NEXTEL PARTNERS INC
Form 10-K
March 15, 2006

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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.

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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.

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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-

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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.

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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

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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

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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

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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.

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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

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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

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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.

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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,

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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

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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

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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

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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 are