

NEXTEL PARTNERS INC  
Form S-3  
August 24, 2001

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As filed with the Securities and Exchange Commission on August 24, 2001

Registration No. 333-

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM S-3

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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## 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 Number)

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

(Address, including ZIP code, and telephone number, including area code, of  
the Registrant's principal executive offices)

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**Donald Manning, Esq.  
4500 Carillon Point  
Kirkland, Washington 98033  
(425) 576-3600**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

**COPIES OF ALL COMMUNICATIONS TO BE SENT TO:**

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. //

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. //

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. // \_\_\_

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If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. // \_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, please check the following box. //

### CALCULATION OF REGISTRATION FEE

Title of Shares to Be Registered	Proposed Maximum Aggregate Offering Price <sup>(1)</sup>	Amount of Registration Fee
Class A Common Stock	\$230,000,000	\$57,500

(1) Includes proceeds to be received upon exercise of the Underwriters' over-allotment option. Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The Registrant hereby undertakes to amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED AUGUST 24, 2001

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

## Shares

### Class A Common Stock

We are selling \_\_\_\_\_ shares of Class A common stock and the selling stockholders are selling \_\_\_\_\_ shares of Class A common stock.

Our Class A common stock is listed on The Nasdaq National Market under the symbol "NXTP". The last reported sale price on August 23, 2001, was \$10.50 per share.

The underwriters have an option to purchase from us a maximum of \_\_\_\_\_ additional shares to cover over-allotments of shares.

Investing in our Class A common stock involves risks. See "Risk Factors" on page 7.

Price to Public	Underwriting Discounts and Commissions	Proceeds to Nextel Partners	Proceeds to Selling Stockholders
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	Price to Public	Underwriting Discounts and Commissions	Proceeds to Nextel Partners	Proceeds to Selling Stockholders
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

Delivery of the shares of Class A common stock will be made on or about , 2001.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Book-Running Manager

**Credit Suisse First Boston**  
**CIBC World Markets**

Co-Lead Manager

**Deutsche Banc Alex. Brown**

**Salomon Smith Barney**

**UBS Warburg**

The date of this prospectus is , 2001

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**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

**PROSPECTUS SUMMARY**

*This summary highlights important information contained elsewhere in this prospectus, but does not contain all of the information that you should consider before investing in our Class A common stock. You should read the entire prospectus carefully, especially "Risk Factors" and our financial statements and related notes before deciding to invest in our Class A common stock. As used in this prospectus, "we," "us" and "our" refer to Nextel Partners, Inc., "Nextel" refers to Nextel Communications, Inc. (and/or, where appropriate, its subsidiaries), and "Nextel WIP" refers to Nextel WIP Corp., an indirect wholly owned subsidiary of Nextel.*

**Nextel Partners, Inc.**

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 50 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. In January 1999, we entered into a joint venture agreement with Nextel WIP, an indirect wholly owned subsidiary of Nextel. Nextel, through Nextel WIP, owned 32.3% of our common stock as of June 30, 2001 and is our largest stockholder. 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 tertiary markets.

The Nextel digital mobile network uses a single digital transmission technology called integrated digital enhanced network, or iDEN®, which was developed by Motorola, Inc. This network constitutes one of the largest fully integrated digital wireless communications systems in the United States. 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, or interconnect, telephone service;

Nextel Direct Connect® service, which allows subscribers in the same geographic region to contact each other instantly, on private one-to-one calls or on a group call;

two-way messaging, which allows users to receive and send pages and short text messages; and

Nextel Wireless Web service, which allows users with Internet-ready handsets access to the world wide web and web-based applications such as email and e-commerce.

Nextel has recently announced plans to expand the Nextel Direct Connect service throughout the Nextel digital mobile network, including our portion of the network. The first phase of this plan is currently being rolled out to offer an improved Direct Connect service which allows any subscriber to instantly communicate with any other subscriber in the home calling area, enabling customers to assemble their own "talk groups" and eliminating the need for an operator to administer them. This phase of the expansion is expected to be completed by the end of the third quarter 2001. In 2002, Nextel will introduce the ability for customers to travel outside their home calling areas and still remain in constant contact through the Nextel Direct Connect feature.

In April 2001, we and Nextel introduced the "i85s" and the "i50sx" handsets, which are part of a new platform of digital handsets with embedded Java technology. These new handsets, developed and manufactured by Motorola, combine the qualities of our Internet-capable handsets with additional features and functionality such as the ability to download Java-based applications, wireless synchronization capabilities and voice-activated dialing and recorder features. As more Java-based applications are developed, we expect our customers to be able to download the associated new software onto their handsets from Nextel's website.

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Our senior management team has substantial operating experience, with members averaging 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 DLJ Merchant Banking, Madison Dearborn Partners, Eagle River Investments, an investment company controlled by Craig O. McCaw, and Motorola.

## Strategic Alliance with Nextel

Our affiliation with Nextel is an integral part of our strategy. Nextel WIP has contributed to us licenses and cash in exchange for an ownership stake in our company. Under our agreements with Nextel WIP, we enjoy numerous important benefits, including:

***Nextel Brand and Differentiated Marketing Programs.*** We have the exclusive right to build, operate and provide digital wireless communications services using the iDEN platform and Nextel brand in all of our markets.

***Integrated Nationwide Network.*** Our systems are operationally seamless with those of Nextel, enabling customers of both companies to utilize all voice and data capabilities on each other's portion of the digital mobile network.

***Exclusive Partnership.*** We are the exclusive operator of wireless communication services to Nextel's iDEN/800 MHz frequency customers who roam into our markets.

***Infrastructure.*** In exchange for a fee, based on Nextel's cost to provide the service, we have the right to utilize Nextel's infrastructure, including certain switching facilities and network monitoring systems, until our customer volume makes it advantageous for us to build our own.

***Relationships.*** Nextel assists us in obtaining the same terms it receives from vendors of equipment and services. In addition, we have developed our own relationships with other vendors from which we seek the same or comparable terms as Nextel receives from its vendors.

## Business Strategy

Our goal is to become the leading provider of integrated digital wireless communications services in our markets. We believe the following elements of our business strategy, in addition to our relationship with Nextel, distinguish our wireless service offerings from those of our competitors and enable us to compete successfully:

***Provide Differentiated Package of Wireless Services.*** We and Nextel are the only wireless service providers that can offer interconnect, Nextel Direct Connect, two-way messaging and Nextel Wireless Web services, fully integrated in a single handset. We believe this "four-in-one" offering is particularly attractive to business users.

***Target Business Customers.*** We believe that our focus on business customers has resulted in higher monthly average revenue per unit and lower average monthly service cancellations or terminations.

***Rapidly Deploy Robust Network.*** Our objective is to build robust wireless systems that cover the key areas of a given market before we launch our network in that market.

***Operate in Mid-Sized and Tertiary Markets.*** We focus on mid-sized and tertiary markets with demographics we believe to be similar to those served by Nextel. We believe that this strategy allows us to rapidly increase penetration within our targeted customer base, which we believe has historically been underserved in these markets.

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## Markets

As of June 30, 2001, we had commercial operations in 44 markets with total Pops of approximately 42 million and the ability to offer service to, or cover, approximately 28 million Pops. These operational markets are in Alabama, Arkansas, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Minnesota, Mississippi, Nebraska, New York, Pennsylvania, Tennessee, Texas, Virginia and Wisconsin. As of June 30, 2001, we had approximately 358,900 digital subscribers with an overall covered market penetration in our operational markets of

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approximately 1.3%. We intend to be able to provide service to over 33 million Pops by the end of 2001. The following table sets forth, by total Pops, those markets with over 1 million Pops in which we have launched or intend to launch digital wireless services as of June 30, 2001:

Markets <sup>(1)</sup>	Total Pops	Scheduled Market Launch
Syracuse/Utica-Rome/Binghamton/Elmira, NY	2,058,780	Launched
Waterloo/Dubuque/Davenport/Cedar Rapids/Iowa City, IL	1,960,174	Launched
Louisville, KY	1,854,937	Launched
Peoria/Springfield/Champaign/Bloomington/Decatur, IL	1,844,352	Launched
Fayetteville/Fort Smith/Pine Bluff, AR	1,796,093	Launched
Omaha/Lincoln, NE	1,782,470	Launched
Roanoke/Lynchburg/Charlottesville, VA	1,713,008	Launched
Harrisburg/York/Lancaster, PA	1,688,822	Launched
Shreveport/Monroe/Tyler/Longview, LA/TX	1,626,510	Launched
Evansville/Owensboro, KY/IN	1,549,132	Launched
Buffalo/Jamestown, NY	1,497,610	Launched
Lexington-Fayette, KY	1,480,559	Launched
Altoona/Johnstown/Williamsport/State College, PA	1,462,511	2nd Half 2001
Hattiesburg/Jackson, MS	1,430,863	Launched
Green Bay/Fond du Lac/Appleton/Sheboygan, WI	1,407,226	Launched
Fargo/Grand Forks, ND	1,229,945	2nd Half 2001
Hawaii (all islands)	1,211,537	Launched
Rochester, NY	1,211,105	Launched
Albany/Glens Falls, NY	1,171,669	Launched
Des Moines/Ft. Dodge/Mason City, IA	1,127,107	Launched
McAllen/Harlingen/Brownsville, TX	1,023,589	2nd Half 2001

(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.

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 prospectus.

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.

### The Offering

Class A common stock offered by Nextel Partners	shares
Class A common stock offered by the selling stockholders	shares
Class A common stock outstanding after this offering	shares
Total common stock outstanding after this offering	shares

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Use of proceeds We expect to use the net proceeds received by us in this offering for our working capital and general corporate purposes, including:

expanding the coverage capabilities in our existing territories;

future acquisitions of additional frequencies and clearing unauthorized users from our existing spectrum; and

introduction of new services, sales and marketing activities.

We will not receive any proceeds from the sale of our Class A common stock by the selling stockholders.

Nasdaq National Market Symbol "NXTP"

Except where otherwise indicated, all information in this prospectus:

excludes 8,206,854 shares of our Class A common stock issuable upon exercise of options outstanding as of June 30, 2001 at a weighted average exercise price of \$9.13 per share; and

assumes no exercise of the underwriters' over-allotment option.

Please see "Capitalization" on page 23 for a more complete discussion regarding the outstanding shares of our Class A common stock and other related matters.

\_\_\_\_\_

This prospectus contains registered trademarks and service marks of: Nextel, including "Nextel," "Nextel Direct Connect" and "Nextel Online"; Motorola, including "Motorola," "iDEN," "i1000 plus," "1500 plus," "i700plus," "i85s" and "i50sx"; and other companies.

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### Summary Consolidated Financial Data

You should read the following summary consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes, all of which appear elsewhere in this prospectus. The historical financial results discussed throughout this prospectus include the operations we acquired from Nextel WIP on January 29, 1999 in connection with our initial capitalization. See Note 1 of our audited consolidated financial statements for a discussion of our formation, capitalization and basis of presentation. The as adjusted balance sheet information set forth below reflects the receipt by us of estimated net proceeds of \$ \_\_\_\_\_ from this offering.

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000 <sup>(1)</sup>	2001
	(dollars in thousands)				

#### Consolidated Statements of Operations Data:

Operating revenues:

Service revenues	\$	3,745	\$	28,136	\$	130,125	\$	40,116	\$	145,995
Equipment revenues		1,564		4,584		5,745		1,897		5,484
		5,309		32,720		135,870		42,013		151,479

Total revenues

Operating expenses:

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	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
Cost of service revenues	6,108	18,807	84,962	28,433	80,037
Cost of equipment revenues	2,935	10,742	26,685	9,609	24,516
Selling, general and administrative	13,531	34,862	117,975	48,514	92,854
Stock-based compensation	447	27,256	70,144	35,053	15,617
Depreciation and amortization	4,586	12,689	38,044	12,564	34,186
<b>Total operating expenses</b>	<b>27,607</b>	<b>104,356</b>	<b>337,810</b>	<b>134,173</b>	<b>247,210</b>
Operating income (loss)	(22,298)	(71,636)	(201,940)	(92,160)	(95,731)
Other income (expense):					
Other loss from disposal of assets			(228)		
Interest expense, net		(65,362)	(102,619)	(43,596)	(61,453)
Interest income		24,585	63,132	28,077	22,628
<b>Total other (expense)</b>		<b>(40,777)</b>	<b>(39,715)</b>	<b>(15,519)</b>	<b>(38,825)</b>
Loss before income tax provision	(22,298)	(112,413)	(241,655)	(107,679)	(134,556)
Income tax provision					
Loss before extraordinary item and cumulative effect of change in accounting principle	(22,298)	(112,413)	(241,655)	(107,679)	(134,556)
Extraordinary item loss on early retirement of debt			(23,485)	(23,485)	
Cumulative effect of change in accounting principle					(1,787)
<b>Net loss</b>	<b>(22,298)</b>	<b>(112,413)</b>	<b>(265,140)</b>	<b>(131,164)</b>	<b>(136,343)</b>
Mandatorily redeemable preferred stock dividends			(5,667)	(4,054)	(1,685)
<b>Loss attributable to common stockholders</b>	<b>\$ (22,298)</b>	<b>\$ (112,413)</b>	<b>\$ (270,807)</b>	<b>\$ (135,218)</b>	<b>\$ (138,028)</b>

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	As of December 31,			As of June 30, 2001	
	1998	1999	2000	Actual	As Adjusted

(dollars in thousands)

**Consolidated Balance Sheet Data:**

Cash and cash equivalents, short-term investments and restricted cash <sup>(2)</sup>	\$ 16	\$ 568,729	\$ 928,346	\$ 630,077
Plant, property and equipment, net	107,948	252,223	532,702	728,934
FCC operating licenses, net	133,180	151,056	245,295	266,717
<b>Total assets</b>	<b>247,666</b>	<b>1,015,327</b>	<b>1,793,084</b>	<b>1,727,688</b>
Current liabilities	8,995	58,503	120,423	144,881
Long-term debt		785,484	1,067,684	1,091,603
Series B redeemable preferred stock			27,517	29,202
<b>Total stockholders' equity</b>	<b>238,671</b>	<b>170,616</b>	<b>570,215</b>	<b>449,039</b>
<b>Total liabilities and stockholders' equity</b>	<b>247,666</b>	<b>1,015,327</b>	<b>1,793,084</b>	<b>1,727,688</b>



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	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001

(dollars in thousands)

**Other Data:**

Covered Pops (end of period) (millions)		6	24	18	28
Subscribers (end of period)	10,200	46,100	227,400	121,000	358,900
Cash flows from operating activities	\$ (14,791)	\$ (66)	\$ (116,028)	\$ (46,297)	\$ (70,426)
Cash flows from investing activities	\$ (104,334)	\$ (363,605)	\$ (504,744)	\$ (484,917)	\$ (86,805)
Cash flows from financing activities	\$ 119,141	\$ 517,928	\$ 960,051	\$ 724,045	\$ 671
EBITDA as adjusted <sup>(3)</sup>	\$ (17,265)	\$ (31,691)	\$ (93,752)	\$ (44,543)	\$ (45,928)
Capital expenditures <sup>(4)</sup>	\$ 98,034	\$ 153,989	\$ 312,832	\$ 117,224	\$ 228,410

- (1) In December 2000 we changed our revenue recognition policy for activation fees (included in service revenues) and equipment (phones) revenues in accordance with the Securities and Exchange Commission Staff Accounting Bulletin 101 (SAB 101), "Revenue Recognition in Financial Statements." This change in our revenue recognition policy became effective as of January 1, 2000, and accordingly, quarterly results for 2000 were restated in our Form 10-K for the year ended December 31, 2000 (see Notes 2 and 12 of the Notes to the 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.
- (2) Short-term investments include marketable debt securities and corporate commercial paper with original purchase maturities greater than three months. Restricted cash reflects the cash collateral account maintained under our credit facility equal to borrowings outstanding under one of our term loans until January 21, 2000, when the FCC approved Nextel WIP's transfer of the broadband wireless licenses to us.
- (3) Earnings Before Interest, Taxes, Depreciation and Amortization, or EBITDA as adjusted, represents net loss before interest expense, interest income, depreciation, amortization, stock-based compensation expense and loss from disposal of assets. EBITDA is commonly used to analyze companies on the basis of operating performance, leverage and liquidity. While EBITDA as adjusted should not be construed as a substitute for operating income or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles, we have presented EBITDA as adjusted to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. EBITDA as adjusted is not a measure determined under generally accepted accounting principles. Also, as calculated above, EBITDA as adjusted may not be comparable to similarly titled measures reported by other companies.
- (4) Capital expenditures are exclusive of capitalized interest but include accrued or financial capital, including the \$22 million of Motorola vendor credits which were fully utilized during 1999. Capital expenditures are required to purchase network equipment, such as switching and radio transmission equipment. Capital expenditures also include purchases of other equipment used for administrative purposes, such as office equipment, computers and telephone systems.

**RISK FACTORS**

*The following risk factors and other information included in this prospectus 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.*

**RISKS RELATING TO NEXTEL PARTNERS**

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

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

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

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

**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, including the Class A common stock sold in this offering.**

Under our restated certificate of incorporation and our operating agreements, in certain circumstances and subject to certain limitations, Nextel WIP has the ability to purchase, or to cause and fund a redemption by us of, all of the outstanding shares of our Class A common stock, including shares sold in this offering. 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 common stock, including the shares sold in this offering. For a description of these provisions of our restated certificate of incorporation, see "Description of Capital Stock Certain Obligations Under Our Charter."

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

Our business plan depends, in part, on Nextel completing its portion of the Nextel digital mobile network on schedule and continuing to build and sustain customer support of its brand and the Motorola iDEN technology. If Nextel encounters financial problems or operating difficulties relating to its portion of the Nextel digital mobile network or experiences a significant decline in customer acceptance of its products or the Motorola iDEN technology, our affiliation with and dependence on Nextel may adversely affect our business, including the quality of our services, the ability of our customers to roam within the entire network and our ability to attract and retain new customers. Additional information regarding Nextel, 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, 2000 and Nextel's other filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934 (SEC file number 0-19656).

**Our business strategy depends on the successful and continued integration of our portion of the Nextel digital mobile network with Nextel's portion, and any failure to integrate our respective portions 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. These services are critical to the successful integration of our portion of the Nextel digital mobile network with Nextel's portion, which is essential to the overall success of our business.

Moreover, our business plan depends on our ability to implement an integrated customer service, network management and billing system with Nextel's systems to allow our respective portions of the Nextel digital mobile network to operate together, and provide our and Nextel's

customers with seamless service. Integration requires that numerous and diverse computer hardware and software systems work together. Any failure to integrate these systems on schedule may have an adverse effect on our results of operations.

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

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

- select and acquire appropriate sites for our transmission equipment, or cell sites;
- purchase and install low-power transmitters, receivers and control equipment, or base radio equipment;
- build out the physical infrastructure;
- obtain interconnection services from local telephone service carriers on a timely basis; and
- test the network.

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

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

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- 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 with respect to the transmission towers that we will be using.

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

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

If Nextel adopts material changes to its operations, 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 its operating agreements with us. Even if the required change is beneficial to Nextel, the effect on our business may differ due to differences in markets and customers. We cannot assure you that such changes would not adversely affect our business plan.

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

The Nextel digital mobile network uses scattered, non-contiguous radio spectrum near the frequencies used by cellular carriers. Because of their fragmented character, these frequencies traditionally were only usable for two-way radio calls, such as those used to dispatch taxis and delivery vehicles. Nextel became able to use these frequencies to provide a wireless telephone service competitive with cellular carriers only when Motorola developed a proprietary technology it calls "iDEN." We and Nextel are currently the only major U.S. wireless service providers utilizing iDEN technology on a nationwide basis, and iDEN phones are not currently designed to roam onto other 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 without Nextel WIP's consent.

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Future technological advancements may enable other wireless technologies to equal or exceed our current levels of service, and render iDEN technology obsolete. If Motorola is unable to upgrade or improve iDEN technology or develop other technology to meet future advances in competing technologies on a timely basis, or at an acceptable cost, because of the restrictive provisions in our agreements, we will be less able to compete effectively and could lose customers to our competitors.

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

Motorola is currently our sole-source supplier of transmitters used in our network and wireless telephone equipment used by our customers, and we rely, and expect to continue to rely, on Motorola to manufacture a substantial portion of the equipment necessary to construct our portion of the Nextel digital mobile network. We expect that for the next few years, Motorola, and competing manufacturers who are licensed by Motorola, will be the only manufacturers of wireless handsets 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 handsets 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 among Nextel and us.

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

Over the next several years we are considering implementing new digital technology, sometimes referred to as "3G" or "third-generation" technology, which could facilitate high-speed, high-volume wireless voice and data transmission and other advanced digital services. Together with Nextel, we are presently evaluating standards and assessing the potential demand for these third-generation wireless services. However, significant capital expenditures would likely be required in implementing this third-generation technology, and there can be no guarantee that 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. 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 may be adversely affected.

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

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

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

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

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

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

**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.

Since the Nextel digital mobile network does not provide roaming coverage on a nationwide basis as is available through some 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. 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.

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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. As a result, if we cannot 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.

In 2000, we began to 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, 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 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 the Nextel Direct Connect service 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 revenue and operating results.

Because of the numerous features we offer, our mobile handsets are, and are likely to remain, significantly more expensive than mobile (a) ISO \$100,000 Rule. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted. (b) No Rights as a Service Provider. Neither the Plan nor any Award shall confer upon a Participant any right with respect to continuing his or her relationship as a Service Provider, nor shall they interfere in any way with the right of the Participants or the right of the Company or its Parent or Subsidiaries to terminate such relationship at any time, with or without cause. (c) Individual Limitations on Awards. (i) Individual Limit for Options and SARs. The maximum number of Shares with respect to which Options and SARs may be granted to any Participant in any calendar year shall be 50,000. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 15 below. To the extent required by Section 162(m) of the Code or the regulations thereunder, in applying the foregoing limitations with respect to a Participant, if any Option or SAR is canceled, the canceled Option or SAR shall continue to count against the maximum number of Shares with respect to which Options and SARs may be granted to the Participant. For this purpose, the repricing of an Option (or in the case of a SAR, the base amount on which the stock appreciation is calculated is reduced to reflect a reduction in the Fair Market Value of the Common Stock) shall be treated as the cancellation of the existing Option or SAR and the grant of a new Option or SAR. (ii) Individual Limit for Restricted Stock, Restricted Stock Units, Performance Share and Performance Units. For awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units that are intended to be Performance-Based Compensation, the maximum number of Shares with respect to which such Awards may be granted to any Participant in any calendar year shall be 50,000. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 15 below. (d) Performance-Based Exercise Price. In the case of Awards intended to qualify as Performance-Based Compensation, the exercise or purchase price, if any, shall be no less than 100% of the Fair Market Value per Share on the date of grant. (e) Vesting of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units. Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units issued under the Plan shall vest and be released from the risk of forfeiture over a period of no less than one (1) year measured from the date of issuance of the Award. As provided in Section 4(b)(viii), the vesting schedule for awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may only be amended in the event of a Change in Control or in the event of the Participant's death or Disability. 7. STOCK OPTIONS. (a) Term of Option. The term of each Option will be designated by the Administrator in each Award Agreement, provided, however, that no Option shall be exercisable for a period of more than ten (10) years from the date of grant. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement. C-6 (b) Option Exercise Price and Consideration. (i) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following: (1) In the case of an Incentive Stock Option (A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant. (B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant. (2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant. (3) Notwithstanding the foregoing, in the case of an Option issued pursuant to a merger or other corporate transaction, the exercise price for the Option shall be determined in accordance with the provisions of the relevant instrument evidencing the agreement to issue such Award. (ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised. (c) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration to the extent permitted by Applicable Laws may consist entirely of: (i) cash; (ii) check; (iii) other Shares which meet the conditions established by the Administrator to avoid adverse accounting consequences (as determined by the Administrator); (iv) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; (v) a reduction in the amount of any Company liability to the Participant, including any liability attributable to the Participant's participation in any Company-sponsored deferred compensation program or arrangement; (vi) any combination of the foregoing methods of payment; or (vii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws. (d) Exercise of Option. i. Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the

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Award Agreement. An Option may not be exercised for a fraction of a Share. C-7 An Option will be deemed exercised when the Company receives: (x) written notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (y) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse or the Participant's nominee. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder will exist with respect to the Awarded Stock, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan or the applicable Award Agreement. ii. Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert immediately to the Plan on the date of the Participant's termination. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan. iii. Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for six (6) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan on the date of the Participant's termination. If after the termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan. iv. Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Shares covered by the unvested portion of the Option will immediately revert to the Plan on the date of the Participant's death. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan. C-8 8. RESTRICTED STOCK. (a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, determines. (b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, determines. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed. (c) Transferability. Except as provided in this Section 8, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction. (d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate. (e) Removal of Restrictions. Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its sole discretion and in compliance with Section 4(b)(viii), may accelerate the time at which any restrictions will lapse or be removed. (f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise. (g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid. (h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan. 9. STOCK APPRECIATION RIGHTS. (a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion. (b) Number of Shares. The Administrator



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will have complete discretion to determine the number of SARs granted to any Service Provider. (c) Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Plan. (d) Exercise of SARs. SARs will be exercisable on such terms and conditions as the Administrator, in its sole discretion, determines. (e) SAR Agreement. Each SAR grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, determines. (f) Expiration of SARs. A SAR granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 7(d)(ii), 7(d)(iii) and 7(d)(iv) also will apply to SARs. C-9 (g) Payment of SAR Amount. Upon exercise of a SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying: (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times (ii) The number of Shares with respect to which the SAR is exercised. At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

**10. PERFORMANCE UNITS AND PERFORMANCE SHARES.** (a) Grant of Performance Units/Shares. Subject to the terms and conditions of the Plan, Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as determined by the Administrator, in its sole discretion. Subject to Section 6(c)(ii), the Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant. (b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant. (c) Performance Objectives and Other Terms. The Administrator will set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid to the Service Providers. The time period during which the performance objectives must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, determines. The performance objectives established by the Administrator may be based on any one of, or combination of, the following: (i) increase in share price, (ii) earnings per share, (iii) total shareholder return, (iv) operating margin, (v) gross margin, (vi) return on equity, (vii) return on assets, (viii) return on investment, (ix) operating income, (x) net operating income, (xi) pretax profit, (xii) cash flow, (xiii) revenue, (xiv) expenses, (xv) earnings before interest, taxes and depreciation, (xvi) economic value added and (xvii) market share. The performance objectives may be applicable to the Company, a Parent or Subsidiary of the Company and/or any individual business units of the Company or any Parent or Subsidiary of the Company. Partial achievement of the specified objective may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement. (d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved. (e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon after the expiration of the applicable Performance Period as determined by the Administrator. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof. (f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

**11. RESTRICTED STOCK UNITS.** Restricted Stock Units may be earned in whole or in part upon the passage of time or the attainment of performance objectives established by the Administrator and which may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.

**12. OTHER STOCK-BASED AWARDS.** Other Stock-Based Awards may be granted either alone, in additional to, or in tandem with, other Awards granted under the Plan and/or cash awards made outside of the Plan. The Administrator shall have authority to determine the Service Providers to whom and the time or times at which Other Stock-Based C-10 Awards shall be made, the amount of such Other Stock-Based Awards, and all other conditions of the Other Stock-Based Awards including any dividend and/or voting rights.

**13. LEAVES OF ABSENCE.** Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence and will resume on the date the Participant returns to work on a regular schedule as determined by the Company; provided, however, that no vesting credit will be awarded for the time vesting has been suspended during such leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three months following the expiration of such three (3) month period any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

**14. NONTRANSFERABILITY OF AWARDS.** Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award Agreement will contain such additional terms and conditions as the Administrator deems appropriate.

**15. ADJUSTMENTS; DISSOLUTION OR LIQUIDATION; MERGER OR CHANGE IN CONTROL.** (a) Adjustments. Subject to any required

action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, the maximum number of Shares with respect to which Awards may be granted to any Participant in any calendar year, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or similar transaction affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Common Stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete) or any similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." In the event of any distribution of cash or other assets to shareholders other than a normal cash dividend, the Administrator may also, in its discretion, make adjustments described in (i)-(iii) of this Section 15(a) or substitute, exchange or grant Awards with respect to the shares of a Parent or Subsidiary of the Company (collectively "adjustments"). In determining adjustments to be made under this Section 15(a), the Administrator may take into account such factors as it deems appropriate, including (x) the restrictions of Applicable Law, (y) the potential tax, accounting or other consequences of an adjustment and (z) the possibility that some Participants might receive an adjustment and a distribution or other unintended benefit, and in light of such factors or circumstances may make adjustments that are not uniform or proportionate among outstanding Awards, modify vesting dates, defer the delivery of stock certificates or make other equitable adjustments. Any such adjustments to outstanding Awards will be effected in a manner that precludes the material enlargement of rights and benefits under such Awards. Adjustments, if any, and any determinations or interpretations, including any determination of whether a distribution is other than a normal cash dividend, shall be made by the Administrator and its determination shall be final, binding and conclusive. In connection with the foregoing adjustments, the Administrator may, in its discretion, prohibit the exercise of Awards during certain periods of time. Except as the Administrator determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award. (b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its sole discretion may provide for a Participant to have the right to exercise his or C-11 her Award, to the extent applicable, until ten (10) days prior to such transaction as to all of the Awarded Stock covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any Award shall lapse 100%, and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised or vested, an Award will terminate immediately prior to the consummation of such proposed action. (c) Merger or Change in Control. (i) Stock Options and SARs. In the event of a merger or Change in Control, each outstanding Option and SAR shall be assumed or an equivalent option or SAR substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to Options and SARs granted to an Outside Director, the Participant shall fully vest in and have the right to exercise such Options and SARs as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable, immediately prior to the merger or Change in Control. Unless determined otherwise by the Administrator, in the event that the successor corporation refuses to assume or substitute for the Option or SAR, the Participant shall fully vest in and have the right to exercise the Option or SAR as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or SAR is not assumed or substituted in the event of a merger or Change in Control, the Administrator shall notify the Participant in writing or electronically that the Option or SAR shall be exercisable, to the extent vested, for a period of time (as determined by the Administrator) following the date of such notice, and the Option or SAR shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or SAR shall be considered assumed if, following the merger or Change in Control, the option or stock appreciation right confers the right to purchase or receive, for each Share of Awarded Stock subject to the Option or SAR immediately prior to the merger or Change in Control, the consideration (whether stock cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each Share of Awarded Stock subject to the Option or SAR, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control. Notwithstanding anything herein to the contrary, an Award that vests, is earned or paid out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-merger or post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption. (ii) Restricted Stock, Performance Shares, Performance Units, Restricted Stock Units and Other Stock-Based Awards. In the event of a merger or Change in Control, each outstanding Restricted Stock, Performance Share, Performance Unit, Other

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Stock-Based Award and Restricted Stock Unit awards shall be assumed or an equivalent Restricted Stock, Performance Share, Performance Unit, Other Stock-Based Award and Restricted Stock Unit award substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to Awards granted to an Outside Director, the Participant shall fully vest in such Awards, including Shares as to which it would not otherwise be vested or exercisable, immediately prior to the merger or Change in Control. Unless determined otherwise by the Administrator, in the event that the successor corporation refuses to assume or substitute for the Restricted Stock, Performance Share, Performance Unit, Other Stock-Based Award and Restricted Stock Unit award, the Participant shall fully vest in the Restricted Stock, Performance C-12 Share, Performance Unit, Other Stock-Based Award or Restricted Stock Unit including as to Shares which would not otherwise be vested. If an award of Restricted Stock, Performance Shares, Performance Units, Other Stock-Based Awards or Restricted Stock Units is not assumed or substituted in the event of a merger or Change in Control, the Administrator shall notify the Participant in writing or electronically that such Award shall be exercisable, to the extent vested, for a period of time (as determined by the Administrator) following the date of such notice, and that such Award shall terminate upon the expiration of such period. For purposes of this paragraph, Restricted Stock, Performance Share, Performance Unit, Other Stock-Based Award and Restricted Stock Unit award shall be considered assumed if, following the merger or Change in Control, the award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control. Notwithstanding anything herein to the contrary, an Award that vests, is earned or paid out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-merger or post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

16. DATE OF GRANT. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. TERM OF PLAN. Subject to Section 22 of the Plan, the Plan will become effective upon receipt of shareholder approval as set forth in Section 22 of the Plan. It will continue in effect for a term ending on May 24, 2015, which date is ten (10) years from the date of adoption of the Plan by the Board, unless terminated earlier under Section 18 of the Plan.

18. AMENDMENT AND TERMINATION OF THE PLAN. (a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan. (b) Shareholder Approval. The Company will obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws, or if such amendment would change any of the provisions of Section 4(b)(viii) or this Section 18(b). (c) Effect of Amendment or Termination. Subject to Section 20, no amendment, alternation, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. CONDITIONS UPON ISSUANCE OF SHARES. (a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance. (b) Investment Representations. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or C-13 receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. SEVERABILITY. Notwithstanding any contrary provision of the Plan or an Award to the contrary, if any one or more of the provisions (or any part thereof) of this Plan or the Awards shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan or Award, as applicable, shall not in any way be affected or impaired thereby.

21. INABILITY TO OBTAIN AUTHORITY. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary for the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

22. SHAREHOLDER APPROVAL. The Plan will be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval will be obtained in the manner and to the degree required under Applicable Laws. \* \* \* \* \* C-14 ANNUAL MEETING OF SHAREHOLDERS OF LANCASTER COLONY CORPORATION NOVEMBER 21, 2005 Please date, sign and mail your proxy card in the envelope provided as soon as possible. -Please detach along perforated line and mail in the envelope provided.- THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" THE ADOPTION OF THE 2005 STOCK PLAN. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X] 1. Election

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of Directors: For term expiring 2008 2. To approve the adoption FOR AGAINST ABSTAIN of the 2005 Stock Plan. [ ] [ ] [ ] [ ] FOR ALL NOMINEES NOMINEES: 3. The transaction of all other matters as may [ ] WITHHOLD AUTHORITY [ ] Robert L. Fox properly come before the meeting. FOR ALL NOMINEES [ ] John B. Gerlach, Jr. [ ] Edward H. Jennings [ ] FOR ALL EXCEPT (See instructions below) INSTRUCTION. To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: [X] To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. [ ] Signature of Shareholder Date: Signature of Shareholder Date: ----- NOTE: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person. LANCASTER COLONY CORPORATION PROXY FOR THE ANNUAL MEETING OF SHAREHOLDERS NOVEMBER 21, 2005 THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS The undersigned hereby appoints John B. Gerlach, Jr., John L. Boylan and William L. Jordan, or any of them, proxies of the undersigned, with power of substitution, to vote all shares of stock of the Corporation which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders to be held November 21, 2005, or at any and all adjournments thereof, and to exercise all of the powers which the undersigned would be entitled to exercise as a shareholder if personally present upon the following matters: (CONTINUED AND TO BE SIGNED ON THE REVERSE SIDE)