NEXTEL PARTNERS INC
Form 10-Q
May 03, 2006

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

(Mark One)

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

For the quarterly period ended March 31, 2006

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)

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 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

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

Outstanding Title of Class	**Number of Shares on May 2, 2006**
Class A Common Stock	209,673,647 shares
Class B Common Stock	84,632,604 shares

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets

	March 31, 2006	December 31, 2005
	(Dollars in thousands, except per share amounts) (Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 195,539	$ 150,403
Short-term investments	15,199	14,624
Accounts and notes receivable, net of allowance $27,983 and $27,267, respectively	263,620	265,720
Subscriber equipment inventory	98,881	98,003
Deferred current income taxes	173,750	78,027
Prepaid expenses	25,571	18,560
Other current assets	7,318	19,529
Total current assets	779,878	644,866
PROPERTY, PLANT AND EQUIPMENT, at cost	1,817,690	1,744,633
Less accumulated depreciation and amortization	(709,771)	(665,583)
Property, plant and equipment, net	1,107,919	1,079,050
OTHER NON-CURRENT ASSETS:		
FCC licenses, net of accumulated amortization of $8,744	377,893	376,254
Deferred non-current income taxes	40,399	181,252
Debt issuance costs and other, net of accumulated amortization of $8,089 and $7,575, respectively	9,151	10,909
Goodwill	2,199	1,514
Other intangible assets, net of accumulated amortization of $35 and $22, respectively	70	83
Total non-current assets	429,712	570,012
TOTAL ASSETS	$ 2,317,509	$ 2,293,928
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 77,491	$ 84,024
Accrued expenses and other current liabilities	111,085	117,446
Due to Nextel WIP	8,521	6,962

Total current liabilities	197,097	208,432
LONG-TERM OBLIGATIONS:		
Long-term debt	1,101,396	1,226,608
Deferred income taxes	149	
Other long-term liabilities	44,108	39,691
Total long-term obligations	1,145,653	1,266,299
TOTAL LIABILITIES	1,342,750	1,474,731
COMMITMENTS AND CONTINGENCIES (See Note 7)		
STOCKHOLDERS EQUITY:		
Preferred stock, no par value, 100,000,000 shares authorized, no shares issued and outstanding		
Series B Preferred stock, par value $.001 per share, 13,110,000 shares authorized, no shares outstanding		
Common stock, Class A, par value $.001 per share, 500,000,000 shares authorized, 209,107,039 and 200,072,729 shares, respectively, issued and outstanding, and paid-in capital	1,280,554	1,190,586
Common stock, Class B, par value $.001 per share convertible, 600,000,000 shares authorized, 84,632,604 shares, issued and outstanding, and paid-in capital	172,697	172,697
Accumulated deficit	(479,426)	(545,454)
Deferred compensation		(64)
Accumulated other comprehensive income	934	1,432
Total stockholders equity	974,759	819,197
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,317,509	$ 2,293,928

See accompanying notes to consolidated condensed financial statements.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Operations

	For the Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands, except per share amounts) (Unaudited)	
REVENUES:		
Service revenues (earned from Nextel WIP $58,758 and $44,824, respectively)	$ 468,011	$ 378,858
Equipment revenues	31,158	25,226
Total revenues	499,169	404,084
OPERATING EXPENSES:		
Cost of service revenues (excludes depreciation of $37,138 and $32,499, respectively) (incurred from Nextel WIP $35,844 and $32,911; and Sprint Nextel $885 and $0, respectively)	113,918	98,626
Cost of equipment revenues	44,650	44,798
Selling, general and administrative (incurred from Nextel WIP $10,342 and $10,613 and Sprint Nextel $282 and $0, respectively)	162,649	138,299
Depreciation and amortization	44,586	40,753
Total operating expenses	365,803	322,476
INCOME FROM OPERATIONS	133,366	81,608
Interest expense, net of capitalized interest	(18,029)	(25,867)
Interest income	2,474	2,643
Loss on early retirement of debt	(81)	
INCOME BEFORE INCOME TAX PROVISION	117,730	58,384
Income tax provision	(51,702)	(1,852)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 66,028	$ 56,532
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:		
Basic	$ 0.23	$ 0.21
Diluted	$ 0.21	$ 0.19
Weighted average number of shares outstanding		
Basic	290,006,980	267,091,076
Diluted	308,890,560	308,335,492

See accompanying notes to consolidated condensed financial statements.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows

	For the Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 66,028	$ 56,532
Adjustments to reconcile net income to net cash from operating activities		
Deferred income tax provision	45,594	762
Depreciation and amortization	44,586	40,753
Amortization of debt issuance costs	514	878
Bond discount amortization	13	269
Loss on early retirement of debt	81	
Stock based compensation	4,878	127
Other, net	145	(433)
Changes in current assets and liabilities:		
Accounts and notes receivable, net	2,100	(16,839)
Subscriber equipment inventory	(878)	19,385
Other current and long-term assets	6,622	(1,052)
Accounts payable, accrued expenses and other current liabilities	(7,742)	14,952
Operating advances due to (from) Nextel WIP	(1,539)	1,880
Net cash from operating activities	160,402	117,214
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(75,735)	(69,107)
FCC licenses	(1,639)	(60)
Proceeds from maturities of short-term investments	10,465	50,430
Proceeds from sales of short-term investments		19,659
Purchases of short-term investments	(11,014)	(38,203)
Other	(772)	
Net cash from investing activities	(78,695)	(37,281)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock options exercised	12,114	20,968
Proceeds from stock issued for employee stock purchase plan		630
Proceeds from sale lease-back transactions	2,256	405
Debt repayments	(50,000)	
Capital lease payments	(923)	(846)
Other	(18)	(4)
Net cash from financing activities	(36,571)	21,153

NET INCREASE IN CASH AND CASH EQUIVALENTS		45,136		101,086
CASH AND CASH EQUIVALENTS, beginning of period		150,403		147,484
CASH AND CASH EQUIVALENTS, end of period	$	195,539	$	248,570
SUPPLEMENTAL DISCLOSURES				
Cash paid for income taxes	$	33	$	
Retirement of long-term debt with common stock	$	74,218	$	19
Cash paid for interest, net of capitalized amount	$	26,515	$	29,117

See accompanying notes to consolidated condensed financial statements.

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
March 31, 2006
(unaudited)

1. BASIS OF PRESENTATION

Our interim consolidated condensed financial statements for the three months ended March 31, 2006 and 2005 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations for interim financial statements. These consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2005 and quarterly filings on Form 10-Q filed with the SEC.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments and accruals), which are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

2. OPERATIONS

Description of Business

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

Our digital network (Nextel Digital Wireless Network) has been developed with advanced mobile communication systems employing digital technology developed by Motorola, Inc. (Motorola) (such technology is referred to as the integrated Digital Enhanced Network or iDEN) with a multi-site configuration permitting frequency reuse. Our principal business objective is to offer high-capacity, high-quality, advanced communication services in our territories throughout the United States targeted toward mid-sized and rural markets. Various operating agreements entered into by our subsidiaries and Nextel WIP Corp. (Nextel WIP), an indirect wholly owned subsidiary of Sprint Nextel Corporation (Sprint Nextel) following the merger of Nextel Communications, Inc. (Nextel) and Sprint Corporation (Sprint) on August 12, 2005, govern the support services to be provided to us by Nextel WIP (see Note 8).

The merger constituted a Nextel sale pursuant to our charter. On October 24, 2005 our Class A common stockholders voted to exercise the put right, as defined 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 transaction is subject to the customary regulatory approvals, including review by the FCC and review under the 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. These financial statements relate only to Nextel Partners, Inc. and its subsidiaries prior to the consummation of the transaction.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

Concentration of Risk

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

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

As discussed in Note 8, we rely on Nextel WIP for the provision of certain services. For the foreseeable future, we will need to rely on Nextel WIP for the provision of these services, as we will not have the infrastructure to support those services. We may begin to build the infrastructure needed to support some or all of these services to the extent that Nextel WIP will no longer provide them to us as a result of the merger between Sprint and Nextel. To the extent that Nextel WIP s failure or refusal to provide us with these services is a violation of our joint venture or other agreements with Nextel WIP, we will pursue appropriate legal and equitable remedies available to us.

If Sprint Nextel encounters financial or operating difficulties relating to its portion of the Nextel Digital Wireless Network, or experiences a significant decline in customer acceptance of its services and products, or refuses to provide us with these services in violation of our agreements, and we are unable to replace these services timely, our business may be adversely affected, 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.

Use of Estimates

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

Principles of Consolidation

The consolidated condensed financial statements include our accounts and those of our wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Net Income per Share Attributable to Common Stockholders, Basic and Diluted

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Computation of Earnings Per Share,* basic earnings per share is computed by dividing income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share adjust basic earnings per common share for the effects of potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our stock option plan and outstanding unvested restricted stock using the treasury stock method and the dilutive effects of shares issuable upon the conversion of our convertible senior notes using the if-converted method.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

The following schedule is our net income per share attributable to common stockholders calculation for the periods indicated:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except share and per share amounts)	
Income attributable to common stockholders (numerator for basic)	$ 66,028	$ 56,532
Effect of dilutive securities:		
Convertible Senior Notes	$ 323	$ 1,125
Adjusted Income attributable to common stockholders (numerator for diluted)	$ 66,351	$ 57,657
Gross weighted average common shares outstanding	290,044,480	267,193,826
Less: Weighted average shares subject to repurchase	(37,500)	(102,750)
Weighted average common shares outstanding basic (denominator for basic)	290,006,980	267,091,076
Effect of dilutive securities:		
Convertible Senior Notes	14,622,354	32,871,975
Stock options	4,225,570	8,284,331
Restricted stock (unvested)	35,656	88,110
Weighted average common shares outstanding diluted (denominator for diluted)	308,890,560	308,335,492
Net income per share attributable to common stockholders, basic	$ 0.23	$ 0.21
Net income per share attributable to common stockholders, diluted	$ 0.21	$ 0.19

For the three months ended March 31, 2006 and 2005, approximately 11,500 and 59,000 options, respectively, were excluded from the calculation of diluted earnings per common share as their exercise prices exceeded the average market price of our class A common stock.

Cash and Cash Equivalents

Cash equivalents include time deposits and highly-liquid investments with remaining maturities of three months or less at the time of purchase.

Short-Term Investments

Marketable debt and equity securities with original purchase maturities greater than three months are classified as short-term investments. Short-term investments at March 31, 2006 and December 31, 2005 consisted of U.S. government agency securities, commercial paper and corporate notes and bonds. We classify our investment securities as available-for-sale because the securities are not intended to be held-to-maturity and are not held

principally for the purpose of selling them in the near term. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are included in other comprehensive income.

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

Sale-Leaseback Transactions

We periodically enter into transactions whereby we transfer specified switching equipment and telecommunication towers and related assets to third parties, and subsequently lease all or a portion of these assets from these parties. During the three months ended March 31, 2006 and 2005 we received cash proceeds of approximately $2,256,000 and $405,000, respectively, for assets sold to third parties. Gains on sale-leaseback transactions are deferred and recognized over the lease term. Losses are recognized immediately into current earnings.

Leases

We lease various cell sites, equipment and office and retail facilities under operating leases. Leases for cell sites are typically five years with renewal options. The leases normally provide for the payment of minimum annual rentals and certain leases include provisions for renewal options of up to five years. Certain costs related to our cell sites are depreciated over a ten-year period on a straight-line basis, which represents the lesser of the lease term or economic life of the asset. The company calculates straight-line rent expense over the initial lease term and renewals that are reasonably assured. Office and retail facilities and equipment are leased under agreements with terms ranging from one month to twenty years. Leasehold improvements are amortized over the shorter of the respective lives of the leases or the useful lives of the improvements.

Intangible Assets and Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets,* requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead are reviewed at least annually for impairment, and written down as a charge to results of operations only in the periods in which the recorded value of goodwill and certain intangibles exceeds fair value.

FCC operating licenses are recorded at historical cost. Our FCC licenses and the requirements to maintain the licenses are similar to other licenses granted by the FCC, including personal communications services (PCS) and cellular licenses, in that they are subject to renewal after the initial 10-year term. Historically, the renewal process associated with these FCC licenses has been perfunctory. The accounting for these licenses has historically not been constrained by the renewal and operational requirements.

We have determined that FCC licenses have indefinite lives; therefore, as of January 1, 2002, we no longer amortize the cost of these licenses. We performed an annual asset impairment analysis on our FCC licenses and to date we have determined there has been no impairment related to our FCC licenses. For our impairment analysis, we used the aggregate of all our FCC licenses, which constitutes the footprint of our portion of the Nextel Digital Wireless Network, as the unit of accounting for our FCC licenses based on the guidance in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets.*

During the third quarter of 2005, we acquired intangible assets that are subject to straight-line amortization over a 24-month term. As of March 31, 2006 there is approximately $70,000 remaining to be amortized.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

Income Taxes

The income tax provision for the three months ended March 31, 2006 and 2005 is comprised of:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Current Tax Provision:		
Federal	$ 2,935	$ 1,070
State	3,173	20
Total	6,108	1,090
Deferred Tax Provision:		
Federal	41,337	504
State	4,257	258
Total	45,594	762
Total Income Tax Provision	$ 51,702	$ 1,852

For the first quarter of 2006 our income tax provision was comprised of both current and deferred income taxes. In the third quarter of 2005 we released a significant portion of the valuation allowance that was recorded against our deferred tax assets as required by SFAS No. 109, *Accounting for Income Taxes.* Positive income, in conjunction with the recognition of the deferred tax assets, have resulted in recording income tax expense based on the estimated annual federal and state effective tax rate applied to pre-tax income. While this tax expense will reduce net income, no cash will be paid for income taxes, other than the required alternative minimum tax and state tax payments, until the net operating loss and tax credits have been fully utilized.

Interest Rate Risk Management

We use derivative financial instruments consisting of interest rate swap and interest rate protection agreements in the management of our interest rate exposures. We will not use financial instruments for trading or other speculative purposes, nor will we be a party to any leveraged derivative instrument. The use of derivative financial instruments is monitored through regular communication with senior management. We will be exposed to credit loss in the event of nonperformance by the counter parties. This credit risk is minimized by dealing with a group of major financial institutions with whom we have other financial relationships. We do not anticipate nonperformance by these counter parties. We are also subject to market risk should interest rates change.

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 138, establish accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at fair value. These statements require that changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met, the changes in a derivative s fair value (for a cash flow hedge) are deferred in stockholders equity as a component of other comprehensive income. These deferred gains and losses are recognized as income in the period in which hedged cash flows occur. The

ineffective portions of hedge returns are recognized as earnings.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

The following table reflects the activity and the fair value of the interest rate swap agreements for the first quarter of 2006:

Hedging Instruments		(In thousands)
Fair value of assets as of December 31, 2005	$	1,671
Cancellation of $100 million of swaps		(815)
Change in fair value interest rate changes		(167)
Fair value of assets as of March 31, 2006	$	689

Non-Cash Flow Hedging Instruments

In April 2000, we entered into an interest rate swap agreement for $50 million, to partially hedge interest rate exposure with respect to our term C loan. In April 2005, the interest rate swap agreement expired in accordance with its original terms and we paid approximately $520,000 for the final settlement. We did not record any realized gain or loss with this expiration since this swap did not qualify for cash flow hedge accounting and we recognized changes in its fair value up to the termination date as part of our interest expense.

For the three months ended March 31, 2006 and 2005, we recorded non-cash, non-operating gains of approximately $406,000 and $597,000 respectively, related to the change in the market value of the interest rate swap agreements in interest expense.

Cash Flow Hedging Instruments

In September 2004 we entered into a series of interest rate swap agreements for $150 million, which had the effect of converting certain of our variable interest rate loan obligations to fixed interest rates. The commencement date for the swap transactions was December 1, 2004 and the expiration date is August 31, 2006. In January 2006 we cancelled $50 million of these interest rate swap agreements and as a result we discontinued cash flow hedge accounting and began accounting for the remaining $100 million of these interest rate swap agreements as non-cash flow hedged instruments (see above). In December 2004 we entered into similar agreements to hedge an additional $50 million commencing March 1, 2005 that were due to expire August 31, 2006. In January 2006 we cancelled these interest rate swap agreements.

Revenue Recognition

Service revenues primarily include fixed monthly access charges for the digital cellular voice service, Nextel Direct Connect, and other wireless services and variable charges for airtime usage in excess of plan minutes. We recognize revenue for access charges and other services charged at fixed amounts plus excess airtime usage ratably over the service period, net of customer discounts and adjustments, over the period earned.

For regulatory fees billed to customers such as the Universal Service Fund (USF) we net those billings against payments to the USF. Total billings to customers during the three months ended March 31, 2006 and 2005 were $5.9 million and $4.8 million, respectively.

Under EITF Issue No. 00-21 *Accounting for Revenue Arrangements with Multiple Deliverables,* we are no longer required to consider whether a customer is able to realize utility from the handset in the absence of the undelivered service. Given that we meet the criteria stipulated in EITF Issue No. 00-21, we account for the sale of a handset as a unit of accounting separate from the subsequent service to the customer. Accordingly, we recognize revenue from handset equipment sales and the related cost of handset equipment revenues when title to the handset equipment passes to the customer for all arrangements entered into

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

beginning in the third quarter of 2003. This has resulted in the classification of amounts received for the sale of the handset equipment, including any activation fees charged to the customer, as equipment revenues at the time of the sale. In December 2003, the SEC staff issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements,* which updated SAB No. 101 to reflect the impact of the issuance of EITF No. 00-21.

For arrangements entered into prior to July 1, 2003, we continue to amortize the revenues and costs previously deferred as was required by SAB No. 101. For the three months ended March 31, 2006 and 2005, we recognized $1.3 million and $4.5 million, respectively, of activation fees and handset equipment revenues and equipment costs that had been previously deferred. The table below shows the recognition of service revenues, equipment revenues and cost of equipment revenues (handset costs) on a pro forma basis adjusted to exclude the impact of SAB No. 101 and as if EITF No. 00-21 had been historically recorded for all customer arrangements.

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except per share amounts)	
Service revenues	$ 467,827	$ 378,155
Equipment revenues	$ 30,028	$ 21,383
Cost of equipment revenues	$ 43,336	$ 40,252
Income attributable to common stockholders	$ 66,028	$ 56,532
Income per share attributable to common stockholders, basic	$ 0.23	$ 0.21
Income per share attributable to common stockholders, diluted	$ 0.21	$ 0.19

Reclassifications

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

Long-Lived Assets

Our long-lived assets consist principally of property, plant and equipment. It is our policy to assess impairment of long-lived assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This includes determining if certain triggering events have occurred, including significant decreases in the market value of certain assets, significant changes in the manner in which an asset is used, significant changes in the legal climate or business climate that could affect the value of an asset, or current period or continuing operating or cash flow losses or projections that demonstrate continuing losses associated with certain assets used for the purpose of producing revenue that might be an indicator of impairment. When we perform the SFAS No. 144 impairment tests, we identify the appropriate asset group to be our network system, which includes the grouping of all our assets required to operate our portion of the Nextel Digital Mobile Network and provide service to our customers. We based this conclusion of asset grouping on the revenue dependency, operating interdependency and shared costs to operate our network. Thus far, none of the above triggering events has resulted in any material impairment charges.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share Based Payment,* which focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R replaces SFAS No. 123 *Accounting for Stock-Based Compensation,* which superceded Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees.* We adopted SFAS No. 123R on January 1, 2006 and began recognizing in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. See Note 4, Stock-Based Compensation.

Recently Issued Accounting Pronouncements

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period,* which will eliminate capitalization of rent after January 1, 2006. We adopted FSP FAS 13-1 with no material impact to our financial statements.

4. STOCK-BASED COMPENSATION

In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share Based Payment,* which focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R replaces SFAS No. 123 *Accounting for Stock-Based Compensation,* which superceded APB No. 25, *Accounting for Stock Issued to Employees.* In March 2005, the SEC issued SAB No. 107, *Share Based Payment,* and throughout 2005 and during 2006 the FASB issued FASB Staff Positions FAS 123(R)-1, FAS 123(R)-2, FAS 123(R)-3 and FAS 123(R)-4 which provided additional guidance for adoption of SFAS No. 123R.

We adopted SFAS No. 123R on January 1, 2006 using the modified prospective method. Under the modified prospective method, prior periods are not revised for comparative purposes. SFAS No. 123R required us to begin recognizing compensation expense in the income statement for the grant-date fair value of stock options and other equity-based compensation issued to employees. Upon adoption of SFAS No. 123R we apply an estimated forfeiture rate to unvested awards. Previously we recorded forfeitures as incurred. SFAS No. 123R requires that an additional paid-in capital pool be calculated equal to the excess tax benefit compared to previously disclosed SFAS No. 123 book compensation deductions. We did not establish an additional paid-in capital pool because the cumulative book expense based on SFAS No. 123 disclosures exceeded the cumulative tax expense for stock-based compensation from inception through adoption date. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under the prior accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules. For the quarter ended March 31, 2006 we were not able to realize the benefits of tax deductions in excess of recognized compensation expense due to adopting the with-and-without approach with respect to the ordering of tax benefits realized. In the with-and-without approach, the excess tax benefit related to stock-based compensation deductions will be recognized in additional paid-in capital only if an incremental tax benefit would be realized after considering all other tax benefits presently available to us. Therefore, our net operating loss carryforward will offset current taxable income prior to the recognition of the tax benefit related to stock-based compensation deductions. In the first quarter of 2006, there was $6.8 million of excess tax benefits related to stock-based compensation, which were not realized under this approach. Once our net operating loss carryforward is utilized, this excess tax benefit may be recognized in additional paid-in capital.

Prior to the adoption of SFAS No. 123R, we applied the intrinsic value method for stock-based compensation to employees prescribed by APB No. 25, *Accounting for Stock Issued to Employees.* For

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

grants prior to our initial public offering (February 25, 2000), they were considered compensatory and accounted for on a basis similar to stock appreciation rights. At the initial public offering, the intrinsic value of the outstanding options was recorded and subsequently amortized over the remaining vesting periods. The adoption of SFAS No. 123R resulted in a change in our method of recognizing the fair value of stock-based compensation and estimating forfeitures for all unvested awards.

In January 1999, we adopted the Nonqualified Stock Option Plan (the Plan). Under the Plan, as amended, the Board of Directors may grant nonqualified stock options to purchase up to 34,545,354 shares of our Class A common stock to eligible employees at a price equal to the fair market value as of the date of grant. Options have a term of up to 10 years and those granted under the Plan during 1999 and 2000 vest over 3 years with 1/3 vesting at the end of each year. No options under this Plan may be granted after January 1, 2008. Notwithstanding, no options were granted during the first quarter of 2006 and is expected to remain that way for all of 2006. For the options granted October 31, 2001 and thereafter, the vesting period was changed to four years with 1/4 vesting each year on October 31. Pursuant to the authority granted to it under the Plan, on January 27, 2005, our compensation committee determined that all options held by employees (but not senior managers) granted prior to January 27, 2005 shall immediately vest in full upon the occurrence of a defined change of control of us (including our acquisition by Sprint Nextel). In addition, all options granted on January 27, 2005 to all employees will immediately vest in full upon a change of control of us (including our acquisition by Sprint Nextel) since we have achieved our 2005 operating cash flow targets as established by the compensation committee. Option agreements entered into between us and the senior managers prior to 2005 provide for acceleration on any change of control of us or Nextel, and, as a result, such options granted prior to 2005 vested upon the merger of Sprint and Nextel.

Options granted under the Plan are subject to graded vesting, and compensation is recognized evenly over the vesting period. Compensation expense is recognized using the single straight-line approach for awards with graded vesting.

The following table shows the effect of adopting SFAS No. 123R on selected items and what those items would have been under previous guidance under APB No. 25 and SFAS No. 123:

	For the Three Months Ended March 31, 2006		
	As Reported	Under APB No. 25	Under SFAS No. 123
	(In thousands, except per share amounts)		
Income from operations	$ 133,366	$ 138,184	$ 133,080
Income before income tax provision	117,730	122,548	117,444
Net income attributable to common stockholders	66,028	70,785	65,043
Cash flows from operating activities	160,402	160,402	160,402
Cash flows from financing activities	(36,571)	(36,571)	(36,571)
Basic earnings per share	$ 0.23	$ 0.24	$ 0.22
Diluted earnings per share	$ 0.21	$ 0.23	$ 0.21

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Had compensation cost been determined based upon the fair value of the awards granted consistent with SFAS No. 123 during the three months ended March 31, 2005, our net income and basic and diluted income per share would have adjusted to the pro forma amounts indicated below:

	For the Three Months Ended March 31, 2005	
	(In thousands, except per share amounts)	
Net income, as reported	$	56,532
Add: stock-based employee compensation expense included in reported net income		127
Deduct: total stock-based employee compensation expense determined under fair-value-based method for all awards		(7,406)
As adjusted, net income	$	49,253
Basic income per share attributable to common stockholders:		
As reported	$	0.21
As adjusted	$	0.18
Diluted income per share attributable to common stockholders:		
As reported	$	0.19
As adjusted	$	0.17

The following table summarizes stock-based compensation included in net income and the associated income tax benefit:

	For the Three Months Ended March 31,			
	2006		2005	
	(In thousands)			
Total stock-based compensation included in net income	$	4,878	$	127
Income tax benefit related to stock-based compensation included in net income	$	1,893	$	

The following table summarizes all stock options granted, exercised and forfeited, including options issued outside of the Plan:

	Number of Options	Weighted Average	Weighted Average	Aggregate

		Exercise Price		Remaining Life		Intrinsic Value
				(In years)		(In thousands)
Outstanding December 31, 2005	17,543,175	$	11.93			
Granted		$	0.00			
Exercised	(1,061,963)	$	11.41			
Forfeitures	(123,925)	$	15.24			
Cancelled	(1,512)	$	11.77			
Outstanding March 31, 2006	16,355,775	$	11.95	6.95	$	267,808
Exercisable, March 31, 2006	10,435,486	$	9.86	6.28	$	192,695

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

The following table is a summary of the stock-based compensation details for the three months ended March 31, 2006 and 2005:

	For the Three Months Ended March 31,	
	2006	**2005**
	(In thousands)	
Weighted average grant-date fair value of stock options granted(1)	$	$ 7.64
Total intrinsic value of stock options exercised	$ 17,660	$ 21,153

(1) No stock options were granted during first quarter 2006.

For the three months ended March 31, 2006 and 2005, we received approximately $12.1 million and $21.0 million, respectively, from the exercise of stock options. The income tax benefit realized from the exercise of the stock options for the three months ended March 31, 2006 and 2005 was $89,000 and $0, respectively. As of March 31, 2006, there was approximately $39.5 million in unrecognized stock-based compensation related to nonvested awards (excluding forfeitures), which we expect to be recognized over a weighted average period of 1.42 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	For the Three Months Ended March 31,	
	2006(1)	**2005**
Expected stock price volatility		43.0%
Risk-free interest rate		3.7%
Expected life in years		4 years
Expected dividend yield		0.00%

(1) No stock options were granted during first quarter 2006.

The Black-Scholes option-pricing model requires the input of subjective assumptions and does not necessarily provide a reliable measure of fair value.

Restricted Stock

On August 18, 2003, we issued 50,000 restricted shares of Class A common stock to one of our officers at $8.65 per share. Theses shares vest in equal annual installments over a four-year period. Pursuant to their terms, these options will vest, to the extent not already vested, upon the acquisition of us by Sprint Nextel, which will constitute a change of control of Nextel Partners. We continue to use the FIN 28 *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* accelerated vesting model to recognize the compensation expense for restricted stock.

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Unvested balance at December 31, 2005	37,500	$ 8.64
Granted		
Vested		
Forfeited		
Nonvested balance at March 31, 2006	37,500	$ 8.64

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As of March 31, 2006, there was approximately $52,000 in unrecognized stock-based compensation related to nonvested awards, which we expect to be recognized over a period of 1.33 years.

5. PROPERTY AND EQUIPMENT

	As of	
	March 31, 2006	December 31, 2005
	(In thousands)	
Equipment	$ 1,596,620	$ 1,546,814
Furniture, fixtures and software	149,338	145,492
Building and improvements	16,586	14,872
Less accumulated depreciation and amortization	(709,771)	(665,583)
Subtotal	1,052,773	1,041,595
Construction in progress	55,146	37,455
Total property and equipment	$ 1,107,919	$ 1,079,050

6. NON-CURRENT PORTION OF LONG-TERM DEBT

	As of	
	March 31, 2006	December 31, 2005
	(In thousands)	
Bank Credit Facility tranche D term loan, interest, at our option, calculated on Administrative Agent s alternate base rate or reserve adjusted LIBOR	$ 500,000	$ 550,000
8 1/8 % Senior Notes due 2011, net of $0.4 million discount, interest payable semi-annually in cash and in arrears	474,656	474,643
1 1/2 % Convertible Senior Notes due 2008, interest payable semi-annually in cash and in arrears	114,092	188,310
Capital leases	12,648	13,655
Total non-current portion of long-term debt	$ 1,101,396	$ 1,226,608

Bank Credit Facility

On May 23, 2005, OPCO refinanced its existing $700.0 million tranche C term loan with a new $550.0 million tranche D term loan. JPMorgan Chase & Co. acted as sole bookrunner and arranger on the transaction. The new credit facility includes a $550.0 million tranche D term loan, a $100.0 million revolving credit facility and an option to request an additional $200.0 million of incremental term loans. Such incremental term loans shall not exceed $200.0 million or have a final maturity date earlier than the maturity date for the tranche D term loan. The tranche D

term loan matures on May 31, 2012. The revolving credit facility will terminate on the last business day falling on or nearest to November 30, 2009. The incremental term loans, if any, shall mature on the date specified on the date the respective loan is made, provided that such maturity date shall not be earlier than the maturity date for the tranche D term loan. On March 1, 2006, OPCO made a principal repayment of $50 million on our tranche D term loan using available cash. As of March 31, 2006, $500.0 million of the tranche D term loan was outstanding and no amounts were outstanding under either the $100.0 million revolving credit facility or the incremental term loans. The borrowings under the new term loan were used along with company funds to repay OPCO s existing tranche C term loan.

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The tranche D term loan bears interest, at our option, at the administrative agent s alternate base rate or reserve-adjusted LIBOR plus, in each case, applicable margins. The initial applicable margin for the tranche D term loan is 1.50% over LIBOR and 0.50% over the base rate. For the revolving credit facility, the initial applicable margin is 3.00% over LIBOR and 2.00% over the base rate and thereafter will be determined on the basis of the ratio of total debt to annualized EBITDA and will range between 1.50% and 3.00% over LIBOR and between 0.50% and 2.00% over the base rate. As of March 31, 2006, the interest rate on the tranche D term loan was 6.32%.

Borrowings under the term loans are secured by, among other things, a first priority pledge of all assets of OPCO and all assets of the subsidiaries of OPCO and a pledge of their respective capital stock. The credit facility contains financial and other covenants customary for the wireless industry, including limitations on our ability to pay dividends and incur additional debt or create liens on assets. The credit facility also contains covenants requiring that we maintain certain defined financial ratios. The credit facility does not restrict the sale of our outstanding shares of Class A common stock to Nextel WIP, as approved by our Class A common stockholders on October 24, 2005 following the merger of Nextel with Sprint. In addition, we are not required to obtain the consent of the lenders under our credit facility prior to completing the sale of our outstanding shares of Class A common stock to Nextel WIP.

8^{1}/8% Senior Notes Due 2011

On June 23, 2003, we issued $450.0 million of 8^{1}/8% senior notes due 2011 in a private placement. We subsequently exchanged all of the 8^{1}/8% senior notes due 2011 for registered notes having the same financial terms and covenants as the privately placed notes. Interest accrues for these notes at the rate of 8^{1}/8 % per annum, payable semi-annually in cash in arrears on January 1 and July 1 of each year, which commenced on January 1, 2004.

On May 19, 2004, we issued an additional $25 million of 8^{1}/8% senior notes due 2011 under a separate indenture in a private placement for proceeds of $24.6 million. We subsequently exchanged all of the 8^{1}/8% senior notes due 2011 for registered notes having the same financial terms and covenants as the privately placed notes. Interest accrues for these notes at the rate of 8^{1}/8 % per annum, payable semi-annually in cash in arrears on January 1 and July 1 of each year, which commenced on July 1, 2004.

The 8^{1}/8% senior notes due 2011 represent our senior unsecured obligations and rank equally in right of payment to our entire existing and future senior unsecured indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The 8^{1}/8% senior notes due 2011 are effectively subordinated to (i) all of our secured obligations, including borrowings under the bank credit facility, to the extent of assets securing such obligations and (ii) all indebtedness including borrowings under the bank credit facility and trade payables, of OPCO. Our obligations under the indentures governing our 8^{1}/8 % senior notes shall continue following the closing of the put transaction with Sprint Nextel.

1^{1}/2% Convertible Senior Notes Due 2008

In May and June 2003, we issued an aggregate principal amount of $175.0 million of 1^{1}/2% convertible senior notes due 2008 in private placements. At the option of the holders or upon change of control, these 1^{1}/2% convertible senior notes due 2008 are convertible into shares of our Class A common stock at an initial conversion rate of 131.9087 shares per $1,000 principal amount of notes, which represents a conversion price of $7.58 per share, subject to adjustment. Interest accrues for these notes at the rate of 1^{1}/2% per annum, payable semi-annually in cash in arrears on May 15 and November 15 of each year, which commenced on November 15, 2003. We subsequently filed a registration statement with the SEC to register the resale of the 1^{1}/2% convertible senior notes due 2008 and the shares of our Class A common stock into which the 1^{1}/2 % convertible senior notes due 2008 are convertible. As of March 31, 2006, $128.6 million of these

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

1 1/2 % convertible senior notes due 2008 had been converted into 16,959,760 shares of our Class A common stock.

In addition, in August 2003 we closed a private placement of $125.0 million of 1 1/2% convertible senior notes due 2008. At the option of the holders or upon change of control, these 1 1/2% convertible senior notes due 2008 are convertible into shares of our Class A common stock at an initial conversion rate of 78.3085 shares per $1,000 principal amount of notes, which represents a conversion price of $12.77 per share, subject to adjustment. Interest accrues for these notes at the rate of 1 1/2% per annum, payable semi-annually in cash in arrears on May 15 and November 15 of each year, which commenced on November 15, 2003. We subsequently filed a registration statement with the SEC to register the resale of the 1 1/2% convertible senior notes due 2008 and the shares of our Class A common stock into which the 1 1/2% convertible senior notes due 2008 are convertible. As of March 31, 2006, $57.3 million of these 1 1/2 % convertible senior notes due 2008 had been converted into 4,489,862 shares of our Class A common stock.

The 1 1/2% convertible senior notes due 2008 represent our senior unsecured obligations, and rank equally in right of payment to our entire existing and future senior unsecured indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The 1 1/2 % convertible senior notes due 2008 are effectively subordinated to (i) all of our secured obligations, including borrowings under the bank credit facility, to the extent of assets securing such obligations and (ii) all indebtedness, including borrowings under the bank credit facility and trade payables, of OPCO.

Pursuant to the put right set forth in our charter, Sprint Nextel has an obligation to purchase all of our outstanding shares of Class A common stock, which will constitute a fundamental change under the indentures governing our outstanding 1 1/2% convertible senior notes due 2008. As a result, each holder of our outstanding 1 1/2 % convertible senior notes due 2008 will have the right, at each such holder s option, to require us to redeem all of such holder s notes subsequent to the closing of the put transaction at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to, but excluding, the redemption date.

7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On December 5, 2001, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York against us, two of our executive officers and four of the underwriters involved in our initial public offering. The lawsuit is captioned Keifer v. Nextel Partners, Inc., *et al*, No. 01 CV 10945. It was filed on behalf of all persons who acquired our common stock between February 22, 2000 and December 6, 2000 and initially named as defendants us, John Chapple, our president, chief executive officer and chairman of the board, John D. Thompson, our chief financial officer and treasurer until August 2003, and the following underwriters of our initial public offering: Goldman Sachs & Co., Credit Suisse First Boston Corporation (predecessor of Credit Suisse First Boston LLC), Morgan Stanley & Co. Incorporated and Merrill Lynch Pierce Fenner & Smith Incorporated. Mr. Chapple and Mr. Thompson have been dismissed from the lawsuit without prejudice. The complaint alleges that the defendants violated the Securities Act and the Exchange Act by issuing a registration statement and offering circular that were false and misleading in that they failed to disclose that: (i) the defendant underwriters allegedly had solicited and received excessive and undisclosed commissions from certain investors who purchased our common stock issued in connection with our initial public offering; and (ii) the defendant underwriters allegedly allocated shares of our common stock issued in connection with our initial public offering to investors who allegedly agreed to purchase additional shares of our common stock at pre-arranged prices. The complaint seeks rescissionary and/or compensatory damages. We dispute the allegations of the complaint that suggest any wrongdoing on our part or by our officers. However, the plaintiffs and the issuing company defendants, including us, have reached a settlement of the issues in the lawsuit. The court granted preliminary approval of

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

the settlement on February 15, 2005, subject to certain modifications. On August 31, 2005, the court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The court also appointed the Notice Administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members beginning on November 15, 2005. The settlement fairness hearing has been set for April 24, 2006. Following the hearing, if the court determines that the settlement is fair to the class members, the settlement will be approved. There can be no assurance that this proposed settlement would be approved and implemented in its current form, or at all. The settlement would provide, among other things, a release of us and of the individual defendants for the conduct alleged to be wrongful in the amended complaint. We would agree to undertake other responsibilities under the partial settlement, including agreeing to assign away, not assert, or release certain potential claims we may have against the underwriters. Any direct financial impact of the proposed settlement is expected to be borne by our insurance carriers. Due to the inherent uncertainties of litigation and because the settlement approval process is at a preliminary stage, we cannot accurately predict the ultimate outcome of the matter.

On April 1, 2003, a purported class action lawsuit was filed in the 93rd District Court of Hidalgo County, Texas against us, Nextel and Nextel West Corp. The lawsuit is captioned Rolando Prado v. Nextel Communications, *et al*, Civil Action No. C-695-03-B. On May 2, 2003, a purported class action lawsuit was filed in the Circuit Court of Shelby County for the Thirtieth Judicial District at Memphis, Tennessee against us, Nextel and Nextel West Corp. The lawsuit is captioned Steve Strange v. Nextel Communications, *et al*, Civil Action No. 01-002520-03. On May 3, 2003, a purported class action lawsuit was filed in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida against Nextel Partners Operating Corp. d/b/a Nextel Partners and Nextel South Corp. d/b/a Nextel Communications. The lawsuit is captioned Christopher Freeman and Susan and Joseph Martelli v. Nextel South Corp., *et al*, Civil Action No. 03-CA1065. On July 9, 2003, a purported class action lawsuit was filed in Los Angeles Superior Court, California against us, Nextel, Nextel West, Inc., Nextel of California, Inc. and Nextel Operations, Inc. The lawsuit is captioned Nick s Auto Sales, Inc. v. Nextel West, Inc., *et al*, Civil Action No. BC298695. On August 7, 2003, a purported class action lawsuit was filed in the Circuit Court of Jefferson County, Alabama against us and Nextel. The lawsuit is captioned Andrea Lewis and Trish Zruna v. Nextel Communications, Inc., *et al*, Civil Action No. CV-03-907. On October 3, 2003, an amended complaint for a purported class action lawsuit was filed in the United States District Court for the Western District of Missouri. The amended complaint named us and Nextel Communications, Inc. as defendants; Nextel Partners was substituted for the previous defendant, Nextel West Corp. The lawsuit is captioned Joseph Blando v. Nextel West Corp., *et al*, Civil Action No. 02-0921 (the Blando Case). All of these complaints alleged that we, in conjunction with the other defendants, misrepresented certain cost-recovery line-item fees as government taxes. Plaintiffs sought to enjoin such practices and sought a refund of monies paid by the class based on the alleged misrepresentations. Plaintiffs also sought attorneys fees, costs and, in some cases, punitive damages. We believe the allegations are groundless. In October 2003, the court in the Blando Case entered an order granting preliminary approval of a nationwide class action settlement that encompasses most of the claims involved in these cases. In April 2004, the court approved the settlement. Various objectors and class members appealed to the United States Court of Appeals for the Eighth Circuit, and in February 2005 the appellate court affirmed the settlement. After failed attempts by an objector at the Eighth Circuit, that objector filed with the United States Supreme Court a petition for writ of certiorari. On October 3, 2005, the Supreme Court denied the objector s writ of certiorari, which constitutes a final order resolving all appeals in these cost recovery fee cases. In accordance with the terms of the settlement, we began distributing settlement benefits within 90 days from the final order and completed the distribution of benefits by March 2006. The Prado v. Nextel Communications case, Civil Action No. C-695-03-B was dismissed with prejudice in November 2005. In addition, the Freeman v. Nextel South Corp. case, Civil Action No. 03-CA1065 was dismissed with prejudice in March 2006. The remaining cases are subject to immediate dismissal according to the terms of the final order, which directs the plaintiffs to dismiss their actions.

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On July 5, 2005, we delivered a Notice Invoking Alternate Dispute Resolution Process to Nextel and Nextel WIP under the joint venture agreement dated January 29, 1999 among us, OPCO and Nextel WIP. In the Notice, we asserted that certain elements of the merger integration process involving Nextel and Sprint violated several of Nextel s and Nextel WIP s obligations under the joint venture agreement and related agreements, including, without limitation, the following:

The changes that Nextel and Sprint had announced they were planning to make with respect to branding after the close of the Sprint-Nextel merger would violate the joint venture agreement if we could not use the same brand identity that Nextel used after the merger, i.e., the Sprint brand.

Other operational changes that we believed Nextel and Sprint planned to implement after the Sprint-Nextel merger (including, without limitation, changes with respect to marketing and national accounts) would violate the joint venture agreement.

The operations of the combined Sprint-Nextel could violate our exclusivity rights under the joint venture agreement.

Nextel and Nextel WIP had not complied with their obligation to permit us to participate in and contribute to discussions regarding branding and a variety of other operational matters.

The parties subsequently agreed that the dispute would be resolved by arbitration. On September 2, 2005, the arbitration panel issued a ruling denying our request for a preliminary injunction against violations of the joint venture agreement, but finding that we were likely to prevail on our claim that the use of the new Sprint-Nextel brand by Nextel s operating subsidiaries, without making the new brand available to us, violated the non-discrimination provisions of the joint venture agreement and that we could seek damages in the event that the put price established by the appraisal process was negatively impacted by that violation. With respect to our remaining claims, the panel reserved these matters for future ruling if necessary.

On October 7, 2005, Nextel and Nextel WIP filed a lawsuit against us in Delaware Chancery Court. The lawsuit is captioned Nextel Communications, Inc. and Nextel WIP Corp. v. Nextel Partners, Inc., Civil Action No. 1704-N (the Nextel Delaware suit). The lawsuit sought to prohibit us from disclosing to our public shareholders the valuation reports of the first two appraisers to be appointed under our put process. The suit also sought to require us to provide Nextel and its appraiser with certain financial information, and asked the court to concur with certain positions that Nextel had previously taken with respect to the definition of fair market value under our charter. On October 18, 2005, Nextel WIP filed a second lawsuit against us in Delaware Chancery Court, seeking certain information pursuant to Section 220 of the Delaware General Corporation Law. The lawsuit is captioned Nextel WIP Corp. v. Nextel Partners, Inc., Civil Action No. 1722-N.

On October 19, 2005, we filed an answer and counterclaims in the Nextel Delaware suit, which we amended on October 25, 2005. In our counterclaims, among other things, we asked the court to order that the parties comply with the put process time frames required by our charter and to require Nextel to provide us and our appraiser with certain information. We also asked the court to require full disclosure of the first two appraisers reports to our Class A common stockholders as required by our charter, and we asked the court to reject Nextel s views of the definition of fair market value under our charter.

The court conducted a two-day trial of certain of the claims asserted by the parties on November 17 and 18, 2005. Prior to the trial, we voluntarily provided Nextel with the information that it had sought the court to compel us to provide, and Nextel provided our appraiser with some of the information that it had requested. At the conclusion of the trial, the court denied all of Nextel s claims, and ruled that the two appraisal reports should be disclosed to our stockholders as required by our charter. The court also rejected one of the interpretations of fair market value offered by Nextel, and otherwise left the interpretation of the fair market value determination to the appraisers.

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On August 12, 2005, Nextel merged with Sprint. 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. As part of that agreement, the parties agreed to dismiss the Delaware litigation and the arbitration upon consummation of the put transaction. The transaction is subject to the customary regulatory approvals, including review by the 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.

On December 27, 2004, Dolores Carter and Donald Fragnoli filed purported class action lawsuits in the Court of Chancery of the State of Delaware against us, Nextel WIP Corp., Nextel Communications, Inc., Sprint Corporation, and several of the members of our board of directors. The lawsuits are captioned Dolores Carter v. Nextel WIP Corp., *et al.*, Civil Action No. 956-N, and Donald Fragnoli v. Nextel WIP., *et al*, Civil Action No. 955-N (the Fragnoli Action). On February 1, 2005, Selena Mintz filed a purported class action lawsuit in the Court of Chancery of the State of Delaware against us, Nextel WIP Corp., Nextel Communications, Inc., Sprint Corporation, and several of the members of our board of directors. The lawsuit is captioned Selena Mintz v. John Chapple, *et al*, Civil Action No. 1065-N. (The lawsuits are referred to collectively as the Shareholder suits.) Plaintiffs in the Shareholder suits sought declaratory and injunctive relief declaring that the announced merger between Nextel and Sprint Corporation was an event that triggered the put right set forth in our restated certificate of incorporation and directing the defendants to take all necessary measures to give effect to the rights of our Class A common stockholders arising therefrom.

While the Nextel Delaware suit was pending against us, Plaintiff Fragnoli moved to consolidate with the Nextel Delaware suit the claims and issues in the Fragnoli Action implicated by the Nextel Delaware suit, so that the two cases could be heard together in an expeditious manner. By order dated October 20, 2005 (revised on October 28, 2005), the court directed that counsel for Plaintiff Fragnoli were permitted to participate in the proceedings in the Nextel Delaware suit. Thereafter, Plaintiff Fragnoli by his counsel participated in the discovery, pre-trial proceedings and trial in the Nextel Delaware suit.

In light of the completion of the put right appraisal process, the parties to the Shareholder suits agreed that the Shareholder suits are moot. Plaintiffs claimed that their attorneys were entitled to reasonable attorneys fees and reimbursement of litigation expenses on the ground that their litigation efforts on behalf of our Class A common stockholders contributed, in part, to defendants conduct which ultimately mooted the claims asserted in the suits. After negotiation, Nextel agreed to pay Plaintiffs counsel the aggregate sum of $1 million in fees, inclusive of expenses, for their services rendered in the Shareholder suits and to eliminate the burden, expense, inconvenience and distraction over plaintiffs claims for attorneys fees and expenses. The parties have filed a Stipulation and Order of Dismissal with the court stipulating to the dismissal of the Shareholder suits as moot, the payment by Nextel to plaintiffs of $1 million in fees and expenses and, following the receipt of remaining regulatory approval for consummation of the merger, notice to all our stockholders disclosing the terms of the parties agreement. Unless one of our stockholders objects within 30 days from the mailing of the notice to the dismissal of the Shareholder suits as moot or the payment of fees and expenses to plaintiffs counsel, the court will enter a final order dismissing the Shareholder suits with prejudice as to plaintiffs and their respective counsel and without prejudice as to members of the purported class.

NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

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

8. RELATED PARTY TRANSACTIONS

Nextel Operating Agreements

We, our operating subsidiary (OPCO) and Nextel WIP, which held approximately 28.8% of our outstanding common stock as of March 31, 2006 and with which one of our directors is affiliated, entered into a joint venture agreement dated January 29, 1999. The joint venture agreement, along with the other operating agreements, defines the relationships, rights and obligations between the parties and governs the build-out and operation of our portion of the Nextel Digital Wireless Network and the transfer of licenses from Nextel WIP to us. Our roaming agreement with Nextel WIP provides that each party pays the other company s monthly roaming fees in an amount based on the actual system minutes used by our respective customers when they are roaming on the other party s network. For the three months ended March 31, 2006 and 2005, we earned approximately $58.8 million and $44.8 million, respectively, from Nextel customers roaming on our system, which is included in our service revenues.

During the three months ended March 31, 2006 and 2005, we incurred charges from Nextel WIP totaling $35.8 million and $32.9 million, respectively, for services such as specified telecommunications switching services, charges for our customers roaming on Nextel s system and other support costs. The costs for these services are recorded in cost of service revenues.

During the three months ended March 31, 2006 and 2005, Nextel continued to provide certain services to us for which we paid a fee based on their cost. These services are limited to Nextel telemarketing and customer care, fulfillment, activations and billing for the retail and national accounts. For the three months ended March 31, 2006 and 2005, we were charged approximately $8.2 million and $8.8 million, respectively, for these services including a royalty fee and a sponsorship fee for NASCAR. Nextel WIP also provides us access to certain back office and information systems platforms on an ongoing basis. For the three months ended March 31, 2006 and 2005, we were charged approximately $2.1 million and $1.8 million, respectively, for these services. The costs for all of these services are included in selling, general and administrative expenses.

On August 12, 2005, Nextel merged with Sprint. The merger constituted a Nextel sale pursuant to our charter. On October 24, 2005, our Class A common stockholders voted to exercise the put right as defined 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. The transaction is subject to the customary regulatory approvals, including review by the FCC and review under the 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.

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NEXTEL PARTNERS, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)

Business Relationship

For the three months ended March 31, 2006, we incurred charges from Sprint Nextel totaling approximately $885,000 for interconnect services that were recorded in cost of service revenues and approximately $282,000 for telecommunication services that were recorded in selling, general and administrative expenses.

9. COMPREHENSIVE INCOME

	For the Three Months Ended March 31	
	2006	**2005**
	(In thousands)	
Net Income attributable to common stockholders (as reported on Consolidated Condensed Statements of Operations)	$ 66,028	$ 56,532
Unrealized gain/loss on investments	30	
Unrealized gain/loss on cash flow hedge	(528)	1,700
Other comprehensive income	(498)	1,700
Comprehensive Income, net of tax	$ 65,530	$ 58,232

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

The following is discussion of our consolidated financial condition and results of operations of the three months ended March 31, 2006 and 2005. Some statements and information contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations are not historical facts but are forward-looking statements. For a discussion of these forward-looking statements and of important factors that could cause results to differ materially from the forward-looking statements contained in this report, see Forward-Looking Statements below.

Please read the following discussion together with our Annual Report on Form 10-K for the year ended December 31, 2005, along with Selected Consolidated Financial Data (Unaudited), the consolidated condensed financial statements and the related notes included elsewhere in this report.

On August 12, 2005, Nextel merged with Sprint. 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 FCC and review under the 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. Upon completion of this transaction NXTP will no longer be traded on the Nasdaq National Stock Market and Nextel Partners will cease to exist as a separate public company. This Quarterly Report on Form 10-Q relates only to Nextel Partners, Inc. and its subsidiaries prior to the consummation of the transaction.

Overview

We are a FORTUNE 1000 company that provides 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 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.

We offer a package of wireless voice and data services under the Nextel brand name targeted to business users, but with an increasing retail or consumer focus as well. 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.

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As of March 31, 2006, we had approximately 2,120,600 digital subscribers. Our network provides coverage to approximately 42 million Pops in 31 different states, which include markets in Alabama, Arkansas, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Nebraska, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Vermont, Virginia, West Virginia, Wisconsin and Wyoming. We also hold licenses in Kansas but currently do not have any cell sites operational in that state.

We believe our markets are relatively young as compared to those of the national carriers who had been in operation for several years prior to our inception. Approximately 85% of our covered Pops are in markets that are less than $6^{1}/2$ years old. Based on our historical results, we believe that as our markets mature, covered Pop penetration will continue to increase. As of March 31, 2006, our covered Pop penetration was approximately 5.0%. Our historical results also support our belief that as our markets mature, the increase in penetration will continue to drive higher service revenue margins as we benefit from growing economies of scale.

During the first quarter of 2006 we continued to focus on our key financial and operating performance metrics, including increasing our growth in subscribers, service revenues, Adjusted EBITDA, net cash from operating activities and lifetime revenue per subscriber (LRS). Our subscriber growth has been driven by increasing market penetration resulting in substantial part from ongoing development of our distribution channels (including company-owned stores) and by continuing to tailor programs that meet the needs of our customers, including consumer-credit customers, and we believe provide attractive economics to the company.

Accomplishments during the first quarter of 2006, which we believe are important indicators of our overall performance and financial well-being, include:

Growing our subscriber base approximately 25% in a twelve-month period by adding approximately 418,800 net new customers to end the first quarter of 2006 at 2,120,600 subscribers as compared to 1,701,800 at the end of the first quarter of 2005.

Growing our service revenues approximately 24% to $468.0 million for the first quarter of 2006 compared to $378.9 million for the same period in 2005.

Increasing Adjusted EBITDA 49% to $182.8 million for the three months ended March 31, 2006 compared to $122.5 million for the three months ended March 31, 2005.

Generating $160.4 million net cash from operating activities during the first quarter of 2006 compared to $117.2 million during the first quarter of 2005.

Remaining one of the industry leaders in LRS with an LRS of $4,714 for the first quarter of 2006 compared to $4,786 for the first quarter of 2005.

During the three months ended March 31, 2006 we opened five new company-owned stores bringing the total stores operating throughout the country to 140 compared to 79 stores at March 31, 2005.

Please see Selected Consolidated Financial Data Additional Reconciliations of Non-GAAP Financial Measures (Unaudited) for more information regarding our use of Adjusted EBITDA and LRS as non-GAAP financial measures. Our operations are primarily conducted by OPCO.

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SELECTED CONSOLIDATED FINANCIAL DATA (Unaudited)

We have summarized below our historical consolidated condensed financial data as of March 31, 2006 and December 31, 2005 and for the three months ended March 31, 2006 and 2005, which are derived from our records.

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except per share amounts)	
Consolidated Statements of Operations Data:		
Operating revenues:		
Service revenues(1)	$ 468,011	$ 378,858
Equipment revenues(1)	31,158	25,226
Total revenues	499,169	404,084
Operating expenses:		
Cost of service revenues (excludes depreciation of $37,138 and $32,499, and includes stock-based compensation of $1,527 and $0, respectively)	113,918	98,626
Cost of equipment revenues(1)	44,650	44,798
Selling, general and administrative (includes stock-based compensation of $3,351 and $127, respectively)	162,649	138,299
Depreciation and amortization	44,586	40,753
Total operating expenses	365,803	322,476
Income from operations	133,366	81,608
Other income (expense):		
Interest expense, net of capitalized interest	(18,029)	(25,867)
Interest income	2,474	2,643
Loss on early extinguishment of debt	(81)	
Income before income tax provision	117,730	58,384
Income tax provision	(51,702)	(1,852)
Net Income attributable to common stockholders	$ 66,028	$ 56,532
Net Income per share attributable to common stockholders		
Basic	$ 0.23	$ 0.21
Diluted	$ 0.21	$ 0.19
Weighted average number of shares outstanding		
Basic	290,007	267,091
Diluted	308,891	308,335

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	As of March 31, 2006		As of December 31, 2005	
	(In thousands)			
Consolidated Balance Sheet Data:				
Cash and cash equivalents, and short-term investments	$	210,738	$	165,027
Property, plant and equipment, net		1,107,919		1,079,050
FCC operating licenses, net		377,893		376,254
Total assets	$	2,317,509	$	2,293,928
Current liabilities		197,097		208,432
Long-term debt		1,101,396		1,226,608
Total stockholders equity		974,759		819,197
Total liabilities and stockholders equity	$	2,317,509	$	2,293,928

	As of March 31, 2006	As of March 31, 2005
Other Data:		
Covered Pops (end of period) (millions)	42	41
Subscribers (end of period)	2,120,600	1,701,800

	For the Three Months Ended March 31,			
	2006		2005	
	(In thousands)			
Other Data:				
Statements of Cash Flows Data:				
Net cash from operating activities	$	160,402	$	117,214
Net cash from investing activities	$	(78,695)	$	(37,281)
Net cash from financing activities	$	(36,571)	$	21,153
Adjusted EBITDA(2)	$	182,830	$	122,488
Net capital expenditures(3)	$	76,549	$	56,557

(1) Effective July 1, 2003, we adopted EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables,* and elected to apply the provisions prospectively to our existing customer arrangements. See Management s Discussion and Analysis of Financial Condition and Results of Operations for a more detailed description of the impact of our adoption of this policy.

(2) The term EBITDA refers to a financial measure that is defined as earnings (loss) before interest, taxes, depreciation and amortization; we use the term Adjusted EBITDA to reflect that our financial measure also excludes cumulative effect of change in accounting principle, loss from disposal of assets, gain (loss) from early extinguishment of debt and stock-based compensation. Adjusted EBITDA is commonly used to analyze

companies on the basis of leverage and liquidity. However, Adjusted EBITDA is not a measure determined under generally accepted accounting principles, or GAAP, in the United States of America and may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with GAAP. We have presented Adjusted EBITDA to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. The following schedule reconciles

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Adjusted EBITDA to net cash from operating activities reported on our Consolidated Condensed Statements of Cash Flows, which we believe is the most directly comparable GAAP measure:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Net cash from operating activities (as reported on Consolidated Condensed Statements of Cash Flows)	$ 160,402	$ 117,214
Adjustments to reconcile to Adjusted EBITDA:		
Cash paid interest expense, net of capitalized amount	27,288	29,117
Interest income	(2,474)	(2,643)
Change in working capital and other	(2,386)	(21,200)
Adjusted EBITDA	$ 182,830	$ 122,488

(3) Net capital expenditures exclude capitalized interest and are offset by net proceeds from the sale and leaseback transactions of telecommunication towers and related assets to third parties accounted for as operating leases. Net capital expenditures as defined are not a measure determined under GAAP in the United States of America and may not be comparable to similarly titled measures reported by other companies. Net capital expenditures should not be construed as a substitute for capital expenditures reported on the Consolidated Condensed Statements of Cash Flows, which is determined in accordance with GAAP. We report net capital expenditures in this manner because we believe it reflects the net cash used by us for capital expenditures and to satisfy the reporting requirements for our debt covenants. The following schedule reconciles net capital expenditures to capital expenditures reported on our Consolidated Condensed Statements of Cash Flows, which we believe is the most directly comparable GAAP measure:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Capital expenditures (as reported on Consolidated Condensed Statements of Cash Flows)	$ 75,735	$ 69,107
Less: cash paid portion of capitalized interest	(297)	(322)
Less: cash proceeds from sale and lease-back transactions accounted for as operating leases	(2,256)	(405)
Change in capital expenditures accrued or unpaid	3,367	(11,823)
Net capital expenditures	$ 76,549	$ 56,557

Additional Reconciliations of Non-GAAP Financial Measures (Unaudited)

The information presented in this report includes financial information prepared in accordance with GAAP, as well as other financial measures that may be considered non-GAAP financial measures. Generally, a non-GAAP

financial measure is a numerical measure of a company s performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. As described more fully below, management believes these non-GAAP measures provide meaningful additional information about our performance and our ability to service our long-term debt and other fixed obligations and to fund our continued growth. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with GAAP.

ARPU Average Revenue Per Unit

ARPU is an industry term that measures service revenues per month from our subscribers divided by the average number of subscribers in commercial service. ARPU itself is not a measurement under GAAP in the

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United States and may not be similar to ARPU measures of other companies; however, ARPU uses GAAP measures as the basis for calculation. We believe that ARPU provides useful information concerning the appeal of our rate plans and service offerings and our performance in attracting high value customers. The following schedule reflects the ARPU calculation and reconciliation of service revenues reported on the Consolidated Condensed Statements of Operations to service revenues used for the ARPU calculation:

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except ARPU)	
ARPU (without roaming revenues)		
Service revenues (as reported on Consolidated Condensed Statements of Operations)	$ 468,011	$ 378,858
Adjust: activation fees deferred and recognized for SAB No. 101	(184)	(703)
Add: activation fees reclassed for EITF No. 00-21(1)	10,100	4,633
Less: roaming and other revenues	(66,608)	(48,476)
Service revenue for ARPU	$ 411,319	$ 334,312
Average units (subscribers)	2,072	1,669
ARPU	$ 66	$ 67

	For the Three Months Ended March 31,	
	2006	2005
	(In thousands, except ARPU)	
ARPU (including roaming revenues)		
Service revenues (as reported on Consolidated Condensed Statements of Operations	$ 468,011	$ 378,858
Adjust: activation fees deferred and recognized for SAB No. 101	(184)	(703)
Add: activation fees reclassed for EITF No. 00-21(1)	10,100	4,633
Less: other revenues	(7,851)	(3,652)
Service revenue for ARPU	$ 470,076	$ 379,136
Average units (subscribers)	2,072	1,669
ARPU	$ 76	$ 76

(1) Since implementation of EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables,* each month we recognize the activation fees, handset equipment revenues and equipment costs that had been previously deferred in accordance with SAB No. 101. Based on EITF Issue No. 00-21, we now recognize the activation fees that were formerly deferred and recognized as services revenues as equipment revenues.

LRS Lifetime Revenue Per Subscriber

LRS is an industry term calculated by dividing ARPU (see above) by the subscriber churn rate. The subscriber churn rate is an indicator of subscriber retention and represents the monthly percentage of the subscriber base that disconnects from service. Subscriber churn is calculated by dividing the number of handsets disconnected from commercial service during the period by the average number of handsets in commercial service during the period. LRS itself is not a measurement determined under GAAP in the United States of America and may not be similar to LRS measures of other companies; however, LRS uses

GAAP measures as the basis for calculation. We believe that LRS is an indicator of the expected lifetime revenue of our average subscriber, assuming that churn and ARPU remain constant as indicated. We also believe that this measure, like ARPU, provides useful information concerning the appeal of our rate plans and service offering and our performance in attracting and retaining high value customers. The following schedule reflects the LRS calculation:

	For the Three Months Ended March 31,	
	2006	2005
ARPU	$ 66	$ 67
Divided by: churn	1.4%	1.4%
Lifetime revenue per subscriber (LRS)	$ 4,714	$ 4,786

In addition, see Notes 2 and 3 above for reconciliations of Adjusted EBITDA and net capital expenditures as non-GAAP financial measures.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Revenues

Total revenues increased 24% to $499.2 million for the three months ended March 31, 2006 as compared to $404.1 million generated in the same period in 2005. This growth in revenues was due mostly to the increase in our subscriber base. Subject to the risk and uncertainties described under Risk Factors and Forward-Looking Statements below, we expect our revenues to continue to increase as we add more subscribers and continue to introduce new products and data services.

For the first quarter of 2006, our ARPU was $66 (or $76, including roaming revenues from Nextel), compared to $67 for the first quarter of 2005 with the decline primarily due to pressure on monthly access fees from competitive pricing, partially offset by an increase in data service revenues and other feature revenues. We expect to continue to achieve ARPU levels above the industry average and anticipate our ARPU to be in the mid $60s for the remainder of 2006. Subject to the risk and uncertainties described under Risk Factors and Forward-Looking Statements below, we expect to continue growth of our data service revenues from both business and individual customers, specifically GPS services, workforce management tools, navigation tools and wireless payment solutions.

The following table illustrates service and equipment revenues as a percentage of total revenues for the three months ended March 31, 2006 and 2005 and our ARPU for those periods.

	For the Three Months Ended March 31, 2006	% of Consolidated Revenues	For the Three Months Ended March 31, 2005	% of Consolidated Revenues	2006 vs 2005 $ Change	2006 vs 2005 % Change
	(Dollars in thousands, expect ARPU)					
Service and roaming revenues	$ 468,011	94%	$ 378,858	94%	$ 89,153	24%

Equipment revenues		31,158	6%		25,226	6%	5,932	24%
Total revenues	$	499,169	100%	$	404,084	100%	$ 95,085	24%
ARPU(1)	$	66		$	67			

(1) See Selected Consolidated Financial Data Additional Reconciliations of Non-GAAP Financial Measures (Unaudited) for more information regarding our use of ARPU as a non-GAAP financial measure.

Our primary sources of revenues are service revenues and equipment revenues. Service revenues increased 24% to $468.0 million for the three months ended March 31, 2006 as compared to $378.9 million for the same period in 2005. Our service revenues consist of charges to our customers for airtime usage and monthly network access fees from providing integrated wireless services within our territory, specifically digital cellular voice services, Direct Connect services, text messaging and Nextel Online services. Service revenues also include roaming revenues from Sprint Nextel subscribers using our portion of the Nextel Digital Wireless Network. Roaming revenues for the first quarter of 2006 accounted for approximately 13% of our service revenues compared to 12% for the same period in 2005. Although we continue to see growth in roaming revenues due to an increase in coverage and on-air cell sites, we expect roaming revenues as a percentage of our service revenues to remain relatively flat or decline due to the anticipated revenue growth that we expect to achieve from our own customer base.

Under EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables,* we are no longer required to consider whether a customer is able to realize utility from the phone in the absence of the undelivered service. See the notes to consolidated condensed financial statements included elsewhere in this report for a more detailed description of this policy. The following table shows the reconciliation of the reported service revenues, equipment revenues and cost of equipment revenues to the adjusted amounts that exclude the adoption of EITF No. 00-21 and SAB No. 101. We believe the adjusted amounts best represent the actual service revenues and the actual subsidy on equipment costs when equipment revenues are netted with cost of equipment revenues that we use to measure our operating performance.

	For the Three Months Ended March 31,	
	2006	**2005**
	(In thousands)	
Revenues:		
Service revenues (as reported on Consolidated Condensed Statements of Operations)	$ 468,011	$ 378,858
Previously deferred activation fees recognized (SAB No. 101)	(184)	(703)
Activation fees to equipment revenues (EITF No. 00-21)	10,100	4,633
Total service revenues without SAB No. 101 and EITF No. 00-21	$ 477,927	$ 382,788
Equipment revenues (as reported on Consolidated Condensed Statements of Operations)	$ 31,158	$ 25,226
Previously deferred equipment revenues recognized (SAB No. 101)	(1,130)	(3,843)
Activation fees from service revenues (EITF No. 00-21)	(10,100)	(4,633)
Total equipment revenues without SAB No. 101 and EITF No. 00-21	$ 19,928	$ 16,750
Cost of equipment revenues (as reported on Consolidated Condensed Statements of Operations)	$ 44,650	$ 44,798
Previously deferred cost of equipment revenues recognized (SAB No. 101)	(1,314)	(4,546)
Total cost of equipment revenues without SAB No. 101 and EITF No. 00-21	$ 43,336	$ 40,252

Equipment revenues reported for the first quarter of 2006 were $31.2 million as compared to $25.2 million reported for the same period in 2005, representing an increase of $6.0 million. Of the $6.0 million increase from 2005 to 2006, $5.5 million resulted from additional activation fees recorded as equipment revenues based on EITF

No. 00-21 and $3.2 million was due to growth in our subscriber base offset by $2.7 million less equipment revenues previously deferred pursuant to SAB No. 101. Our equipment revenues consist of revenues received for wireless handsets and accessories purchased by our subscribers.

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Cost of Service Revenues

Cost of service revenues consists primarily of network operating costs, which include site rental fees for cell sites and switches, utilities, maintenance and interconnect and other wireline transport charges. Cost of service revenues also includes the amounts we must pay Nextel WIP when our customers roam onto Sprint Nextel s portion of the Nextel Digital Wireless Network. These expenses depend mainly on the number of operating cell sites, total minutes of use and the mix of minutes of use between interconnect and Direct Connect. The use of Direct Connect is more efficient than interconnect and, accordingly, less costly for us to provide.

For the three months ended March 31, 2006, our cost of service revenues was $113.9 million as compared to $98.6 million for the same period in 2005, representing an increase of $15.3 million, or 16%. The increase in costs was partially the result of bringing on-air approximately 568 additional cell sites since March 31, 2005. In addition, for the three months ended March 31, 2006, we recognized $1.5 million due to adoption of SFAS No. 123R, which requires recognition of compensation expense for equity instruments to employees based on grant-date fair value of these awards. Furthermore, our number of customers as of March 31, 2006 grew 25% since March 31, 2005, and we experienced an increase in airtime usage by our customers, both of which resulted in higher network operating costs. Compared to first quarter 2005, the average monthly minutes of use per subscriber increased by 4%, to 800 average monthly minutes of use per subscriber for the first quarter of 2006 from 772 average monthly minutes of use per subscriber for the same period in 2005. Our roaming fees paid to Sprint Nextel also increased as our growing subscriber base roamed on Sprint Nextel s compatible network. We adopted FSP FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period,* which eliminated capitalization of rent on January 1, 2006 with no material impact to our financial statements.

We expect cost of service revenues to increase as we place more cell sites in service and the usage of minutes increases as our customer base grows. However, we expect our cost of service revenues as a percentage of service revenues and cost per average minute of use to decrease as economies of scale continue to be realized. From the first quarter of 2005 to the same period in 2006, our cost of service revenues as a percentage of service revenues declined from 26% to 24%.

Cost of Equipment Revenues

Cost of equipment revenues includes the cost of the subscriber wireless handsets and accessories sold by us. Our cost of equipment revenues for the three months ended March 31, 2006 was $44.7 million as compared to $44.8 million for the same period in 2005, or a decrease of $0.1 million. The decrease in costs related mostly to $3.1 million of costs resulting from the increased volume of subscribers offset by recognizing $3.2 million less of equipment costs that were previously deferred in accordance with SAB No. 101.

Due to the push to talk functionality of our handsets, the cost of our equipment tends to be higher than that of our competitors. As part of our business plan, we often offer our equipment at a discount or as part of a promotion as an incentive to our customers to commit to contracts for our higher priced service plans and to compete with the lower priced competitor handsets. The table below shows that the gross subsidy (without the effects of SAB No. 101 and EITF No. 00-21) between equipment revenues and cost of equipment revenues was a loss of $23.4 million for the three months ended March 31, 2006 as compared to a loss of $23.5 million for the same period in 2005. We expect to continue to employ these discounts and promotions in an effort to grow our subscriber base. Therefore, for the foreseeable future, we expect that cost of equipment revenues will continue to exceed our equipment revenues.

	For the Three Months Ended March 31,	
	2006	**2005**
	(In thousands)	
Equipment revenues billed	$ 19,928	$ 16,750
Cost of equipment revenues billed	(43,336)	(40,252)

Total gross subsidy for equipment	$	(23,408)	$	(23,502)

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of sales and marketing expenses, expenses related to customer care services and general and administrative costs. For the three months ended March 31, 2006, selling, general and administrative expenses were $162.6 million compared to $138.3 million for the same period in 2005, representing an increase of $24.3 million, or 18%.

Sales and marketing expenses for the three months ended March 31, 2006 were $63.7 million, an increase of $6.5 million, or 11%, from the first quarter 2005 due to the following:

$3.5 million increase in advertising and media expenses as a result of general marketing campaigns and additional expenses incurred as the result of Sprint Nextel s refusal to allow us to use the Sprint Nextel brand;

$0.9 million increase in facility and lease costs primarily for the additional company-owned stores put in operation in the first quarter of 2006;

$1.1 million increase due to the adoption of SFAS No. 123R, which requires recognition of compensation expense for awards of equity instruments to employees based on grant-date fair value of those awards; and

$1.0 million increase in commissions, commission bonuses and residuals paid to account representatives and the indirect sales channel due primarily to the indirect sales channel adding approximately 17% more customers in the first quarter of 2006 than in the first quarter of 2005. The indirect sales channel will remain a vital part of our distribution as we expect to see continued growth from this channel for the remainder of 2006 coupled with growth from company-owned stores.

General and administrative costs include costs associated with customer care center operations and service and repair for customer handsets along with corporate personnel including billing, collections, legal, finance, human resources and information technology. For the three months ended March 31, 2006, general and administrative costs were $98.9 million, an increase of $17.8 million, or 22%, compared to the same period in 2005 due to the following:

$5.5 million increase in support of our information systems, facilities and corporate expenses, including approximately $1.7 million in expenses incurred in conjunction with the put process and legal proceedings with Sprint Nextel and Nextel WIP (see our Annual Report on Form 10-K for the year ended December 31, 2005 and Note 7 to the accompanying consolidated condensed financial statements for additional information);

$2.1 million increase due to the adoption of SFAS No. 123R, which requires recognition of compensation expense for awards of equity instruments to employees based on grant-date fair value of those awards; and

$10.2 million increase in expenses for service and repair, billing, bad debt expense, collection and customer retention expenses, including handset upgrades to support a larger and growing customer base.

We expect the aggregate amount of selling, general and administrative expenses to continue increasing due to the following factors, including but not limited to:

increased costs to support our growing customer base, including costs associated with billing, bad debt expense, collections, customer retention, customer care activities and handset upgrades;

increased marketing and advertising expenses to offset the loss of national advertising of the Nextel brand name exclusively;

increased costs associated with opening additional retail stores; and

costs related to the pending acquisition of us by Sprint Nextel, including, but not limited to, approximately $50 million in legal fees and professional fees plus approximately $116 million in stock

compensation expense due to options that vest in full upon change in control as well as known severance and retention payments and other cash bonuses.

Depreciation and Amortization Expense

For the first quarter ended March 31, 2006, our depreciation and amortization expense was $44.6 million compared to $40.8 million for the same period in 2005, representing an increase of 9%. The $3.8 million increase in depreciation and amortization expense was due to adding approximately 568 cell sites since March 31, 2005. We also acquired furniture and equipment for our 61 new company-owned stores opened since March 31, 2005. We expect depreciation and amortization to continue to increase due to additional cell sites we plan to place in service along with furniture and equipment for new company-owned stores.

Interest Expense and Interest Income

Interest expense, net of capitalized interest, declined $7.9 million, or 31%, from $25.9 million for the three months ended March 31, 2005 to $18.0 million for the three months ended March 31, 2006. This decline was due mostly to the debt reduction activity related to our repurchase for cash of our 11% senior discount notes due 2010 and $12^1/2$ % senior notes due 2009 and the refinance of our credit facility. In addition, for our interest rate swap agreements we recorded non-cash fair market value gains of approximately $0.4 million and $0.6 million for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006, interest income was $2.5 million compared to $2.6 million for 2005.

Loss on Early Retirement of Debt

During the first quarter of 2006 we recorded approximately a $0.1 million loss on early retirement of debt from the principal repayment of $50 million on our tranche D term loan to write-off the deferred financing costs.

Income Tax Provision

We recorded a tax provision of $51.7 million for the first quarter of 2006 compared to $1.9 million for the same period in 2005. In the third quarter of 2005 we released a significant portion of the valuation allowance and we expect to continue to record income tax expense at the estimated annual federal and state effective tax rate of approximately 43%. Income tax provisions for interim periods are based on estimated effective annual tax rates. Income tax expense varies from federal statutory rates primarily because of state taxes. We do not expect to pay cash taxes, other than the required alternative minimum tax and state tax payments, until the net operating loss and tax credits have been fully utilized.

Net Income Attributable to Common Stockholders

For the three months ended March 31, 2006, we had a net income attributable to common stockholders of $66.0 million compared to $56.5 million for the same period in 2005, representing an improvement of $9.5 million. We expect to continue generating positive net income for the remainder of 2006.

Liquidity and Capital Resources

As of March 31, 2006, our cash and cash equivalents and short-term investments balance was approximately $210.7 million, an increase of $45.7 million compared to the balance of $165.0 million as of December 31, 2005 and a decrease of $123.1 million compared to the balance of $333.8 million as of March 31, 2005. In addition, we had access to an undrawn line of credit of $100.0 million for a total liquidity position of $310.7 million as of March 31, 2006. The $45.7 million increase in our liquidity position from December 31, 2005 was in part a result of positive cash from operating activities, stock options exercised and proceeds from sale lease-back transactions offset by additional capital spending and debt repayments.

Statement of Cash Flows Discussion

	For the Three Months Ended March 31,			
	2006	**2005**	**$ Change**	**% Change**
	(Dollars in thousands)			
Net cash from operating activities	$ 160,402	$ 117,214	$ 43,188	37%
Net cash from investing activities	$ (78,695)	$ (37,281)	$ (41,414)	(111)%
Net cash from financing activities	$ (36,571)	$ 21,153	$ (57,724)	(273)%

For the three months ended March 31, 2006, we generated $160.4 million in cash from operating activities as compared to $117.2 million in cash for the same period in 2005. The $43.2 million increase in funds from operating activities was due to the following:

a $63.0 million increase in income generated from operating activities, excluding changes in current assets and liabilities; and

a $18.9 million increase in our accounts receivable balance from customers due to 25% growth in the number of subscribers in the first quarter of 2006 compared to the same period in 2005; offset by

a $18.4 million net decrease in accounts payable, accrued expenses, other current liabilities, other current and long-term assets and advances to Nextel WIP due to the timing of payments; and

a $20.3 million decrease in our on-hand subscriber equipment inventory due primarily to adding new phone models during the first quarter of 2005.

Net cash used from investing activities for the three months ended March 31, 2006 was $78.7 million compared to $37.3 million for the same period in 2005. The $41.4 million increase in net cash used from investing activities was primarily due to:

a $6.6 million increase in capital expenditures as a result of adding 84 cell sites during the three months ended March 31, 2006 compared to 62 cell sited added during the three months ended March 31, 2005;

a $2.4 million increase in FCC licenses acquired and other investing activities; and

a $27.2 million decrease in purchases of short-term investments (outflow) offset by a $59.6 million decrease in cash proceeds from the sale and maturities of short-term investments (inflow) due to a smaller investment portfolio in the first quarter of 2006 compared to the same period in 2005.

Net cash used from financing activities for the three months ended March 31, 2006 totaled $36.5 million compared to $21.2 million generated in the same period in 2005. The $57.7 million increase in net cash used from financing activities was due to:

a $50.0 million increase in cash used in the first quarter of 2006 for a principal repayment on our tranche D term loan;

a $9.5 million decrease in proceeds from stock options exercised and employee purchases of stock; and

a $0.1 million increase in capital lease payments and other financing activities; offset by

a $1.9 million increase in proceeds from sale-leaseback transactions.

Capital Needs and Funding Sources

Our primary liquidity needs arise from the capital requirements necessary to expand and enhance coverage in our existing markets that are part of the Nextel Digital Wireless Network. Other liquidity needs include the future acquisition of additional frequencies, the installation of new or additional switch equipment, the introduction of new technology and services, and debt service requirements related to our long-term debt and capital leases. Without limiting the foregoing, we expect capital expenditures to include, among other things, the purchase of switches, base radios, transmission towers and antennae, radio frequency engineering, cell site construction, and information technology software and equipment.

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Based on our ten-year operating and capital plan, we believe that our cash flow from operations, existing cash and cash equivalents, short-term investments and access to our line of credit, as necessary, will provide sufficient funds for the foreseeable future to finance our capital needs and working capital requirements to build out and maintain our portion of the Nextel Digital Wireless Network using the current 800 MHz iDEN system as well as provide the necessary funds to acquire any additional FCC licenses required to operate the current 800 MHz iDEN system.

To the extent we are not able to continue to generate positive cash from operating activities, we will be required to use more of our available liquidity to fund operations or we would require additional financing. We may be unable to raise additional capital on acceptable terms, if at all. Furthermore, our ability to generate positive cash from operating activities is dependent upon the amount of revenue we receive from customers, operating expenses required to provide our service, the cost of acquiring and retaining customers and our ability to continue to grow our customer base.

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

The following table provides details regarding our contractual obligations subsequent to March 31, 2006:

	Payments Due By Period						
Contractual Obligations	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
				(In thousands)			
Long-term debt	$	$ 3,750	$ 119,092	$ 5,000	$ 5,000	$ 956,250	$ 1,089,092
Interest on long-term debt(1)	46,286	74,620	74,096	72,345	71,842	75,679	414,868
Operating leases	85,376	105,149	94,470	83,850	54,660	59,744	483,249
Capital lease obligations(2)	3,920	5,227	5,227	5,227			19,601
Purchase obligations(3)							
Total contractual obligations	$ 135,582	$ 188,746	$ 292,885	$ 166,422	$ 131,502	$ 1,091,673	$ 2,006,810

(1) Includes interest on swaps of approximately ($750,000) for the remainder of 2006. These amounts include estimated payments based on management s expectation as to future interest rates.

(2) Includes interest.

(3) We expect to pay significant amounts to Motorola for infrastructure, handsets and related services in future years. Potential amounts payable to Motorola are not shown above due to the uncertainty surrounding the timing and extent of these payments. See notes to the consolidated condensed financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2005 for amounts paid to Motorola.

Sources of Funding

To date, third-party financing activities and cash flow from operations have provided all of our funding. Refer to our Annual Report on Form 10-K for the year ended December 31, 2005 for additional information on our sources of funding, including our refinancing activities.

As discussed in more detail in our Annual Report on Form 10-K for the year ended December 31, 2005, if we fail to satisfy the financial covenants and other requirements contained in our credit facility and the

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indentures governing our outstanding notes, our debts could become immediately payable at a time when we are unable to pay them, which could adversely affect our liquidity and financial condition.

In the future, we may opportunistically repurchase or redeem additional outstanding notes if the financial terms are sufficiently attractive.

Off-Balance Sheet Arrangements

The SEC requires registrants to disclose off-balance sheet arrangements. As defined by the SEC, an off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which a company 1) has made guarantees, 2) has a retained or a contingent interest in transferred assets, 3) has an obligation under derivative instruments classified as equity, or 4) has any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development services with the company.

We have examined our contractual obligation structures that may potentially be impacted by this disclosure requirement and have concluded that no arrangements of the types described above exist with respect to our company.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated condensed financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. The SEC has defined a company s most critical accounting policies as the ones that are most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. For additional information, see the notes to consolidated condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q and also please refer to our Annual Report on Form 10-K for the year ended December 31, 2005 for a more detailed discussion of our critical accounting policies. Although we believe that our estimates and assumptions are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions or conditions.

During the three months ended March 31, 2006, we did not make any material changes in or to our critical accounting policies except for the addition of the policy detailed below.

Income Tax on Stock-Based Compensation

On January 1, 2006, we adopted the provisions of SFAS No. 123R (See Note 4 Stock-Based Compensation). SFAS No. 123R prohibits the recognition of a deferred tax asset for an excess tax benefit that has not been realized related to stock-based compensation deductions. We adopted the with-and-without approach with respect to the ordering of tax benefits realized. In the with-and-without approach, the excess tax benefit related to stock-based compensation deductions will be recognized in additional paid-in capital only if an incremental tax benefit would be realized after considering all other tax benefits presently available to us. Therefore, our net operating loss carryforward will offset current taxable income prior to the recognition of the tax benefit related to stock-based compensation deductions. In the first quarter of 2006, there was $6.8 million of excess tax benefits related to stock-based compensation, which were not realized under this approach. Once our net operating loss carryforward is utilized, this excess tax benefit may be recognized in additional paid-in capital.

Related Party Transactions

See Note 8 Related Party Transactions in the notes to consolidated condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q for a full description of our related party transactions.

FORWARD-LOOKING STATEMENTS

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 in our Annual Report on Form 10-K for the year ended December 31, 2005 and as described from time to time in our reports filed with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q. 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;

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 specialized mobile radio 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 rebanding orders issued to Nextel WIP;

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 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We are subject to market risks arising from changes in interest rates. Our primary interest rate risk results from changes in LIBOR or the prime rate, which are used to determine the interest rate applicable to the term loan of OPCO under our credit facility. Our potential loss over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate of all our variable rate obligations would be approximately $4.0 million.

As of March 31, 2006, we had 8 1/8% senior notes due 2011 and 1 1/2 % convertible senior notes due 2008 outstanding. While fluctuations in interest rates may affect the fair value of these notes, causing the notes to trade above or below par, interest expense will not be affected due to the fixed interest rate of these notes.

We use derivative financial instruments consisting of interest rate swap and interest rate protection agreements in the management of our interest rate exposures. We will not use financial instruments for trading or other speculative purposes, nor will we be a party to any leveraged derivative instrument. The use of derivative financial instruments is monitored through regular communication with senior management. We will be exposed to credit loss in the event of nonperformance by the counter parties. This credit risk is minimized by dealing with a group of major financial institutions with whom we have other financial relationships. We do not anticipate nonperformance by these counter parties.

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 138, establish accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at fair value. These statements require that changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met, the changes in a derivative s fair value (for a cash flow hedge) are deferred in stockholders equity as a component of other comprehensive income. These deferred gains and losses are recognized as income in the period in which hedged cash flows occur. The ineffective portions of hedge returns are recognized as earnings. See Note 3 Significant Accounting Policies Interest Rate Risk Management in the notes to consolidated condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q for a full description of our hedging instruments.

A summary of our long-term debt obligations, including scheduled principal repayments and weighted average interest rates, as of March 31, 2006 follows:

	Remainder of 2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
				(Dollars in thousands)				
Long-term debt obligations:								
Fixed-rate debt	$	$	$ 114,092	$	$	$ 475,000	$ 589,092	$ 824,242
Average interest rate	6.8%	6.8%	7.0%	8.1%	8.1%	8.1%	7.4%	
	$	$ 3,750	$ 5,000	$ 5,000	$ 5,000	$ 481,250	$ 500,000	

Variable-rate debt(1)	
Average interest rate	(LIBOR + 1.5)%

(1) As of March 31, 2006, variable-rate debt consisted of our bank credit facility. The bank credit facility includes a $500.0 million tranche D term loan, a $100.0 million revolving credit facility and an option to request an additional $200.0 million of incremental term loans. The tranche D term loan bears interest, at our option, at the administrative agent s alternate base rate or reserve-adjusted LIBOR plus, in each case, applicable margin. The initial applicable margin for the tranche D term loan is 1.50% over LIBOR and 0.50% over the base rate. For the revolving credit facility, the initial applicable margin is 3.00% over

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LIBOR and 2.00% over the base rate and thereafter will be determined on the basis of the ratio of total debt to annualized EBITDA and will range between 1.50% and 3.00% over LIBOR and between 0.50% and 2.00% over the base rate. As of March 31, 2006, the average interest rate on the tranche D term loan was 6.32%.

Aggregate notional amounts associated with interest rate swaps in place as of March 31, 2006 were as follows (listed by maturity date):

	Remainder of 2006	2007	2008	2009	2010	Thereafter	Total	Fair Value Asset
	(Dollars in thousands)							
Interest rate swaps:								
Notional amount(1)	$ 100,000	$	$	$	$	$	$ 100,000	$ 689
Weighted-average fixed rate payable(2)	3.6%							
Weighted-average fixed rate receivable(3)								

(1) Includes notional amounts of $100.0 million that will expire in August 2006.

(2) Represents the weighted-average fixed rate based on the contract notional amount as a percentage of total notional amounts in a given year.

(3) The initial applicable margin for the tranche D term loan is 1.50% over LIBOR and 0.50% over the base rate. For the revolving credit facility, the applicable margin is 3.00% over LIBOR and 2.00% over the base rate and thereafter will be determined on the basis of the ratio of total debt to annualized EBITDA and will range between 1.50% and 3.00% over LIBOR and between 0.50% and 2.00% over the base rate. As of March 31, 2006, the interest rate on the tranche D term loan was 6.32%.

Item 4. ***Controls and Procedures***

We carried out an evaluation required by the Securities Exchange Act of 1934, under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, are effective in timely alerting them to material information required to be included in our periodic SEC reports.

There has been no change in our internal control over financial reporting during our first fiscal quarter of 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

See Note 7 Commitment and Contingencies Legal Proceedings in the notes to consolidated condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q for a full description of legal proceedings.

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

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

Please see our Annual Report on Form 10-K for the year ended December 31, 2005 for a detailed description of some of the risks and uncertainties that we face. If any of those risks were to occur, our business, operating results and financial condition could be seriously harmed.

Item 6. ***Exhibits***

(a)	List of Exhibits.
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to Registration Statement on Form S-1 declared effective February 22, 2000 (File No. 333-95473)).
3.1(a)	Certificate of Amendment to the Restated Certificate of Incorporation of Nextel Partners, Inc. (incorporated by reference to Exhibit 3.1 (a) to Quarterly Report on Form 10-Q filed August 9, 2004).
3.2	Amended and Restated Bylaws, effective of June 3, 2004 (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K filed March 16, 2005).
31.1	Certification of John Chapple, Chairman and Chief Executive Officer of Nextel Partners, Inc., pursuant to Exchange Act Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Barry Rowan, Chief Financial Officer of Nextel Partners, Inc., pursuant to Exchange Act Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of John Chapple, Chairman and Chief Executive Officer of Nextel Partners, Inc., pursuant to 18. U.S.C. Section 1350.
32.2	Certification of Barry Rowan, Chief Financial Officer of Nextel Partners, Inc., pursuant to 18 U.S.C. Section 1350.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEXTEL PARTNERS, INC.
(Registrant)
By: /s/ BARRY ROWAN

Barry Rowan
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)
By: /s/ LINDA ALLEN

Linda Allen
Chief Accounting Officer
(Principal Accounting Officer)

Date: May 3, 2006