NEXTEL PARTNERS INC
Form 10-K
March 15, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

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 registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Based on the closing sales price on June 30, 2005, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was $4,143,558,871.

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

Outstanding Title of Class	Number of Shares on February 28, 2006
Class A Common Stock	208,764,059 shares
Class B Common Stock	84,632,604 shares

DOCUMENTS INCORPORATED BY REFERENCE:

None.

NEXTEL PARTNERS, INC.
FORM 10-K
Table of Contents

Table of Contents

PART I

Item 1. *Business*

As used in this Annual Report on Form 10-K, we, us and our refer to Nextel Partners, Inc., Sprint Nextel refers Sprint Nextel Communications, Inc. (and/or, where appropriate, its subsidiaries including Nextel, referring to Nextel Communications, Inc.) and Nextel WIP refers to Nextel WIP Corp., an indirect wholly owned subsidiary of Sprint Nextel.

On August 12, 2005, Nextel merged with Sprint Corporation. The merger constituted a Nextel sale pursuant to our charter and on October 24, 2005, our Class A common stockholders voted to exercise the put right set forth in our charter, to require Nextel WIP to purchase all of our outstanding shares of Class A common stock. On December 20, 2005, we announced, along with Sprint Nextel, that the put price at which Nextel WIP will purchase our outstanding Class A common stock was determined to be $28.50 per share. The transaction is subject to the customary regulatory approvals, including review by the Federal Communications Commission (FCC) and review under the Hart-Scott-Rodino Antitrust Improvements Act (Hart-Scott-Rodino Act), and is expected to be completed by the end of the second quarter of 2006. On February 6, 2006, the Federal Trade Commission and the Department of Justice provided early termination of the waiting period under the Hart-Scott-Rodino Act for Sprint Nextel to purchase our outstanding Class A common stock. This Annual Report on Form 10-K relates only to Nextel Partners, Inc. and its subsidiaries prior to the consummation of the transaction.

Overview

We provide fully integrated, wireless digital communications services using the Nextel® brand name in mid-sized and rural markets throughout the United States. We offer four distinct wireless services in a single wireless handset. These services include International and Nationwide Direct Connect℠, digital cellular voice, short messaging and cellular Internet access, which provides users with wireless access to the Internet and an organization s internal databases as well as other applications, including e-mail. We hold licenses for wireless frequencies in markets where approximately 54 million people, or Pops, live and work. We have constructed and operate a digital mobile network compatible with the iDEN digital mobile network constructed by Nextel and operated by Sprint Nextel (the Nextel Digital Wireless Network) in targeted portions of these markets, including 13 of the top 100 metropolitan statistical areas and 57 of the top 200 metropolitan statistical areas in the United States ranked by population. Our combined Nextel Digital Wireless Network constitutes one of the largest fully integrated digital wireless communications systems in the United States, currently covering 297 of the top 300 metropolitan statistical areas in the United States. As of December 31, 2005, our portion of the Nextel Digital Wireless Network covered approximately 42 million Pops and we had approximately 2,017,700 digital handsets in service in our markets.

Our relationship with Nextel was created to accelerate the build-out and expand the reach of the Nextel Digital Wireless Network. In January 1999, we entered into a joint venture agreement with Nextel WIP, pursuant to which Nextel, through Nextel WIP, contributed to us cash and licenses for wireless frequencies and granted us the exclusive right to use the Nextel brand name in exchange for ownership in us and our commitment to build out our compatible digital wireless network in selected markets and corridors, in most cases adjacent to operating Nextel markets. As of December 31, 2005, Nextel WIP owned 29.7% of our outstanding common stock and was our largest stockholder. By the end of 2002, we had successfully built all of the markets we were initially required to build under our 1999 agreement with Nextel. Since 1999 we have exercised options to expand our network into additional markets. By June 2003, we had completed the construction of all of these additional markets. Through our affiliation with Nextel, our customers have seamless nationwide coverage on the entire Nextel Digital Wireless Network.

Table of Contents

We offer a package of wireless voice and data services under the Nextel brand name. We currently offer the following four services, which are fully integrated and accessible through a single wireless handset:

- digital cellular voice, including advanced calling features such as speakerphone, conference calling, voicemail, call forwarding and additional line service;
- Direct Connect® service, the digital walkie-talkie service that allows customers to instantly connect with business associates, family and friends without placing a phone call;
- short messaging, the service that utilizes the Internet to keep customers connected to clients, colleagues and family with text, numeric and two-way messaging; and
- Nextel Online® services, which provide customers with Internet-ready handsets access to the World Wide Web and an organization s internal database, as well as web-based applications such as e-mail, address books, calendars and advanced Java™ enabled business applications.

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

Strategic Alliance with Nextel

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

Nextel Brand and Differentiated Marketing Programs. We have the exclusive right to build, operate and provide fully integrated digital wireless communication services using the integrated Digital Enhanced Network, or iDEN, platform developed by Motorola, Inc. (Motorola) and the Nextel brand name in all of our markets.

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

Exclusive Roaming Arrangement. We have the exclusive right to provide wireless communication services to Sprint Nextel s iDEN customers who roam into our markets. Pursuant to our operating agreements with Nextel WIP, Sprint Nextel s iDEN subscribers generate revenue for us when they roam into our markets, and we pay Sprint Nextel when our subscribers roam into its markets. For the year ended December 31, 2005, we earned $211.6 million in roaming revenues from Sprint Nextel customers who utilized our portion of the Nextel Digital Wireless Network.

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

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

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

International Roaming. We have the ability to either operate under Nextel s international roaming agreements or, under certain circumstances, to require Nextel WIP to provide us with comparable international roaming capabilities under its agreements with international carriers. Accordingly, our customers are able to travel worldwide and still receive the benefits of their Sprint Nextel iDEN-

Table of Contents

based service. For example, in coordination with Sprint Nextel, our customers have the ability to roam in the Mexico market area where NII Holdings, Inc. offers iDEN-based services and also in the Canadian market areas where TELUS offers iDEN-based services. Furthermore, by using the Motorola i920 and i930 handsets, dual mode handsets that operate on both the iDEN technology and the GSM 900 MHz standard, our customers receive digital roaming services on iDEN 800 MHz and GSM 900 MHz networks in over 80 countries.

On August 12, 2005, Nextel merged with Sprint Corporation. The merger constituted a Nextel sale pursuant to our charter, and on October 24, 2005, our Class A common stockholders voted to exercise the put right set forth in our charter to require Nextel WIP to purchase all our outstanding shares of Class A common stock. On December 20, 2005, we announced, along with Sprint Nextel, that the put price at which Nextel WIP will purchase our outstanding Class A common stock was determined to be $28.50 per share. The put price was determined after the two appraisers appointed pursuant to our charter, Morgan Stanley and Lazard, issued their reports that determined fair market value as defined in our charter. On February 6, 2006 the Federal Trade Commission and the Department of Justice provided early termination of the waiting period under the Hart-Scott-Rodino Act for Sprint Nextel to purchase our outstanding Class A common stock.

In addition, on January 24, 2006, Nextel Partners and Sprint Nextel filed a series of applications requesting FCC consent, pursuant to section 310(d) of the Communications Act of 1934, as amended, to the transfer of control of Nextel Partners to Nextel WIP. Nextel Partners and Sprint Nextel filed a series of minor amendments to these applications on February 2, 2006.

The wireless licenses held by Nextel Partners include approximately 6,500 Economic Area (EA) licenses and site-based licenses in the 800 MHz Specialized Mobile Radio (SMR) service, one Metropolitan Trading Area (MTA) license in the 900 MHz SMR service, and 21 common carrier fixed point-to-point microwave licenses, and an international 214 authorization.

It is our belief that the transfer of control is consistent with the FCC s rules and policies and will further the public interest. We believe the proposed transaction will yield incremental efficiencies and benefits, such as increased coverage and improved service quality, a more cost-effective migration path to new technologies, elimination of redundant administrative and back-office systems, and reduced reliance on outside networks for backhaul operations. We believe these benefits will promote competition in the CMRS marketplace and foster competition between the wireless and wireline industries, particularly in the small and medium-sized markets where Nextel Partners primarily operates. The proposed transfer should also facilitate 800 MHz band reconfiguration in the markets currently served by Nextel Partners.

FCC approval of the transfer of control application represents the final regulatory approval needed to complete the transaction.

You may find more information about the put right, including the definition of fair market value and the procedures pursuant to which fair market value was determined, in our charter, the December 20, 2005 agreement between us and Sprint Nextel, and the valuation letters from the two appraisers. These documents are available on our website at www.nextelpartners.com in the investor relations section, at the select corporate documents link.

Business Strategy

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

Strive for 100% partner satisfaction.

Strive for 100% customer satisfaction.

Achieve targeted revenue growth with a low cost structure.

Table of Contents

Achieve win-win results through the power of teamwork.

Work smart while remaining humble.

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

Provide Differentiated Package of Wireless Services. Along with Sprint Nextel, we offer fully integrated, wireless communications services International and Nationwide Direct Connect, digital cellular voice, short messaging and Nextel Online all in a single wireless device with no roaming charges nationwide. We believe this four-in-one offering is particularly attractive to business users. We further believe that for customers who desire multiple wireless services, the convenience of combining multiple wireless communications options in a single handset for a single package price with a single billing statement is an important feature that helps distinguish us from many of our competitors.

A sizeable portion of business users communications involves contacting others within the same organization or those within a community of interest (e.g., contractors, sub-contractors and suppliers). We believe that our Nationwide Direct Connect service is especially well suited to address the wireless communications needs of these customers. In 2005, Direct Connect minutes used by our customers comprised approximately 22% of the total minutes used by our customers on our network.

Direct Connect allows all of our customers and Sprint Nextel s iDEN customers to instantly communicate with each other on private one-on-one calls on an international and nationwide basis. Nationwide Direct Connect provides full coast-to-coast availability of the push to talk feature to all of our customers and all of Sprint Nextel s iDEN customers across the continental United States and Hawaii. In conjunction with Nextel, we expanded our Direct Connect service in July 2004 to include International Direct Connect[sm] in Canada, Argentina, Brazil, Peru and Mexico.

Deliver Unparalleled Customer Service. In addition to providing our four-in-one service offering, our goal is to differentiate ourselves by delivering the highest quality customer service in the industry, including low rates of dropped and blocked calls. In 2005, a significant part of our employees bonus was tied to achieving a targeted level of customer satisfaction as measured in monthly surveys conducted by an outside vendor. We believe that this monetary bonus helped focus our entire company on achieving our customer service business objective, and we intend to provide a similar incentive to our employees in 2006.

Target Business Customers. We believe our Direct Connect service is particularly valuable to certain business segments. While we have a growing emphasis on consumer retail stores and customers, we continue to focus on business customers, particularly those customers who employ a mobile workforce. Initially, we have concentrated our sales efforts on a number of distinct groups of mobile workers, including personnel in the transportation, delivery, real property and facilities management, construction and building trades, landscaping, government, public safety and other service sectors. We have developed disciplined sales training procedures and strategies that are specifically tailored to a business-to-business sales process. In addition, we, along with Sprint Nextel, work with third-party vendors to develop unique data applications for our business customers.

We have begun to expand our target customer groups to include additional industry groups as well as consumer retail customers. We believe that our customers value our fully integrated services, including virtually instantaneous Direct Connect communications, and that this, along with our efforts to achieve 100% customer satisfaction, resulted in higher monthly average revenue per unit, or ARPU, and lower average monthly service cancellations than industry averages. Our ARPU for the year ended December 31, 2005 was $68 (or $78, including roaming revenues received from Sprint Nextel) compared to an industry average of $53 as of September 30, 2005. In addition, the average monthly rate at which our customers canceled service with us, or churn, was approximately 1.4% for 2005 compared to an industry average of 2.1% for the third quarter of 2005. Our ARPU and churn rate equated to lifetime revenue per subscriber, or LRS, of approximately $4,857 for 2005, which we believe is one of the highest in the industry. See

Table of Contents

Selected Financial Data Additional Reconciliations of Non-GAAP Financial Measures (Unaudited) for more information regarding our use of ARPU and LRS as non-GAAP financial measures. Our monthly average minutes of use increased from 743 minutes per subscriber in 2004 to 826 minutes per subscriber in 2005, an increase of 11%. In addition, our customer base grew 26% from approximately 1,602,400 customers as of December 31, 2004 to approximately 2,017,700 customers as of December 31, 2005.

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

In January 1999 when we executed our agreements with Nextel WIP and obtained our initial financing, we acquired two operational markets in upstate New York and Hawaii. The remainder of our markets had not been fully constructed. By June 2003, we had completed construction and had successfully launched service in all of our markets. As of December 31, 2005, we had 4,630 cell sites fully constructed and operational throughout our markets and our network provided coverage to approximately 42 million Pops compared to 40 million Pops as of December 31, 2004.

To reduce the risk of zoning and other local regulatory delays, construction delays and site acquisition costs, we have located our cell sites on existing transmission towers or other structures such as building rooftops owned by third parties wherever possible. If necessary, we contract with third parties to construct transmission towers and, wherever possible, sell these towers and lease back space for our equipment. In addition, as of December 31, 2005, we had six mobile switching offices in service on our network and had successfully switched over 90% of all of our customers wireless interconnect traffic through these switches. The remaining 10% of our wireless interconnect traffic is routed to switches operated by Sprint Nextel in accordance with our switch sharing agreement. Operating our own switches and switching our own traffic have reduced the switch sharing fees we pay to Nextel WIP under our switch sharing agreement.

We believe our existing packet data service on the Nextel Digital Wireless Network is robust and far-reaching. Based on our current outlook, we anticipate eventually deploying advanced digital technology that will allow wireless voice and high-speed data transmission and potentially other advanced digital services. The technology that we would deploy to provide these types of broadband wireless services is sometimes referred to as a next-generation technology. Until we deploy a next-generation technology, we will continue to fully utilize our iDEN digital wireless network. In addition, we expect technology upgrades to continue to be made to our iDEN digital wireless network in 2006 based on developments being made by Motorola and Sprint Nextel.

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

Although we set our local service prices in each of our markets independently of Sprint Nextel, we are required to adopt Nextel s overall pricing strategies. We offer pricing options that we believe differentiate our services from those of many of our competitors. Our pricing packages offer our customers simplicity and predictability in their wireless telecommunications billing by combining Direct Connect minutes with a mix of cellular and long-distance minutes. Furthermore, no roaming charges are assessed

Table of Contents

for mobile telephone services provided to our customers traveling anywhere on our portion or Sprint Nextel s portion of the Nextel Digital Wireless Network in the United States. We also offer special pricing plans that allow some customers to aggregate the total number of account minutes for all of their handsets and reallocate the aggregate minutes among those handsets.

Markets

As of December 31, 2005, we had established digital wireless service in all of the following markets:

Region	Markets(1)	Licensed Pops
Northeast	Central PA (Wilkes-Barre/ Scranton/ Harrisburg/ York/ Lancaster)	2,958,580
	Syracuse/ Utica-Rome/ Binghamton/ Elmira, NY	2,064,814
	Buffalo/ Jamestown, NY	1,477,499
	Western PA (Altoona/ Johnstown/ State College/ Williamsport)	1,351,301
	Rochester, NY	1,215,557
	Albany/ Glens Falls, NY	1,196,059
	Burlington, VT	711,939
	Erie, PA	372,245
	Total	11,347,994
Midwest	Nebraska (Omaha/ Lincoln)	1,852,085
	Green Bay, WI	1,726,194
	Eastern Iowa (Waterloo/ Dubuque/ Davenport/ Cedar Rapids/ Iowa City)	1,683,014
	E. Minnesota/ W. Wisconsin (Duluth/ Rochester/ Eau Claire/ La Crosse)	1,502,128
	Central Iowa (Des Moines)	1,400,726
	Idaho (Idaho Falls/ Pocatello/ Boise/ Twin Falls)	1,087,188
	Western IL (Peoria/ Springfield/ Decatur)	1,060,400
	North Dakota/ Western Minnesota (Fargo/ Grand Forks)	987,494
	Sioux City/ Sioux Falls IA/ SD	844,418
	Central IL (Champaign/ Bloomington)	727,836
	Total	12,871,483
South	Arkansas (Fayetteville/ Fort Smith/ Pine Bluff/ Little Rock)	2,465,485
	South Texas (McAllen/ Harlingen/ Brownsville/ Corpus Christi/ Victoria)	2,126,321
	West Virginia (Charleston)	2,048,519
	East Texas/ Northern Louisiana (Tyler/ Longview/ Shreveport/ Monroe)	2,041,183
	Indiana (Terre Haute/ Evansville/ Owensboro)	1,972,669
	Louisville, KY	1,893,110
	West Texas (Amarillo/ Abilene/ Lubbock/ Odessa-Midland/ San Angelo)	1,800,983
	Virginia (Roanoke/ Lynchburg/ Charlottesville)	1,733,552
	Southern Louisiana (Lafayette/ Lake Charles)	1,663,877
	Lexington, KY	1,517,133
	Mississippi (Hattiesburg/ Jackson)	1,457,341

Georgia (Macon-Warner Robins/ Albany)	1,338,108
Pensacola, FL	1,206,948

Table of Contents

Region	Markets(1)	Licensed Pops
	Mobile, AL	1,067,069
	Central Texas (Temple-Killeen/ Waco/ Bryan-College Station)	927,875
	Tennessee (Bristol/ Johnson City/ Kingsport, VA/ TN)	794,304
	Tallahassee, FL	745,623
	Montgomery, AL	741,949
	Augusta, GA	610,480
	Columbus, GA	429,960
	Total	28,582,489
Noncontinental US	Hawaii (all islands)	1,262,840
	Total	54,064,806

(1) We may, from time to time, reconfigure our markets to take advantage of build-out and management synergies and marketing opportunities. Accordingly, the way we group our markets may increase or decrease the total number of markets and, correspondingly, increase or decrease the population estimates for the newly configured market.

We have calculated total Pops for a given market by utilizing Census 2004 data published by the U.S. Census Bureau, which lists population estimates by county.

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

General Business

Revenues. We operate in one reportable segment, wireless services. Our primary sources of revenues are service revenues and equipment revenues, with service revenues constituting approximately 94% of our total revenues in 2005. For more information about our revenues and other financial results, see our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

Distribution Channels. Our traditional methods of distribution have been through our direct and indirect sales force. While we will continue to support these approaches, in 2005 we opened 62 new company-owned retail stores throughout our markets for a total of 135 retail stores in operation at December 31, 2005. Initial sales and revenue results from these company-owned stores indicate that they attract high value customers with a lower acquisition cost than our traditional distribution channels. In addition, our telephone and website sales distribution channels that we implemented in 2002 also allow us to acquire new customers at relatively lower costs. For 2005, our low cost distribution channels, which include telesales, websales and company-owned stores, accounted for approximately 28% of our gross additional new subscribers as compared to approximately 22% during 2004.

Table of Contents

Business Developments

Customer Products and Solutions.

Products. We currently offer a wide variety of handsets, with a broad range of features and price points. In 2005, we greatly expanded our current product line to include over a dozen new wireless handsets manufactured by Motorola the i265, i325IS, v505, v180, i275, i355, i605, i836, i560, i760, i850, i930 and i870. In the fourth quarter of 2005 we also introduced the second-generation iDEN BlackBerry device, the 7100i™ manufactured by Research in Motion, Inc. (RIM).

These new handsets expand our product line and allow customers to select a handset that best meets the demands of their work environment or lifestyle. All of our handsets offer an advanced, intuitive user interface, assignable ring tones, Internet access and global position satellite (GPS) receivers for E911 (the 911 emergency mobile telephone service) and other location-based services. Camera phones are popular with our customers, and we offer cameras in a number of different phone styles (i275, i850, i870 and i930). The i870 is noteworthy for its 1.3 mega-pixel camera and its ability to capture and playback video images. The i870 is also the first iDEN phone to include a built-in MP3 player and it is our first handset with Direct Send℠ Picture capability. This first-of-its-kind service allows our subscribers with Direct Send℠ capable phones to send and review pictures while on a Nextel walkie-talkie call.

Many of the handsets introduced in 2005 include three key features designed to help businesses be more productive: Direct Talk, Multimedia Messaging and Direct Send℠. Direct Talk is the off-network walkie-talkie feature that provides back-up communications in times of emergency, network outage or when traveling to remote areas not under Nextel Digital Wireless Network coverage. Direct Talk operates by using the handsets to transmit and receive walkie-talkie service without using our cell sites or switches as long as the handsets are within a relatively short distance from each other. Multimedia Messaging allows customers to wirelessly send text, audio or pictures to email addresses or other Nextel handsets. Direct Send℠, described above, also allows customers to instantly send contact information stored in their handset, via the push-to-talk button, to other Direct Send℠ capable handsets.

Also included in several of the new handsets is integrated Bluetooth technology, which provides freedom from tethered wires and cables by letting owners exchange information with other compatible Bluetooth enabled devices such as wireless phones, headsets, personal data assistants (PDAs) and computers.

To further expand our differentiated suite of products and services, we also offer BlackBerry® handheld devices manufactured by RIM with both voice and data capabilities. This PDA style handset operates on the Nextel Digital Wireless Network, integrates our four-in-one offering and supports Java 2 Micro Edition (J2ME™) applications. We believe this product is an ideal tool for mobile professionals who need instant and constant access to their business email. In addition, it eliminates the need to carry separate PDAs, cellular phones and laptops. In 2005, we introduced the second-generation iDEN BlackBerry device the BlackBerry 7100i™. The Blackberry 7100i builds on the success of earlier iDEN BlackBerry devices by featuring an enhanced color display, Bluetooth capability, Multimedia Messaging capability, a Sure Type™ keyboard and a smaller handset design.

Wireless Data Solutions. In 2005, we significantly increased sales of wireless data solutions based on Nextel s key differentiators. By partnering with key application providers and leveraging the GPS technology built into our handsets, we offer high value location-based services to business and individual customers. Specifically, we are offering asset tracking, workforce management, navigation and wireless payment solutions. We believe these location-based services are providing our customers with substantial increases in productivity. In 2005, we significantly enhanced our portfolio of GPS enabled solutions for our customers by making our asset tracking, workforce and navigation solutions available on the BlackBerry platform.

We also launched several solutions specifically targeted at the individual consumer including location enabled weather applications, applications converting a Nextel handset into a GPS receiver for outdoor enthusiasts and access to MapQuest.com on the mobile device. Our digital media solutions like

Table of Contents

downloadable ringtones, wallpapers and mobile games have been very popular with customers in 2005. We enhanced our messaging capabilities by allowing our customers to exchange picture messages with users on all the largest wireless networks in the United States. With a simplified pricing structure and a broad suite of consumer applications, we believe that we are well positioned to serve the wireless data needs of our individual customer base.

In addition to BlackBerry, we extended our email solutions to all handsets with one of the first Java-based email solutions available on mass market handsets. Our business customers also have greater options for access to the Internet via their laptops using an improved wireless PC connection card as well as a WiFi solution, which is conveniently bundled as part of their Nextel service.

For the year ended December 31, 2005, revenues we received from the sale of all data products and services contributed approximately $2.67 to our ARPU almost triple what we reported for our 2004 average data revenue per subscriber.

Walkie-Talkie Services. In May 2005, we expanded our walkie-talkie services with the introduction of Nationwide Group Walkie-Talkie. Nextel customers can instantly create talk groups of up to 20 individuals directly from their handset with other Nextel subscribers across the country. Previously Group Walkie-Talkie was limited to local walkie-talkie usage and talk groups were managed by us and not the customer.

Our International Walkie-Talkie service, introduced in 2004, gained popularity in our markets, especially those markets that are adjacent to Canada and Mexico. International Walkie-Talkie allows customers to instantly connect with other users in and between the United States and up to five countries including Peru, Brazil, Argentina, Canada and Mexico.

Our exclusive NextMail walkie-talkie service enables customers using the walkie-talkie Connect button on their handset to instantly send a voice message from their Nextel phone to any email address, even if the recipient is not a Sprint Nextel user. The recipient may retrieve the voice message from his or her laptop or PC.

Capital Structure Transactions. During 2005 we engaged in the following capital structure and de-leveraging transactions:

Debt Redemption. On April 29, 2005, we redeemed for cash the remainder of our outstanding 11% senior notes due 2010, representing approximately $1.2 million aggregate principal amount at maturity. In addition, on November 15, 2005 we redeemed for cash the remainder of our outstanding 12 1/2% senior discount notes due 2009, representing approximately $146.2 million aggregate principal amount at maturity, for a total redemption price of approximately $164.5 million.

Credit Facility Refinancing. On May 23, 2005, Nextel Partners Operating Corp. (OPCO) refinanced its existing $700.0 million tranche C term loan with a new $550.0 million tranche D term loan. The borrowings under the new term loan were used along with available funds to repay the existing tranche C term loan. The tranche D term loan has a maturity date of May 31, 2012.

The Nextel WIP Operating Agreements

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

Under these agreements, Nextel WIP is obligated to share with us Sprint Nextel s experience in operating iDEN networks by, among other things, granting us access to meetings and coordinating with us

Table of Contents

on network build-out and enhancements. In addition, Nextel WIP is obligated to provide specified services to us upon request. The most significant services Nextel WIP provides us are:

- use of some of Sprint Nextel s switching facilities in exchange for a per-minute fee based on Nextel s national average cost for such service, including financing and depreciation costs;
- monitoring of switches owned by us on a 24-hour per day basis by Sprint Nextel s network monitoring center in exchange for a fee based on pro-rata costs;
- use of Sprint Nextel s back-office systems in order to support customer activation, billing and customer care for national accounts in exchange for fees based on Nextel s national average cost for such services;
- use of the Nextel brand name and certain trademarks and service marks, and the marketing and advertising materials developed by Sprint Nextel, in exchange for a marketing services fee described below;
- access to technology enhancements and improvements; and
- assisting us in contracting with Sprint Nextel s suppliers on substantially the same terms as Sprint Nextel wherever possible.

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

- our marketing service fee, which started accruing in January 2003, was 0.5% of gross monthly service revenues, excluding roaming revenues, from January 1, 2003 through December 31, 2004 and increased to 1.0% of gross monthly service revenues, excluding roaming revenues, thereafter; and
- when a Sprint Nextel subscriber roams on our portion of the network we receive a certain percentage of the service revenues generated by the roaming subscriber. That percentage was 90% of the service revenues in 2000, 85% in 2001 and 80% in 2002 and thereafter, subject to upward or downward adjustment based on the relative customer satisfaction levels of Sprint Nextel and us as measured by a customer satisfaction survey administered on a regular basis by a third-party vendor engaged by Sprint Nextel and us.

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

- we generally are required to offer the full complement of products and services offered by Sprint Nextel in comparable service areas;
- we must abide by Sprint Nextel s standard pricing structure (principally home-rate roaming), but we need not charge the same prices as Sprint Nextel;
- we must meet minimum network performance and customer care thresholds; and
- we must adhere to standards in other operating areas, such as frequency design, site acquisition, construction, cell site maintenance and marketing and advertising.

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

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

maximized quality of service to our customers and to Sprint Nextel s customers.

Table of Contents

These criteria provide for a flexible construction schedule of switches to serve our territory, depending on the existing switches in Sprint Nextel s territory and the amount of customer traffic handled by any one switch. We have the option of installing our own switching facilities within our territory. However, our deployment of any switching facility requires coordination with Nextel WIP and may require Nextel WIP s approval. Our agreements with Nextel WIP require us to implement and install appropriate switch elements as the number of our subscribers and cell site levels increases. For example, we will need to establish a location and install switch equipment on our network for every 120,000 subscriber units or a base site controller for every 50 operational cell sites. We believe that we have sufficient funds for these installations under our current business plans. As of December 31, 2005, we had six switches in operation.

Overview of the U.S. Wireless Communications Industry

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

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

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

The demand for wireless telecommunications has grown rapidly, driven by the increased availability of services, technological advancements, regulatory changes, increased competition and lower prices. According to the Cellular Telecommunications & Internet Association, the number of wireless subscribers in the United States, including cellular, PCS and ESMR, has grown from approximately 200,000 as of June 30, 1985 to 194.5 million as of June 2005 which reflected a penetration rate of over 65% at that time.

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

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

All PCS services, like ESMR, are all-digital systems that convert voice or data signals into a stream of binary digits that is compressed before transmission, enabling a single radio channel to carry multiple simultaneous signal transmissions. This enhanced capacity, along with improvements in digital signaling,

Table of Contents

allows digital-based wireless technologies to offer new and enhanced services and improved voice quality and system flexibility, as compared to analog technologies. Call forwarding, call waiting and greater call privacy are among the enhanced services that digital systems provide. In addition, due to the reduced power consumption of digital handsets, users benefit from an extended battery life.

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

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

The Nextel Digital Wireless Network

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

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

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

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

Table of Contents

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

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

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

Combined with Nextel, we have helped build one of the largest all-digital wireless networks in the country covering thousands of communities across the United States. Through this network, we, together with Nextel, currently serve 297 of the top 300 U.S. markets and the major transportation corridors between these markets.

Competition

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

- the continued satisfactory performance of the iDEN technology especially in relation to emerging next generation wireless technologies;
- the maintenance and competitive coverage of areas throughout our markets;
- the establishment and maintenance of roaming service among our market areas and those of Nextel; and
- the development of cost-effective direct and indirect channels of distribution for our products and services on our portion of the Nextel Digital Wireless Network.

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

Table of Contents

companies are authorized to participate in dispatch and SMR services. We also expect our business to face competition from other technologies and services developed and introduced in the future.

Consolidation has and may continue to result in additional large, well-capitalized competitors with substantial financial, technical, marketing and other resources. For example, the acquisition of AT&T Wireless by Cingular Wireless, which closed in October 2004, created the largest wireless services provider in the United States, with significantly more resources and a larger customer base than we or any other competing company. In addition, in August 2005, Sprint acquired Nextel and Alltel Communications acquired regional wireless service provider Western Wireless. Late in 2005, Alltel also announced the acquisition of Midwest Wireless, a cellular and PCS licensee with about 400,000 subscribers, for $1.075 billion. Some of our competitors are also creating joint ventures that will fund and construct a shared infrastructure that the venture participants will use to provide advanced services and are entering into roaming arrangements that provide similar benefits. By using joint ventures and roaming arrangements, these competitors may lower their cost of providing advanced services to their customers. In addition, we expect that in the future, providers of wireless communications services may compete more directly with providers of traditional wireline telephone services and, potentially, energy companies, utility companies and cable operators that expand their services to offer communications services. We also expect that we will face competition from other technologies and services developed and introduced in the future, including potentially those using unlicensed spectrum, including WiFi.

We believe that the mobile telephone service currently being provided on the Nextel Digital Wireless Network utilizing the iDEN technology is similar in function to and achieves performance levels competitive with those being offered by other current wireless communications service providers in our market areas. There are, however, and will in certain cases continue to be, differences between the services provided by us and by cellular and/or PCS system operators and the performance of our respective systems. The all-digital networks that we and Nextel operate provide customers with digital quality and advanced features wherever they roam on the Nextel Digital Wireless Network, in contrast to hybrid analog/digital networks of cellular competitors, which do not support these features in the analog-only portion of their networks. Nevertheless, our ability to provide roaming services will be more limited than that of carriers whose subscribers use wireless handsets that can operate on both analog and digital cellular networks and who have roaming agreements covering larger parts of the country. As the Nextel Digital Wireless Network has continued to expand to cover a greater geographic area, this disadvantage has been reduced, but we anticipate that the Nextel Digital Wireless Network may never cover the same geographic areas as other mobile telephone services. In addition, other two-way radio dispatch services offered by personal communication services providers or cellular operators, including Verizon Wireless push to talk service, Sprint s ReadyLink and Alltel s Touch2Talk, could impair our competitive advantage of being uniquely able to combine that service with our mobile telephone service. However, Direct Connect has been available for over 11 years and is a proven technology.

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

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

During the transition to digital technology, certain participants in the U.S. cellular industry offer handsets with dual mode analog and digital compatibility. Additionally, certain analog cellular system operators that are also directly or through their affiliates constructing and operating digital PCS systems

Table of Contents

have made available to their customers dual mode/dual band 800 MHz cellular/1900 MHz PCS handsets, to combine the enhanced feature set available on digital PCS systems within their digital service coverage areas with the broader wireless coverage area available on their analog cellular network. We do not have comparable hybrid handsets available to our customers. We can give no assurances that potential customers will be willing to accept system coverage limitations as a trade-off for the enhanced multi-function wireless communications package we plan to provide on our portion of the Nextel Digital Wireless Network.

Over the past several years, as the number of wireless communications providers in our market areas have increased, the prices of such providers wireless service offerings to customers in those markets have generally been decreasing. We may encounter market pressures to reduce our service offering prices or to restructure our service offering packages to respond to particular short-term, market-specific situations, such as special introductory pricing or packages that may be offered by new providers launching their service in a market, or to remain competitive in the event that wireless service providers generally continue to reduce the prices charged to their customers, particularly as PCS operators enter the smaller markets that we serve.

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

The FCC mandated that wireless carriers provide for local number portability (LNP) by November 24, 2003 in the top 100 metropolitan statistical areas (MSAs) in the United States. In addition, wireless carriers in areas outside the top 100 MSAs were required to port a telephone number on request within six months, or by May 24, 2004, whichever was later. LNP allows subscribers to keep their wireless phone number when switching to a different service provider. We implemented LNP in our markets that are within the top 100 MSAs in the United States that were required to be completed by November 24, 2003 and implemented LNP in our remaining markets by the May 24, 2004 deadline. To date, we have not experienced an increase in churn, or the rate at which our customers leave our service and obtain service from a competitive carrier. However, number portability could increase churn. We may be required to subsidize product upgrades and/or reduce pricing to match competitors initiatives and retain customers, which could adversely impact our revenue and profitability. Since the launch, the wireless industry has continued to work to improve its ability to support number portability.

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

We may also face new competition from licensees of new spectrum made available for mobile communications by the FCC. In July 2004, the FCC changed the rules and policies governing the Multipoint Distribution Service (MDS) and the Instructional Television Fixed Service (ITFS) in the 2500-2690 MHz band by providing licensees with greater flexibility and establishing a more functional

Table of Contents

band plan. As one part of this action, the FCC renamed the MDS service the Broadband Radio Service (BRS) and renamed the ITFS service the Educational Broadband Service (EBS). Importantly, the FCC created a new band plan for the 2495-2690 MHz band that eliminated the use of interleaved channels by MDS and ITFS licensees and created distinct band segments for high power operations, such as one-way video transmission, and low power operations, such as two-way fixed and mobile broadband applications. By grouping high and low power users into separate portions of the band, the new band plan reduces the likelihood of interference caused by incompatible uses and creates incentives for the development of low-power, cellularized broadband operations, which were inhibited by the prior band plan.

In February 2005, the FCC also issued rules for mobile satellite service (MSS) providers to add ancillary terrestrial components (ATC) to their service offerings. MSS operators could develop ATC offerings that would better enable them to compete with terrestrial mobile communications services like ESMR. Two MSS operators Mobile Satellite Ventures (MSV) in May 2005 and Globalstar in January 2006 have been authorized to offer ATC. At least two other MSS operators Inmarsat and New ICO have filed applications for ATC authorization. In addition, in December 2005, the FCC increased the spectrum holdings of the existing 2 GHz MSS licensees New ICO and TMI (an affiliate of MSV) by reassigning to them 2 GHz spectrum that was surrendered by previous MSS licensees such that each of them now have 20 GHz of spectrum in that band.

Since it received auction authority, the FCC has held more than 60 spectrum auctions. Generally, the auctions do not involve spectrum used to compete with our services. During 2004, the FCC held an auction of SMR spectrum in the 896-901 MHz and 935-940 MHz bands in various major trading areas (MTAs) throughout the United States. During 2005, the FCC held an auction of 234 broadband PCS spectrum licenses in the 1800 MHz and 1900 MHz bands in various basic trading areas (BTAs) throughout the United States. This auction included spectrum returned to the Commission through its settlements in bankruptcy litigation, including the settlement with NextWave Communications, Inc. and other license cancellations. In addition, the FCC has authorized a consortium of communications companies to provide nationwide mobile satellite services, which may compete with traditional mobile wireless services. Additionally, the FCC has reallocated frequencies in the 700 MHz band of the former analog television channels 52-69 to commercial services. The FCC auctioned some of this spectrum during 2002, and completed additional auctions of this spectrum in June 2003 and July 2005. It is possible that this spectrum will be used to offer services that are competitive with our service. In addition, the FCC will continue to auction spectrum in the future, and we cannot predict how these frequencies will be used, the technologies that will develop or what impact, if any, they will have on our ability to compete for wireless communications services customers.

On January 31, 2006, the FCC announced the auction of Advanced Wireless Services (third-generation, or 3G services) licenses in the 1710-1755 MHz and 2110-2155 MHz bands. The competitive bidding for Advance Wireless Services licenses is scheduled to commence on June 29, 2006.

It is impossible to predict the outcome or timeframe for FCC action on these matters. However, the outcome of these proceedings will likely affect the ability of all carriers, including us, to obtain additional spectrum to be used in offering both traditional and advanced wireless services.

Public Safety Spectrum Realignment. Our iDEN technology allows us to use scattered, non-contiguous spectrum frequencies in the 800 MHz band. Under the licensing scheme for SMR spectrum developed by the FCC during the 1970s, we occupy spectrum that is intermixed and adjacent to that used by other SMR licenses for commercial, business and industrial/land transportation, and for public safety users in the 800 MHz band. Different types of SMR licensees successfully coexisted for many years, but changes over the past few years to the network architecture necessary to support commercial digital technology have created isolated, intermittent situations where commercial and non-commercial licensees experience system interference. In particular, older analog networks used by public safety entities are experiencing system problems that have been traced to the digital operations of nearby commercial SMR and cellular licensees, even though all licensees are operating within the authorized parameters of their licenses and in compliance with FCC rules. Because the public safety interference issue is directly linked

Table of Contents

to the current SMR license allocations for public safety and commercial users, the FCC instituted a rulemaking proceeding, in response to a proposal filed by Nextel on November 21, 2001, that considered elimination of interference and more efficient use of spectrum by all parties through the realignment of spectrum licenses and spectrum allocations in the 800 MHz bands. This proceeding is referred to as the 800 MHz Rebanding Proceeding.

On August 6, 2004, the FCC released a Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order in the 800 MHz Rebanding Proceeding. On December 22, 2004, the FCC released a Supplemental Order and Order on Reconsideration in the same proceeding. On October 5, 2005, the FCC released another Memorandum Opinion and Order clarifying its 800 MHz rebanding rules in response to petitions for reconsideration, declaratory ruling and wavier filed by various parties. These three orders are referred to as the 800 MHz Order, 800 MHz Supplemental Order, and 800 MHz Further Reconsideration Order, respectively, and are collectively referred to as the Orders. The Orders seek to reallocate spectrum in the 800 MHz band to provide public safety with a contiguous block of spectrum free from interference from other 800 MHz licensees. As part of the reallocation, the FCC has ordered Nextel to relinquish certain 700 MHz spectrum as well as all of its 800 MHz holdings below the 817/862 frequencies and to relocate certain of its systems to the portion of the 800 MHz band in the range of 817/862 to 824/869 (the ESMR Band). As part of the relocation, all other 800 MHz licensees will be required to relinquish certain 800 MHz holdings and to relocate their operations to new spectrum assignments. The Orders require Nextel to pay the full cost of relocation of all 800 MHz band public safety systems and other 800 MHz band incumbents to their new spectrum assignments with comparable frequencies.

In exchange for Nextel s surrendered spectrum rights and its financial responsibilities for 800 MHz relocation, the Orders assign Nextel nationwide authority to operate in the 1910/1915 MHz and 1990/1995 MHz bands (the 1.9 GHz Spectrum). Nextel must reimburse certain incumbent entities using the 1.9 GHz Spectrum for costs of clearing spectrum in and around those bands. In addition, in the event that the value of the 1.9 GHz Spectrum exceeds the value of the spectrum rights relinquished by Nextel plus the 800 MHz relocation and 1.9 GHz Spectrum clearing costs Nextel is obligated to pay, Nextel may be required to make an additional windfall avoidance payment to the U.S. Treasury.

The Orders require Nextel to obtain from Nextel Partners and submit to the FCC a Letter of Cooperation binding Nextel Partners to the obligations imposed on Nextel to the extent such obligations are necessary or desirable in the completion of reconfiguration of the 800 MHz band. Nextel Partners has supported Nextel s efforts with respect to the 800 MHz Rebanding Proceeding based on the understanding that Nextel would bear the costs associated with any spectrum relinquishment and relocation requirements ultimately placed on Nextel Partners, that Nextel would ensure that Nextel Partners is made whole with respect to any spectrum contributions made by Nextel Partners as part of the rebanding effort, and that the parties would otherwise cooperate in good faith to accomplish the requirements of the Orders in a manner that is mutually beneficial to both parties and without material disruption to either party s operations, rights or responsibilities under their respective operating agreements. We signed an agreement with Nextel dated March 7, 2005 that sets forth our respective rights and obligations with respect to the efforts needed to accomplish the requirements of the 800 MHz Rebanding Proceeding and we filed with the FCC the required Letter of Cooperation on March 7, 2005. We do not expect our cooperation with Nextel as part of the 800 MHz Rebanding Proceeding to materially disrupt our operations and we anticipate that upon completion of the rebanding efforts we would have essentially the same amount of spectrum as we hold currently and most of that spectrum will be in a contiguous block in the ESMR Band. We anticipate that the rebanding effort will take up to three years and potentially longer to be completed.

The Orders are subject to a petition for judicial review filed by Mobile Relay Services, Inc., an SMR provider affected by the rebanding process. Another SMR provider, Preferred Communications, Inc., has also indicated an intention to file a petition for judicial review, although its request for a stay of the Orders was denied by the FCC on January 30, 2006. We cannot be sure that a Court of Appeal will not overturn

Table of Contents

the Orders and, if this were to occur, we cannot be certain that the FCC would not take action adverse to us.

Regulation

Federal Regulation

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

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

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

- the smaller portion of the radio spectrum allocated to SMR;
- the assignment of SMR frequencies on a non-contiguous basis;
- regulations and procedures that initially served to spread ownership of SMR licenses among a large number of operators in each market, further limiting the amount of SMR spectrum available to any particular operator; and
- older SMR technology, which employed analog transmission and a single site, high-power transmitter configuration, precluding the use of any given SMR frequency by more than one caller at a time within a given licensed service area.

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

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

The first EA licenses granted the licensee exclusive use of the frequencies in the EA territory. Three such licenses were issued in each EA, one for 20 channels, one for 60 channels, and one for 120 channels. To the extent that another SMR site-by-site licensee was operating in the same frequencies in the EA pursuant to another license, the EA licensee was given priority, but was also required to provide the incumbent site-by-site licensee with alternative spectrum and to compensate the incumbent for the cost of changing to the other frequency. To date, nearly all of the existing incumbents in 800 MHz spectrum have

Table of Contents

been moved through voluntary agreements. We, or a Nextel subsidiary, hold all of the EA licenses from the first auction that include our frequencies, except for a small number of the 20-channel licenses in various locations where we, or a Nextel subsidiary, hold much of the same spectrum through site-by-site licenses. Most of our EA licenses are free of incumbent carriers other than Nextel. Nextel WIP has transferred to us those site-by-site licenses located in our EA territories operating at the same frequencies.

In the second and third EA auctions, Nextel acquired almost all of the EA licenses that include frequencies that we operate on a site-by-site basis. As part of our relationship with Nextel, we have entered into long-term lease agreements with Nextel covering these EA licenses and the FCC has issued authorizations to us for operations under these EA licenses. As a result, we are able to provide service throughout the EA territory on those frequencies. Unlike the previous EA auction, however, the EA licensee does not have exclusive use of the frequencies in the EA territory. Therefore, in those limited areas where another entity may have acquired the EA license at auction but where we are an incumbent licensee operating on a site-by-site basis on the same frequency, we have the right to continue to operate under the existing site-by-site authorization.

EA licenses to operate on these frequencies are issued for ten years, after which we need to apply for renewal from the FCC. Under current rules, we expect to obtain renewal of our EA licenses if we are otherwise in good standing before the FCC. In addition, all of our SMR licenses are subject to FCC build-out requirements. The FCC has modified the build-out deadlines for our pre-1997 site-by-site SMR licenses permitting us to utilize the same build-out schedules as our EA licenses. Our EA licenses must provide coverage to at least one-third of the population of the license area within three years of the initial grant and two-thirds of the population within five years. Alternatively, the build-out requirement can be met by providing substantial service to the respective market within five years of the license grant. Failure to comply with the build-out requirements for both site-by-site licenses and EA licenses may result in a cancellation of these licenses by the FCC. We hold and utilize both site-by-site licenses and EA licenses. We have met all of the applicable time and population based build-out requirements and associated filings of licenses to date or have otherwise elected to meet the requirement by satisfying the five-year substantial service option.

In 2003, the FCC, as part of its efforts to establish secondary markets in spectrum, adopted rules that allow the leasing of spectrum that is authorized for exclusive commercial operations and that otherwise facilitates spectrum transfers among licensees. Previously, the FCC did not allow spectrum leasing, although the FCC did allow licensees to enter into management agreements providing for third parties to operate spectrum under certain circumstances as long as the licensee retained control over the operations. These new spectrum leasing rules became effective on January 26, 2004. These new rules facilitate agreements whereby system operators needing additional spectrum are able to lease or otherwise gain access to that spectrum from parties holding exclusive FCC licenses for that spectrum. Pursuant to these leasing rules, we have entered into FCC-approved leasing agreements with Nextel under which we have been able to gain access to additional spectrum throughout our service territory.

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

The FCC and the Communications Act impose a number of mandates with which we must comply, and that may impose certain costs and technical challenges on our operations. For example, we must provide consumers the ability to manually roam on our network. In that regard, on August 31, 2005, the FCC initiated a proceeding to re-examine roaming obligations and to determine whether an automatic roaming requirement should be adopted. We and other wireless providers have filed comments and reply comments opposing such a requirement on both legal and policy grounds. Should the FCC adopt such a

Table of Contents

requirement or dictate the terms under which automatic roaming must be provided, such requirements could have a significant impact on our operations and may impose certain costs on us.

The FCC also has adopted requirements for commercial mobile radio service (or CMRS) providers, including covered SMR providers, to implement various enhanced 911 capabilities, including the ability to locate emergency callers and deliver that information to emergency responders. We were obligated to meet certain benchmark dates for deployment of handsets capable of providing such location information. To date, we have met all of the periodic benchmark dates established by the FCC, except for the final benchmark date of December 31, 2005, by which we were required to ensure that 95% of all subscriber handsets in service nationwide on our system can deliver location information. As a result, on October 17, 2005, we filed a Petition for Limited Waiver with the FCC seeking an additional limited period of 24 months, until December 31, 2007, to achieve 95% penetration of A-GPS handsets capable of completing Phase II calls to requesting public safety answering points (PSAPs). That Petition remains pending before the FCC. Meeting these requirements has imposed certain costs. In some states, we may not be able to recover our costs of implementing such enhanced 911 capabilities.

The FCC also requires CMRS providers to deploy LNP technology to allow customers to keep their telephone numbers when switching to another carrier. Covered SMR providers, including us, along with all other CMRS services providers, are required to offer this number portability service in all service territories. The LNP implementation requirement also includes enabling calls from our network to be delivered to telephone numbers that have been switched from one wireline carrier to another. In November 2003, the FCC issued clarification that wireline carriers must meet customer requests to port numbers to wireless carriers where the wireless carrier s geographic coverage area includes the rate center in which the wireline phone number is assigned. In order to recover our costs for implementing number portability, we have instituted a one-time charge applicable to all customers that port numbers off our system, which we believe to be in compliance with applicable FCC rules and policies. Number portability may make it easier for customers to switch among carriers.

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

The FCC has an ongoing proceeding examining methods to facilitate the development and deployment of spectrum-based services in rural areas. During 2004, as part of this effort, the FCC promulgated rule changes intended to increase the flexibility of wireless service providers to use spectrum in rural areas, and to increase access to capital for rural buildout. The FCC also instituted a further inquiry examining methods for fostering the availability of spectrum in rural areas. As part of this inquiry, the FCC is considering whether to promulgate new keep-what-you-use re-licensing measures under which unused spectrum would revert to the FCC at the end of a license term without regard to whether applicable construction requirements have been timely satisfied. We and other wireless providers have filed comments in this proceeding opposing on both legal and policy grounds such a regulatory change. The outcome of this proceeding cannot be predicted, and if the FCC adopts such a change applicable to our existing spectrum licenses, we could be subject to increased costs or potential loss of a portion of our existing spectrum rights.

The FCC is responsible for other rules and policies, which govern the operations over the SMR spectrum necessary for the offering of our services. This includes the terms under which CMRS providers interconnect their networks and the networks of wireline and other wireless providers of interstate communications services. The FCC also has the authority to adjudicate, among other matters, complaints filed under the Communications Act with respect to service providers subject to its jurisdiction. Under its broad oversight authority with respect to market entry and the promotion of a competitive marketplace for wireless providers, the FCC regularly conducts rulemaking and other types of proceedings to determine

Table of Contents

rules and policies that could affect SMR operations, and the CMRS industry generally. These rules and policies are applicable to our operations and we could face fines or other sanctions if we do not comply.

The FCC imposes a number of obligations for local exchange carriers to interconnect their network to other carriers networks that affect wireless service providers. Established local exchange carriers must provide for co-location of equipment necessary for interconnection, as well as any technically feasible method of interconnection requested by a CMRS provider. In addition, local exchange carriers and CMRS providers are obligated to negotiate with each other upon request to establish rates and terms governing the exchange of telecommunications between the parties networks. If negotiations between an incumbent local exchange carrier and a CMRS provider are not successful, either party can ask the relevant state public utilities commission to establish terms and cost-based rates in a binding arbitration proceeding. These negotiations, and the outcome of state public utilities commission arbitration proceedings, may significantly affect the charges we pay to other carriers and receive from other carriers.

For several years, the FCC has considered amending its rules regarding the compensation that carriers must pay each other for both the transmission of local and non-local calls. In February 2005, the FCC adopted a Further Notice of Proposed Rulemaking that seeks comment on seven comprehensive proposals for reforming the intercarrier compensation system. This proceeding is still ongoing. The outcome of this proceeding may significantly affect the charges we pay to other carriers and the compensation we receive for these services. We filed comments and reply comments recommending that the FCC eliminate payments between carriers so that carriers would recover their costs from their own customers. Other carriers have made recommendations regarding the rates charged, the scope of compensation obligations and the manner in which parties interconnect their networks that, if accepted, could impose additional costs on us.

Certain incumbent local exchange carriers, or ILECs, in rural areas have attempted to impose on wireless carriers, including us, charges to terminate traffic that we send to them by filing wireless termination tariffs with state public utility commissions. These rural ILEC tariffs feature high termination rates that are not based on the rural ILECs cost of terminating the traffic we send. The rural ILECs justify termination tariffs as a legitimate means of recovering their costs for transport and termination of wireless traffic. On September 6, 2002 we, Nextel and other wireless carriers filed a petition for declaratory ruling with the FCC to have these tariffs declared unlawful. On February 24, 2005, the FCC denied this petition for declaratory ruling, finding that such tariffs were not necessarily unlawful; concurrently, the FCC adopted new rules prohibiting ILECs from filing such tariffs in the future. As a result, we may have liability for payment of previously filed tariffs that we refrained from paying during the pendency of the petition for declaratory ruling. In addition, a number of petitions for reconsideration of the FCC s order have been filed. While none of the petitions challenge the FCC s prospective prohibition on the filing of such tariffs, we cannot be certain that the FCC will not act on those petitions in a manner adverse to our interests.

In addition, the Communications Assistance for Law Enforcement Act of 1994 (or CALEA) requires all telecommunications carriers, including wireless carriers, to ensure that their equipment is capable of permitting the government, pursuant to a court order or other lawful authorization, to intercept any wire and electronic communications carried by the carrier to or from its subscribers. We have timely complied with implementation deadlines for our interconnected voice network and our digital dispatch network.

Wireless networks are also subject to certain FCC and Federal Aviation Administration (FAA) regulations regarding the relocation, lighting and construction of transmitter towers and antennas and are subject to regulation under the National Environmental Policy Act, the National Historic Preservation Act, and various environmental regulations. Compliance with these provisions could impose additional direct and/or indirect costs on us and other licensees. The FCC s rules require antenna structure owners to notify the FAA of structures that may require marking or lighting, and there are specific restrictions applicable to antennas placed near airports. In addition to our SMR licenses, we may also utilize other carriers facilities to connect base radio sites and to link them to their respective main switching offices. These facilities may

Table of Contents

be separately licensed by the FCC and may be subject to regulation as to technical parameters, service, and transfer or assignment.

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

Monies from the federal Universal Service Fund are used in part to provide several types of cost support to common carriers providing qualified services in high cost, rural and insular areas. Carriers entitled to receive support payments are termed Eligible Telecommunications Carriers or ETCs. In addition to the incumbent local exchange wireline carriers operating in high cost, rural and insular areas, the Communications Act and the FCC s implementing regulations allow in certain circumstances the designation of other competitive carriers, including wireless carriers like us, as ETCs for our qualified coverage areas in a given state jurisdiction. Determinations as to whether to grant ETC status are made in response to detailed petitions and showings on a state-by-state basis, either by a state regulatory commission, or, if the state declines jurisdiction, by the FCC. Pursuant to petitions filed by us during the past two years, we have been granted ETC designation in 15 of the states in which we operate. Several rural incumbent local exchange carriers are currently seeking FCC review of our ETC designations in seven of these states, and we cannot predict the outcome of that proceeding. We may file additional petitions in the future seeking new designations or to expand existing designations to cover additional service territory. Under current rules, we are entitled to receive the same universal service support payments (on a per-line basis) received by the incumbent wireline carrier in a given study area or wire center covered by our service. We are required by law to use the universal service support funds we receive within a given state for the provision, maintenance and upgrading of facilities and services for which the funds are earmarked under law. The precise terms and conditions applicable to universal service support payments to incumbent and competitive carriers are subject to change, and are being considered in an ongoing proceeding before the Joint Board on Universal Service.

In February 2005, the FCC adopted new rules, applicable to ETCs designated by the FCC, that changed the standards for designation of ETCs and imposed new ongoing regulatory obligations that must be met in order to maintain ETC status and receive universal service support payments. Similar, and in some cases identical, standards and requirements have been adopted by many states. These regulatory requirements include an obligation to provide annually a multi-year (up to 5 years) service improvement plan, progress updates on service improvements that have been completed, and certifications regarding our compliance with certain service provisioning and consumer protection standards. These new rules may impose some additional costs on us, and if the FCC or a state public utilities commission determines that we have not met the requirements that have been imposed, that could lead to the loss of some universal service fund payments that we currently receive. Several petitions for reconsideration, including one by us, have been filed in this proceeding. The petitions for reconsideration are still pending before the FCC.

The Communications Act also requires all telecommunications carriers, including SMR licensees, to ensure that their services are accessible to and useable by persons with disabilities, if readily achievable. Compliance with these provisions, and the regulations promulgated thereunder, could impose additional direct and/or indirect costs on us and other licensees. In August 2003, the FCC modified the statutory exemption of mobile telephones from hearing aid compatibility in its rules promulgated under the Hearing Aid Compatibility Act, and the FCC s rules now require that each digital wireless provider must offer at least two phones that are capable of being effectively used with hearing aids. In addition, there is a 2008 deadline requiring that half of all handsets offered to customers are hearing aid compliant. We are

Table of Contents

required to make periodic progress reports to the FCC and have met all applicable deadlines for hearing aid compatible handset deployment. These requirements may result in additional costs to us and other licensed mobile phone service providers.

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

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

Under the Communications Act, state and local authorities maintain authority over the zoning of sites where our antennas are located. These authorities, however, may not legally discriminate against or prohibit our services through their use of zoning authority. Therefore, while we may need approvals for particular sites or may not be able to choose the exact location for our sites we do not foresee significant problems in placing our antennas at sites in our territory.

In addition, a number of states and localities are considering banning or restricting the use of wireless phones while driving a motor vehicle. In 2001, New York enacted a statewide ban on driving while holding a wireless phone. Connecticut, New Jersey and the District of Columbia have enacted similar measures. Several states have also enacted partial bans for certain classes of drivers. Comparable legislation is pending in other states. A handful of localities also have enacted ordinances banning or restricting the use of handheld wireless phones by drivers. Should this become a nationwide initiative, all wireless carriers could experience a decline in the number of minutes of use by subscribers.

Employees

As of December 31, 2005, we had 2,905 employees. None of our employees is represented by a labor union or subject to a collective bargaining agreement, nor have we experienced any work stoppage due to labor disputes. We believe that our relations with our employees are good.

Available Information

Our Internet address is *www.NextelPartners.com.* We make available free of charge, on or through our Internet website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission (the SEC). The information found on or through our website is not part of this or any other report we file with or furnish to the SEC.

Table of Contents

Executive Officers of the Registrant

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

Name	Age	Position
John Chapple	52	President, Chief Executive Officer and Chairman of the Board
Barry Rowan	49	Executive Vice President, Chief Financial Officer
David Aas	52	Vice President, Chief Technology Officer
Donald Manning	45	Vice President, General Counsel and Secretary
James Ryder	36	Vice President, Chief Operating Officer
Philip Gaske	47	Vice President, Customer Care

John Chapple worked to organize Nextel Partners throughout 1998 and has been the president, chief executive officer and chairman of the board of directors of Nextel Partners and our subsidiaries since August 1998. Mr. Chapple was elected to the board of directors pursuant to the terms of the amended and restated shareholders agreement. Mr. Chapple, a graduate of Syracuse University and Harvard University s Advanced Management Program, has 22 years of experience in the wireless communications and cable television industries. From 1978 to 1983, he served on the senior management team of Rogers Cablesystems before moving to American Cablesystems as senior vice president of operations from 1983 to 1988. From 1988 to 1995, he served as executive vice president of operations for McCaw Cellular Communications and subsequently AT&T Wireless Services following the merger of those companies. From 1995 to 1997, Mr. Chapple was the president and chief operating officer for Orca Bay Sports and Entertainment in Vancouver, B.C. During Mr. Chapple s tenure, Orca Bay owned and operated Vancouver s National Basketball Association and National Hockey League sports franchises in addition to the General Motors Place sports arena and retail interests. Mr. Chapple is the past chairman of Cellular One Group and the Personal Communications Industry Association, past vice-chairman of the Cellular Telecommunications & Internet Association and has been on the Board of Governors of the NHL and NBA. Mr. Chapple currently serves on the Fred Hutchinson Cancer Research Business Alliance board of governors, the Syracuse University board of trustees and the Advisory Board for the Maxwell School of Syracuse University. He is also on the board of directors of two private companies: Cbeyond Communications, Inc., a private VOIP (voice over internet protocol) company, and SeaMobile, Inc., a provider of wireless voice and data communications at sea.

Barry Rowan became executive vice president and chief financial officer of Nextel Partners and our subsidiaries in August 2005. Mr. Rowan joined Nextel Partners in 2003 as vice president and chief financial officer, and from 2003 to 2004 he also served as the company s treasurer. He has approximately 24 years of financial and operational experience in building technology and communications companies. Mr. Rowan earned his M.B.A. from Harvard Business School and his B.S., *summa cum laude*, in business administration and chemical biology from The College of Idaho. In 1992 he joined Fluke Corporation as vice president and chief financial officer. In 1995, he became vice president and general manager of the verification tools division, and in 1996, he became senior vice president and general manager of the networks division, a position he held until January 1999. From 1999 to 2001 Mr. Rowan was the chief financial officer at Velocom, Inc., during which time he served as chief executive officer of Vesper, the company s Brazilian subsidiary, for a period of six months. From 2002 to 2003, he was a principal at Rowan & Company, LLC. Mr. Rowan serves on the board of trustees of Seattle Pacific University and Bellevue Christian School.

David Aas has been the vice president and chief technology officer of Nextel Partners and our subsidiaries since August 1998. Prior to joining Nextel Partners, Mr. Aas served as vice president of engineering and operations of AT&T Wireless s Messaging Division. Mr. Aas has over 22 years of experience in the wireless industry and has held a number of senior technical management positions, including positions with Airsignal from 1977 to 1981, MCI from 1981 to 1986, and MobileComm from

Table of Contents

1986 to 1989. From 1989 to August 1998, he was with AT&T Wireless, where he led the design, development, construction and operation of AT&T Wireless s national messaging network.

Donald Manning has been the vice president, general counsel and secretary of Nextel Partners and our subsidiaries since August 1998. From July 1996 to July 1998, he served as regional attorney for the Western Region of AT&T Wireless Services, an 11-state business unit generating over $400 million in revenues annually. Prior to joining AT&T Wireless Services, from September 1989 to July 1998, Mr. Manning was an attorney with Heller Ehrman White & McAuliffe specializing in corporate and commercial litigation. From September 1985 to September 1989, he was an attorney with the Atlanta-based firm of Long, Aldridge & Norman.

James Ryder has been the vice president and chief operating officer for Nextel Partners and our subsidiaries since April 2005. Prior to this position, Mr. Ryder served as the vice president sales and marketing of Nextel Partners and our subsidiaries since July 2004. Previously he served as our director of sales since October 2001. He has approximately 10 years of wireless industry experience. Before joining Nextel Partners in 2000, he spent six years with Metrocall Paging, Inc., where he was most recently director of sales.

Philip Gaske has been the vice president customer care for Nextel Partners and our subsidiaries since July 2004. Previously he served as our director of customer care, leading our customer service team since the company s founding and strengthening our focus on striving for 100% customer satisfaction. He has more than 22 years of management and operations experience. Prior to joining Nextel Partners, he served as vice president of customer operations for the California/ Nevada Region for McCaw Communications and director of business operations integration for AT&T Wireless. Mr. Gaske has a bachelor s degree in marketing from the University of Maryland and an MBA in Finance from George Washington University.

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

Forward-Looking Statements

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

This report contains forward-looking statements. They can be identified by the use of forward-looking words such as believes, expects, plans, may, will, would, could, should or anticipates or other comparable words discussions of strategy, plans or goals that involve risks and uncertainties that could cause actual results to differ materially from those currently anticipated. You are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those set forth below in Item 1A, Risk Factors. Forward-looking statements include, but are not limited to, statements with respect to the following:

- our business plan, its advantages and our strategy for implementing our plan;
- the success of efforts to improve and enhance, and satisfactorily address any issues relating to, our network performance;
- the characteristics of the geographic areas and occupational markets that we are targeting in our portion of the Nextel Digital Wireless Network;
- our ability to attract and retain customers;
- our anticipated capital expenditures, funding requirements and contractual obligations, including our ability to access sufficient debt or equity capital to meet operating and financing needs;

Table of Contents

the availability of adequate quantities of system infrastructure and subscriber equipment and components to meet our service deployment, marketing plans and customer demand;

no significant adverse change in Motorola s ability or willingness to provide handsets and related equipment and software applications or to develop new technologies or features for us, or in our relationship with it;

our ability to achieve and maintain market penetration and average subscriber revenue levels;

our ability to successfully scale, in some circumstances in conjunction with third parties under our outsourcing arrangements, our billing, collection, customer care and similar back-office operations to keep pace with customer growth, increased system usage rates and growth in levels of accounts receivables being generated by our customers;

the development and availability of new handsets with expanded applications and features, including those that operate using the 6:1 voice coder, and market acceptance of such handsets and service offerings;

the availability and cost of acquiring additional spectrum;

the quality and price of similar or comparable wireless communications services offered or to be offered by our competitors, including providers of PCS and cellular services including, for example, two-way walkie- talkie services that have been introduced by several of our competitors;

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

the potential impact on us of the reconfiguration of the 800 MHz band required by the Orders;

delivery and successful implementation of any new technologies deployed in connection with any future enhanced iDEN or next generation or other advanced services we may offer;

the costs of compliance with regulatory mandates, particularly the requirement to deploy location-based 911 capabilities and wireless number portability; and

the anticipated closing of the acquisition of our shares of Class A common stock by Sprint Nextel.

Item 1A. ***Risk Factors***

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

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

Our business plan depends, in part, on Sprint Nextel continuing to build and sustain customer support of the Nextel brand and the Motorola iDEN technology. If Sprint Nextel encounters financial problems or operating difficulties relating to its portion of the Nextel Digital Wireless Network or experiences a significant decline in customer acceptance of its products or the Motorola iDEN technology or otherwise ceases to support the Motorola iDEN technology, the iDEN network or the Nextel brand, our affiliation with and dependence on Sprint Nextel may adversely affect our business, including the quality of our services, the ability of our customers to roam within the entire network and our ability to attract and retain customers. Additional information regarding Sprint Nextel, its domestic digital mobile network business and the risks associated with that business can be found in Sprint Nextel s

Annual Report on Form 10-K for the year ended December 31, 2005, as well as their other filings made under the Securities Act of 1933, as amended (the Securities Act), and the Exchange Act (SEC file number 1-04721).

Table of Contents

Nextel WIP is obligated to purchase all of our outstanding Class A common stock as a result of the Sprint Nextel transaction.

On December 20, 2005, we entered into a letter agreement with Nextel WIP, Nextel and Sprint Nextel Corporation (collectively, the Sprint Parties). The letter agreement acknowledges that pursuant to the written reports of the First Appraiser and the Second Appraiser (as such terms are defined in our charter), our Fair Market Value (as defined in our charter) for purposes of the put right described in the charter is $9,167,571,573, which results in a price per share of our Class A common stock of $28.50. Each of the Sprint Parties agrees to complete the put transaction for cash. Each party agrees to use its reasonable best efforts to promptly consummate the put transaction and to obtain the necessary regulatory approvals to consummate the put transaction as promptly as practicable. We also agreed, among other things, to use commercially reasonable efforts to conduct business in the ordinary course of business and in a manner consistent with prior practice, and to restrictions with specified exceptions on changes in our capitalization and employee benefit arrangements. **The completion of the acquisition is subject to customary regulatory approvals including the approval of the FCC. If the FCC fails to approve the transfer of control of our licenses to Sprint Nextel or substantially delays its approval, our ability to successfully operate our business could be impaired.**

Our highly leveraged capital structure and other factors could limit both our ability to obtain additional financing and our growth opportunities and could adversely affect our business in several other ways.

The total non-current portion of our outstanding debt, including capital lease obligations, was approximately $1.2 billion as of December 31, 2005 and greatly exceeds the level of our stockholders equity. As of December 31, 2005, the non-current portion of total long-term debt outstanding included $550.0 million outstanding under our credit facility, $188.3 million of outstanding 1 1/2% convertible senior notes due 2008, $474.6 million of outstanding 8 1/2% senior notes due 2011, and $13.7 million of capital lease obligations. In aggregate, this indebtedness represented approximately 60% of our total book capitalization at that date.

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

- it limits our ability to obtain additional financing, if needed, to implement any enhancement of our portion of the Nextel Digital Wireless Network, including any enhanced iDEN services, to expand wireless voice capacity, enhanced data services or potential next-generation mobile wireless services, to cover our cash flow deficit or for working capital, other capital expenditures, debt service requirements or other purposes;

- it will require us to dedicate a substantial portion of our operating cash flow to fund interest expense on our credit facility and other indebtedness, reducing funds available for our operations or other purposes;

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

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

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations and anticipated cost savings and operating improvements, we believe our cash flow from operations, available cash and available borrowings under our credit facility will be adequate for the foreseeable future to meet our estimated capital requirements to build out and maintain our portion of the Nextel Digital Wireless Network using the current 800 MHz iDEN system.

Table of Contents

We cannot be sure, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to pay our indebtedness and our obligations under our credit facility or our existing convertible senior notes and senior notes, or to fund our other liquidity needs. In addition, if our indebtedness cannot be repaid at maturity or refinanced, we will not be able to meet our obligations under our debt agreements, which could result in the cessation of our business.

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

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

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

We did not commence commercial operations until January 29, 1999, and the portion of the Nextel Digital Wireless Network we began operating on that date only had a few months of operating history. Since then, we have had a history of operating losses, and, as of December 31, 2005, we had an accumulated deficit of approximately $545.5 million. Fiscal year 2004 was the first year that we achieved positive net income for the full year. We may incur operating losses in the future. We cannot assure you that we will sustain profitability in the future. If we fail to achieve significant and sustained growth in our revenues and earnings from operations, we will not have sufficient cash to fund our current operations, sustain the continued growth of our business or repay our debt obligations. 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.

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

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

incur additional debt;

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

create liens on assets;

make investments, loans or advances;

issue or sell capital stock of certain of our subsidiaries;

enter into transactions with affiliates; or

engage in any business other than telecommunications.

In addition, our credit facility imposes financial covenants that require our principal subsidiary to comply with specified financial ratios and tests, including minimum interest coverage ratios, maximum

Table of Contents

leverage ratios and minimum fixed charge coverage ratios. We cannot assure you that we will be able to meet these requirements or satisfy these covenants in the future, and if we fail to do so, our debts could become immediately payable at a time when we are unable to pay them, which would adversely affect our ability to carry out our business plan and would have a negative impact on our financial condition.

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, or if Sprint Nextel abandons, sells or otherwise decreases or eliminates its support of the Nextel Digital Wireless Network and the iDEN technology, 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 Wireless Network. If we are unable to address and satisfactorily resolve performance or other transmission quality issues as they arise, including transmission quality issues on Sprint Nextel s portion of the Nextel Digital Wireless Network, we may have difficulty attracting and retaining customers, which would adversely affect our revenues.

As personal communication services and cellular operators, such as Verizon Wireless, Cingular and Alltel, begin to offer two-way radio dispatch services, our historical competitive advantage of being uniquely able to combine that service with our mobile telephone service may be impaired. Further, some of our competitors have attempted to compete with Direct Connect by offering unlimited mobile-to-mobile calling plan features and reduced rate calling plan features for designated 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.

Because the Nextel Digital Wireless Network does not currently provide roaming or similar coverage on a nationwide basis that is as extensive as is available through most cellular and personal communication services providers, we may not be able to compete effectively against those providers.

In addition, some of our competitors provide their customers with handsets with both digital and analog capability, which expands their coverage, while we have only digital capability. We cannot be sure that we, either alone or together with Sprint 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.

We do not have the extensive direct and indirect channels of products and services distribution that are available to some of our competitors. The lack of these distribution channels could adversely affect our operating results. Although we have expanded our distribution channels to include retail locations, we cannot assure you that these distribution channels will be successful. Moreover, many of our competitors have established extensive networks of retail locations, including locations dedicated solely to their products, and multiple distribution channels and, therefore, have access to more potential customers than we do.

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

Table of Contents

The wireless telecommunications industry is experiencing significant technological change. Our digital technology could become obsolete or it may not be a suitable platform for the implementation of new and emerging technologies and service offerings. 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 could result in the following: 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 otherwise adversely affect market acceptance of our services.

We offer our subscribers access to digital two-way mobile data and Internet connectivity under the brand name Nextel Online. 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 revenues. Because we have less spectrum than some of our competitors, and because we have elected to defer the implementation of next-generation services, any digital two-way mobile data and Internet connectivity services that we may offer could be significantly limited compared to those services offered by other wireless communications providers with larger spectrum positions. The success of these new services will be jeopardized if: we are unable to offer these new services profitably; these new service offerings adversely impact the performance or reliability of the Nextel Digital Wireless Network; we, Sprint 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.

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 wireless network service offering prices; restructure our digital wireless network service offering packages to offer more value; or respond to particular short-term, market-specific situations, for example, special introductory pricing or packages that may be offered by new providers launching their services in a particular market. A reduction in our pricing would likely have an adverse effect on our revenues and operating results.

Because of the numerous features we offer and the fact that Motorola is our sole source of handsets (with the exception of our Blackberry handsets, which are available only from RIM), our mobile handsets are, and are likely to remain, significantly more expensive than mobile analog telephones and are, and are likely to remain, somewhat more expensive than digital cellular or personal communication services telephones that do not incorporate a comparable multi-function capability. The higher cost of our equipment may make it more difficult or less profitable to attract customers who do not place a high value on our multi-service offering. This may reduce our growth opportunities or profitability.

Consolidation has and may continue to result in additional large, well-capitalized competitors with substantial financial, technical, marketing and other resources. For example, the acquisition of AT&T Wireless by Cingular Wireless, which closed in October 2004, created the largest wireless phone provider in the United States, with significantly more resources and a larger customer base than we or any other competing company. In addition, in August 2005, Sprint acquired Nextel and Alltel Communications acquired regional wireless service provider Western Wireless. Late in 2005, Alltel announced the acquisition of Midwest Wireless, a cellular and PCS licensee. This concentration of resources in the marketplace could result in increased cost efficiency for the acquiring companies, allowing them to obtain more favorable terms from their suppliers, which could enable them to discount their handsets or services to customers.

Table of Contents

Any failure to effectively integrate our portion of the Nextel Digital Wireless Network with Sprint Nextel s portion would have an adverse effect on our results of operations.

Pursuant to our operating agreements with Nextel WIP, Nextel WIP provides us with important services and assistance, including a license to use the Nextel brand name and the sharing of switches that direct calls to their destinations. Any interruption in the provision of these services, or any failure by Sprint Nextel to continue to provide the level of support consistent with past practices between us and Nextel prior to the merger of Nextel and Sprint, could delay or prevent the continued seamless operation of our portion of the Nextel Digital Wireless Network with Sprint Nextel s portion, which is essential to the overall success of our business.

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

Difficulties in operating our portion of the Nextel Digital Wireless Network could increase the costs of operating the network, which would adversely affect our ability to generate revenues.

The continued operation of our portion of the Nextel Digital Wireless Network involves certain risks. Before we are able to build additional cell sites in our markets to expand coverage, fill in gaps in coverage or increase capacity, we will need to:

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

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

build out the physical infrastructure;

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

test the cell site.

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

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

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

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

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

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

Before fully implementing our portion of the Nextel Digital Wireless 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

Table of Contents

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 Wireless Network on a timely basis may adversely affect our ability to provide the quality of services in our markets consistent with our current business plan, and any significant delays could have a material adverse effect on our business.

If we do not offer services that Nextel WIP requires us to offer or we fail to meet performance standards, we risk termination of our agreements with Nextel WIP, which would eliminate our ability to carry out our current business plan and strategy.

Our operating agreements with Nextel WIP require us to construct and operate our portion of the Nextel Digital Wireless Network in accordance with specific standards and to offer certain services by Nextel and its domestic subsidiaries. Our failure to satisfy these obligations could constitute a default under the operating agreements that would give Nextel WIP the right to terminate these agreements and would terminate our right to use the Nextel brand. The non-renewal or termination of the Nextel WIP operating agreements would eliminate our ability to carry out our current business plan and strategy and adversely affect our financial condition.

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

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

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

The Nextel Digital Wireless 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, Sprint Nextel and Southern LINC are currently the only major U.S. wireless service providers utilizing iDEN technology on a nationwide basis, and iDEN handsets 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 technologies that may perform better or may be available at a lower cost without Nextel WIP s consent.

Future technological advancements may enable other wireless technologies to equal or exceed our current levels of service and render iDEN technology obsolete. If Motorola is unable to upgrade or improve iDEN technology or develop other technology to meet future advances in competing technologies on a timely basis, or at an acceptable cost, because of the restrictive provisions in our operating agreements with Nextel WIP, we will be less able to compete effectively and could lose customers to our competitors, all of which would have an adverse effect on our business and financial condition. Moreover, if Sprint Nextel migrates its customers and network to a CDMA platform or otherwise concentrates its capital resources on its CDMA operations and not its iDEN operations, we will be less able to compete effectively and could lose our customers to competitors.

Table of Contents

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 handset equipment used by our customers (with the exception of our Blackberry handsets, which are available only from RIM), and we rely, and expect to continue to rely, on Motorola to manufacture a substantial portion of the equipment necessary to construct our share of the Nextel Digital Wireless Network. We expect that for the next few years, Motorola will be the only manufacturer of wireless handsets, other than RIM, that are compatible with the Nextel Digital Wireless 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. If these or other factors affecting our relationship with Motorola were to result in a significant adverse change in Motorola s ability or willingness to provide handsets and related equipment and software applications, or to develop new technologies or features for us, or in Motorola s ability or willingness to do so on a timely, cost-effective basis, we may not be able to adequately service our existing subscribers or add new subscribers and may not be able to offer competitive services. 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. For instance, we rely on Motorola to provide us with technology improvements designed to expand our wireless voice capacity and improve our services, such as the 6:1 voice coder software upgrade, and the handset-based A-GPS location technology solution necessary for us to comply with the FCC s E911 requirements. The failure by Motorola to deliver these improvements and solutions, or its inability to do so within our anticipated timeframe, could impose significant additional costs on us.

We generally have been able to obtain adequate quantities of base radios and other system infrastructure equipment from Motorola, and adequate volumes and mix of wireless telephones and related accessories from Motorola, to meet subscriber and system loading rates, but we cannot be sure that equipment quantities will be sufficient in the future. Additionally, in the event of shortages of that equipment, our agreements with Nextel WIP provide that available supplies of this equipment would be allocated proportionately between Sprint Nextel and us.

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

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

Table of Contents

deploy or are required to deploy to maintain compatibility with the technology chosen by Sprint Nextel does not gain widespread acceptance or perform as expected, or if our competitors develop next-generation technology that is more effective or economical than ours, our business would be adversely affected.

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

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

Our network may not have sufficient capacity to support our anticipated subscriber growth.

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