NEXTEL PARTNERS INC
Form 10-Q
November 13, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from _________ to ___________.

Commission file number: 000-29633

NEXTEL PARTNERS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**91-1930918**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

4500 Carillon

Point, Kirkland, Washington 98033

(425) 576-3600

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

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

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 November 1, 2001
Class A Common Stock	165,464,615 shares
Class B Common Stock	79,056,228 shares

NEXTEL PARTNERS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	September 30, 2001 (unaudited)	December 31, 2000
CURRENT ASSETS		
Cash and cash equivalents	$ 230,673	$ 493,552
Short-term investments	232,730	434,794
Accounts receivable, net of allowance $3,643 and $1,398, respectively	74,518	34,912
Subscriber equipment inventory	3,938	3,146
Other current assets	11,708	17,522
Total current assets	553,567	983,926
PROPERTY, PLANT AND EQUIPMENT, at cost	905,467	583,956
Less - accumulated depreciation	(101,050)	(51,254)
Property, plant and equipment, net	804,417	532,702
OTHER NON-CURRENT ASSETS:		
FCC operating licenses, net of accumulated amortization of $7,268 and $3,608,respectively	279,719	245,295
Debt issuance costs, net of accumulated amortization of $8,097 and $5,376 respectively and other assets	26,886	28,961
Receivable from officer	2,200	2,200
Total non-current assets	308,805	276,456
TOTAL ASSETS	$ 1,666,789	$ 1,793,084
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 86,152	$ 78,805
Accrued expenses	35,465	39,518
Due to Nextel	2,558	2,100
Total current liabilities	124,175	120,423
LONG-TERM OBLIGATIONS		
Credit facility - term B and C	325,000	325,000
14% Senior discount notes due 2009	379,361	342,684
11% Senior notes due 2010	400,000	400,000
Other long-term liabilities	17,532	7,245
Total long-term obligations	1,121,893	1,074,929
Total liabilities	1,246,068	1,195,352

COMMITMENTS AND CONTINGENCIES (See Notes)		
REDEEMABLE PREFERRED STOCK, Series B redeemable 2010, par value $.001 per share, 12% cumulative annual dividend; 13,110,000 shares issued and outstanding	30,098	27,517
STOCKHOLDERS' EQUITY		
Common stock, Class A, par value $.001 per share, 165,464,615 and 165,015,002 shares, respectively, issued and outstanding, and paid-in capital	865,657	864,706
Common stock, Class B, par value $.001 per share convertible, 79,056,228 shares issued and outstanding, and paid-in capital	163,312	163,312
Accumulated deficit	(617,909)	(405,773)
Subscriptions receivable from stockholders	-	(7,411)
Deferred compensation	(20,437)	(44,619)
Total stockholders' equity	390,623	570,215
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,666,789	$ 1,793,084

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

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(dollars in thousands, except for share and per share amounts)

	For the three months ended September 30, 2001	2000	For the nine months ended September 30, 2001	2000
	(unaudited)		(unaudited)	
REVENUES:				
Service revenues (Received from Nextel WIP $16,425, $7,481, $40,478, and $16,311, respectively.)	$ 101,593	$ 38,698	$ 247,588	$ 78,814
Equipment revenues	3,532	1,806	9,016	3,703
Total revenues	105,125	40,504	256,604	82,517
OPERATING EXPENSES:				
Cost of service revenues (Paid to Nextel WIP $17,000, $6,427, $41,185 and $12,797, respectively.)	53,250	23,465	133,287	51,898
Cost of equipment revenues	15,784	8,386	40,300	17,995
	56,195	32,265	149,049	80,779
Selling, general and administrative (Exclusive of stock based compensation expense shown below.) (Paid to Nextel WIP $1,126, $1,034, $3,301, and $2,598, respectively.)				
Stock based compensation	7,776	17,546	23,393	52,599
Depreciation and amortization	19,456	7,983	53,642	20,547
Total operating expenses	152,461	89,645	399,671	223,818
LOSS FROM OPERATIONS	(47,336)	(49,141)	(143,067)	(141,301)
Interest expense, net	(32,053)	(27,329)	(93,506)	(70,925)
Interest income	6,177	17,761	28,805	45,838
LOSS BEFORE INCOME TAX PROVISION	(73,212)	(58,709)	(207,768)	(166,388)
Income tax provision	-	-	-	-
LOSS BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(73,212)	(58,709)	(207,768)	(166,388)
Extraordinary item -- loss on early retirement of debt, net of $0 income tax	-	-	-	(23,485)
Cumulative effect of change in accounting principle, net of $0 income tax	-	-	(1,787)	-

NET LOSS		(73,212)		(58,709)		(209,555)		(189,873)
Manditorily redeemable preferred stock dividends		(896)		(794)		(2,581)		(4,848)
LOSS ATTRIBUT-ABLE TO COMMON STOCKHOLDERS	$	(74,108)	$	(59,503)	$	(212,136)	$	(194,721)
LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:								
Loss before extraordinary item and cumulative effect of change in accounting principle	$	(0.30)	$	(0.25)	$	(0.86)	$	(0.89)
Extraordinary item		-		-		-		(0.12)
Cumulative effect of change in accounting principle		-		-		(0.01)		-
	$	(0.30)	$	(0.25)	$	(0.87)	$	(1.01)
Weighted average number of shares outstanding		244,396,300		237,881,189		244,328,946		191,916,970

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

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
(dollars in thousands)

For the Nine Months Ended September 30, 2001

	Preferred Stock		Class A Common Stock and Paid-In Capital		Class B Common Stock and Paid-In Capital			Other				
	Shares	Amount	Shares	Amount	Shares	Amount	Warrants Outstanding	Paid-In Capital	Accumulated Deficit	Subscriptions Receivable	Deferred Compensation	Totals
BALANCE December 31, 1999	216,727,272	$ 36	9,593,328	$ 145,420	-	$ -	$ 3,847	$ 357,028	$ (134,966)	$ (83,048)	(117,701)	$ 170,616
Initial public offering conversion to common stock												
Series A preferred stock	(125,834,646)	(21)	125,834,646	208,163	-	-	-	(208,142)	-	-	-	-
Series C preferred stock	(64,672,626)	(11)	-	-	64,672,626	110,742	-	(110,731)	-	-	-	-
Series D preferred stock	(13,110,000)	(2)	-	-	13,110,000	22,266	-	(22,264)	-	-	-	-
Series B preferred stock reclassed	(13,110,000)	(2)	-	-	-	-	-	(21,848)	-	-	-	(21,850)
Series B redeemable preferred stock dividend	-	-	-	-	-	-	-	-	(5,667)	-	-	(5,667)
Initial public offering stock issued	-	-	27,025,000	540,500	-	-	-	-	-	-	-	540,500
Net loss	-	-	-	-	-	-	-	-	(265,140)	-	-	(265,140)
Equity issuance costs	-	-	-	(31,223)	-	(5,957)	-	5,957	-	-	-	(31,223)
Deferred compensation - options forfeited	-	-	-	(2,938)	-	-	-	-	-	-	2,938	-
Vesting of deferred compensation	-	-	-	-	-	-	-	-	-	-	70,144	70,144
Subscription receivable from stockholders	-	-	-	-	-	-	-	-	-	75,637	-	75,637
Warrants exercised by stockholders	-	-	2,434,260	3,851	-	-	(3,847)	-	-	-	-	4
Class B common stock issued	-	-	-	-	1,273,602	36,261	-	-	-	-	-	36,261
Stock options exercised	-	-	85,000	142	-	-	-	-	-	-	-	142
Stock issued for employee stock purchase plan	-	-	42,768	791	-	-	-	-	-	-	-	791
BALANCE	-	-	165,015,002	864,706	79,056,228	163,312	-	-	(405,773)	(7,411)	(44,619)	570,215

December 31, 2000												
Series B redeemable preferred stock dividend	-	-	-	-	-	-	-	-	(2,581)	-	-	(2,581)
Net loss	-	-	-	-	-	-	-	-	(209,555)	-	-	(209,555)
Deferred compensation - options forfeited	-	-	-	(789)	-	-	-	-	-	-	789	-
Vesting of deferred compensation	-	-	-	-	-	-	-	-	-	-	23,393	23,393
Subscription receivable from stockholders	-	-	-	-	-	-	-	-	-	7,411	-	7,411
Stock options exercised	-	-	300,700	531	-	-	-	-	-	-	-	531
Stock issued for employee stock purchase plan	-	-	148,913	1,209	-	-	-	-	-	-		1,209
BALANCE												
September 30, 2001 (unaudited)	-	$ -	165,464,615	$ 865,657	79,056,228	$ 163,312	$ -	$ -	$ (617,909)	$ -	$ (20,437)	$ 390,623

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

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

	For the Nine Months Ended September 30, 2001 (unaudited)	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (209,555)	$ (189,873)
Adjustments to reconcile net loss to net cash used in operating activities		
Cumulative effect of change in accounting principle	1,787	-
Depreciation and amortization	53,642	20,547
Amortization of debt issuance costs	2,721	2,369
Interest accretion for senior discount notes	32,363	31,949
Extraordinary loss on retirement of debt	-	23,485
Fair value adjustments of hedges	5,956	-
Stock based compensation	23,393	52,599
Gain on deferred sale-leaseback	(492)	(205)
Loss on disposal of assets	2	-
Change in current assets and liabilities:		
Accounts receivable, net	(39,606)	(18,629)
Subscriber equipment inventory	(792)	(4,424)
Other current assets	5,762	(3,295)
Accounts payable, accrued expenses and other liabilities	(3,498)	(9,528)
Operating advances due to Nextel WIP	458	2,545
Net cash used in operating activities	(127,859)	(92,460)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(316,602)	(172,779)
Proceeds from sale of assets	7,689	8,067
FCC licenses	(36,722)	(24,561)
Proceeds from sale (purchase) of short-term investments	202,064	(439,777)
Net cash used in investing activities	(143,571)	(629,050)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	-	540,500
Proceeds from borrowings	-	400,000
Payment to redeem 14% senior discount notes	-	(191,233)
Exercise warrants	-	4
Stock Options Exercised	531	139
Proceeds from stock issued for employee stock purchase plan	1,209	-
Restricted cash transfer	-	175,000
Proceeds from equity contributions	7,411	62,838
Equity costs	-	(31,203)
Debt issuance costs	(600)	(9,292)
Net cash provided by financing activities	8,551	946,753

NET INCREASE IN CASH AND CASH EQUIVALENTS		(262,879)		225,243
CASH AND CASH EQUIVALENTS, beginning of period		493,552		154,273
CASH AND CASH EQUIVALENTS, end of period	$	230,673	$	379,516
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS				
Capitalized interest on accretion of senior discount notes	$	4,314	$	6,665
Accretion of redeemable preferred stock dividends	$	2,581	$	4,848
CASH PAID FOR INTEREST, net of capitalized amount	$	63,555	$	34,831

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

NEXTEL PARTNERS, INC.
Notes to Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION

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

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

2. OPERATIONS

Description of Business

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Concentration of Risk

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

We are a party to certain equipment purchase agreements with Motorola (see Note 7). For the foreseeable future we expect that we will need to rely on Motorola for the manufacture of a substantial portion of the infrastructure equipment necessary to construct and make operational our digital mobile network as well as for the provision of digital mobile telephone handsets and accessories.

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

Use of Estimates

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

Principles of Consolidation

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

Net Loss per Share

As presented, basic and diluted loss per share are equal since common equivalent shares are excluded from the calculation of diluted earnings per share as their effects are antidilutive due to our net losses. For the three and nine months ended September 30, 2001 and 2000, approximately 8.2 million and 5.0 million shares, respectively, of our Class A common stock subject to stock options were excluded from the calculation of common equivalent shares, as their effects are antidilutive.

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

Supplemental Cash Flow Information

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

	For the Nine Months Ended September 30, 2001	2000
	(in thousands)	
Capital expenditures	$ 313,988	$ 196,115
Capitalized interest	7,737	9,377
Non-cash capitalized interest	(2,952)	(4,370)
Accrued capital expenditures and adjustments	(2,171)	(28,343)

Capital expenditures (reported)	$	316,602	$	172,779

Sale-Leaseback Transactions

On October 13, 1999, we signed a Letter of Agreement with Nextel and some of its subsidiaries and Spectrasite Holdings, Inc. ("Spectrasite") and some of its subsidiaries to transfer specified telecommunication towers and related assets to Spectrasite for cash. Subsequently, we leased space on the telecommunication towers from Spectrasite pursuant to a master lease agreement. In 2001, we have entered into similar agreements with other companies. For the three months ended September 30, 2001 and 2000, we received cash proceeds of approximately $2.3 million and $1.7 million, respectively, and for the nine months ended September 30, 2001 and 2000, we received cash proceeds of approximately $7.7 million and $8.1 million, respectively, for the assets sold to Spectrasite and other such companies. These sale-leaseback transactions are accounted for as real estate lease agreements and normal sales-leasebacks. Any gain recognized on the sale of assets is deferred and amortized over the life of the lease.

FCC Licenses

FCC operating licenses are recorded at historical cost and are amortized using the straight-line method based on estimated useful lives of 40 years. Our FCC licenses and the requirements to maintain the licenses are similar to other licenses granted by the FCC, including Personal Communications Services (PCS) and cellular licenses, in that they are subject to renewal after the initial 10-year term. Historically, the renewal process associated with these FCC licenses has been perfunctory. The accounting for these licenses has historically not been constrained by the renewal and operational requirements. Amortization begins with the commencement of service to customers in a particular market. Amortization expense of approximately $1.3 million and $0.8 million was recorded for the three months ended September 30, 2001 and 2000, respectively, and approximately $3.7 million and $1.7 million was recorded for the nine months ended September 30, 2001 and 2000, respectively.

Interest Rate Risk Management

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

On January 1, 2001, we adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended by SFAS No. 138. These statements establish accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at fair value. The statements require that changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met, the changes in a derivative s fair value (for a cash flow hedge) are deferred in stockholders equity as a component of comprehensive income. These deferred gains and losses are recognized as income in the period in which the hedge item and hedging instrument are settled. The ineffective portions of hedge returns are recognized as earnings. In accordance with SFAS 133, these swap agreements have been designated as ineffective cash flow hedges. Initial adoption resulted in the recording of an additional liability of $1.8 million, with the offset recorded as a cumulative effect of change in accounting principle. The hedges are included in other long-term liabilities on the balance sheet. For the three months ended September 30, 2001, we recorded a non-cash, non-operating charge of $3.9 million related to the market value of interest rate swap agreements. For the nine months ended September 30, 2001, we recorded a non-cash, non-operating charge of $7.7 million related to the market value of interest rate swap agreements, of which $1.8 million has been reflected as a cumulative effect of change in accounting principle, and the remainder has been reflected in interest expense.

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

Revenue Recognition

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

Reclassifications

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

Recently Issued Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 Business Combinations and SFAS No. 142 Goodwill and Other Intangible Assets. SFAS No. 141 requires business combinations initiated after September 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles exceeds fair value. We are in the process of evaluating the financial statement impact of the adoption of SFAS Nos. 141 and 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," (effective for us on January 1, 2003). SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. We are in the process of evaluating the financial statement impact of the adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for us on January 1, 2002.) This Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and other related accounting guidance. We are in the process of evaluating the financial statement impact of the adoption of SFAS No. 144.

4. PROPERTY AND EQUIPMENT

	September 30, 2001	**December 31, 2000**
	(in thousands)	
Building and improvements	$ 3,487	$ 2,774
Equipment	654,080	443,043
Furniture and Fixtures	27,401	21,641
Less - accumulated depreciation	(101,050)	(51,254)
Subtotal	583,918	416,204
Construction in progress	220,499	116,498

Total property and equipment	$	804,417	$	532,702

5. LONG-TERM DEBT

		September 30, 2001		December 31, 2000
		(in thousands)		
14% Senior Redeemable Discount Notes due 2009, net of unamortized discount of $140.6 million at September 30, 2001 and $177.3 million at December 31, 2000	$	379,361	$	342,684
11% Senior Notes due 2010, interest payable semiannually in cash and in arrears		400,000		400,000
Bank Credit Facility Term B Loan, interest at Company s option, calculated on Administrative Agent s alternate base rate or reserve adjusted London Interbank Offered Rate (LIBOR)		175,000		175,000
Bank Credit Facility Term C Loan, interest at Company s option, calculated on Administrative Agent s alternate base rate or reserve adjusted LIBOR		150,000		150,000
Total long term debt	$	1,104,361	$	1,067,684

All of the debt instruments noted above have certain financial covenants. As of September 20, 2001, we were in compliance with applicable covenants.

6. COMMITMENTS AND CONTINGENCIES

Regulatory Matters

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

In November 2000 the application to transfer ownership of the option territory licenses acquired on September 27, 2000 from Nextel WIP to us was completed. The FCC granted approval of our change of control application on March 27, 2001, and on May 18, 2001 the option territory licenses were transferred from Nextel WIP to us.

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

7. RELATED PARTY TRANSACTIONS

Motorola Purchase Agreements

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

For the three months ended September 30, 2001 and 2000, we purchased approximately $50.9 million and $34.9 million, respectively, and $145.3 million and $96.2 million for the nine months ended September 30, 2001 and 2000, respectively, of infrastructure and other equipment, handsets, warranties and services from Motorola.

Joint Venture Agreements

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

We and Nextel WIP also entered into a roaming agreement which provides that each party pays the other monthly roaming fees in an amount based on the actual system minutes generated by the respective subscribers of each home service provider operating as authorized roamers in the remote service provider s territory. For the three months ended September 30, 2001 and 2000, we earned approximately $16.4 million and $7.5 million, respectively, and for the nine months ended September 30, 2001 and 2000 we earned $40.5 million and $16.3 million, respectively, from Nextel customers roaming on our system, which amounts are included in service revenues.

During the first nine months of 2001 and 2000, recorded as part of cost of service revenues, we paid Nextel WIP $41.2 million and $12.8 million, respectively, for various services, including specified telecommunications switching services, charges for our customers roaming on Nextel's system and other support costs. For the three months ended September 30, 2001 and 2000 we paid Nextel WIP approximately $17.0 million and $6.4 million, respectively, for such services.

Under our transition services agreement with Nextel WIP, certain telemarketing, customer care, fulfillment, activations and billing functions are made available by Nextel WIP to OPCO. For the three months ended September 30, 2001 and 2000, we were charged approximately $706,000 and $694,000, respectively, by Nextel WIP for these services and $2.3 million and $1.8 million, respectively, for the nine months ended September 30, 2001 and 2000. Nextel WIP also provides us access to certain back office and information systems platforms on an ongoing basis. We pay to Nextel a fee, based on Nextel s cost, for these services. For the three months ended September 30, 2001 and 2000 we were charged approximately $420,000 and $340,000, respectively, and for the nine months ended September 30, 2001 and 2000 we were charged approximately $1.0 million and $771,000, respectively, by Nextel WIP for these services. Both the transition and back office information services are included in selling, general and administrative expenses.

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

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

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

Overview

We provide digital wireless communications services in mid-sized and tertiary markets throughout the United States. We hold licenses for wireless frequencies in 58 markets where over 51 million people, or Pops, live and work. We have the right to operate in 15 of the top 100 metropolitan statistical areas in the United States ranked by population and 55 of the top 200 metropolitan statistical areas. As of September 30, 2001, we had commercial operations in markets with total Pops of approximately 42.5 million and the ability to offer service to, or cover, approximately 29.3 million Pops. These operational markets are in Alabama, Arkansas, Central Illinois, Florida, Georgia, Hawaii, Idaho, Indiana, Iowa, Kentucky, Louisiana, Minnesota, Mississippi, Nebraska, New York, Pennsylvania, Tennessee, Texas, Virginia and Wisconsin.

As of September 30, 2001, we had approximately 434,200 digital subscribers. Our subscriber base grew 151.9% compared to September 30, 2000, when we had an ending subscriber count of approximately 172,400.

In June 2000 we introduced Nextel Wireless Web service in select markets, and by the end of 2000 we offered this data service in all of our launched markets. Wireless Web service provides Internet-ready subscriber handsets with wireless Internet services, including web-based applications and content. As of September 30, 2001, we had approximately 183,000 data subscribers.

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

Selected Consolidated Financial Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
	(unaudited)		**(unaudited)**	
	(dollars in thousands except for per share data)			
Consolidated Statements of Operations Data:				