2002, we had completed the construction of all but two of these additional markets, both of which we expect to complete and launch in the first half of 2003. Through our affiliation with Nextel our customers have seamless nationwide coverage on the entire Nextel Digital Mobile Network.

We offer a package of wireless voice and data services under the Nextel brand name targeted primarily to business users. We currently offer the following four services, fully integrated and accessible through a single wireless handset:

digital mobile telephone service, including advanced calling features such as speakerphone, conference calling, voice-mail, call forwarding and additional line service;

Direct Connect, sometimes referred to as the long-range walkie-talkie feature, which allows customers in the same geographic region to contact each other instantly, on private one-to-one calls or on group calls involving up to 100 customers simultaneously;

two-way messaging, which allows customers to receive and send short numeric and text messages from their handset; and

Internet services, marketed as Nextel Online, which provide customers with Internet-ready handsets access to the World Wide Web and web-based applications such as email, address books, calendars and advanced Java enabled business applications.

Our senior management team has substantial operating experience, with members averaging over 16 years in the telecommunications industry. Each member of senior management has significant experience working at AT&T Wireless, McCaw Cellular and/or Nextel. Key

stockholders, in addition to Nextel WIP, include Credit Suisse First Boston (through DLJ Merchant Banking and its affiliates),

Madison Dearborn Partners, Cascade Investments (an investment company controlled by William H. Gates III), Motorola and Eagle River Investments (an investment company controlled by Craig O. McCaw).

We were incorporated in the State of Delaware in July 1998. Our principal executive offices are located at 4500 Carillon Point, Kirkland, Washington, 98033. Our telephone number is 425-576-3600.

#### **Strategic Alliance with Nextel**

Our affiliation with Nextel is an integral part of our business strategy. Under our agreements with Nextel WIP, which are described in more detail below, we enjoy numerous important benefits, including:

*Nextel Brand and Differentiated Marketing Programs.* We have the exclusive right to build, operate and provide digital wireless communication services using the Motorola-developed integrated Digital Enhanced Network, or iDEN, platform and the Nextel brand name in all of our markets. We benefit from Nextel's national advertising and promotion of its brand.

*Integrated Nationwide Network.* Our network is operationally seamless with Nextel's network, enabling our respective customers to utilize the same voice and data services when operating on either company's network.

*Exclusive Roaming Arrangement.* We have the exclusive right to provide wireless communication services using the iDEN/800 MHz frequencies to Nextel's customers who roam into our markets. Pursuant to our operating agreements with Nextel WIP, Nextel's subscribers generate revenue for us when they roam into our markets, and we pay Nextel when our subscribers roam into their markets. During 2002, we received \$79.5 million in roaming revenue from Nextel customers who utilized our portion of the Nextel Digital Mobile Network.

*Coordinated Infrastructure Development.* In exchange for a fee, based on Nextel's cost to provide the service, we have the right to utilize portions of Nextel's network infrastructure, including certain switching facilities and network monitoring systems, until our customer volume makes it advantageous for us to build our own. The operating agreements with Nextel WIP also provide us access to technology improvements resulting from Nextel's research and development.

*Supplier Relationships.* Nextel assists us in obtaining substantially the same terms it receives from suppliers of equipment and services. We also have the ability to develop our own relationships with suppliers of our choice.

*National Accounts.* Numerous offices and branches of Nextel's national accounts have become our customers when we have launched service in their area.

*International Roaming.* We have the ability to either operate under Nextel's international roaming agreements or, under certain circumstances, to require Nextel WIP to provide us with comparable international roaming capabilities under its agreements with international carriers. Accordingly, our customers are able to travel worldwide and still receive the benefits of their Nextel service. For example, in coordination with Nextel, our customers have the ability to roam in Canadian market areas where TELUS offers iDEN-based services. Furthermore, by using the i2000plus® handset, a dual mode handset that operates on both the iDEN technology and the GSM 900 MHz standard, our customers receive digital roaming services on iDEN 800 MHz and GSM 900 MHz networks in over 80 countries.

## Business Strategy

Our mission is to provide high quality, integrated wireless service that maximizes customer and investor value. To achieve this mission, we strive to build a corporate culture around five guiding principles:

- Strive for 100% employee satisfaction
- Strive for 100% customer satisfaction
- Achieve targeted revenue growth with a low cost structure
- Achieve win-win results through the power of teamwork
- Work smart while remaining humble

Our mission statement and guiding principles serve as the bedrock for all of our business strategies. In addition to our relationship with Nextel, we believe the following elements of our business strategy will distinguish our wireless service offerings from those of our competitors and will enable us to compete successfully:

*Provide Differentiated Package of Wireless Services.* Along with Nextel, we are the only wireless service provider that offers digital mobile telephone service, Direct Connect, two-way text and numeric messaging and Internet services fully integrated in a single wireless device with no roaming charges nationwide. We believe this "four-in-one" offering is particularly attractive to business users. We further believe that for customers who desire multiple wireless services, the convenience of combining multiple wireless communications options in a single handset for a single package price with a single billing statement is an important feature that helps distinguish us from many of our competitors.

A sizeable portion of business users' communications involves contacting others within the same organization or those within a community of interest (i.e., contractors, sub-contractors and suppliers). We believe that our unique Direct Connect service is especially well suited to address the wireless communications needs of these customers. Direct Connect gives customers the ability to instantly set up a conference on either a private (one-to-one) or group (one-to-many) basis. In 2002, Direct Connect minutes used by our customers comprised approximately 33% of the total minutes used by our customers on our network.

Currently, Direct Connect allows all of our customers and Nextel's customers to instantly communicate with each other within a prescribed geographic area (the "Direct Connect calling area"). Under the existing system, a Direct Connect calling area typically includes several counties and in most cases includes an entire state. In some cases, the Direct Connect calling area includes multiple states. Two years ago, we, along with Nextel, introduced Cross Fleet, which expanded the Direct Connect feature from pre-programmed fleets or accounts within the same geographic area to all customers in the same geographic area unlimited by which account they were on. With Cross Fleet, customers can assemble their own "talk groups" with other customers within their Direct Connect calling area, thereby eliminating the need for an operator to administer these talk groups.

We anticipate significant improvements to Direct Connect to be implemented in 2003. Beginning in the first quarter of 2003 we expect to roll out in our markets the first of a two-phase enhancement to Direct Connect. The first phase enhancement will allow our customers and Nextel customers traveling to a market outside of their local calling area to use Direct Connect in the visited market and to communicate instantly using Direct Connect with our customers and Nextel customers that reside in or who have traveled to that market. For example, if a group of customers traveled from their home market in Albany, New York to Honolulu, Hawaii, they would be able to instantly connect with each other while in the Honolulu market as well as with any other customer or Nextel customer either living in or visiting the Honolulu market. Also, in 2003, we expect Direct Connect will be expanded nationally. With this enhancement, all of our customers and all of Nextel's customers will be able to instantly communicate with each other using Direct Connect across the nation. For example, we expect

a customer in Honolulu, Hawaii will be able to instantly communicate with a customer in Syracuse, New York.

To further improve our differentiated suite of products and services in 2003, we are offering a new Nextel/BlackBerry handheld device with both voice and data capabilities. Nextel, Motorola and Research In Motion Limited have jointly developed this product. This personal data assistant (PDA) style handset will operate on the Nextel Digital Mobile Network and is expected to support Java 2 Micro Edition (J2ME) applications.

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*Deliver Unparalleled Customer Service.* In addition to our unique four-in-one service offering, our goal is to differentiate ourselves by providing the highest quality customer service in the industry. Each month throughout 2002 we used an outside vendor to survey a statistically relevant sample of our customers and to solicit a wide range of information about our network, service offerings and customer support. The results of these surveys were communicated to the entire organization. In 2002, a significant part of our employees' bonus was tied to achieving a targeted level of customer satisfaction as measured in these surveys. We believe that this monetary bonus helped focus our entire company on achieving our customer service business objective, and we expect to provide a similar incentive to our employees in 2003.

Moreover, in the first quarter of 2002, we opened our second customer care center in Panama City Beach, Florida. This center works in tandem with our original customer care center located in Las Vegas, Nevada. We anticipate that this additional call center will help us maintain and improve our customer service level objectives.

In addition, in late 2002, we successfully completed the migration of our billing and customer care system to a new platform known as Ensemble. Ensemble is a world-class activations, customer care and billing system designed to provide increased reliability and functionality for our customer care representatives. The Ensemble platform provides system scalability to allow services to be provided to an estimated 25 million customers, one common database and integration of all platform software modules included in the system.

*Target Business Customers.* We focus on business customers, particularly those customers who employ a mobile workforce. We have initially concentrated our sales efforts on a number of distinct groups of mobile workers, including personnel in the transportation, delivery, real property and facilities management, construction and building trades, landscaping, government, public safety and other service sectors. We expect to gradually expand our target customer groups to include additional industry groups. We believe this focus on business customers has resulted in higher monthly average revenue per unit, or ARPU, and lower average monthly service cancellations. In 2002, our ARPU was \$68 compared to an industry average as of June 2002 of approximately \$47. In addition, the average monthly rate at which our customers canceled service with us, or "churn," was approximately 1.6% for each quarter of 2002 compared to an industry average of over 2%. Our 2002 ARPU and churn rate equate to lifetime revenue per customer of approximately \$4,250, which we believe is the highest in the industry.

*Maintain a Robust, Reliable Network.* Our objective is to maintain a robust and reliable network in our markets that covers all key population areas in that market and operates seamlessly with Nextel's network. We have constructed our portion of the Nextel Digital Mobile Network using the same Motorola developed iDEN technology used by Nextel. As required, we built and now operate our portion of the Nextel Digital Mobile Network in accordance with Nextel's standards, which enables both companies to achieve a consistent level of service throughout the United States. Our customers have access to digital quality and advanced features whether they are using our or Nextel's portion of the Nextel Digital Mobile Network. This contrasts with the hybrid analog/digital networks of cellular competitors, which do not support all features in the analog-only portions of their networks.

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In January 1999 when we executed our agreements with Nextel WIP and obtained our initial financing, we acquired two operational markets in upstate New York and Hawaii. The remainder of our markets had not been fully constructed. By December 31, 2002, we had completed construction and had successfully launched service in all of our markets except Burlington, Vermont and Augusta, Georgia. We expect to complete the build out of these two remaining markets in the first half of 2003. At the end of 2002 we had 3,317 cell sites fully constructed and operational throughout our markets. To reduce the risk of zoning and other local regulatory delays, construction delays and site acquisition costs, we have located our cell sites on existing transmission towers owned by third parties wherever possible, or if necessary, on towers constructed or purchased by other contracted third parties. In addition, at the end of 2002 we had five mobile switching offices and had successfully switched approximately 80% of all of our customers' wireless interconnect traffic through these switches. We have seen our monthly average minutes of use grow from 545 minutes per subscriber as of December 31, 2001 to 598 minutes per subscriber as of December 31, 2002. Our customer base has grown from approximately 515,900 customers as of December 31, 2001 to approximately 877,800 customers as of December 31, 2002. As of December 31, 2002 our network provided coverage to approximately 36 million Pops compared to 33 million Pops at the end of 2001.

We believe our existing packet data service on the Nextel Digital Mobile Network is robust and far-reaching. We expect technology upgrades to be made to our iDEN digital mobile network in 2003 based on developments being made by Motorola and Nextel, and anticipate that these upgrades will effectively double our voice capacity for interconnect calls and leverage our investment in our existing infrastructure.

*Maintain Effective Pricing Strategy with Focus on Mid-Sized and Tertiary Markets.* We operate in mid-sized and tertiary markets, which we believe have demographics similar to markets served by Nextel. We believe our targeted customer base in these markets has historically been underserved and thus finds our differentiated service offering very attractive. We believe our focus on high quality, underserved customers, coupled with our differentiated service offerings, will help us to rapidly increase penetration within our targeted customer base while maintaining an effective pricing strategy.

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Although we set our price levels in each of our markets independently of Nextel, we are required to adopt Nextel's overall pricing strategies. We offer pricing options that we believe differentiate our services from those of many of our competitors. Our pricing packages offer our customers simplicity and predictability in their wireless telecommunications billing by combining Direct Connect minutes with a mix of cellular and long-distance minutes. Furthermore, no roaming charges are assessed for mobile telephone services provided to our customers traveling anywhere on our portion or Nextel's portion of the Nextel Digital Mobile Network in the United States. We also offer special pricing plans that allow some customers to aggregate the total number of account minutes for all their handsets and reallocate the aggregate minutes among those handsets. While we direct our own marketing campaigns in our markets, we benefit from Nextel's national marketing efforts and related advertising campaigns, which are designed to increase awareness of the Nextel brand name and stimulate interest in and demand for Nextel service by stressing its versatility, value, simplicity and quality.

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### Markets

As of December 31, 2002, we have launched digital wireless service in all of the following markets, except for Burlington, Vermont and Augusta, Georgia, which we plan to launch in the first half of 2003:

Region	Markets <sup>(1)</sup>	Licensed Pops
Northeast	Wilkes-Barre/Scranton/Harrisburg/York/Lancaster, PA	2,874,039
	Syracuse/Utica-Rome/Binghamton/Elmira, NY	2,058,780
	Buffalo/Jamestown, NY	1,497,610
	Western Pennsylvania (Altoona/Johnstown/State College/Williamsport)	1,462,511
	Rochester, NY	1,211,105
	Albany/Glen Falls, NY	1,171,669
	Erie, PA	371,209
	<b>Total</b>	<b>10,646,923</b>
Midwest	Nebraska (Omaha/Lincoln) and Sioux City/Sioux Falls IA/SD	2,507,196
	Eastern Iowa (Waterloo/Dubuque/Davenport/Cedar Rapids/Iowa City)	1,960,174
	Illinois (Peoria/Springfield/Champaign/Bloomington/Decatur)	1,787,188
	Green Bay, WI	1,691,401
	E. Minnesota/W. Wisconsin (Duluth/Rochester/Eau Claire/La Crosse)	1,462,625
	Central Iowa (Des Moines)	1,127,107
	North Dakota/Western Minnesota (Fargo/Grand Forks)	1,106,972
	Idaho (Idaho Falls/Pocatello/Boise/Twin Falls)	1,004,169
	<b>Total</b>	<b>12,646,832</b>
South	Arkansas (Fayetteville/Fort Smith/Pine Bluff/Little Rock)	2,379,938
	East Texas/Northern Louisiana (Tyler/Longview/Shreveport/Monroe)	2,077,653
	Indiana (Terre Haute/Evansville/Owensboro)	1,968,092
	South Texas (McAllen/Harlingen/Brownsville/Corpus Christi/Victoria)	1,955,278
	West Virginia (Charleston)	1,949,462
	Virginia (Roanoke/Lynchburg/Charlottesville)	1,896,510
	Louisville, KY	1,836,289
	West Texas (Amarillo/Abilene/Lubbock/Odessa-Midland/San Angelo)	1,783,950
	Southern Louisiana (Lafayette/Lake Charles)	1,580,602
	Lexington, KY	1,480,559
	Mississippi (Hattiesburg/Jackson)	1,430,863
	Georgia (Macon-Warner Robins/Albany)	1,290,316
	Pensacola, FL	1,145,346
	Mobile, AL	1,065,524
	Central Texas (Temple-Killeen/Waco/Bryan-College Station)	894,252
	Tallahassee, FL	718,520

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Region	Markets <sup>(1)</sup>	Licensed Pops
	Montgomery, AL	711,575
	Tennessee (Bristol/Johnson City/Kingsport, VA/TN)	590,874
	Columbus, GA	430,951
	<b>Total</b>	<b>27,186,554</b>
Noncontinental US	Hawaii (all islands)	1,211,537
	<b>Total prior to 2003 market launches</b>	<b>51,691,846</b>
	Burlington, VT (launch planned for 1 <sup>st</sup> half of 2003)	697,496
	Augusta, GA (launch planned for 1 <sup>st</sup> half of 2003)	596,224
	<b>Total after 2003 market launches</b>	<b>52,985,566</b>

- (1) We may, from time to time, reconfigure our markets to take advantage of build-out and management synergies and marketing opportunities. While the actual territories and population estimates will not change, the way we group our markets may increase or decrease the total number of markets.

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We have calculated total Pops for a given market by utilizing Census 2000 data published by the U.S. Census Bureau, which lists population estimates by county. Future launch schedules for our markets are subject to the various factors discussed under the heading "Risk Factors" in this Annual Report on Form 10-K.

In addition to medium-sized and tertiary markets, our markets include selected corridors along interstate and state highways. While these corridors do not have large business or residential populations, we believe that significant revenues will be earned from travelers on the highways located in these markets. Accordingly, the population of a given area may not fully indicate the amount of the revenues that may be generated in such area.

## Business Developments

*Customer Products and Solutions.* In 2002 we introduced the following new products and services:

*Products.* In July 2002 we introduced the i95cl® handset, designed and manufactured by Motorola. The i95cl is one of the smallest flip-style handsets with speakerphone and color display in the United States. The i95cl features an external screen that allows customers to view caller ID and status information, a smart key for closed-flip operation, and an internal display screen with a distinctive blue backlight that supports three font sizes so users can zoom in or enlarge information on the screen. In addition, we introduced the i58sr and i88s handsets, which are equipped with assisted global position system ("A-GPS") capability. These phones provide longitude and latitude information via line-of-site communication with global position system ("GPS") satellites. We anticipate that this location information will be used for a suite of future location-enabled applications and services. Examples include an application to provide direction, speed and distance traveled as well as a web-based fleet management tool to provide the location information of a user's phone with mapping software in order to enhance delivery routing and/or dispatch efficiency. All of these new handsets contain embedded Java software, built-in voice-activated dialing for hands-free operation and recording capability for calls and memos. The handsets also include an advanced phonebook that manages up to 250 contacts and date book tools to manage calendars and alert users of business and personal meetings. Other recently introduced handsets include the i30sx, i35s and i60c, which replaced prior handset models and feature phones of a smaller size and less weight, longer talk time, enhanced screen graphics and additional features.

In 2002 we also introduced the iM1100 Wireless Modem, a Type II PC card that provides wireless data connectivity for Windows-based laptops, anywhere on the Nextel Digital Mobile Network.



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*Services.* During 2002 we also introduced several new data applications, including two-way messaging interoperability, which provides our customers with the ability to exchange text messages with customers of other wireless carriers, and instant messaging, which gives Nextel subscribers the ability to send and receive messages to any America Online Instant Messenger user, regardless of whether the message is sent to their desktop PC, wireless phone or other mobile device.

In addition, in November 2002, we launched Nextel Roadside Assistance, an additional fee service that provides roadside emergency services for subscribers. We believe that this is an ideal value-added service for our customers, many of whom are based in the field and may not be covered for vehicle breakdowns and mishaps. A "heavy duty" option is available which provides roadside assistance services for commercial vehicles.

*Distribution Channels.* Our traditional methods of distribution have been through our direct and indirect sales force. While we will continue to support these approaches, in 2002 we opened three new retail stores in Hawaii and one in Louisville, KY as part of a pilot program to expand our distribution channels to include retail locations. We expect to continue to expand this distribution channel in 2003 and anticipate opening approximately 40 retail stores in 35 of our markets by the end of 2003. Our

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initial analysis of these stores leads us to believe that they attract high quality customers with a lower acquisition cost than our traditional distribution channels. In addition, we implemented a telesales distribution channel in 2002 as well as web-based distribution, both of which we believe will allow us to acquire new customers at a relatively low cost of acquisition.

*\$50 Million Term D Loan Facility.* In February 2002, we amended our existing credit facility to provide an additional \$50 million term D loan which matures July 2008.

*Achieving Positive Adjusted EBITDA for 2002.* In June 2002, we reported our first month of positive Adjusted EBITDA. We were able to sustain positive Adjusted EBITDA through the remainder of the year, with a year-end aggregate Adjusted EBITDA for 2002 of approximately \$2.6 million. Adjusted EBITDA is not a measure determined under generally accepted accounting principles, or GAAP, in the United States, but is commonly used to analyze companies on the basis of leverage and liquidity. Please see "Item 6. Selected Consolidated Financial Data" for more information regarding our use of Adjusted EBITDA, including a reconciliation to the most directly comparable GAAP measure.

*Capital Lease Arrangement.* In July and October 2002, we entered into a participation agreement with GE Capital Corporation for a sale-leaseback of certain switch equipment whereby we sold this equipment to GE Capital who in turn leased it back to us. The closing of these transactions resulted in proceeds of approximately \$28 million that were used to fund capital expenditures and working capital requirements.

*Debt Reduction Activity.* During the fourth quarter of 2002 we opportunistically engaged in a series of transactions in which we issued and exchanged our class A common stock for certain of our high yield notes. We retired a total of \$37 million in principal amount of our outstanding notes in exchange for approximately 4.1 million newly issued shares of class A common stock. Through the end of February 2003 we retired an aggregate of approximately \$45 million in principal amount of our outstanding notes in exchange for the issuance of approximately 5.1 million shares of class A common stock. We believe these exchanges will enable us to avoid payments of approximately \$78 million in principal and interest that we would have otherwise been owing over the life the debt. In the future, we may opportunistically engage in additional debt-for-equity exchanges if the financial terms are sufficiently attractive.

### **The Nextel WIP Operating Agreements**

Our operating agreements with Nextel WIP define the relationship, rights and obligations between Nextel WIP and us. The agreements began January 29, 1999 and have an initial term of ten years, which may be extended for up to two and a half years. At the end of the initial term we have the right at our option to extend the agreements for up to four ten-year renewals.

Under these agreements, Nextel WIP is obligated to share with us Nextel's experience in operating iDEN networks by, among other things, granting us access to meetings and coordinating with us on network build out and enhancements. In addition, Nextel WIP is obligated to provide specified services to us upon request. The most significant services Nextel WIP provides us are:

use of some of Nextel's switching facilities in exchange for a per-minute fee based on Nextel's national average cost for such service, including financing and depreciation costs;

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monitoring of switches owned by us on a 24-hour per day basis by Nextel's network monitoring center in exchange for a fee based on pro-rata costs;

use of Nextel's back-office systems in order to support customer activation, billing and customer care for national accounts in exchange for fees based on Nextel's national average cost for such services;

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use of the Nextel brand name and certain trademarks and service marks, and the marketing and advertising materials developed by Nextel, in exchange for a marketing services fee described below;

access to technology enhancements and improvements; and

assisting us in contracting with Nextel's suppliers on substantially the same terms as Nextel wherever possible.

To further support us in our efforts, Nextel WIP has also agreed that:

our marketing service fee, which did not start accruing until after we achieved two consecutive quarters of positive Adjusted EBITDA, which occurred in January 2003, will be 0.5% of gross monthly service revenues beginning January 1, 2003 until December 31, 2004 and 1.0% of gross monthly service revenues thereafter; and

when a Nextel subscriber roams on our system we receive a certain percentage of the service revenues generated by the roaming subscriber. That percentage was 90% of the service revenues in 2000, 85% in 2001 and 80% in 2002 and thereafter, subject to upward or downward adjustment based on the relative customer satisfaction levels of Nextel and us as measured by a customer satisfaction survey administered on a regular basis by a third-party vendor engaged by Nextel and us.

In addition, the operating agreements require that we adhere to certain key operating requirements, including the following:

we generally are required to offer the full complement of products and services offered by Nextel in comparable service areas;

we must abide by Nextel's standard pricing structure principally home-rate roaming, but we need not charge the same prices as Nextel;

we must meet minimum network performance and customer care thresholds; and

we must adhere to standards in other operating areas, such as frequency design, site acquisition, construction, cell site maintenance and marketing and advertising.

Currently, our agreements with Nextel WIP also 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 Direct Connect 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. As of December 31, 2002, we have five switches in

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operation, including one in Iowa and one Florida, which were completed and placed into service during 2002.

### **Overview of the U.S. Wireless Communications Industry**

Mobile wireless communications systems use a variety of radio frequencies to transmit voice and data, and include cellular telephone services, ESMR, PCS and paging. ESMR stands for enhanced specialized mobile radio and is the regulatory term applied to the services, including those provided by the Nextel Digital Mobile Network, that combine wireless telephone service with a dispatch feature and paging. PCS stands for personal communications service and refers to digital wireless telephone service.

Since the first commercial cellular systems became operational in 1983, mobile wireless telecommunications services have grown dramatically as these services have become widely available and increasingly affordable. This growth has been driven by technological advances, changes in consumer preferences and increased availability of spectrum to new operators.

The provision of cellular telephone service began with providers utilizing the 800 MHz band of radio frequency in 1982 when the FCC began issuing two licenses per market throughout the United States. In 1993, the FCC allocated a portion of the radio spectrum, 1850-1990 MHz, for a new wireless communications service commonly known as PCS. The FCC's stated objectives in auctioning bandwidth for PCS were to foster competition among existing cellular carriers, increase availability of wireless services to a broader segment of the public, and bring innovative technology to the U.S. wireless industry. Since 1995, the FCC has conducted auctions in which industry participants have been awarded PCS licenses for designated areas throughout the United States.

The demand for wireless telecommunications has grown rapidly, driven by the increased availability of services, technological advancements, regulatory changes, increased competition and lower prices. According to the Cellular Telecommunications & Internet Association, the number of wireless subscribers in the United States, including cellular, PCS and ESMR, has grown from approximately 200,000 as of June 30, 1985 to 134.6 million by June 30, 2002, which reflected a penetration rate of approximately 47% at that time.

In the U.S. wireless communications industry, there are three mobile wireless telephone services: cellular, ESMR and PCS. Cellular and ESMR services utilize radio spectrum in the 800 MHz band while PCS operates at higher frequencies of 1850 to 1990 MHz. Use of the 800 MHz band gives cellular and ESMR superior ability to penetrate buildings and other physical obstacles and spread or "propagate" through air, thereby reducing infrastructure costs since fewer base radios are needed to cover a given area.

All cellular service transmissions were originally analog-based, although many cellular providers have now overlaid digital systems alongside their analog systems in large markets. Analog cellular technology has the advantage of using a consistent standard nationwide, permitting nationwide roaming using a single-mode, single-band telephone. On the other hand, analog technology has several disadvantages, including less efficient use of spectrum, which reduces effective call capacity; inconsistent service quality; decreased privacy, security and reliability as compared to digital technologies; and the inability to offer services such as voice mail, call waiting or caller identification.

All PCS services, like ESMR, are all-digital systems that convert voice or data signals into a stream of binary digits that is compressed before transmission, enabling a single radio channel to carry multiple simultaneous signal transmissions. This enhanced capacity, along with improvements in digital signaling, allows digital-based wireless technologies to offer new and enhanced services, and improved voice quality and system flexibility, as compared with analog technologies. Call forwarding, call waiting and greater call privacy are among the enhanced services that digital systems provide. In addition, due to the reduced power consumption of digital telephones, users benefit from an extended

battery life.

The FCC has also assigned non-contiguous portions of the 800 MHz band to SMR, which stands for specialized mobile radio and was initially dedicated to analog two-way radio dispatch services. This service only became viable in the mobile wireless telephone market with the introduction in 1993 of ESMR, which applies digital technology to make use of the 800 MHz spectrum band and its superior propagation characteristics to deliver the advantages of a digital wireless mobile telephone system while retaining and significantly enhancing the value of SMR's traditional dispatch feature.

Unlike analog cellular, which has been implemented in a uniform manner across the United States, several mutually incompatible digital technologies are currently in use in the United States. Roaming into different areas often requires multi-mode (analog/digital) and/or multi-band (PCS/cellular) telephones that function at both cellular and PCS frequencies and/or are equipped for more than one type of modulation technology. Time-division technologies, which include global system for mobile communications (or GSM), time division multiple access (or TDMA) and iDEN, break up each transmission channel into time slots that increase effective capacity. Code division multiple access (or CDMA) technology is a spread-spectrum technology that transmits portions of many messages over a broad portion of the available spectrum rather than a single channel. iDEN phones presently operate only in the iDEN mode within SMR frequencies, and therefore cannot roam onto other digital or analog wireless networks.

### **The Nextel Digital Mobile Network**

Nextel deployed a second generation of Motorola's iDEN technology beginning in the third quarter of 1996. The Nextel Digital Mobile Network combines the iDEN technology developed and designed by Motorola with a low-power, multi-site deployment of base radios similar to that used by cellular service that permits us to reuse the same frequency in different cells, increasing our system's effective capacity. We and Nextel currently use iDEN technology throughout our respective portions of the Nextel Digital Mobile Network. iDEN technology is a proprietary format for delivering signals over scattered, non-contiguous SMR frequencies.

The iDEN technology shares the same basic platform as the wireless standards underlying GSM and TDMA. iDEN shares many common components with the GSM technology that has been established as the digital cellular communications standard in Europe and is a variant of the GSM technology that is being deployed by certain cellular and PCS operators in the United States. iDEN differs in a number of significant respects from the TDMA technology versions being assessed or deployed by many cellular and PCS providers in the United States. The iDEN technology, when utilized for the two-way radio dispatch function, can be significantly more efficient than TDMA technology formats.

The design of the Nextel Digital Mobile Network is premised on dividing a service area into multiple sites. Each site will contain the base radio connected by landline facilities or a microwave to a computer-controlled switching center. Each cell site provides service on our licensed frequencies to a particular geographic area permitting the customer's telephone to communicate with our network. By designing our system with multiple cell sites, we are able to reuse the frequency channels many times throughout the same license area by placing our transmitters at low elevation sites and restricting the power of each transmitter to a directed geographic area, which may be less than one mile and up to 30 miles. This process avoids interference, while permitting significantly more customers to use the frequencies allotted to us. This system, combining digital compression technology with the reuse of spectrum throughout our license area, allows us to support more customer calls than would otherwise be the case with analog technologies.

In the case of mobile telephone calls, the switching center controls the automatic transfer of calls from site to site as a customer travels, coordinates calls to and from a customer's telephone and connects calls to the public switched telecommunications network. In the case of two-way dispatch calls,

the switching center connects the customer initiating the call directly to the other customer in the case of a private call, and directly to a number of other customers in the case of a group call. The Direct Connect dispatch capability allows any member of a mobile team to immediately communicate with one or up to 100 other customers with the push of a button within a Direct Connect calling area. This "push-to-talk" feature works like a two-way radio, but in contrast to analog dispatch SMR radios, iDEN technology allows only the person or persons being called to hear the conversation

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Direct Connect, together with other enhancements, including call alert, speakerphone capability and two-way messaging, differentiates our digital service from those of cellular and PCS providers, and we believe it has been responsible for our strong appeal to business users in mobile occupations, including transportation, delivery, real property and facilities management, construction and building, landscaping, and other service sectors. In addition to its advantages to customers, Direct Connect uses only half the bandwidth that an interconnected call over an iDEN network would use, and this efficient use of spectrum gives the iDEN service provider the opportunity to offer attractive pricing for Direct Connect.

Like Nextel, we have adapted iDEN-based packet data network to enable wireless Internet connectivity and new digital two-way mobile data services, marketed as Nextel Online. We completed the roll out of these services in all of our operating markets by the end of 2001. Our customers may elect to access a broad array of content directly from their Internet-ready handsets, such as email, news, weather, travel, sports and leisure information and shopping. In 2003 we expect to make available in our markets certain Nextel Industry Solutions that are currently available in Nextel's markets and include industry-specific applications such as fleet management applications, timesheet programs and customer service assistance applications, all designed to keep customers' businesses functioning smoothly through their mobile workforce.

Combined with Nextel, we have helped build the largest guaranteed all-digital wireless network in the country covering thousands of communities across the United States. As of December 31, 2002, we, together with Nextel, served 197 of the top 200 U.S. markets and the major transportation corridors between these markets. Through recent market launches, we and Nextel make service available today in areas of the United States where about 240 million people live or work.

### Competition

In each of the markets where our portion of the Nextel Digital Mobile Network operates, we compete with at least two established cellular licensees and as many as six PCS licensees, including AT&T Wireless, Sprint PCS, Verizon Wireless, T-Mobile and Cingular Wireless. Our ability to compete effectively with other wireless communications service providers depends on a number of factors, including:

the continued satisfactory performance of iDEN technology;

the establishment and maintenance of roaming service among our market areas and those of Nextel; and

the development of cost-effective direct and indirect channels of distribution for our portion of the Nextel Digital Mobile Network and our products and services.

A substantial number of the entities that have been awarded PCS licenses are current cellular communications service providers and joint ventures of current and potential wireless communications service providers, many of which have financial resources, customer bases and name recognition greater than ours. PCS operators compete with us in providing some or all of the services available through our network. Additionally, we expect that existing cellular service providers, some of which have been operational for a number of years and have significantly greater financial and technical resources, customer bases and name recognition than us, will continue to upgrade their systems to provide digital

wireless communications services competitive with those available on our network. Moreover, cellular and wireline companies are authorized to participate in dispatch and SMR services. We also expect our business to face competition from other technologies and services developed and introduced in the future.

We believe that the mobile telephone service currently being provided on the Nextel Digital Mobile Network utilizing the iDEN technology is similar in function to and achieves performance levels competitive with those being offered by other current wireless communications service providers in our market areas. There are, however, and will in certain cases continue to be, differences between the services provided by us and by cellular and/or PCS system operators and the performance of our respective systems. The all-digital networks that we and Nextel operate provide customers with digital quality and advanced features wherever they roam on the Nextel Digital Mobile Network, in contrast to hybrid analog/digital networks of cellular competitors, which do not support these features in the analog-only portion of their networks. Nevertheless, our ability to provide roaming services will be more limited than that of carriers whose subscribers use wireless telephones that can operate on both analog and digital cellular networks and who have roaming agreements covering larger parts of the country. As the Nextel Digital Mobile Network has continued to expand to cover a greater geographic area, this disadvantage has been reduced, but we anticipate that the Nextel

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Digital Mobile Network may never cover the same geographic areas as other mobile telephone services. In addition, if either PCS or cellular operators provide two-way radio dispatch services in the future, our competitive advantage in being uniquely able to combine that service with our mobile telephone service would be impaired. However, Direct Connect has been available for ten years and is a proven technology. While we anticipate competitors will attempt to introduce a direct connect like product, we intend to leverage our customer loyalty, proven technology and first to market advantage.

Wireless telephones used on the Nextel Digital Mobile Network are not compatible with those employed on cellular or PCS systems, and vice versa. This lack of interoperability may impede our ability to attract cellular or PCS customers or those new mobile telephone customers that desire the ability to access different service providers in the same market.

In addition, digital telephones are likely to remain significantly more expensive than analog telephones, and are likely to remain somewhat more expensive than digital cellular or PCS telephones that do not incorporate a comparable multi-function capability. We therefore expect to continue to charge higher prices for our telephones than the prices charged by operators for analog cellular telephones and possibly than the prices charged by operators for digital cellular telephones. However, we believe that our multi-function telephones currently are competitively priced compared to multi-function mobile telephone service and short text messaging digital, cellular and PCS telephones.

During the transition to digital technology, certain participants in the U.S. cellular industry offer telephones with dual mode analog and digital compatibility. Additionally, certain analog cellular system operators either that directly or through their affiliates also are constructing and operating digital PCS systems have made available to their customers dual mode/dual band 800 MHz cellular/1900 MHz PCS telephones, to combine the enhanced feature set available on digital PCS systems within their digital service coverage areas with the broader wireless coverage area available on the analog cellular network. We do not have comparable hybrid telephones available to our customers. We can give no assurances that potential customers will be willing to accept system coverage limitations as a trade-off for the enhanced multi-function wireless communications package we plan to provide on our portion of the Nextel Digital Mobile Network.

Over the past several years, as the number of wireless communications providers in our market areas have increased, the prices of such providers' wireless service offerings to customers in those markets have generally been decreasing. We may encounter market pressures to reduce our service offering prices or to restructure our service offering packages to respond to particular short-term,

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market-specific situations, such as special introductory pricing or packages that may be offered by new providers launching their service in a market, or to remain competitive in the event that wireless service providers generally continue to reduce the prices charged to their customers, particularly if PCS operators enter the smaller markets that we intend to serve.

Because many of the cellular operators and certain of the PCS operators in our markets have substantially greater financial resources than us, they may be able to offer prospective customers equipment subsidies or discounts that are substantially greater than those, if any, that could be offered by us and may be able to offer services to customers at prices that are below prices that we are able to offer for comparable services. Thus, our ability to compete based on the price of our digital telephones and service offerings will be limited. We cannot predict the competitive effect that any of these factors, or any combination thereof, will have on us.

Cellular operators and PCS operators and entities that have been awarded PCS licenses generally control more spectrum than is allocated for SMR service in each of the relevant market areas. Specifically, each cellular operator is licensed to operate 25 MHz of spectrum and certain PCS licensees have been licensed for between 10 MHz and 30 MHz of spectrum in the markets in which they are licensed, while only approximately 20 MHz is available to all competing SMR systems, including Nextel's and our systems, in those markets. The control of more spectrum gives cellular operators and many PCS licensees the potential for more system capacity and, therefore, the ability to serve more subscribers than SMR operators, including Nextel and us. We believe that we generally have adequate spectrum to provide the capacity needed on our portion of the Nextel Digital Mobile Network currently and for the reasonably foreseeable future although we may need to acquire additional spectrum in some markets to insure that the quality of our network keeps pace with anticipated growth in our customer base.

Since it has received auction authority, the FCC has held more than 40 spectrum auctions. Generally, the auctions do not involve spectrum used to compete with our services. However, the FCC has authorized a consortium of communications companies to provide nationwide mobile satellite services, which may compete with traditional mobile wireless services. Additionally, the FCC has reallocated frequencies in the 700 MHz band of the former analog television channels 52-69 to commercial services. The FCC auctioned some of this spectrum during 2002, with an additional auction to begin May 28, 2003. It is possible that this spectrum, once auctioned, will be used to offer services that are competitive with our service. In addition, the FCC will continue to auction spectrum in the future, and we cannot predict how these frequencies will be used, the technologies that will develop or what impact, if any, they will have on our ability to compete for wireless communications services customers.

In January 2001, the FCC completed the re-auction of over 150 PCS licenses. The vast majority of these licenses were purchased by carriers who offer services in competition to us. A decision on January 27, 2003 by the United States Supreme Court involving the bankruptcy proceeding of NextWave Personal Communications, Inc. recently invalidated the FCC's re-auction of these licenses, determining that in canceling NextWave's licenses for failure to pay installment payments due, the FCC violated a provision of the Bankruptcy Code that prohibits governmental entities from revoking debtors' licenses solely for failure to pay debts dischargeable in bankruptcy. The result of the Supreme Court's decision is that the formerly canceled and re-auctioned PCS licenses purchased by NextWave at auction are to be returned to NextWave. NextWave may either pay the balance due on the license and construct its own system, surrender the licenses, or lease or sell them to other carriers. It is widely anticipated that NextWave will sell or lease the licenses to other carriers rather than build its own system or surrender the licenses to the government. The FCC or Congress may also allocate additional spectrum at any time and create rules that would make services provided on that spectrum competitive with our ESMR service.

On November 22, 2002, the FCC released a Notice of Proposed Rulemaking regarding service rules for Advanced Wireless Services ("third-generation," or "3G" services) to be offered in the near future by wireless carriers. This proposal seeks to foster flexibility in spectrum usage to promote efficiency in spectrum markets intended to bring about high value usage of limited spectrum resources. In addition, the FCC has initiated an inquiry into secondary spectrum markets. It is impossible to predict the outcome or timeframe for FCC action on these matters. However, the outcome of these proceedings will likely affect the ability of all carriers, including us, to obtain additional spectrum to be used in offering both traditional and advanced wireless services.

***Proposed Public Safety Spectrum Realignment.*** Our unique iDEN technology allows us to use scattered, non-contiguous spectrum frequencies in the 800 MHz band. Under the licensing scheme for specialized spectrum developed by the FCC during the 1970s, we occupy spectrum that is intermixed and adjacent to that used by other SMR licenses for commercial, business and industrial/land transportation, and for public safety users in the 800 MHz band. Different types of SMR licensees successfully coexisted for many years, but changes over the past few years to the network architecture necessary to support commercial digital technology have created isolated, intermittent situations where commercial and non-commercial licensees experience system interference. In particular, older analog networks used by public safety entities are experiencing system problems that have been traced to the digital operations of nearby commercial SMR and cellular licensees, even though all licensees are operating within the authorized parameters of their licenses and in compliance with FCC rules. Because the public safety interference issue is directly linked to the current SMR license allocations for public safety and commercial users, the FCC has instituted a rulemaking proceeding, in response to a proposal filed by Nextel on November 21, 2001, that considers elimination of interference and more efficient use of spectrum by all parties through the realignment of spectrum licenses and spectrum allocations in the 800 MHz bands. In this proceeding the FCC is considering proposals to separate the channel blocks used by cellular and commercial SMR licensees from the channel blocks used by public safety licensees so that the realigned licenses, in conjunction with proposed technical requirements, would no longer interfere with each other.

We cannot be certain what, if any, long-term solutions to the public safety interference problem will be adopted by the FCC. Absent FCC action we may be unable to solve future public safety interference problems without reducing the efficiency of our network or restricting service to our customers. In addition, while the public safety community is aware of the potential network problems their personnel may experience, we cannot be certain that we or the wireless industry in general may not be subject to litigation should a situation arise in which damage or harm occurs as a result of commercial interference with a public safety communications network.

## **Regulation**

### **Federal Regulation**

***SMR Regulation.*** We are an SMR operator regulated by the FCC. The FCC also regulates the licensing, construction, operation and acquisition of all other wireless telecommunications systems in the United States, including cellular and PCS operators. We are generally subject to the same FCC rules and regulations as cellular and PCS operators, but our status as an SMR operator creates some important regulatory differences.

Within the limitations of available spectrum and technology, SMR operators are authorized to provide mobile communications services to business and individual users, including mobile telephone, two-way radio dispatch, paging and mobile data services. SMR regulations have undergone significant changes during the last several years and continue to evolve as new FCC rules and regulations are adopted.

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The first SMR systems became operational in 1974, but these early systems were not permitted or designed to provide interconnected telephone service competitive with that provided by cellular operators. SMR operators originally emphasized two-way dispatch service, which involves shorter duration communications than mobile telephone service and places less demand on system capacity. SMR system capacity and quality was originally limited by:

the smaller portion of the radio spectrum allocated to SMR;

the assignment of SMR frequencies on a non-contiguous basis;

regulations and procedures that initially served to spread ownership of SMR licenses among a large number of operators in each market, further limiting the amount of SMR spectrum available to any particular operator; and

older SMR technology, which employed analog transmission and a single site, high-power transmitter configuration, precluding the use of any given SMR frequency by more than one caller at a time within a given licensed service area.

The original analog SMR market was oriented largely to customers such as contractors, service companies and delivery services that have significant field operations and need to provide their personnel with the ability to communicate directly with one another, either on a one-to-one or one-to-many basis, within a limited geographic area. SMR licenses granted prior to 1997 have several unfavorable characteristics, as compared with cellular or PCS licenses. Because these SMR licenses were on a site-by-site basis, numerous SMR licenses were required to cover the metropolitan area typically covered by a single cellular or PCS license.

SMR licenses granted in 1997 and later were granted to cover a large area (known as an economic area, or EA) rather than a particular antenna at a particular site. EA licenses therefore are more like cellular or PCS licenses in this regard, and eliminate one of the former regulatory disadvantages of SMR licenses. The FCC has held three SMR auctions for EA licenses, which include the frequencies on which we and Nextel operate in the 800 MHz band. In these auctions, Nextel, or a bidding consortium made up of Nextel and us, was the largest successful bidder, and as a result, we or a Nextel subsidiary hold EA licenses for most, but not all, of the territories that we intend to serve.

The first EA licenses granted the licensee exclusive use of the frequencies in the EA territory. To the extent that another SMR site-by-site licensee may be operating in the same frequencies in the EA pursuant to another license, the EA licensee has priority, but must provide the incumbent site-by-site licensee with alternative spectrum and must compensate the incumbent for the cost of changing to the other frequency. To date, nearly all of the existing incumbents in 800 MHz spectrum have been moved through voluntary agreements. We, or a Nextel subsidiary, hold all of the EA licenses from the first auction that includes our frequencies. Most of our EA licenses are free of incumbent carriers other than Nextel. Nextel WIP has transferred to us those site-by-site licenses located in our EA territories operating at the same frequencies.

In the second and third EA auction, we acquired almost all of the EA licenses that include frequencies that we operate on a site-by-site basis. As a result, we will be able to provide service throughout the EA territory on those frequencies. Unlike the previous EA auction, however, the EA licensee does not have exclusive use of the frequencies in the EA territory. Therefore, in those limited areas where another entity may have acquired the EA license at auction but where we are an incumbent licensee operating on a site-by-site basis on the same frequency, we have the right to continue to operate under the existing site-by-site authorization.

EA licenses to operate on these frequencies are issued for ten years, after which we need to apply for renewal from the FCC. We expect to obtain renewal of our EA licenses if we are otherwise in good standing before the FCC. In addition, all of our SMR licenses are subject to FCC build-out

requirements. The FCC has modified the build-out deadlines for our pre-1997 site-by-site SMR licenses permitting us to utilize the same build-out schedules as our EA licenses. Our EA licenses must provide coverage to at least one-third of the population of the license area within three years of the initial grant and two-thirds of the population within five years. Failure to comply with the build-out requirements for both site-by-site licenses and EA licenses may result in a cancellation of these licenses by the FCC. We hold and utilize both site-by-site licenses and EA licenses. We have met all of the applicable time and population based build-out requirements and associated filings of licenses to date.



**Federal Regulation of Wireless Operators.** SMR regulations have undergone significant changes during the last five years and continue to evolve as new FCC rules and regulations are adopted pursuant to the Omnibus Budget Reconciliation Act of 1993 and the Communications Act. Since 1996, SMR operators like us and Nextel have been subject to common carrier obligations similar to those of cellular and PCS operators. This regulatory change recognized the emergence of SMR service as competitive with the wireless service provided by cellular and PCS providers. As a result, SMR providers like us now have many of the same rights (such as the right to interconnect with other carriers) and are subject to many of the same obligations applicable to cellular and PCS operators.

The FCC and the Communications Act impose a number of mandates with which we must comply, and that may impose certain costs and technical challenges on our operations. For example, we must provide consumers the ability to "manually" roam on our network. The FCC also has adopted requirements for commercial mobile radio service (or CMRS) providers, including covered SMR providers, to implement various enhanced 911 capabilities, including the ability to locate emergency callers and deliver that information to emergency responders. We, along with Nextel, are in the process of implementing such capabilities pursuant to a waiver order adopted by the FCC in October 2001. We are obligated to meet benchmark dates for deployment of A-GPS handsets capable of providing such location information. We met the initial benchmark dates for October and December of 2002, and must periodically meet additional benchmarks through December 2005, when we are required to ensure that 95% of all subscriber handsets in service nationwide on our system can deliver location information. Meeting these requirements will impose certain costs on us, and is partially dependent on progress of our equipment vendor in making such handsets available. In some states, we may not be able to recover our costs of implementing such enhanced 911 capabilities.

The FCC also requires CMRS providers to deploy "number portability" technology that would allow customers to keep their telephone numbers when switching to another carrier. Covered SMR providers, including us, along with all other CMRS services providers, are required to offer this number portability service in the 100 largest metropolitan areas, including the ability to support nationwide roaming, by November 2003. This requirement also includes enabling calls from our network to be delivered to telephone numbers that have been switched from one wireline carrier to another. The FCC is currently considering a petition seeking clarification that wireline providers are required to provide portability of their customers' numbers to CMRS providers. In addition, there is currently pending a case in the United States Court of Appeals for the District of Columbia Circuit challenging the FCC's decision to impose number portability on CMRS providers. We cannot predict the outcome of those proceedings.

Effective January 1, 2003, the FCC has completely eliminated its wireless spectrum cap regulations which previously limited any entity from holding attributable interests in more than 55 MHz of licensed broadband PCS, cellular or covered SMR spectrum with significant overlap in any geographic area. The FCC has stated that rather than having a set spectrum cap, spectrum aggregation effecting competition will be handled on a case-by-case basis and through auction rules. These rules may affect our ability, as well as our competitors' ability, to obtain additional spectrum.

Wireless providers, including us, also must satisfy FCC requirements relating to technical and reporting matters. One such requirement is the coordination of proposed frequency usage with adjacent

wireless users, permittees and licensees in order to avoid electrical interference between adjacent networks. In addition, the height and power of base radio transmitting facilities of certain wireless providers and the type of signals they emit must fall within specified parameters.

The FCC is responsible for other rules and policies, which govern the operations over the SMR spectrum necessary for the offering of our services. This includes the terms under which CMRS providers interconnect their networks and the networks of wireline and other wireless providers of interstate communications services. The FCC also has the authority to adjudicate, among other matters, complaints filed under the Communications Act with respect to service providers subject to its jurisdiction. Under its broad oversight authority with respect to market entry and the promotion of a competitive marketplace for wireless providers, the FCC regularly conducts rulemaking and other types of proceedings to determine rules and policies that could affect SMR operations, and the CMRS industry generally. These rules and policies are applicable to our operations and we could face fines or other sanctions if we do not comply.

The FCC imposes a number of obligations for local exchange carriers to interconnect their network to other carriers' networks that affect wireless service providers. Established local exchange carriers must provide for co-location of equipment necessary for interconnection, as well as any technically feasible method of interconnection requested by a CMRS provider. In addition, all local exchange carriers are obligated to enter into reciprocal, cost-based compensation arrangements with CMRS providers for the transmission of local calls. On May 13, 2002 the United States Supreme Court upheld the FCC's order that required compensation based on the most efficient network configuration, and overturned a decision of the United States Court of Appeals for the Eighth Circuit that had invalidated the FCC's order. In addition, the FCC has initiated a further inquiry into the compensation rates that carriers must pay each other for both the transmission of local and long distance calls. While this proceeding is expected to take several years to complete, the outcome may significantly affect the charges we pay to other carriers and the compensation we receive for these services. Furthermore, if we cannot successfully negotiate an interconnection agreement with an

established local exchange carrier, it may require the relevant state public utilities commissions to serve as arbitrators.

Certain interstate incumbent local exchange carriers, or ILECs, in rural areas have started to impose on wireless carriers, including us, charges to terminate traffic that we send to them by filing state tariffs. These new rural ILEC tariffs feature high termination rates that are not based on the rural ILECs' cost of terminating the traffic we send. The rural ILECs justify termination tariffs as a legitimate means of recovering their costs for transport and termination of wireless traffic. On September 6, 2002, Nextel, along with other wireless carriers, filed a petition with the FCC to have these tariffs declared unlawful. We support Nextel's position in this proceeding and this proceeding remains pending.

In addition, the Communications Assistance for Law Enforcement Act of 1994 (or CALEA) requires all telecommunications carriers, including wireless carriers, to ensure that their equipment is capable of permitting the government, pursuant to a court order or other lawful authorization, to intercept any wire and electronic communications carried by the carrier to or from its subscribers. On August 15, 2000, the United States Court of Appeals for the D.C. Circuit reversed and remanded a FCC requirement that certain call identifying information be provided to law enforcement. Moreover, implementation of certain capabilities affecting the transmission of packet-mode data, as required by the FCC, was required to be completed by November 19, 2001. We have timely requested a two-year extension for the packet-mode requirements and are thus in compliance pending consultation with the FBI and receipt of a final FCC order. Compliance with the requirements of this CALEA, further FBI requests, and the FCC's rules could impose significant additional direct and/or indirect costs on us and other wireless carriers.

Wireless networks are also subject to certain FCC and FAA regulations regarding the relocation, lighting and construction of transmitter towers and antennas and are subject to regulation under the National Environmental Policy Act, the National Historic Preservation Act, and various environmental regulations. Compliance with these provisions could impose additional direct and/or indirect costs on us and other licensees. The FCC's rules require antenna structure owners to notify the FAA of structures that may require marking or lighting. In addition to our SMR licenses, we may also utilize other carriers' facilities to connect base radio sites and to link them to their respective main switching offices. These facilities may be separately licensed by the FCC and may be subject to regulation as to technical parameters, service, and transfer or assignment.

Pursuant to the Communications Act, all telecommunications carriers that provide interstate telecommunications services, including SMR providers such as ourselves, are required to make an "equitable and non-discriminatory contribution" to support the cost of federal universal service programs. These programs are designed to achieve a variety of public interest goals, including affordable telephone service nationwide, as well as subsidizing telecommunications services for schools and libraries. Contributions are calculated on the basis of each carrier's interstate end-user telecommunications revenue. The Communications Act also permits states to adopt universal service regulations not inconsistent with the Communications Act or the FCC's regulations, including to require CMRS providers to contribute to their universal services funds. Additional costs may be incurred by us and ultimately by our subscribers as a result of our compliance with these required contributions. The FCC recently issued an order that changes the methodology for computing Universal Service Fund contributions, which we expect will not have a significant impact on our business or operating results.

The Communications Act also requires all telecommunications carriers, including SMR licensees, to ensure that their services are accessible to and useable by persons with disabilities, if readily achievable. Compliance with these provisions, and the regulations promulgated there under, could impose additional direct and/or indirect costs on us and other licensees. The FCC, as part of its periodic review obligations, has initiated a proceeding to consider eliminating the statutory exemption of mobile telephones from hearing aid compatibility. If the statutory exemption is lifted, additional costs could be imposed on us and other licensed mobile phone service providers.

In addition, other regulations may be promulgated pursuant to the Communications Act or other acts of Congress, which could significantly raise our cost of providing service. In response, we may be required to modify our business plans or operations in order to comply with any such regulations. Moreover, other federal or state government agencies having jurisdiction over our business may adopt or change regulations or take other action that could adversely affect our financial condition or results of operations.

#### **State Regulation and Local Approvals**

The states in which we operate generally have agencies or commissions charged under state law with regulating telecommunications companies, and local governments generally seek to regulate placement of transmitters and rights of way. While the powers of state and local governments to regulate wireless carriers are limited to some extent by federal law, we will have to devote resources to comply with state and local requirements. For example, state and local governments generally may not regulate our rates or our entry into a market, but are permitted to manage public rights of way, for which they can require fair and reasonable compensation. States may also impose certain surcharges on our customers that could make our service, and the service of other wireless carriers, more expensive.

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Under the Communications Act, state and local authorities maintain authority over the zoning of sites where our antennas are located. These authorities, however, may not discriminate against or prohibit our services through their use of zoning authority. Therefore, while we may need approvals for

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particular sites or may not be able to choose the exact location for our sites we do not foresee significant problems in placing our antennas at sites in our territory.

In addition, a number of states and localities are considering banning or restricting the use of wireless phones while driving a motor vehicle. In 2001, New York enacted a statewide ban on driving while holding a wireless phone, and similar legislation is pending in other states. A handful of localities also have enacted ordinances banning or restricting the use of handheld wireless phones by drivers. Should this become a nationwide initiative, all wireless carriers could experience a decline in the number of minutes of use by subscribers. On the federal level, a bill has been introduced in Congress (the Mobile Telephone Driving Safety Act of 2003) that, if passed, would prohibit wireless consumers from using a handheld mobile telephone while driving. Specifically, the bill would withhold a proportion of federal funds appropriated for the states from any state that does not enact legislation that prohibits an individual from using a handheld mobile telephone while operating a motor vehicle except in the case of an emergency or other exceptional circumstance.

### Internet Website

Our Internet website can be found at [www.NextelPartners.com](http://www.NextelPartners.com). We make available free of charge on or through our Internet website access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission.

### Employees

As of December 31, 2002, we had 2,382 employees. None of our employees are represented by a labor union or subject to a collective bargaining agreement, nor have we experienced any work stoppage due to labor disputes. We believe that our relations with our employees are good.

### Executive Officers of the Registrant

The following table sets forth certain information with respect to our executive officers:

Name	Age	Position
John Chapple	49	President, Chief Executive Officer and Chairman of the Board
John Thompson	49	Vice President, Chief Financial Officer and Treasurer
David Aas	49	Vice President, Chief Technology Officer
Perry Satterlee	42	Vice President, Chief Operating Officer
Mark Fanning	43	Vice President-Partner Development
Donald Manning	42	Vice President, General Counsel and Secretary

*John Chapple* worked to organize Nextel Partners throughout 1998 and has been the President, Chief Executive Officer and Chairman of the Board of Nextel Partners and our subsidiaries since August 1998. Mr. Chapple was elected to our Board of Directors pursuant to the terms of our amended and restated shareholders' agreement. Mr. Chapple, a graduate of Syracuse University and Harvard University's Advanced Management Program, has over 24 years of experience in the wireless communications and cable television industries. From 1978 to 1983, he served on the senior management team of Rogers Cablesystems before moving to American Cablesystems as Senior Vice President of Operations from 1983 to 1988. From 1988 to 1995, he served as Executive Vice President of Operations for McCaw Cellular Communications and subsequently AT&T Wireless Services following the merger of those companies. From 1995 to 1997, Mr. Chapple was the President and Chief

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Operating Officer for Orca Bay Sports and Entertainment in Vancouver, B.C. Orca Bay owned and operated Vancouver's National Basketball Association and National Hockey League sports franchises in addition to the General Motors Place sports arena and retail interests. Mr. Chapple is the past Chairman of Cellular One Group and the Personal Communications Industry Association, past Vice-Chairman of the Cellular Telecommunications & Internet Association and has been on the Board of Governors of the NHL and NBA. Mr. Chapple is currently on the Syracuse University Maxwell School Board of Advisors and the Fred Hutchinson Cancer Research Business Alliance Board of Governors.

*John Thompson* has been the Chief Financial Officer and Treasurer of Nextel Partners and our subsidiaries since August 1998 and has approximately 24 years of finance experience, including over 16 years in the wireless communications industry. Mr. Thompson holds both a B.A. in Accounting and a Juris Doctor from the University of Puget Sound. From 1978 to 1986, he served as Tax Manager for Laventhol & Horwath. In 1986, he joined McCaw Cellular Communications as Vice President of Tax. In 1990, he became Senior Vice President of McCaw Cellular Communications and assumed a significant role in a number of key initiatives for the company, including its acquisition of LIN Broadcasting in 1990, the merger of it and AT&T in 1993, and AT&T's PCS license acquisitions in 1996. In 1997, he became Chief Financial Officer for AT&T Wireless Services. Mr. Thompson has served on the boards of a number of AT&T Wireless Services joint ventures, including Bay Area Cellular Telephone Company, and currently serves on the board of Cellport Systems, Inc.

*David Aas* has been the Chief Technology Officer of Nextel Partners and our subsidiaries since August 1998. Prior to joining Nextel Partners, Mr. Aas served as Vice President of Engineering and Operations of AT&T Wireless' Messaging Division. Mr. Aas has over 25 years of experience in the wireless industry and has held a number of senior technical management positions, including positions with Aircel from 1977 to 1981, MCI from 1981 to 1986, and MobileComm from 1986 to 1989. From 1989 to August 1998, he was with AT&T Wireless, where he led the design, development, construction and operation of AT&T Wireless' national messaging network. Mr. Aas served on the Technical Development Committee of the Personal Communications Industry Association and led the development and deployment of the PACT two-way messaging system.

*Perry Satterlee* has been the Vice President-Sales and Marketing of Nextel Partners and our subsidiaries since August 1998, the Chief Operating Officer since July 2002 and has over 15 years of wireless industry experience. Prior to Nextel Partners, Mr. Satterlee spent two years with Nextel, where he held the position of President- Pacific Northwest Area since its inception in 1996. Prior to joining Nextel, Mr. Satterlee served from 1992 to 1996 as Vice President and General Manager of AT&T Wireless Services' Central California District. From 1990 to 1992, he was General Manager of McCaw Cellular Communications' Ventura/Santa Barbara market. From 1988 to 1990, Mr. Satterlee was Director of Planning for McCaw Cellular Communications, where he led the company's planning and budgeting processes.

*Mark Fanning* has been the Vice President-Partner Development of Nextel Partners and our subsidiaries since August 1998 and has over 21 years of human resources experience, including nine years in the wireless industry with McCaw Cellular Communications and AT&T Wireless Services. From 1995 to 1998, Mr. Fanning served as Vice President for People Development Operations for AT&T Wireless Services. From 1991 to 1995, he served as Director and later as Vice President of Compensation & Benefits for AT&T Wireless Services. From 1989 to 1991, he was the Director of People Development for McCaw Cellular's California/Nevada region.

*Donald Manning* has been the Vice President, General Counsel and Secretary of Nextel Partners and our subsidiaries since August 1998 and has over 17 years of legal experience. From July 1996 to July 1998, he served as Regional Attorney for the Western Region of AT&T Wireless Services, an 11-state business unit generating over \$400 million in revenues annually. Prior to joining AT&T Wireless Services, from September 1989 to July 1996, Mr. Manning was an attorney with Heller Ehrman White & McAuliffe specializing in corporate and commercial litigation. From September 1985 to September 1989, he was an attorney with the Atlanta-based firm of Long, Aldridge & Norman.

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Our executive officers do not serve for any specified terms and, instead, are appointed by, and serve at the discretion of, our Board of Directors. However, the executive officers may from time to time be subject to employment agreements that provide such officers with severance payments in the event that they are terminated without cause, as defined in these agreements. There are no family relationships among our directors and officers.

### RISK FACTORS

*The following risk factors and other information included in this Annual Report on Form 10-K 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.*

**We have a history of operating losses, expect to continue to incur 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.**

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We did not commence commercial operations until January 29, 1999, and the portion of the Nextel Digital Mobile Network we began operating on that date only had a few months of operating history. Since then, we have had a history of operating losses, and, as of December 31, 2002, we had an accumulated deficit of approximately \$983.4 million. We expect to continue to incur 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 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. In addition, the slowdown in the U.S. economy generally has added economic and consumer uncertainty that could adversely affect our revenue growth. Our failure to fund our operations or continued growth 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.

### **If Nextel experiences financial or operational difficulties, our business may be adversely affected.**

Our business plan depends, in part, on Nextel 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 customers. Additional information regarding Nextel, its domestic digital mobile network business and the risks associated with that business can be found in Nextel's Annual Report on Form 10-K for the year ended December 31, 2002, as well as Nextel's other filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934 (SEC file number 0-19656).

### **Under certain circumstances, Nextel WIP has the ability to purchase, and a majority of our Class A stockholders can cause Nextel WIP to purchase, all of our outstanding Class A common 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 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 cause and fund a redemption by us of, all of the outstanding shares of our Class A

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common stock. The circumstances that could trigger Nextel WIP's purchase right include the occurrence of January 29, 2008 (subject to certain postponements by our board of directors); a failure by us to implement certain required changes to our business; a failure by Nextel WIP to fund certain changes to the digital transmission technology; or termination of our operating agreements with Nextel WIP as a result of our breach. The circumstances that could trigger our shareholders' put right include a change of control of Nextel; failure by us in certain circumstances to implement changes to our business; or termination of our operating agreements with Nextel WIP as a result of a breach by Nextel WIP.

### **Any failure to integrate our portion of the Nextel Digital Mobile Network with Nextel's portion effectively or on schedule would have an adverse effect on our results of operations.**

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. Any interruption in the provision of these services could delay or prevent 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 integrated customer service, network management and billing systems 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 systems effectively or 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 continued expansion of the network, which would adversely affect our ability to generate revenue.**

The continued operation of our portion of the Nextel Digital Mobile Network involves a high degree of risk. Before we are able to build additional cell sites in our markets to expand coverage, fill in gaps in coverage or increase capacity, 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 cell site.

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;

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

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

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

obtain necessary approvals, licenses and permits from federal, state and local agencies, including land use regulatory approvals and approval from the Federal Aviation Administration and

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Federal Communications Commission 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 the quality of services in our markets consistent with our current business plan, and any significant delays could have a material adverse effect on our business.

**If we do not offer services that Nextel WIP requires us to offer or we fail to meet performance standards, we 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 and operate our portion of the Nextel Digital Mobile Network to specific standards, and to offer certain services by Nextel and its domestic subsidiaries. Our failure to satisfy these obligations could constitute a material default under the operating agreements that would give Nextel WIP the right to terminate these agreements, and would terminate 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 would adversely affect our financial condition.

**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, our operating agreements with Nextel WIP give it the right to require us to make similar changes to our operations. The failure to implement required changes could, under certain circumstances, trigger the ability of Nextel WIP to terminate their operating agreements with us, which could result in the adverse effects described above. 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.

**The transmission technology used by us and Nextel 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, Nextel, and Southern LINC 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 domestic 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 that may perform better or are available at a lower cost 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 operating agreements with Nextel WIP, we will be less able to compete effectively and could lose customers to our competitors, all of which would have an adverse effect on our business and financial condition.

**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 other 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 obtain 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 be sure that equipment 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 between Nextel and us.

**Costs and other aspects of a future deployment of advanced digital technology could adversely affect our operations and growth.**

Based on our current outlook and the current outlook of Nextel, we anticipate eventually deploying advanced digital technology that will allow high capacity wireless voice and high-speed data transmission, and potentially other advanced digital services. The technology that we would deploy to provide these types of broadband wireless services is sometimes referred to as third-generation or "3G." We and Nextel are focusing activities on maximizing our ability to offer 3G capabilities while continuing to fully utilize our iDEN digital mobile network. Significant capital expenditures would be required in implementing this third-generation technology, and we cannot assure you that we will have the financial resources necessary to fund these expenditures or, if we do implement this technology, that it would provide the advantages that we would expect. Moreover, it may be necessary to acquire additional frequencies to implement third-generation technologies, and we cannot be sure that we will be able to obtain such spectrum on reasonable terms, if at all. The actual amount of the funds required to finance and implement this technology may significantly exceed our current estimate. Further, any future implementation could require additional unforeseen capital expenditures in the event of unforeseen delays, cost overruns, unanticipated expenses, regulatory changes, engineering design changes, equipment unavailability and technological or other complications. In addition, 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 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 would 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.

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

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

If the wireless communications technology that we and Nextel use does not continue to 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 satisfactorily resolve performance or other transmission quality issues as they arise, including transmission quality issues on Nextel's portion of the Nextel Digital Mobile Network, we may have difficulty attracting and retaining customers, which would adversely affect our revenues.

Because the Nextel Digital Mobile Network does not provide roaming coverage on a nationwide basis that is as extensive as is available through most cellular and personal communication services providers, we may not be able to compete effectively against those providers. In addition, some of our competitors provide their customers with handsets with both digital and analog capability, which expands their coverage, while we have only digital capability. We cannot be sure that we, either alone or together with Nextel, will be able to achieve comparable 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 our multi-function wireless communications package.

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 these distribution channels could adversely affect our operating results. Although we have recently launched a pilot program to expand our distribution channels to include retail locations, we cannot assure you that this program will be successful. Moreover, many of our competitors have established extensive networks of retail locations, including locations dedicated solely to their products, and multiple distribution channels and therefore have access to more potential customers than we do.

Because of their greater resources, some of our competitors may be able to offer services to customers at prices that are below the prices that we can offer for comparable services. If we cannot, as a result, compete effectively based on the price of our service offerings, our revenues and growth may be adversely affected.

The wireless telecommunications industry is experiencing significant technological change. Our digital technology could become obsolete. We rely on digital technology that is not compatible with, and that competes with, other forms of digital and non-digital voice communication technology. Competition among these differing technologies can: segment the user markets, which could reduce demand for specific technologies, including our technology; reduce the resources devoted by third-party suppliers, including Motorola, which supplies all of our current digital technology, to developing or improving the technology for our systems; and adversely affect market acceptance of our services.

We offer our subscribers access to digital two-way mobile data and Internet connectivity under the brand name Nextel Wireless Web. We cannot be sure that these services will continue to perform satisfactorily, be utilized by a sufficient number of our subscribers or produce sufficient levels of customer satisfaction or revenue. Because we have less spectrum than some of our competitors, and because we have elected to defer the implementation of "third generation" or "3G" services, any digital two-way mobile data and Internet connectivity services that we may offer could be significantly limited compared to those services offered by other wireless communications providers with larger spectrum positions. The success of these new services will be jeopardized if: we are unable to offer these new services profitably; these new service offerings



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adversely impact the performance or reliability of the Nextel Digital Mobile Network; we, Nextel or third-party developers fail to develop new applications for our customers; or we otherwise do not achieve a satisfactory level of customer acceptance and utilization of these services.

If either personal communication services or cellular operators provide two-way radio dispatch or comparable capabilities in the future, our competitive advantage may be impaired. Further, some of our competitors have attempted to compete with Direct Connect by offering unlimited mobile-to-mobile calling plan features and reduced rate calling plan features for designated small groups. If these calling plan modifications are perceived by our existing and potential customers as viable substitutes for our differentiated services, our business may be adversely affected.

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 services in a particular market. A reduction in our pricing would likely have an adverse effect on our revenues and operating results.

Because of the numerous features we offer, our mobile handsets 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. 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.

Recent agreements between competitors in some of our markets to share network construction efforts will reportedly reduce their costs and increase their coverage area. These agreements, along with future agreements, may increase market pressure for us to reduce our prices and expand our coverage areas.

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### **Our network may not 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 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 and construct 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.**

Our success in generating revenues by attracting and retaining large numbers of customers to our portion of the Nextel Digital Mobile Network is critical to our business plan. 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 systems, business process and related support functions especially as related to customer service and accounts receivable collection; and

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an inappropriately long length of time between a customer's order and activation of service for that customer, especially because the current activation time for our new customers 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 these services could decrease or postpone subscriber growth, or delay or otherwise impede billing and collection of amounts owed, which would adversely affect our revenues.

### **Our highly leveraged capital structure and other factors could limit our ability to obtain additional financing and our growth opportunities.**

The level of our outstanding debt greatly exceeds the level of our revenues and stockholders' equity. As of December 31, 2002, we had approximately \$1.4 billion of total long-term debt outstanding, including \$373.3 million outstanding under our credit facility, \$425.9 million of 14% senior discount notes outstanding at their accreted value, \$390 million of 11% senior notes outstanding, \$211.6 million of 12.5% senior discount notes outstanding at their accreted value, and \$23.9 million of capital lease obligations. This indebtedness represented approximately 95% of our total book capitalization at that date. As of December 31, 2002, we also had \$35.0 million of mandatorily redeemable preferred stock outstanding, including accrued dividends.

Our large amount of outstanding 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 continue the build-out of or implement any enhancement of our portion of the Nextel Digital Mobile Network including any enhanced iDEN services to expand wireless voice capacity, enhanced data services or potential

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"third generation" or "3G" mobile wireless services, to cover our cash flow deficit or for working capital, other capital expenditures, debt service requirements or other purposes;

it will require us to dedicate a substantial portion of our operating cash flow to fund interest expense on our credit facility and other indebtedness, 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; and

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 those, which we can or are willing to match.

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. 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 estimated capital requirements to build out our portion of the Nextel Digital Mobile Network using the current 800 MHz iDEN system until we become free cash flow positive, which we anticipate will not occur before 2004.

We cannot be sure, 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, our obligations under our credit facility or our existing senior discount notes and senior notes, or to fund our other liquidity needs. In addition, if our indebtedness cannot be repaid at maturity or refinanced, we will not be able to meet our obligations under our debt agreements, which could result in the cessation of our business.

If we default on our debt or if we were liquidated, the value of our assets may not be sufficient to satisfy our obligations. We have a significant amount of intangible assets, such as licenses granted by the FCC. The value of these licenses will depend significantly upon the success of our business and the growth of the SMR and wireless communication industry in general.

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General conditions in the wireless communications industry or specific competitors' results, including potential slowing of new subscriber additions, declining ARPU or increased customer dissatisfaction, may adversely affect the market price of our Class A common stock and, as a result, could impair our ability to raise additional capital through the sale of our equity or debt securities. In addition, the fundraising efforts of Nextel or any of its affiliates may also adversely affect our ability to raise additional funds.

### **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;

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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, our credit facility imposes financial covenants that 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 Adjusted 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 redemption or we lack the resources to make such redemption.**

Upon the occurrence of a defined change of control under the indentures governing our existing senior discount notes and senior notes, other than a change of control involving certain of our existing stockholders, we could be required to redeem our existing senior discount notes and senior notes. However, our credit facility prohibits us, except under certain circumstances, from redeeming any of our outstanding 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 outstanding notes our failure to redeem such notes would constitute an event of default under the respective indentures, which would in turn result in a default under our 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 adversely impact our ability to implement our business plan and could result in the cessation of our business. Moreover, even if we obtained consent under our credit facility, we cannot be sure that we would have sufficient resources to redeem our outstanding notes and still have sufficient funds available to successfully pursue our business plan.

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

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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, sales and management personnel.

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

Studies and reports have suggested that, and additional 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 reduced financing available to the mobile communications industry.

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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 wireless telephones to include an earpiece that would enable use of wireless telephones 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 wireless telephones as well as increase other costs of doing business.

Due to safety concerns, some state and local legislatures have passed or are considering legislation restricting the use of wireless telephones while driving automobiles. The passage 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. While the Telecommunications Act of 1996 provided for significant deregulation of the U.S. telecommunications industry, certain FCC rules regulating it remain subject to judicial review and additional FCC rulemaking. As a result, we cannot predict the effect that this or other legislation or 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 actions taken by regulatory authorities might increase our costs of providing service and adversely affect our financial condition. In addition, 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.

If we fail to comply with the terms of our licenses or applicable regulations, we could lose one or more licenses or face penalties and fines. For example, we could lose a license if we fail to construct or operate facilities as required by the license. If we lose licenses, that loss could have a material adverse effect on our business and financial condition.

### **Nextel WIP has contractual 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;

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;

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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 their 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.

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In addition, 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.

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

As of December 31, 2002, our officers, directors and greater than 5% stockholders together controlled approximately 81% 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 currently authorized eight-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.

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 non-competition agreement with any of our stockholders, and thus their or their affiliates' current and future investments could create conflicts of interest.

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

Provisions of our charter 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 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 our Class A common stock, or impede the ability of the holders of our Class A common stock to change our management.

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**Regulations to which we are subject may affect the ability of some of our investors to have an equity interest in us. Additionally, 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.**

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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 from the FCC or the applicable state commission to own those securities. 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.

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

Upon a 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 \$21.9 million, plus dividends accrued on such amount from the date of issuance up to the liquidation date equal to 12% per annum of the aggregate liquidation preference, compounded quarterly. As of December 31, 2002, we had \$35.0 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, subject to the covenants in our debt instruments. Pursuant to our restated certificate of incorporation, we must redeem all of our Series B preferred stock in February 2010, and we cannot guarantee that we will have sufficient cash from operations at that time to make such redemption. In the event that we default on our redemption obligations, the accreted liquidation preference will continue to accrue until we fulfill our redemption obligations in full.

### **Our stock price has been and is likely to continue to be volatile.**

The market price of our Class A common stock has been volatile 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 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;

adverse changes in general market conditions or economic trends;

future sales of our Class A common stock; and

volume fluctuations.

In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we become involved in securities class action litigation in the future, it could result in substantial costs and diversion of management attention and resources, thus harming our business.

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## 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.**

Some statements and information contained in this Annual Report on Form 10-K 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 other comparable words, or by discussions of strategy, plans or goals that involve risks and uncertainties that could cause actual results to differ materially from those currently anticipated. We warn you that these forward-looking statements are only predictions, subject to risks and uncertainties. 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 customers;

our anticipated capital expenditures, funding requirements and contractual obligations, 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 receivable;

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;

our ability to implement 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;

Nextel's planned enhancement of Nationwide Direct Connect Phase II, which would allow true nationwide Direct Connect capability; and

other risks and uncertainties described from time to time in our reports filed with the SEC.

## ***Item 2. Properties***

We own no material real property. We lease our headquarters located in Kirkland, Washington. This facility is approximately 14,000 square feet, and we have a lease commitment on the facility through July 2006. We lease administrative offices of approximately 22,800 square feet in Minnetonka, Minnesota under a lease expiring March 2005 and we lease additional administrative office space of approximately 59,000 feet in Eden Prairie, Minnesota under a lease expiring November 2007. To operate our customer service call centers, we lease approximately 65,000 square feet of office space in Las Vegas, Nevada under a lease expiring October 2006 and approximately 67,000 square feet of office space in Panama City Beach, Florida under a lease expiring January 2008. We lease cell sites for the transmission of radio service under various master site lease agreements as well as individual site leases. The terms of these leases generally range from five to 25 years at monthly rents ranging from \$300 to \$3,200. As of December 31, 2002, we had 3,317 operational cell sites.

## ***Item 3. Legal Proceedings***

On December 5, 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against us, two of our executive officers and four of the underwriters involved in our initial public offering. The lawsuit is captioned *Keifer v. Nextel Partners, Inc., et al*, No. 01 CV 10945. It was filed on behalf of all persons who acquired our common stock between February 22, 2000 and December 6, 2000 and initially named as defendants us, John Chapple, our President, Chief Executive Officer and Chairman of the Board, John D. Thompson, our Chief Financial Officer and Treasurer, and the following underwriters of our initial public offering: Goldman Sachs & Co., Credit Suisse First Boston Corporation, Morgan Stanley & Co. Incorporated and Merrill Lynch Pierce Fenner & Smith Incorporated. Mr. Chapple and Mr. Thompson have been dismissed from the lawsuit without prejudice. The complaint alleges that the defendants violated the Securities Act of 1933 and the Securities Exchange Act of 1934 by issuing a registration statement and prospectus that were false and misleading in that they failed to disclose that: (i) the defendant underwriters allegedly had solicited and received excessive and undisclosed commissions from certain investors who purchased our common stock issued in connection with our initial public offering; and (ii) the defendant underwriters allegedly allocated shares of our common stock issued in connection with our initial public offering to investors who allegedly agreed to purchase additional shares of our common stock at pre-arranged prices. The complaint seeks rescissory and/or compensatory damages. We dispute the allegations of the complaint that suggest any wrongdoing on our part or by our officers, and we intend to defend the action vigorously and will pursue all appropriate remedies available to us and our officers.

On June 8, 2001 a purported class action lawsuit was filed in the State Court of Fulton County, State of Georgia by Reidy Gimpelson against us and several other wireless carriers and manufacturers of wireless telephones. The complaint alleges that the defendants, among other things, manufactured and distributed wireless telephones that cause adverse health affects. The plaintiffs seek compensatory damages, reimbursement for certain costs including reasonable legal fees, punitive damages and injunctive relief. The defendants timely removed the case to Federal court and requested that all similar actions pending in the Federal courts be consolidated in a multi-district proceeding. The judicial panel on multi-district litigation granted the defendants' request; and all related proceedings were consolidated in the U.S. District Court for the District of Maryland. The MDL court first heard the plaintiffs' motion to remand the cases back to the state courts from which they were removed, which motion the court denied. Discovery is stayed in all of the class actions pending the court's decision on the motion to dismiss. On or about March 5, 2003, the MDL court granted the defendants' consolidated motion to dismiss the plaintiffs' claims on preemption grounds. To our knowledge, the plaintiffs have not yet appealed the MDL court's order. We dispute the allegations of the complaint, will vigorously defend against the action, and intend to seek indemnification from the manufacturers of the wireless telephones if necessary.



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

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

No matters were submitted for a vote of our security holders during the fourth quarter of the year ended December 31, 2002.

## **PART II**

#### ***Item 5. Market for Registrant's Common Equity and Related Stockholders Matters***

##### **Market**

Our Class A common stock is traded on the Nasdaq National Stock Market under the symbol "NXTP." The following table sets forth, for the periods indicated, the high and low stock prices of our Class A common stock as reported on the Nasdaq National Stock Market:

##### **Quarterly Common Stock Price Ranges for the Year Ended:**

	<b>High</b>	<b>Low</b>
<b>December 31, 2001</b>		
First Quarter	\$ 24.50	\$ 11.00
Second Quarter	\$ 18.02	\$ 10.50
Third Quarter	\$ 15.80	\$ 4.35
Fourth Quarter	\$ 12.32	\$ 4.88
<b>December 31, 2002</b>		
First Quarter	\$ 12.95	\$ 3.37
Second Quarter	\$ 6.53	\$ 2.40
Third Quarter	\$ 6.47	\$ 2.12
Fourth Quarter	\$ 8.39	\$ 4.53

##### **Holders**

As of March 10, 2003, there were approximately 19,800 holders of record of our Class A common stock and a single stockholder of record holding all 79,056,228 shares of our Class B common stock.

##### **Dividends**

We have never paid cash dividends on any of our capital stock, including our Class A common stock. We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not currently anticipate paying any cash dividends on our Class A common stock in the foreseeable future. In addition, our credit facility prohibits us from paying dividends without our lender's consent. Furthermore, the indentures pursuant to which our senior notes and senior discount notes were issued each prohibit us from declaring a cash dividend unless, after giving effect to such dividend, we would not be in default under such indentures, we remained in compliance with certain financial ratios and the amount of the dividend did not exceed the limits set forth in the indentures. We will, however, be required, in liquidation or upon mandatory redemption in February 2010, to pay dividends on our Series B preferred stock.

##### **Recent Sales of Unregistered Securities**

During the fourth quarter of 2002 (on November 7 and 22 and December 10, 17, 19, 24, and 31) we issued an aggregate of 4,064,539 shares of our Class A common stock to three of our existing security holders exclusively in exchange for outstanding notes in the principal amount of \$37 million previously issued by the company and held by these parties. No commission or remuneration was paid or given directly or indirectly for soliciting such exchange. These issuances were exempt from registration pursuant to Section 3(a)(9) of the Securities Act.

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On July 11, 2002, we issued 180,000 restricted shares of our Class A common stock to four of our directors in exchange for services to be rendered to the company. These shares vest in equal annual installments over a three-year period, except for an aggregate of 15,000 shares, which vested immediately. These issuances were exempt from registration pursuant to Section 4(2) of the Securities Act.

See Part III, Item 12 of this Annual Report for information regarding securities authorized for issuance under our equity compensation plans.

### **Item 6. Selected Consolidated Financial Data**

We have summarized below our historical consolidated financial data for the years ended December 31, 2002, 2001, 2000, 1999 and 1998. The historical operating data presented below for the same periods are derived from our records.

Please read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
Operating revenues:					
Service revenues <sup>(1)</sup>	\$ 646,169	\$ 363,573	\$ 130,125	\$ 28,136	\$ 3,745
Equipment revenues <sup>(1)</sup>	24,519	13,791	5,745	4,584	1,564
Total revenues	670,688	377,364	135,870	32,720	5,309
Operating expenses:					
Cost of service revenues	267,266	192,728	84,962	18,807	6,108
Cost of equipment revenues <sup>(1)</sup>	87,130	59,202	26,685	10,742	2,935
Selling, general and administrative	313,668	210,310	117,975	34,862	13,531
Stock-based compensation	12,670	30,956	70,144	27,256	447
Depreciation and amortization <sup>(2)</sup>	101,185	76,491	38,044	12,689	4,586
Total operating expenses	781,919	569,687	337,810	104,356	27,607
Operating income (loss)	(111,231)	(192,323)	(201,940)	(71,636)	(22,298)
Other income (expense):					
Interest expense, net	(164,583)	(126,096)	(102,619)	(65,362)	
Interest income	7,091	32,473	63,132	24,585	
Gain (loss) on early extinguishment of debt <sup>(3)</sup>	4,427		(23,485)		
Loss from disposal of assets			(228)		
Total other income (expense)	(153,065)	(93,623)	(63,200)	(40,777)	
Loss before deferred income tax provision and cumulative effect of change in accounting principle	(264,296)	(285,946)	(265,140)	(112,413)	(22,298)
Income tax provision	(18,188)				
Loss before cumulative effect of change in accounting principle	(282,484)	(285,946)	(265,140)	(112,413)	(22,298)
Cumulative effect of change in accounting principle		(1,787)			

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## Year Ended December 31,

Net loss	(282,484)	(287,733)	(265,140)	(112,413)	(22,298)
Mandatorily redeemable preferred stock dividends	(3,950)	(3,504)	(5,667)		
Loss attributable to common stockholders	\$ (286,434)	\$ (291,237)	\$ (270,807)	\$ (112,413)	\$ (22,298)
Loss per share attributable to common stockholders, basic and diluted:					
Loss before cumulative effect of change in accounting principle	\$ (1.17)	\$ (1.19)	\$ (1.33)	\$ (38.18)	
Cumulative effect of change in accounting principle		(0.01)			
Net loss per share attributable to common stockholders	\$ (1.17)	\$ (1.20)	\$ (1.33)	\$ (38.18)	

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## As of December 31,

	2002	2001	2000	1999	1998
(dollars in thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents and short-term investments <sup>(4)</sup>	\$ 195,029	\$ 557,285	\$ 928,346	\$ 568,729	\$ 16
Property, plant and equipment, net	1,000,076	845,934	532,702	252,223	107,948
FCC operating licenses, net	348,440	283,728	245,295	151,056	133,180
Total assets	1,735,925	1,821,721	1,793,084	1,015,327	247,666
Current liabilities	161,567	127,972	120,423	58,503	8,995
Long-term debt	1,424,600	1,327,829	1,067,684	785,484	
Series B redeemable preferred stock	34,971	31,021	27,517		
Total stockholders' equity	76,379	319,504	570,215	170,616	238,671
Total liabilities and stockholders' equity	\$ 1,735,925	\$ 1,821,721	\$ 1,793,084	\$ 1,015,327	\$ 247,666

## Year Ended December 31,

	2002	2001	2000	1999	1998
(dollars in thousands)					
<b>Other Data:</b>					
Covered Pops (end of period) (millions)	36	33	24	6	
Subscribers (end of period)	877,800	515,900	227,400	46,100	10,200
Cash flows from operating activities	\$ (116,469)	\$ (153,894)	\$ (116,028)	\$ (66)	\$ (14,791)
Cash flows from investing activities	\$ (201,648)	\$ (260,249)	\$ (514,003)	\$ (363,605)	\$ (104,334)
Cash flows from financing activities	\$ 81,280	\$ 224,950	\$ 969,310	\$ 517,928	\$ (119,141)
Adjusted EBITDA <sup>(5)</sup>	\$ 2,624	\$ (84,876)	\$ (93,752)	\$ (31,691)	\$ (17,265)
Capital expenditures <sup>(6)</sup>	\$ 250,841	\$ 374,001	\$ 303,573	\$ 151,743	\$ 98,034

- Effective January of 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." See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a more detailed description of the impact of our adoption of this policy.
- Effective January 2002, we no longer amortize the cost of FCC licenses as a result of implementing SFAS No. 142 "Goodwill and Other Intangible Assets." See Note 1 of the Notes to Consolidated Financial Statements under the caption "FCC Licenses" for a more detailed description of the impact and adoption of SFAS No. 142.
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Effective December 31, 2002, we adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." As a result of the rescission of SFAS No. 4, the extraordinary loss from early extinguishment of debt presented in our financial statements during 2000 was reclassified into other income (expense). See Note 1 of the Notes to Consolidated Financial Statements under the caption "Recently Issued Accounting Pronouncements" for a more detailed description.

4)

Short-term investments include marketable securities and corporate commercial paper with original purchase maturities greater than three months.

5)

Adjusted EBITDA represents net loss before interest expense, interest income, depreciation, amortization, stock-based compensation expense, gain (loss) on early extinguishment of debt, and loss from disposal of assets. Adjusted EBITDA is commonly used to analyze companies on the basis of leverage and liquidity. However Adjusted EBITDA is not a measure determined under generally accepted accounting principles, or GAAP, in the United States and may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with GAAP. We have presented Adjusted EBITDA to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. A reconciliation of net cash used in operating activities to Adjusted EBITDA follows:

Year Ended December 31,					
	2002	2001	2000	1999	1998
(dollars in thousands)					
Net cash used in operating activities	\$ (116,469)	\$ (153,894)	\$ (116,028)	\$ (66)	\$ (14,791)
Adjustments to reconcile to Adjusted EBITDA:					
Cash paid interest expense, net of capitalized amount	98,777	70,138	43,176	17,302	
Interest income	(7,091)	(32,473)	(63,132)	(24,585)	
Change in working capital	27,407	31,353	42,232	(24,342)	(2,474)
Adjusted EBITDA income (loss)	\$ 2,624	\$ (84,876)	\$ (93,752)	\$ (31,691)	\$ (17,265)
	41				

(6)

Capital expenditures are exclusive of capitalized interest and are offset by net proceeds from the sale and lease-back transactions of telecommunication towers and related assets to third parties accounted for as operating leases. We report capital expenditures in this manner to satisfy the reporting requirements for our debt covenants and investors. Capital expenditures are not a measure determined under generally accepted accounting principles, or GAAP, in the United States and may not be comparable to similarly titled measures reported by other companies. Capital expenditures should not be construed as a substitute for capital expenditures reported on the Consolidated Statements of Cash Flows, which is determined in accordance with GAAP. The following reconciles capital expenditures to the capital expenditures line reported on the Consolidated Statements of Cash Flows:

For the Year Ended December 31,					
	2002	2001	2000	1999	1998
(dollars in thousands)					
Capital expenditures	\$ 250,841	\$ 374,001	\$ 303,573	\$ 151,743	\$ 98,034
Add: cash paid portion of capitalized interest	1,993	5,449	5,545	1,231	6,300
Add: cash proceeds from sale and lease-back transactions accounted for as operating leases	2,562	10,425	9,259	2,246	
Capital expenditures (reported on Consolidated Statements of Cash Flows)	\$ 255,396	\$ 389,875	\$ 318,377	\$ 155,220	\$ 104,334

**Item 7. 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 contained in this Annual Report on Form 10-K, see "Risk Factors" and "Forward-Looking Statements."

Please read the following discussion together with the Selected Consolidated Financial Data, the consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

**Overview**

We provide digital mobile communications services using the Nextel brand name in mid-sized and tertiary markets throughout the United States. We offer digital cellular services; Direct Connect® (the long-range digital walkie-talkie service); wireless data services, including email; text messaging; and Nextel Online®, which provides wireless access to the Internet, an organization's internal databases and other applications. We hold licenses for wireless frequencies in markets where over 53 million people, or Pops, live and work. We have constructed and operate a digital mobile network compatible with the digital mobile network constructed and operated by Nextel in targeted portions of these markets, including 13 of the top 100 metropolitan statistical areas and 57 of the top 200 metropolitan statistical areas in the United States ranked by population. Our combined "Nextel Digital Mobile Network" constitutes one of the largest fully integrated digital wireless communications systems in the United States, covering 197 of the top 200 metropolitan statistical areas in the United States at the end of 2002. As of December 31, 2002 we had approximately 877,800 digital handsets in service in our markets.

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**Results of Operations****Year Ended December 31, 2002 Compared to Year Ended December 31, 2001***Revenues*

Our primary sources of revenues are service revenues and equipment revenues. Service revenues increased 78% to \$646.2 million for the year ended December 31, 2002 as compared to \$363.6 million recognized during 2001. Our service revenues consist of charges to our customers for airtime usage and monthly network access fees from providing integrated wireless services within our territory, particularly mobile telephone and two-way radio dispatch services. Service revenues also include roaming revenues from Nextel subscribers using our portion of the Nextel Digital Mobile Network. Roaming revenues for 2002 accounted for approximately 12% of our service revenues, as compared to 16% in 2001. Although we continue to see growth in roaming revenues due to an increase in coverage and on-air cell sites, we expect roaming revenues as a percentage of our service revenues to continue to decline due to the anticipated revenue growth that we expect to achieve from our increasing customer base.

The following table shows the impact of our accounting policy whereby we defer activation fees and equipment revenue and related costs over a three-year period for the year ended December 31, 2002 and 2001. For a discussion of this accounting policy, please see "Critical Accounting Policies Revenue Recognition."

	For the Year Ended	
	December 31, 2002	December 31, 2001
	(in thousands)	
Revenues:		
Service revenues billed or accrued	\$ 649,366	\$ 365,971
Activation fees deferred	(5,989)	(3,487)
Previously deferred activation fees recognized	2,792	1,089
Total service revenues reported	\$ 646,169	\$ 363,573

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	For the Year Ended	
Equipment revenues billed	\$ 36,287	\$ 23,078
Equipment revenues deferred	(31,031)	(20,232)
Previously deferred equipment revenues recognized	19,263	10,945
<b>Total equipment revenues reported</b>	<b>\$ 24,519</b>	<b>\$ 13,791</b>
Cost of equipment revenues billed	\$ 102,095	\$ 70,887
Cost of equipment revenues deferred	(37,020)	(23,719)
Previously deferred cost of equipment revenues recognized	22,055	12,034
<b>Total cost of equipment revenues reported</b>	<b>\$ 87,130</b>	<b>\$ 59,202</b>

Equipment revenues reported for 2002 were \$24.5 million as compared to \$13.8 million reported in 2001, representing an increase of \$10.7 million, or 78%, due to an increase in our subscriber base. Our equipment revenues consist of revenues received for wireless telephones and accessories purchased by our subscribers.

Total revenues increased 78% to \$670.7 million for the year ended December 31, 2002 as compared to \$377.4 million generated in the same period in 2001. This growth in revenues was due to the increase in our subscriber base from our existing markets since we did not launch any new markets in 2002. In 2003, we expect our revenues to continue to increase as we add more subscribers and continue to introduce new products to our customers. However, although we anticipate continued growth in our revenues in 2003, we have launched all of our markets, other than Burlington, Vermont and Augusta, Georgia, and we therefore do not expect to continue to experience revenue growth rates

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of the same magnitude as we have experienced in the past when we were launching new markets on a continuous basis.

For 2002, our average monthly revenue per unit, or ARPU, was \$68, which was a decrease of \$3 compared to 2001. We attribute the decrease in ARPU to an increase in competitive pricing plans, offset by an increase in the minutes used by our customers and additional usage of features such as voice mail, short message services and, to a lesser extent, Nextel Online services and Nextel Worldwide roaming products. While we expect to continue to achieve ARPU levels above the industry average, we anticipate our ARPU to be in the mid to high \$60s for 2003. The following table sets forth our revenues and ARPU:

**Revenues**  
(dollars in thousands, except for ARPU)

	For the Year Ended December 31, 2002	% of Consolidated Revenues	For the Year Ended December 31, 2001	% of Consolidated Revenues
Service and roaming revenues	\$ 646,169	96%	\$ 363,573	96%
Equipment revenues	24,519	4%	13,791	4%
<b>Total revenues</b>	<b>\$ 670,688</b>	<b>100%</b>	<b>\$ 377,364</b>	<b>100%</b>
ARPU <sup>(1)</sup>	\$ 68		\$ 71	

(1)

ARPU is an industry term that measures service revenues per month from our subscribers divided by the average number of subscribers in commercial service. ARPU is not a measurement under accounting principles generally accepted in the United States and may not be similar to ARPU measures of other companies. The following schedule reflects the ARPU calculation and reconciliation of service revenues reported on the Consolidated Statement of Operations to service revenues used for the ARPU calculation:

	For the Year Ended December 31,	
	2002	2001
	(dollars and units in thousands, except for ARPU)	
Service revenues (reported on Consolidated Statement of Operations)	\$ 646,169	\$ 363,573
Add: activation fees deferred and recognized for SAB 101	3,197	2,398
Less: roaming and other revenues	(80,452)	(58,545)
Service revenues for ARPU annual	\$ 568,914	\$ 307,426
Average units (subscribers)	694	360
ARPU monthly	\$ 68	\$ 71

#### *Cost of Service Revenues*

Cost of service revenues consists primarily of network operating costs, which include site rental fees for cell sites and switches, utilities, maintenance and interconnect and other wireline transport charges. Cost of service revenues 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 the mix of minutes of use

between interconnect and Direct Connect. The use of Direct Connect is more efficient than interconnect and, accordingly, relatively less costly to provide.

For the year ended December 31, 2002, our cost of service revenues was \$267.3 million as compared to \$192.7 million for the same period in 2001, representing an increase of 39%. The increase in costs was primarily the result of bringing on-air approximately 529 additional cell sites since December 31, 2001, as well as an increase in airtime usage, both of which resulted in higher network operating costs. Increased airtime usage resulted both from the growth in the number of customers from 2001 as well as from the increased minutes of use per customer. We saw an increase in minutes of use per average subscriber, which was 598 average monthly minutes per subscriber for 2002. This is an increase of approximately 10% as compared to 545 average monthly minutes of use per subscriber in 2001. We expect cost of service revenues to increase as we place more cell sites in service and the usage of minutes increases as our customer base grows.

#### *Cost of Equipment Revenues*

Cost of equipment revenues includes the cost of the subscriber wireless telephones and accessories sold by us. As reflected in the following table, our cost of equipment revenues for the year ended December 31, 2002 was \$87.1 million as compared to \$59.2 million for the same period in 2001. The increase in costs was related mostly to the growth in number of subscribers. The table below reflects the cost of equipment revenues with the effect of SAB 101.

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	For the Year Ended	
	December 31, 2002	December 31, 2001
	(in thousands)	
Cost of equipment revenues:		
Cost of equipment revenues billed	\$ 102,095	\$ 70,887
Cost of equipment revenues deferred (effect of SAB 101).	(37,020)	(23,719)
Previously deferred cost of equipment revenues recognized (effect of SAB 101)	22,055	12,034
Total cost of equipment revenues reported	\$ 87,130	\$ 59,202

Due to the unique "push to talk" functionality of our handsets, the cost of our equipment tends to be higher than that of our competitors. As part of our business plan, we often offer our equipment at a discount or as part of a promotion as an incentive to our customers to commit to contracts for our higher priced service plans and to compete with the lower priced competitor handsets. As a result, the table below shows the gross subsidy (without the effect of SAB No. 101) between equipment revenues and cost of equipment revenues was a loss of \$65.8 million for 2002, as compared to a loss of \$47.8 million in 2001, representing an increase of 38%. We expect to continue to employ these discounts and promotions in an effort to grow our subscriber base. Therefore, for the foreseeable future, we expect that cost of equipment revenues will continue to exceed our equipment revenues.

	For the Year Ended	
	December 31, 2002	December 31, 2001
	(in thousands)	
Equipment revenues billed	\$ 36,287	\$ 23,078
Cost of equipment revenues billed	(102,095)	(70,887)
Total gross subsidy for equipment	\$ (65,808)	\$ (47,809)

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## *Selling, General and Administrative Expenses*

Selling, general and administrative expenses consist of sales and marketing expenses, expenses related to customer care services and general and administrative costs. For the year ended December 31, 2002, selling, general and administrative expenses were \$313.7 million as compared to \$210.3 million for the same period in 2001, representing an increase of 49%.

Sales and marketing expenses increased as a result of:

increased sales and marketing activities, including advertising expenses aimed to grow our customer base;

our hiring of additional sales and marketing employees to accommodate the growth along with increased commissions for our direct sales force; and

higher expenses related to a greater proportion of sales received from indirect distribution channels.



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General and administrative costs relate to corporate personnel 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 to support the growth of our markets;

increasing staff and operating expenses for our customer care service centers in Las Vegas, Nevada and Panama City Beach, Florida to support the growing customer base;

hiring employees for our information technology group to maintain and support systems; and

utilizing outside services to assist with the conversion to a new billing system.

As we continue to grow our customer base and expand our operations, we expect our sales and marketing expenses and general and administrative costs to continue to increase in the foreseeable future. However, we expect our acquisition costs per new customer to decrease as we continue to increase the amount of sales from our low cost distribution channels, including our retail stores and web-based distribution channels, decrease equipment subsidies and work on increasing the productivity of our direct sales representatives.

### *Stock-Based Compensation Expense*

For the years ended December 31, 2002 and 2001, we recorded stock-based compensation expense associated with our grants of restricted stock and employee stock options of \$12.7 million and \$31.0 million, respectively. This is a non-cash expense. We expect stock-based compensation expense to decrease as the options continue to vest.

### *Depreciation and Amortization Expense*

For the year ended December 31, 2002, our depreciation and amortization expense was \$101.2 million as compared to \$76.5 million for the same period in 2001, representing an increase of 32%. The \$24.7 million increase related primarily to depreciating the wireless network assets for the 529 additional cell sites placed in service since December 31, 2001, along with furniture and equipment purchased to set up new offices. We expect depreciation to continue to increase due to the additional cell sites we plan to place in service. Additionally, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we have determined that our FCC licenses have an indefinite life, and, as such, have discontinued amortization on our FCC licenses as of January 1, 2002. For the year ended December 31, 2001, we recorded \$5.1 million of amortization for FCC licenses.

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### *Interest Expense and Interest Income*

Interest expense, net of capitalized interest, increased from \$126.1 million for the year ended December 31, 2001 to \$164.6 million for the year ended December 31, 2002, representing an increase of 31%. The increase was due to a full year of interest expense on the 12.5% senior notes for \$225 million that we issued in December 2001 as well as the additional \$50 million term loan we obtained in February 2002. Additionally, for the years ended December 31, 2002 and December 31, 2001, we incurred approximately \$2.3 million and \$5.2 million, respectively, of interest expense related to a charge to adjust the fair market value of our interest rate swaps. We also capitalized approximately \$3.2 million and \$12.5 million of interest in 2002 and 2001, respectively.

For the year ended December 31, 2002, interest income was \$7.1 million, as compared to \$32.5 million for the same period in 2001, representing a decrease of 78%. This decrease was due to a decline in interest rates on our short-term investments and a reduction in our cash and short-term investment balance as a result of expenditures related to the network build-out.

### *Net Loss*

For the year ended December 31, 2002, we had a loss attributable to common stockholders of approximately \$286.4 million as compared to a loss of \$291.2 million for the same period in 2001, representing a decrease of 2%. The \$286.4 million loss includes a non-cash, non-operating charge of \$18.2 million included as income tax expense to increase the valuation allowance related to our net operating losses in connection with

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the required adoption of SFAS 142. The \$286.4 million net loss also reflects a gain of \$4.4 million related to the retirement of long-term debt in exchange for the issuance of common stock. Expenses increased in all categories as we continued to expand our markets and add subscribers to the network, hired personnel for our second customer care facility, and increased marketing and sales activities including media advertising to grow our customer base.

### Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

#### Revenues

Service revenues increased 179% to \$363.6 million for the year ended December 31, 2001 as compared to \$130.1 million recognized during the year ended December 31, 2000. Roaming revenues for 2001 accounted for approximately 16% of our service revenues, as compared to 19% for the year 2000.

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The following table shows the impact of SAB 101 for the years ended December 31, 2001 and 2000.

	For the Years Ended	
	December 31, 2001	December 31, 2000
	(in thousands)	
Service revenues billed or accrued	\$ 365,971	\$ 131,480
Activation fees deferred	(3,487)	(1,635)
Previously deferred activation fees recognized	1,089	280
Total service revenues reported	\$ 363,573	\$ 130,125
Equipment revenues billed	\$ 23,078	\$ 20,329
Equipment revenues deferred	(20,232)	(18,977)
Previously deferred equipment revenues recognized	10,945	4,393
Total equipment revenues reported	\$ 13,791	\$ 5,745
Cost of equipment revenues billed	\$ 70,887	\$ 42,624
Cost of equipment revenues deferred	(23,719)	(20,612)
Previously deferred cost of equipment revenues recognized	12,034	4,673
Total cost of equipment revenues reported	\$ 59,202	\$ 26,685

Equipment revenues reported for the year ended December 31, 2001 were \$13.8 million as compared to \$5.7 million reported for the same period in 2000, representing an increase of \$8.1 million, or 142%.

Total revenues increased 178% to \$377.4 million during 2001 as compared to \$135.9 million generated in 2000. This growth in revenues was due to launching new markets along with increased revenues from existing markets of approximately \$119.4 million, an increase of 93% over the same period in 2000. The following table sets forth those markets launched during 2001 and our previously launched markets:

#### Markets

#### Market Launch

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Markets

Market Launch

Wausau/Merrill/Weston/Stevens Point/Plover/Shawano, WI	4 <sup>th</sup> Quarter 2001
Idaho Falls/Pocatello, ID	4 <sup>th</sup> Quarter 2001
Ft. Dodge/Webster City/Clear Lake/Mason City, IA	4 <sup>th</sup> Quarter 2001
Lubbock, TX	4 <sup>th</sup> Quarter 2001
Odessa/Midland/San Angelo, TX	4 <sup>th</sup> Quarter 2001
Amarillo, TX	4 <sup>th</sup> Quarter 2001
Fargo/Grand Forks, ND	4 <sup>th</sup> Quarter 2001
McAllen/Harlingen/Brownsville, TX	4 <sup>th</sup> Quarter 2001
Altoona/Johnstown/State College/Williamsport, PA	4 <sup>th</sup> Quarter 2001
Sioux City/Sioux Falls, IA/SD	4 <sup>th</sup> Quarter 2001
Roanoke/Lynchburg/Charlottesville, VA	2 <sup>nd</sup> Quarter 2001
Green Bay/Fond du Lac/Appleton/Sheboygan, WI	2 <sup>nd</sup> Quarter 2001
Eau Claire/La Crosse, WI	2 <sup>nd</sup> Quarter 2001
Rochester/Mankato, MN	2 <sup>nd</sup> & 3 <sup>rd</sup> Quarter 2001
Duluth, MN	2 <sup>nd</sup> Quarter 2001
Hattiesburg/Jackson, MS	2 <sup>nd</sup> Quarter 2001
Evansville/Owensboro, IN/KY	1 <sup>st</sup> Quarter 2001
Laredo, TX	1 <sup>st</sup> Quarter 2001
Little Rock, AR	1 <sup>st</sup> Quarter 2001

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Fayetteville-Springdale/Ft. Smith/Pine Bluff, AR	1 <sup>st</sup> Quarter 2001
Abilene, TX	1 <sup>st</sup> Quarter 2001
Terre Haute, IN	1 <sup>st</sup> Quarter 2001
Columbus, GA/AL	1 <sup>st</sup> Quarter 2001
Dothan/Auburn/Opelika, AL	1 <sup>st</sup> Quarter 2001
Bristol/Johnson City/Kingsport, VA/TN	4 <sup>th</sup> Quarter 2000
Corpus Christi/Victoria, TX	4 <sup>th</sup> Quarter 2000
Macon/Warner Robins, GA	4 <sup>th</sup> Quarter 2000
Albany, GA	4 <sup>th</sup> Quarter 2000
Alexandria, LA	4 <sup>th</sup> Quarter 2000
Texarkana, TX	3 <sup>rd</sup> Quarter 2000
Shreveport/Monroe/Tyler/Longview, LA/TX	3 <sup>rd</sup> Quarter 2000
Peoria/Springfield/Champaign/Bloomington/Decatur, IL	2 <sup>nd</sup> Quarter 2000
Waterloo/Dubuque/Davenport/Cedar Rapids/Iowa City, IA	2 <sup>nd</sup> Quarter 2000
Omaha/Lincoln, NE	2 <sup>nd</sup> Quarter 2000
Des Moines, IA	2 <sup>nd</sup> Quarter 2000
Boise/Twin Falls, ID	2 <sup>nd</sup> Quarter 2000
Montgomery, AL	2 <sup>nd</sup> Quarter 2000
Pensacola/Panama City/Fort Walton Beach, FL	2 <sup>nd</sup> Quarter 2000
Lafayette/Lake Charles, LA	2 <sup>nd</sup> Quarter 2000
Mobile, AL	2 <sup>nd</sup> Quarter 2000
Beaumont, TX	2 <sup>nd</sup> Quarter 2000
Pascagoula, MS	2 <sup>nd</sup> Quarter 2000
Bryan/College Station, TX	2 <sup>nd</sup> Quarter 2000
Harrisburg/York/Lancaster, PA	1 <sup>st</sup> Quarter 2000
Wilkes-Barre/Scranton, PA	1 <sup>st</sup> Quarter 2000
Louisville/Lexington-Fayette, KY	1 <sup>st</sup> Quarter 2000
Tallahassee, FL	1 <sup>st</sup> Quarter 2000

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Temple/Killeen/Waco, TX	4 <sup>th</sup> Quarter 1999
Erie, PA	4 <sup>th</sup> Quarter 1999
Hawaii (all islands)	3 <sup>rd</sup> Quarter 1998
Rochester, NY	3 <sup>rd</sup> Quarter 1998
Buffalo, NY	3 <sup>rd</sup> Quarter 1998
Syracuse/Utica-Rome/Binghamton/Elmira, NY	3 <sup>rd</sup> Quarter 1998
Albany/Glens Falls, NY	3 <sup>rd</sup> Quarter 1998

Our ARPU remained at \$71 for the year ended December 31, 2001 as it was for the year ended December 31, 2000. We attribute the consistent ARPU to the fact that we launched new markets, increased minutes used by customers and the use of additional features such as voice mail and short

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message services, and to a lesser extent, Nextel Online and Nextel Worldwide roaming products. The following table sets forth our revenues and ARPU:

<b>Revenues</b> (Dollar amounts in thousands, except for ARPU)				
	<b>For the Year Ended December 31, 2001</b>	<b>% of Consolidated Revenues</b>	<b>For the Year Ended December 31, 2000</b>	<b>% of Consolidated Revenues</b>
Service and roaming revenues	\$ 363,573	96%	\$ 130,125	96%
Equipment revenues	13,791	4%	5,745	4%
<b>Total revenues</b>	<b>\$ 377,364</b>	<b>100%</b>	<b>\$ 135,870</b>	<b>100%</b>
ARPU <sup>(1)</sup>	\$ 71		\$ 71	

(1)

ARPU is an industry term that measures service revenues per month from our subscribers divided by the average number of subscribers in commercial service. ARPU is not a measurement under accounting principles generally accepted in the United States and may not be similar to ARPU measures of other companies. The following schedule reflects the ARPU calculation and reconciliation of service revenues reported on the Consolidated Statement of Operations to service revenues used for the ARPU calculation:

<b>For the Year Ended December 31,</b>			
	<b>2001</b>	<b>2000</b>	
<b>(dollars and units in thousands, except for ARPU)</b>			
Service revenues (reported on Consolidated Statement of Operations)	\$ 363,573	\$ 130,125	
Add: activation fees deferred and recognized for SAB 101	2,398	1,355	
Less: roaming and other revenues	(58,545)	(25,671)	
Service revenues for ARPU annual	\$ 307,426	\$ 105,809	

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	For the Year Ended December 31,	
Average units (subscribers)	360	123
ARPU monthly	\$ 71	\$ 71

## Cost of Service Revenues

For 2001, our cost of service revenues was \$192.7 million as compared to \$85.0 million for 2000, representing an increase of 127%. The increase in costs was primarily the result of bringing on-air approximately 1,251 additional cell sites in 2001, as well as an increase in airtime usage. Increased airtime usage resulted from the growth in the number of customers from 2000 along with the increased minutes of use per customer.

## Cost of Equipment Revenues

Our cost of equipment revenues reported for 2001 was \$59.2 million as compared to \$26.7 million for 2000. The difference between equipment revenues and cost of equipment revenues was a loss of \$45.4 million for 2001, as compared to a loss of \$20.9 million for 2000.

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## Selling, General and Administrative Expenses

For 2001, selling, general and administrative expenses were \$210.3 million as compared to \$118.0 million for 2000, representing an increase of 78%.

Sales and marketing expenses increased as a result of:

increased sales and marketing activities to launch markets and grow our customer base;

our hiring of additional sales and marketing employees to accommodate the growth in new and existing markets; and

higher expenses related to a greater proportion of sales received from indirect distribution channels.

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;

increasing staffing and operating our customer care and fulfillment service center in Las Vegas, Nevada to support the growing customer base;

hiring employees to maintain and support systems; and,

increasing bad debt due to the growth in subscriber base.

## Stock-Based Compensation Expense

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For the years ended December 31, 2001 and 2000, we recorded stock-based compensation expense associated with our restricted stock purchase plan and employee stock options granted during 1999 of \$31.0 million and \$70.1 million, respectively. This is a non-cash expense.

### *Depreciation and Amortization Expense*

For 2001, our depreciation and amortization expense was \$76.5 million as compared to \$38.0 million for 2000, representing an increase of 101%. The \$38.5 million increase related primarily to depreciating the wireless network assets for the 1,251 additional cell sites placed in service during 2001, along with the costs related to furniture and equipment purchased to set up 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 \$102.6 million for 2000 to \$126.1 million for 2001, representing an increase of 23%. The increase was due to interest during the entire year on the \$200 million in 11% senior notes that we issued in March 2000 as well as the \$200 million in 11% senior notes that we issued in July 2000, offset by the reduction in interest costs from our redemption in April 2000 of 35% of the 14% senior discount notes. Additionally, approximately \$5.2 million related to the non-cash fair market value adjustments of our interest rate swaps was included as interest expense in 2001. We also capitalized approximately \$12.5 million and \$15.7 million of interest during 2001 and 2000, respectively.

For 2001, interest income was \$32.5 million, as compared to \$63.1 million for 2000, representing a decrease of 48%. This decrease was due to a decline in interest rates on our short-term investments and a reduction in our cash balance because of additional spending related to the network build-out.

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### *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. We determined under the new rules and criteria that our interest rate swap agreements are ineffective hedges, and thus do not qualify for hedge accounting treatment. 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 2001, we had a loss attributable to common stockholders of approximately \$291.2 million as compared to a loss of \$270.8 million for 2000, representing an increase of 8%. The \$291.2 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 a charge of \$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 existing and newly launched markets.

### **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 and expand or enhance coverage in our existing markets, including the future acquisitions of additional frequencies, the installation of new switches and the introduction of new services. Without limiting the foregoing, we expect capital expenditures to include, among other things, the purchase of switches, base radios, transmission towers and antennae, radio frequency engineering, and cell site construction.

For the year ended December 31, 2002, we used \$116.5 million in cash for operating activities, as compared to \$153.9 million used for the same period in 2001. The decrease in the net use of funds was due to an increase in service revenues from customers, offset by an increased use of funds for operating activities related to hiring employees; billing system conversion; network operating costs for additional sites placed in service; increased marketing and sales activities; the purchase of telephone and accessory inventory; and an increase in receivables due to the growth of our customer base.

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Net cash used in investing activities during the year ended December 31, 2002 was \$201.6 million, a decrease of \$58.6 million as compared to the same period in 2001. The decrease in cash used in investing activities for 2002 was primarily due to the decrease in capital expenditures for the network as our business focus shifted from launching new markets to expanding existing markets. As of December 31, 2002 all of our markets except Burlington, Vermont and Augusta, Georgia, have been launched. During 2002, we invested \$255.4 million in capital expenditures spent primarily to build out the Nextel Digital Mobile Network in Vermont and expand coverage on the Nextel Digital Mobile Network in our existing markets. In addition, we completed construction of our switches in Iowa and Florida. The additional switches are expected to result in an expense savings by reducing our switch-sharing costs. We also acquired certain network-related assets including cell sites from Nextel that included Augusta, Georgia and some important connecting corridors to complete connectivity of our respective territories. These properties acquired from Nextel provided us with approximately one million additional licensed Pops. Furthermore, we invested \$52.2 million in FCC licenses during 2002, which excludes the licenses for the properties recently acquired from Nextel since the payment was

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accrued for but not actually paid by December 31, 2002. We anticipate our total capital spending in 2003 will be approximately \$210 million.

As of December 31, 2002, our cash and cash equivalents and short-term investments balance was approximately \$195.0 million compared to \$557.3 million as of December 31, 2001. In addition, we have access to an un-drawn line of credit of \$100 million. While we believe we have sufficient funds to continue the build-out of our portion of the Nextel Digital Mobile Network to cover approximately 36 million Pops using the current 800 MHz iDEN system, acquire additional frequencies, install additional switches, and provide us with the working capital necessary to cover our debt service requirements including projected cash interest expense of \$101.0 million and operating losses through 2003 (after which time we anticipate achieving positive free cash flow, meaning revenues will be sufficient to fund not only operating expenses but also financing and capital expenditures, for the full fiscal year), we cannot assure you that additional funding will not be necessary.

Additionally, to the extent we decide to expand our digital mobile network or implement a "3G" technology, we would require additional financing to fund these projects. In the event that additional financing is necessary, such financing may not be available to us on satisfactory terms, if at all, for a number of reasons, including, without limitation, restrictions in our debt instruments on our ability to raise additional funds, conditions in the economy generally, and in the wireless communications industry specifically, as well as market conditions and other factors that may be beyond our control.

The following table provides details regarding our contractual obligations subsequent to December 31, 2002:

Contractual Obligations	Payments due by Period			
	2003	2004	2005	2006