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Title: Opposer's motion and Memorandum in Support of Summary Judgment

Part 1 of 2



IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

NEXTEL COMMUNICATIONS, INC.)

Opposer,)

Opposition No. 91159951

76/404829

v.

NEXX, LLC

TTAB

Applicant.)

OPPOSER'S MOTION AND MEMORANDUM IN SUPPORT OF SUMMARY JUDGMENT

Opposer, Nextel Communications, Inc. ("Nextel"), by and through counsel, hereby moves the Trademark Trial and Appeal Board ("the Board") pursuant to Fed.R.Civ.P. 56 for summary judgment on its Notice of Opposition against Nexx, LLC's ("Nexx") pending trademark application, Serial No. 76/404,829, for the NEXX mark used in connection with Applicant's multi-level marketing business services through which Applicant sells telecommunications services to the public.

I. INTRODUCTION

Nextel, a subsidiary of Sprint Nextel Corporation, is a leader in providing wireless telecommunications goods and services throughout the United States under its famous NEXTEL trademark. Nextel opposes the registration of Applicant's NEXX mark, which Applicant uses in connection with the sale of wireless telecommunications goods and services, based upon a likelihood of confusion with the NEXTEL mark. Nextel will be harmed if Applicant's mark is allowed to register. As discussed more fully below, the pleadings, depositions, answers to interrogatories, admissions by the parties and the Statement of Undisputed Material Facts, show that there is no genuine issue as to any material facts relating to whether there is a likelihood of confusion between Opposer's NEXTEL mark and Applicant's NEXX mark. Nor is there any genuine issue of fact that Applicant has failed to properly recite its services in an explicit manner as required by Section 1 of the Lanham Act. As such,



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its application is void. On either ground, Opposer is entitled to summary judgment as a matter of law.

Opposer will show that there is no factual dispute that Nextel has priority of use; NEXTEL is a famous mark; the marks are similar in sight, sound and meaning; Nextel and Nexx are both selling wireless telecommunications services under their respective marks; both parties' goods and services are promoted to the general public; the parties' goods and services travel in the same channels of trade; and the parties' goods and services are sold to the same consumers. Indeed, there is evidence in the record that there have been instances of actual confusion where the public has confused Nexx's products and services with Nextel's products and services. (See Applicant's Answer to Interrogatory No. 23 and Deposition of Carton, Exhibits M and L.) Further, Opposer will show that Applicant has presented no evidence that contradicts any of these issues. As such, there are no material facts in dispute that would prevent the Board from determining that there is a likelihood of confusion between the two marks. Thus, summary judgment is fully appropriate in this matter.

II. LEGAL STANDARD FOR SUMMARY JUDGMENT

Summary judgment is proper when there is no genuine issue of material fact, and the movant is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c); Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247; 106 S.Ct. 2505, 2509-10 (1986); Continental Can Co. USA, Inc. v. Monsanto, Co., 948 F.2d 1264, 1265 (Fed. Cir. 1991). A factual issue is "genuine" only if the evidence is such that a reasonable fact finder could return a verdict for the non-moving party under the applicable substantive evidentiary standard. Anderson, 477 U.S. at 254. Accordingly, it is the obligation of the non-moving party to "set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.P. 56(e). The mere identification of a dispute of fact will not necessarily defeat a motion for summary judgment if the fact disputed is not essential to the determination sought by the summary judgment motion; a factual dispute is material only if resolution of the dispute would affect the decision on the legal issue. Pure Gold, Inc. v. Syntex (U.S.A.), Inc., 739 F.2d 624, 636 (Fed. Cir. 1984). The Board should not deny summary

judgment “merely to satisfy a litigant’s speculative hope of finding some evidence that might tend to support a complaint.” Pure Gold, 739 F.2d at 627. (Citing First National Bank v. Cities Services Co., 391 U.S. 253, 290 (1968).

The Federal Circuit has held that the likelihood of confusion between two (2) marks is a question of law to be decided by the Board; Weiss Associates, Inc. v. HRE Associates, Inc., 902 F.2d 1546, 1547 (Fed. Cir. 1990). See also Pure Gold, Inc. v. Syntex (U.S.A.), Inc., *supra*, (likelihood of confusion is an issue well-suited for summary judgment). Moreover, 37 C.F.R. § 2.116(a) makes Fed.R.Civ.P. 56 applicable to all *inter partes* proceedings before the Board.

To prevail on a claim of likelihood of confusion under Section 2(d) of the Trademark Act of 1946 before the Board, an opposer must show by a preponderance of the evidence that it has priority in a valid trademark and that the opposed mark, when used with the services specified in the disputed application, is likely to cause confusion or to cause mistake or to deceive the public. Baroid Drilling Fluids, Inc v. Sun Drilling Products, 24 U.S.P.Q.2d 1048, 1052 (TTAB 1992). The standard to prevail on a likelihood of confusion claim on summary judgment is even more stringent: the moving party must show not merely a preponderance of the evidence, but that there is no genuine issue as to any material fact that would defeat the moving party’s claim that it is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c), Celotex v. Catrett, 477 U.S. 317 (1986); T.A.B. Systems v. PacTel Teletrac, 77 F.3d.1372, 37 U.S.P.Q.2d 1879, 1881 (Fed. Cir. 1996). In this proceeding, there is no genuine issue of any material fact contrary to a finding of confusion between the two (2) marks.

III. ARGUMENT

As demonstrated below and consistent with existing case law, there are no disputed material facts that are necessary for a determination by the Board of likelihood of confusion or Applicant’s failure to properly recite its services in its application. Accordingly, it is appropriate for the Board to grant Opposer’s Motion for Summary Judgment and deny Application No. 76/404,829.

A. The Board Should Grant Opposer's Motion For Summary Judgment Because There Is A Likelihood Of Confusion Between Opposer's NEXTEL Marks And Applicant's NEXX Mark.

The Board should grant Opposer's Motion for Summary Judgment because there is a substantial likelihood of confusion between Opposer's NEXTEL mark and Applicant's NEXX mark under the standards set forth in Application of E.I. DuPont DeNemours & Co. 476 F.2d 1357, 177 U.S.P.Q. 563 (C.C.P.A. 1973). The applicable standard for determination of the issue of likelihood of confusion in an opposition proceeding is set forth in DuPont, *supra*.

In DuPont, the Court of Customs and Patent Appeals identified thirteen (13) evidentiary factors that should be evaluated in determining whether a likelihood of confusion exists. As is clear from the decision itself, these factors are not listed in order of merit. Rather the significance of each factor and its relevance to subsequent cases varies from case to case. DuPont, 476 F.2d at 1361. As such, only those factors most relevant to this case are discussed below. These factors are: (1) the similarity of the marks as to appearance, sound, connotation and commercial impression; (2) the similarity of the services offered in connection with the marks NEXX and NEXTEL; (3) the similarity of established, likely-to-continue trade channels; (4) the fame of the NEXTEL mark; and (5) the existence of actual confusion. DuPont, 476 F.2d at 1361. Each of these factors will be discussed in turn below.

1. Nextel Communications, Inc. Should Prevail in Its Opposition to Registration Because the Marks NEXTEL and NEXX Are Confusingly Similar.

The Board should grant summary judgment in Nextel's favor because the marks NEXTEL and NEXX are confusingly similar. In evaluating whether marks are confusingly similar, the Board looks at the entirety of the marks and compares the marks' respective appearance, sound, connotation and commercial impression. Century 21 Real Estate Corporation v. Century 21 Life of America, 970 F.2d 874, 876; 23 U.S.P.Q.2d 1698 (C.A. Fed 1992). It is beyond argument that the marks NEXTEL and NEXX are similar in appearance, sound, and commercial impression when used for comparable communication services.

a. **The marks NEXTEL and NEXX are confusingly similar in appearance.**

It is undisputed that the mark NEXX as shown in Application No. 76/404,829 includes the initial letters NEX in identical order and spelling as Nextel's Mark. Additionally, the font used by Nexx is strikingly similar to the font used by Nextel. Further NEXX has adapted terms such as NEXX wireless services and NEXX Connect which also tend to create an association with Opposer. Opposer submits that the prefix NEX is the dominant part of both Opposer's NEXTEL mark and Applicant's NEXX mark and, therefore, the likelihood of confusion is increased.

Specifically, the prefix NEX in both marks, as the first portion of both marks, "is most likely to be impressed upon the mind of a purchaser and remembered." Presto Products v. Nice-Pak Products, 9 U.S.P.Q.2d 1895, 1897 (T.T.A.B. 1988). In Presto Products, the Board found that the marks "KIDS WIPES" and "KID STUFF" were confusingly similar, largely because they shared the same first word "KID" which would be impressed upon and remembered by the consumer. Similarly, here the consumer will be drawn to the prefix NEX as the first and dominant portion in the parties' respective marks.

The prefix NEX is the dominant portion not only because it appears first, but also because it is arbitrary and/or suggestive when applied to telecommunications goods and services. On the other hand, the suffix TEL is arguably descriptive of those goods and services. Although there is no mechanical test to select a "dominant" element of a compound word mark, consumers would be more likely to perceive a fanciful or arbitrary term rather than a descriptive or generic term as the source-indicating feature of the mark. Accordingly, if two marks for related goods or services share the same dominant feature and the marks, when viewed in their entireties, create similar overall commercial impressions, then confusion is likely. See In re J.M. Originals Inc., 6 U.S.P.Q.2d 1393 (TTAB 1987) (JM ORIGINALS (with "ORIGINALS" disclaimed) for various items of apparel held likely to be confused with JM COLLECTABLES for "knitwear -- namely, sport shirts").

Where, as here, the dominant portion of both marks is identical, the likelihood of confusion increases. See Nina Ricci, S.A.R.L. v. E.T.F. Enterprises, Inc., 889 F.2d 1070, 1073, 12 U.S.P.Q.2d 1901, 1903 (Fed. Cir. 1989) (ETF's use of the word "RICCI" as part of its mark "VITTORIO RICCI" held confusingly similar to registrant's "NINA RICCI" and related "RICCI" marks and that "RICCI" was the unifying and dominant portion of registrant's marks). Moreover, where the dominant portion of the marks is the same, peripheral differences will not avoid a likelihood of confusion. See In re Riddle, 225 U.S.P.Q. 630 (TTAB 1985) (RICHARD PETTY'S ACCU TUNE held confusingly similar to ACCUTUNE). This is especially true where the peripheral differences are merely descriptive. See In re California Pizza Kitchen, supra. Applicant cannot avoid a likelihood of confusion with Opposer's NEXTEL mark simply by excluding TEL from its mark. This difference between the marks is minor when looking at the marks as a whole. As such, there is a significant likelihood that, when viewing both marks in commerce – where the words, "telecommunication," "wireless service" or "phone service" are present - a customer will be confused as to the source or sponsorship of the goods sold in connection therewith.

b. The marks NEXTEL and NEXX are confusingly similar in sound and pronunciation.

Additionally, the similarity in the sound and pronunciation of trademarks is an important factor in determining a likelihood of confusion. DuPont, 476 F.2d at 1361; Kenner Parker Toys, Inc. v. Rose Art Industries, Inc., 963 F.2d 350, 22 U.S.P.Q.2d 1453, 1457 (Fed. Cir. 1992). In Kenner Parker, the Federal Circuit concluded that given the similarity in the sounds of the respective marks, the marks were confusingly similar. See Kenner Parker, 22 U.S.P.Q.2d at 1457. In that case, the Federal Circuit held that identical pronunciation of the single-syllable suffixes DOH ("Play-Doh") and DOUGH ("Fundough") led to the "graphic confusability" of the two terms. Kenner Parker, 22 U.S.P.Q.2d at 1457. Likewise, in the present case, there can be no dispute that the letters NEX are pronounced the same way. Such similarity in sound is further evidence of the confusing similarity of the marks at issue.

It follows that such identical pronunciations would lead to the same confusability, and likelihood of confusion, that was present in Kenner Parker.

c. **The marks NEXTEL and NEXX create a similar commercial impression.**

It is also significant that the parties' respective marks create the same commercial impression. DuPont, 476 F.2d at 1361, 177 U.S.P.Q. at 567. Commercial impression is "occasionally used as a proxy for the ultimate conclusion of similarity or dissimilarity of marks resulting from a comparison of their appearance, sound, and meaning." Palm Bay Imps., Inc. v. Veuve Clicquot Ponsardin Maison Fondee En 1772, 396 F.3d 1369, 1372 (Fed. Cir. 2005). The court in Hewlett-Packard Co. v. Packard Press, Inc., 281 F.3d 1261, 1266-67 (Fed. Cir. 2002) found that although the marks PACKARD TECHNOLOGIES and HEWLETT PACKARD differed in appearance and sound, they conveyed a similar commercial impression because consumers would be aware of Hewlett-Packard's heavy involvement in technology-based goods and, therefore, the marks were similar in their entireties. Similarly, in Morton-Norwich Prods., Inc. v. S.C. Johnson & Son, Inc., 531 F.2d 561, 562 (C. C.P.A. 1976) the court held that RAINFRESH was confusingly similar to RAIN BARREL given the close relationship of the goods and "similarity of commercial impressions."

Here, Applicant's NEXX mark creates a similar commercial impression with customers. The parties' use of the identical NEX prefix as the dominant portion of the respective marks in connection with identical services (see below) is likely to create the identical commercial impression. Both parties use NEX in connection with pictures of cell phones, handsets and the word "telephone" for products in the same or similar industry. As such, they create the same commercial impression. (See copies of Applicant's advertising materials attached hereto as Exhibit J.) Moreover, Applicant's use of its NEXX mark as a prefix in connection with the sale of its telecommunications services has included, but not been limited to, the terms NEXXWIRELESS and NEXXCONNECT. These phrases clearly show that Applicant is using and intends to use the NEX portion of its mark in the context of telecommunications

descriptors such as “wireless” and “connect” to create the same commercial impression as the NEXTEL mark. Therefore, the Board should find that this factor weighs in favor of granting summary judgment for Opposer.

2. The Parties’ Respective Goods and Services are Virtually Identical.

The similarity or dissimilarity of the parties’ respective services is also relevant to whether there is a likelihood of confusion. DuPont, 177 U.S.P.Q.2d at 567. See also J.C. Hall Company v. Hallmark Cards, Incorporated, 340 F.2d 960, 963, 144 U.S.P.Q. 435, 438 (C.C.P.A. 1965). This factor strongly favors Opposer.

It is not necessary for the services of Opposer and Applicant to be identical for a likelihood of confusion to exist. Safety-Kleen Corp. v. Dresser Industries, Inc., 518 F.2d 1399, 1404, 186 U.S.P.Q. 476, 480 (C.C.P.A. 1975); W.E. Kautenberg Co. v. Ekco Products Company, 251 F.2d 628, 631, 116 U.S.P.Q. 417, 419 (C.C.P.A. 1958) (ECKO as applied to kitchen utensils held confusingly similar to WECKO as applied to mops and related products). Here, however, it is undisputed that Opposer’s services are identical to the services Applicant uses in connection with its NEXX mark, (i.e., telecommunications goods and services).

There is no factual dispute based on the record before the Board that Applicant’s services are identical to Opposer’s goods and services. Notwithstanding the fact that the recitation of services in Application Serial No. 76/404,829 is for multi-level marketing services, the goods and services offered by Applicant under its NEXX mark are *telecommunications services*. Specifically, Applicant is not selling know-how respecting “multi-level marketing systems” for others to implement. Instead, it sells telecommunications goods and services to the general public under its NEXX mark through multi-level marketing i.e. (representatives solicit customers to buy telephones then get others to buy, etc.). Thus, Applicant is offering goods and services to the public under its NEXX brand that are identical to NEXTEL’s goods and services. The fact that NEXX employs a “multi-level marketing system” on

selling its phone services does not differentiate the similarity of the goods and services at issue here. Qwest Communications International, Inc. v. OneQwest, LLC, 2002 U.S. Dist. LEXIS 25469. That “multi-level marketing” is in a different class than telecommunications in no way avoids a finding of likelihood of confusion.

As pointed out by the Federal Circuit in Jean Patou, Inc. v. Theon, Inc., 9F.3d 971, 29 U.S.P.Q.2d 1771, It is elementary that a registrant has rights under the statute only with respect to goods on which the trademark has been used. Trademark ownership results only from use, not from registration. Classification is to facilitate searching for registered marks which is primarily what is meant by “the convenience of the” PTO. See also 37 CFR § 2.85(g) (“Classification schedules shall not limit or extend the applicant’s rights.”) (attachment omitted.)

Applicant has conceded on numerous occasions that its services are substantially comprised of the sale of telecommunications goods and services to the general public. (See Applicant’s advertising materials attached hereto as Exhibit J.)

Thus, there is no question that the parties’ goods and services offered in connection with their respective NEXTEL and NEXX marks are identical. Therefore, consumers are likely to be confused by Applicant’s use of its NEXX mark.

3. The Similarity of the Parties’ Respective Trade Channels Increases the Likelihood of Confusion Between Applicant’s Mark and Opposer’s Mark.

If the users of two (2) similar marks also use similar trade channels to advertise their goods and services, there is a greater likelihood of confusion between the two (2) marks. DuPont, 476 F.2d at 1361, 177 U.S.P.Q.2d at 567; Fleischmann Distilling Corp. v. Maier Brewing Company, 314 F.2d 149, 161 (9th Cir. 1963).

Opposer and Applicant use the same channels of trade for the promotion and sale of their respective goods and services. For the purposes of a likelihood of confusion analysis, Applicant is presumed to use all normal and customary channels of trade. In re Southern Belle Frozen Foods, Inc., 48 U.S.P.Q.2d 1849 (TTAB 1998) (TTAB held that it must “presume that registrant’s packaged cooked meals include goods of all such types sold in *all normal channels of trade* for those goods...”)

(Emphasis added). In fact, Applicant and Opposer both promote their services through identical channels of trade. The Federal Circuit has stated that sharing of distribution channels among similar marks enhances the likelihood of confusion of those marks. Century 21, 970 F.2d at 877, 23 U.S.P.Q.2d at 1700.

In this case, the parties' use of substantially *identical* channels of trade increases the likelihood of confusion. Specifically, both Applicant and Opposer actively promote and sell their respective goods and services through the internet by use of their websites. (See printouts of www.nextel.com and www.sprint.com attached hereto as Exhibit D, and printouts of www.nexx.net attached hereto as Exhibit K.) In addition, both parties utilize direct sales techniques. In response to Opposer's Interrogatory No. 15, Applicant stated that it uses direct sales in connection with the sale of its goods and services, through its "warm customer sales." (See Applicant's responses to interrogatories attached hereto as Exhibit N.) In fact, Applicant produced specimens of "door knob" hangers and other direct advertising where the mark NEXX is used to sell telecommunications goods and services directly to the consumer. (See specimens of direct advertising attached hereto as Exhibit J). Similarly, Opposer utilizes direct to consumer advertising such as direct mailers to promote and sell its goods and services. (See specimens of Opposer's direct advertising attached hereto as Exhibit E). Finally, both parties promote and advertise their goods and services in connection with their respective marks in media advertising. (See Applicant's responses to Interrogatories Nos. 15 and 17 attached hereto as Exhibit M and Opposer's specimens of advertising attached hereto as Exhibits F and G.)

As such, it is clear that the parties utilize the same channels of trade to promote and sell identical goods and services in connection with confusingly similar marks.

4. The Opposer's Mark Is Famous and Therefore Entitled to a Broad Scope of Protection.

Since 1988, Opposer has continuously and extensively used its mark in interstate commerce in

connection with telecommunications goods and services. It has garnered substantial notoriety in association with its telecommunications services and is currently the third largest cellular telephone company in the United States. (See newspaper articles and advertising materials Exhibit A). Nextel operates hundreds of company-owned and licensed retail stores nationwide offering telecommunications products and services. Opposer's customers are located in all 50 states, the District of Columbia, Puerto Rico and the territories. (See Nextel's Annual Report attached hereto as Exhibit B). Millions of consumers are exposed to the NEXTEL mark every day through print advertisements in national newspapers, television and radio commercials, sponsorship of NASCAR and other professional sporting events, in-store displays, brochures, billboards, catalogs and signage. Between the period of 2002 and 2005, Nextel spent more than One Hundred Million Dollars (\$100,000,000.00) in advertising its telecommunications services. Also, Nextel and Sprint operate Internet websites that prominently display the Nextel mark and are regularly visited by many thousands of customers weekly. As such, the NEXTEL mark has become famous and distinctive and should therefore be entitled to a broad scope of protection.

Fame of an Opposer's mark plays a "dominant role in the process of balancing the DuPont factors." Recot, Inc. v. M.C. Becton, 214 F.3d 1322, 1327 (Fed. Cir. 2000). Famous marks enjoy a wide latitude of legal protection since they are more likely to be remembered and associated in the public mind than weaker marks. Thus, they are more attractive as targets for would-be copyists. Id. Further, as the fame of a mark increases, the degree of similarity between the marks necessary to support a conclusion of likely confusion declines. Bose Corporation v. QSC Audio Products Inc., 293 F. 3d 1367, 63 U.S.P.Q.2d 1303 (Fed. Cir. 2002).

The Federal Circuit has stated repeatedly that there is no excuse for even approaching the well-known trademark of a competitor inasmuch as "[a] strong mark casts a long shadow which competitors must avoid." Kenner Parker Toys, 963 F.2d at 353. There is no doubt that Applicant is a competitor to

Opposer. (See Exhibit J, Example 1) Applicant's use of its NEXX mark in connection with its telecommunications services and goods clearly will deceive, cause confusion or mistake within the public's mind as to the source or origin of Applicant's goods.

5. Registration Should Be Denied Because Actual Confusion In The Market Place Already Exists

Summary judgment is also appropriate in this proceeding due to the existence of actual consumer confusion between the parties' respective marks. Historically, a showing of actual confusion is unnecessary in order to establish likelihood of confusion. Weiss Associates Inc. v. HRL Associates Inc., 14 U.S.P.Q.2d 1840, 1842-43 (Fed. Cir. 1990). However, when actual confusion does exist, it is very potent evidence thereof. In fact, even a single instance of confusion has been held "illustrative of how and why confusion is likely." Molenaar, Inc. v. Happy Toys Inc., 188 U.S.P.Q. 469 (TTAB 1975). Generally, the Courts agree that "[t]here can be no more positive or substantial proof of the likelihood of confusion than proof of actual confusion." World Carpets, Inc. v. Dick Littrell's New World Carpets, 168 U.S.P.Q. 609 (5th Cir. 1971); see also In re Majestic Distilling Co., Inc., 65 U.S.P.Q.2d 1201 (Fed. Cir. 2003) ("A showing of actual confusion would of course be highly probative, if not conclusive, of a high likelihood of confusion); Tools USA and Equipment Co. v. Champ Frame Straightening Equipment Co., 39 U.S.P.Q.2d 1355 (4th Cir. 1996) ("evidence of actual consumer confusion 'is patently the best evidence of likelihood of confusion'").

Here, Applicant has admitted awareness of several instances of actual market place confusion between the marks at issue. (See Excerpt of Deposition of Christopher Carton at page 21, lines 8 - 20 attached hereto as Exhibit L.) Specifically, multiple consumers have contacted Applicant when in fact looking for Opposer's goods and services. (See Applicant's Response to Opposer's First Set of Interrogatories attached hereto as Exhibit M.) The occurrence of this actual confusion is proof that future confusion also remains likely, Intern., Inc. v. Trek Bicycle Corp., 64 U.S.P.Q.2d 1564 (9th Cir.

2002). Since consumers have been actually confused between the NEXTEL and NEXX marks, a likelihood of confusion has already been established in this case. Based on the reasoning above, this evidence of actual confusion can only weigh heavily in Opposer's favor for purposes of granting summary judgment.

B. Applicant's NEXX ITU Application For "Multi-level Marketing Services" Does Not Authorize It To Sell All Products and Services Under The NEXX mark

Section 1(b)(3)(D) of the Lanham Act requires that the application for registration include a verified statement specifying that,

to the best of the verifier's knowledge and belief, no other person has the right to use such mark in commerce either in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods of such other person, to cause confusion, or to cause mistake, or to deceive.

As a matter of law, Applicant cannot meet this requirement since it is undisputed that it intends to offer and is currently offering, telecommunications services not specified in the Application and Applicant knows of other purveyors of telecommunications services that sell such services under marks that are in near resemblance to Applicant's mark. Further, TMEP § 1402.01 requires that:

[a] written application must specify the particular goods or services on or in connection with which the applicant uses, or has a bona fide intention to use, the mark in commerce. (citing § 1051 (a)(2) and 1051(b)(2); 37 C.F.R. § 2.32(a)(6). **To specify means to name in an explicit manner.**" (Emphasis added.)

Here, it is admitted that the Applicant offers telecommunications services and that "Applicant offers it multi-level marketing business services for all goods/and or services than can be profitably marketed...."² In addition, Applicant admits that it uses its NEXX mark "in close proximity to the telecommunications services it markets."³ Thus, it is clear that Applicant intends to sell goods and services under the NEXX mark that are not explicitly identified by use of the phrase "multi-level

² Applicant's Answer to Averment 14.

³ Id. Averment 4.

marketing services." Accordingly, the Opposition should be sustained because Applicant has failed to properly recite its services in an explicit manner as required by Section 1 of the Lanham Act.

Throughout this proceeding, Applicant has insisted that its specification of "multi-level marketing business services" authorizes it to sell all manner of goods and services under its NEXX mark. As Applicant admits, it intends to sell anything that it profitably can under its NEXX trademark including, but not limited to, telecommunications services. However, no registration for such multi-level marketing services also automatically gives the owner the right to sell the underlying services under the mark. For generations, retailers have specified explicitly the goods they intended to sell at retail if they intended them to be covered by their trademarks. Sears, Wal-Mart, JC Penney et al have very specific registrations for the goods they intend to sell under their brands. They do not simply rely on a registration for retail services. Indeed, applications for retail services without identification of the products to be sold are routinely rejected. Similarly with advertising services, an ad agency cannot necessarily sell the goods it advertises for others under the ad agency's own mark unless those goods are also specified in the ad agency applications. In fact, review of the trademark register respecting the marks of Amway, the leader in multi-level marketing services, shows that Amway, like other retailers, specifies with particularity the goods and services it sells under its mark in accordance with the requirements of TMEP § 1401.

However, Applicant is attempting to avoid the requirement to specify its goods and services explicitly. It is clear that Opposer, having standing to challenge the Application, can "raise any legal defect or deficiency in the application." McCarthy on Trademarks § 20:13, p. 20-28, citing Community of Roquefort v. Santo, 443 F.2d 1196, 170 U.S.P.Q. 205 (C.C.P.A. 1971)

Summary judgment is appropriate to resolve whether Applicant's NEXX ITU application for "multi-level marketing services" is sufficiently explicit under the requirements of TMEP § 1401.

IV. CONCLUSION

For the foregoing reasons, the Board should grant the Opposer's Notice of Opposition and deny the registration of the mark NEXX.

Respectfully submitted by Nextel Communications, Inc.



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CERTIFICATE OF SERVICE

I hereby certify that on this 14th day of August, 2006, the foregoing OPPOSER'S MOTION FOR SUMMARY JUDGMENT and MEMORANDUM IN SUPPORT OF OPPOSER'S MOTION FOR SUMMARY JUDGMENT, with STATEMENT OF UNDISPUTED MATERIAL FACTS and Exhibits, are being hand delivered in an envelope addressed to the Trademark Trial and Appeal Board, U.S. Patent and Trademark Office, P.O. Box 1451, Alexandria, VA 22313-1451 and that a copy of the above Motion, Memorandum and Exhibits are being deposited with the United States Postal Service as First-Class Mail, postage prepaid, in a separate envelope to the following address:

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<i>Kenner Parker Toys</i> , 963, <u>F.2d at 353</u>	6, 7, 11
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<i>Nina Ricci, S.A.R.L. v. E.T.F. Enterprises, Inc.</i> , 889 F.2d 1070, 12 U.S.P.Q.2d 1901 (Fed. Cir. 1989)	6
<i>Palm Bay Imps., Inc. v. Veuve Clicquot Ponsardin Maison Fondée En 1772</i> , 396 F.3d 1369 (Fed. Cir. 2005)	7
<i>Presto Products v. Nice-Pak Products</i> , 9 U.S.P.Q.2d 1895 (T.T.A.B. 1988)	5
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STATEMENT OF UNDISPUTED MATERIAL FACTS

Opposer submits the following undisputed material facts which entitle it to summary judgment as a matter of law.

- A. Nextel¹ has continuously and extensively used its NEXTEL mark in commerce in connection with its wireless telecommunications goods and services since at least as early as 1988 and, in any event, long prior to the earliest date of use asserted by Applicant. (See Specimens of use of the NEXTEL mark attached hereto as Exhibit A).
- B. Nextel spends millions of dollars annually in advertising its NEXTEL telecommunications goods and services throughout the United States and has annual revenue sales in excess of Forty Four Billion United States Dollars (\$44,000,000,000). (See copies of Nextel's Annual Reports for 2001-2005 collectively attached hereto as Exhibit B).
- C. Nextel is the owner of valid and subsisting United States Trademark registrations for the mark NEXTEL. Specifically Nextel holds U.S. Trademark Registration No. 1,637,139 granted on March 5, 1991 for telecommunications services in International Class 38; Registration Number 1,884,244 granted on March 14, 1995 for telecommunications goods in International Class 9; Registration Number 2,598,210 granted on July 23,2002 for wireless equipment and telecommunications services in International Class 9 and 38; and Registration Number 2,391,504 granted on October 3, 2000 for telecommunications goods and services in International Classes 9 and 38. (See Copies of Certificates of Registration collectively attached hereto as Exhibit C.)
- D. Nextel Communications, Inc. was acquired by Sprint Corporation to form Sprint Nextel in 2005 in a transaction valued at Thirty-Eight Billion US Dollars (\$38,000,000,000). (See Copy of Sprint Nextel 2005 Annual Report attached hereto as Exhibit C.)
- E. Nextel owns and operates Internet websites www.nextel.com and www.sprint.com through which it sells its NEXTEL telecommunications products and services. (See Printouts of www.nextel.com and www.sprint.com web sites collectively attached hereto as Exhibit D.)
- F. Substantially all of the products offered for sale on Nextel's www.nextel.com and www.sprint.com Internet websites are telecommunications products and services. (See Printout of www.nextel.com and www.sprint.com web sites collectively attached hereto as Exhibit D.)
- G. Nextel sells its goods and services through a variety of different channels of trade, including but not limited to, its web site and Internet advertising (see Exhibit D), direct marketing mailings (see Exhibit E), national advertising (see Exhibit F), sports/entertainment sponsorships (see Exhibit G), and direct sales to corporate and government customers (see Exhibit H).

¹ References to "Nextel" includes Nextel Communication, Inc. as it existed before the merger with Sprint Corporation and Sprint Nextel which was formed through the merger.

- H. Applicant Nexx, LLC filed its intent to use trademark application for the NEXX mark on May 6, 2002 with a recitation of services for multi-level marketing business services in International Class 35. (See Trademark Application Serial No. 76/404,829 attached hereto as Exhibit I.)
- I. Applicant's multilevel marketing services offered in connection with the NEXX mark are substantially comprised of the sale of telecommunications products and services. (See Nexx marketing materials (collectively attached hereto as Exhibit J), and Internet website, www.nexx.net (attached here to as Exhibit K.))
- J. Applicant admits that its multi-level marketing business services consists of selling goods and services in the field of telecommunications, such as local and long distance services, international calling cards and Internet services. (See Applicant's Answer to Notice of Opposition, paragraph 3.)
- K. Applicant owns and operates an Internet website www.nexx.net through which is sells its telecommunications products and services under the NEXX mark. (See Exhibit K.)
- L. Nextel's services offered in connection with its NEXTEL mark are identical to or substantially similar to the wireless goods and services offered by Applicant under its NEXX mark in connection with its multilevel marketing services.
- M. Applicant offers its telecommunications services to the public through the Internet and direct sales methods. (See Applicant's www.nexx.net web site attached hereto as Exhibit K and Applicant's advertising materials attached hereto as Exhibit J.)
- N. Applicant's President, Christopher Carton, admitted in a deposition taken on February 14, 2005 that he is aware of confusion in the market place between the two marks. (See Excerpt of Deposition of Christopher Carton at page 21 lines 8 – 20 attached hereto as Exhibit L.)
- O. Applicant admitted in Response to Interrogatory 23 (signed by Applicant's Corporate Counsel, Nicholas A. Perrino, Esq.) that Applicant was aware of various instances of actual confusion between Applicant's use of its NEXX mark and Opposer's NEXTEL mark. (See Applicant's Response to Opposer's First Set of Interrogatories attached hereto as Exhibit M.)
- P. Opposer's NEXTEL mark and Applicant's NEXX mark begin with the same three letters NEX which are spelled alike, sound alike and appear alike.
- Q. Nextel has never authorized Applicant Nexx to use the NEXX mark in connection with its sale of telecommunications goods or services or any other services.

dc-460010

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

NEXTEL COMMUNICATIONS, INC.)

Opposer,)

v.)

NEXX, LLC)

Applicant.)

Opposition No. 91159951


DECLARATION OF DONNA M. B. DUNN

I, Donna M. B. Dunn, declare as follows:

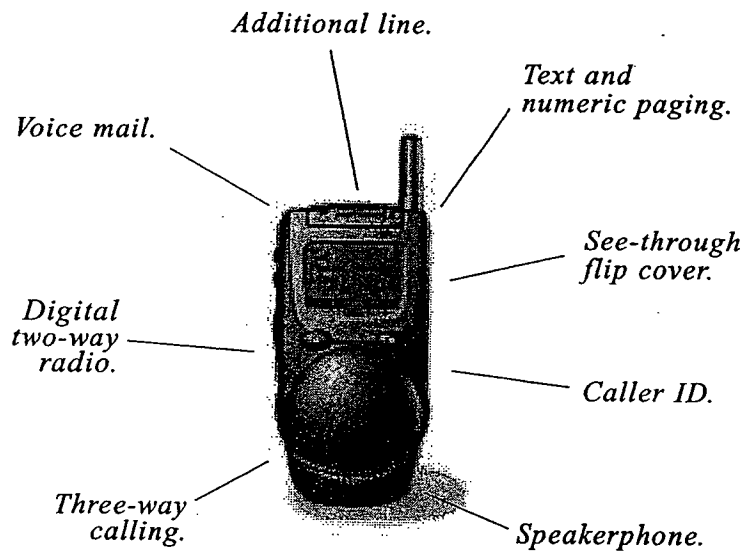
1. I am a legal secretary with the law firm of Morrison & Foerster LLP, counsel for Applicant, Nextel Communication, Inc. I make this Declaration in support of Applicant's Opposition. Unless otherwise stated, I have personal knowledge of the matters set forth in this Declaration and, if called upon to do so, could and would competently testify thereto.

2. On August 11, 2006, I conducted Internet searches using GOOGLE and Yahoo! search engines for the term "NEXX.NET", and found www.nexx.net. On that website I found that they offered five products and services of which all five appear to be telecommunications related.

I declare under penalty of perjury under the laws of the District of Columbia that the above is true and correct and that this Declaration was executed on August 14, 2006 in Washington, DC.


Donna M. B. Dunn

**Big enough
to change an industry.
Small enough
to fit in your pocket.**



If you thought we shook up the cellular phone business when we eliminated roaming charges and began rounding to the second, wait until you see our new i1000™ from Motorola.* A phone so advanced, it packs

digital cellular service, a two-way radio, paging, voice mail and a remarkably clear speakerphone into a compact 5.4 ounces. The new i1000. An unexpected phone from the only company you'd expect it from.

www.nextel.com

Nextel phones are manufactured by  MOTOROLA

Nextel. How business gets done.®

1-800-NEXTEL9

*Unlimited Private Calling refers to Nextel Direct Connect Private Calling only. Pricing and promotions subject to change. New activations only. Certain restrictions apply. Offer expires 9/30/99. ©1999 Nextel Communications, Inc. All rights reserved. Nextel, the Nextel logo, Nextel Direct Connect, Nextel Business Networks, and How business gets done are registered trademarks and/or service marks of Nextel Communications, Inc. *Motorola, iDEN, i390, i600, and i1000 are trademarks and/or registered trademarks of Motorola, Inc.

PICK UP ON THIS GREAT DEAL:

Choose a plan by July 31st and get incoming calls FREE 24 hours a day, 7 days a week!

- No time limit on your inbound calls. Whether they're 20 seconds, 20 minutes or 20 hours long — the calls are free.
- No airtime charged to you for any incoming calls — no matter where you are on the Nextel National Network — in state, out of state, landline or cellular.
- No strings attached. Period.

Control your cellular costs with these Nextel benefits!

- One-second rounding after the first minute and no roaming fees.
- Predictable, flat-rate long distance.
- All-in-one convenience: a phone, pager and Nextel Direct Connect® digital 2-way radio* — in one sleek handset. And just one consolidated bill.

Choose the Nextel "Free Calls" plan that fits your needs.

	PLAN 1	PLAN 2	PLAN 3
Incoming Calls	FREE	FREE	FREE
Outgoing Digital Cellular Minutes	500	1,200	3,000
Nextel Direct Connect Minutes**	Unlimited	Unlimited	Unlimited
Numeric Paging	Unlimited	Unlimited	Unlimited
Monthly Access†	\$70	\$72	\$72

Call 1-800-569-4071 by July 31, 1999.

NEXTEL

www.nextel.com

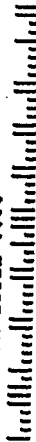
* This powerful, digital radio connects you instantly to Nextel phones as far as 150 miles away within coverage area. ** Unlimited talk time applies to Private Calling only. † Requires new activation and one-time \$50 activation fee per account. Limited-time offer. Valid only in certain markets. Some restrictions apply.

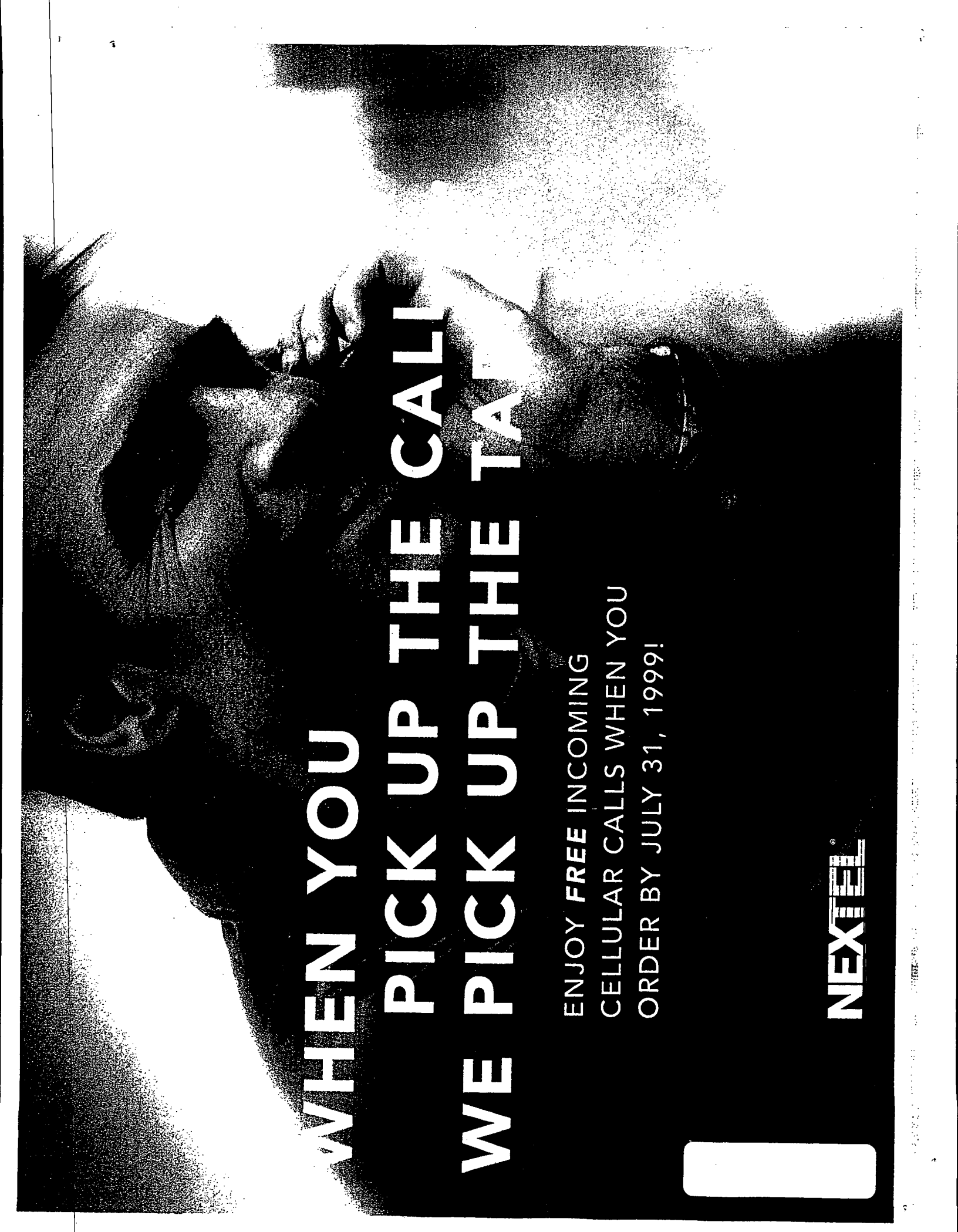
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PRSRT STD
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Nextel Communications
PO Box 1045
Southeastern, PA 19399-1045

9899999990
JOHN Q. SAMPLE
OFFICE MANAGER
DEVON DIRECT
200 BERWYN PARK
BERWYN PA 19312-0000





**WHEN YOU
PICK UP THE CALL
WE PICK UP THE TAB**

ENJOY **FREE** INCOMING
CELLULAR CALLS WHEN YOU
ORDER BY JULY 31, 1999!

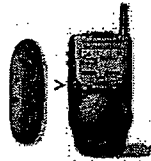
NEXTEL[®]



Does the size of your
cellular bill suggest
this is the button you've
been pressing?



Try pushing a different button. Nextel Direct Connect® It's the two-way radio feature built in to every one of our Motorola® phones. Direct Connect lets you contact co-workers instantly at the touch of a button and talk for a fraction of the cost of ordinary cellular. So you won't lose time waiting for calls to be returned, and you can get on with business. Which, as you know, is where the real money is.



www.nextel.com

1-800-NEXTEL9

NEXTEL

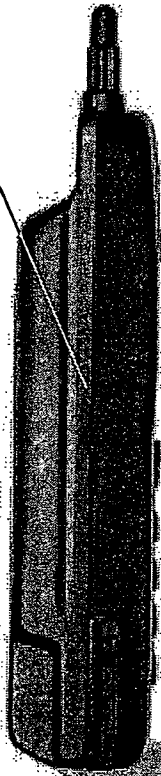
Nextel phones are manufactured by  MOTOROLA

Promo: XXXX99-000-000

It's time to choose sides.

Their Side

Oh look, there's nothing there!



Our Side

It's the Nextel Direct Connect® button.

It gives you instant push-button contact.

It lets you talk for a fraction of the cost of cellular.

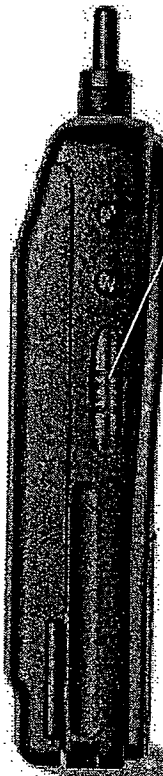
It lets you network with others in your industry.

It works like a digital two-way radio.

It uses high-quality Motorola® technology.

It connects you to an actual person.

It's changing the way you use cellular phones.



Nextel Direct Connect® gives you instant contact to all your business associates and lets you talk for a fraction of the cost of cellular. Of course, with

Nextel you also get full digital cellular capabilities, text/numeric paging and voice mail. So call us today. We'll make sure you end up on the right side.

www.nextel.com

1-800-NEXTEL9

NEXTEL

Nextel phones are manufactured by  MOTOROLA

Promo: NXGL99-031-073

LOST



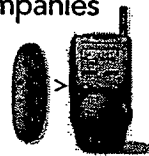
(Sales Manager)

Eyes: Brown

Suit: Navy

Tie: Power

If found: Please tell him to join his local Nextel Business Network,™ which would allow him to use Nextel Direct Connect® to instantly contact clients, distributors, and other companies he does business with most. It would also allow us to contact him, finally stop this pointless game of phone tag, and make our important deadlines.



www.nextel.com

1-800-NEXTEL9

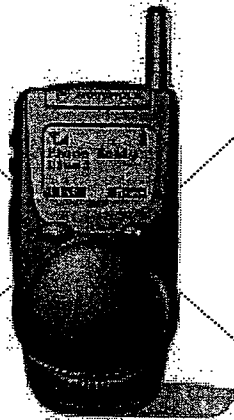
NEXTEL

Nextel phones are manufactured by  MOTOROLA

Promo: XXXX99-000-000

Asking for help is not a weakness. Showing up clueless is.

*With Nextel Direct Connect,
our built-in two-way radio
feature, you can instantly
contact co-workers anywhere
in your Nextel coverage area.*



*The i1000™ has voice mail, so
you can get the information
you need, when you need it.*

*With our built-in speakerphone,
you can make sure everyone
else is clued in, too.*


*And for those times when you can't
take a call, a text message will
relay the information you need.*

At Nextel, we believe in the motto "Be Prepared." And the best way for any businessperson to do that is with the only all-digital national network combining cellular, voice mail, text/numeric messaging, and our unique Nextel Direct Connect® built-in two-way radio. To find out how we can help your business be better prepared, call 1-800-NEXTEL9.

www.nextel.com

1-800-NEXTEL9

NEXTEL

Nextel phones are manufactured by  MOTOROLA

Promo: NEX99-053-053

11:24:03

Daly tees off 9th hole

11:24:09

Direct Connects caddie to see if his ball landed on the green

11:24:18

Direct Connects air traffic control to see if his ball landed in the state



Cell phone + two-way radio = Nextel with Direct Connect. Need to get your message out? Don't call. Use Direct Connect, the digital two-way radio feature on your Nextel phone. Now, at the push of a button, you can contact workers, friends, contractors, your caddie...any Nextel customer in your local calling area. And that means no more phone tag or leaving messages. It has a range of hundreds of miles and, even better, the day you'll be able to text across the entire nation.



1-800-NEXTEL-9

Shop at nextel.com/store

© 2004 Nextel Communications, Inc.

LOST



(Truck Driver)

Name: Dave Dario

Responds to: Coffee, black, and lots of it.

If found: Please tell him to join his local Nextel Transportation Network. That way he can use Nextel Direct Connect® to instantly contact shipping companies, dispatchers, and warehouses. It would also allow us to get in touch with him, and then we wouldn't have to keep awarding jobs to someone else.



www.nextel.com

1-800-NEXTEL9

NEXTEL

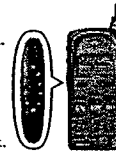
Nextel phones are manufactured by  MOTOROLA

Promo: XXXX99-000-000



The Nextel Builders Network. It's how business gets done.

It takes more than a hard hat to get in to a construction site these days. You need the Nextel Builders Network. With Nextel Direct Connect,™ the digital two-way radio feature on our Motorola® phones, you can instantly contact the carpenters, roofers, and plumbers you work with most at the push of a button. No more phone tag or missed messages. Just instant access for instant answers. And because people on the network want to work with others on the network, it can grow your business. Call Nextel today to join the Nextel Builders Network.



www.nextel.com

1-800-NEXTEL9

NEXTEL

Nextel phones are manufactured by  MOTOROLA

Promo: XXXX99-000-000

Cut your cellular costs 20% or more by paying only for the time you talk.

If you're paying for one minute rounding, you're paying too much.

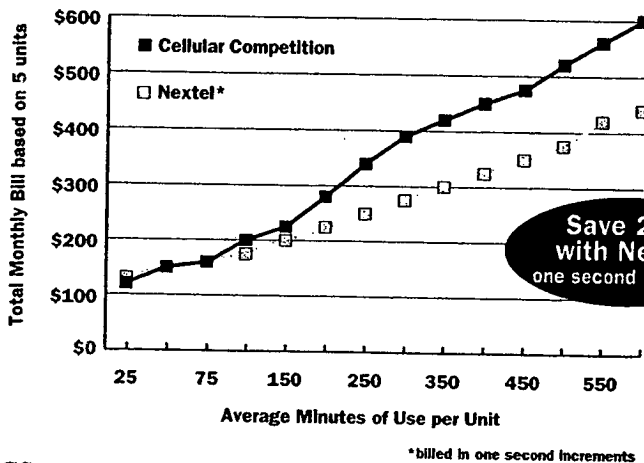
Most cellular providers bill you for each full minute you talk. Talk three minutes and three seconds, and you pay for four minutes. But not with Nextel.

After your first minute on our digital cellular network, you pay only for the time you talk. In the example above, you'd pay for three minutes and three seconds and not a second more. At an average cost of 25¢ per minute, the savings add up. Most Nextel subscribers are cutting their cellular expenses 20% with one second rounding alone. That's 20% on top of the other benefits outlined in the Nextel Savings Series.

Look at the numbers.

Consider this example or use your local cellular/PCS rates:

Rate Plan Billing Comparison



Save 20% with Nextel one second rounding

Cellular

60 second rounding
 Duration of call: 2 minutes, 6 seconds
 Charges: 3 minute call @25¢/minute = 75¢

Nextel Cellular

One second rounding after the 1st minute
 Duration of call: 2 minutes, 6 seconds
 Charges: 2 minutes, 6 seconds @25¢/minute = 52.5¢

Nextel Savings: 75¢ – 52.5¢ = 22.5¢, or 30%

A Note on Direct ConnectSM Rounding:

Nextel Direct ConnectSM calls are rounded to the second from the first second! And... the average Nextel Direct ConnectSM conversation lasts 25 seconds compared to the average cellular call of 1 minute 45 seconds. For more information, see the Nextel Savings Series focused on Direct Connect.SM

YOU'VE NEVER USED A PHONE LIKE THIS BEFORE.SM

SS-27-OSR-4/98



Talk to the people you talk to most at a fraction of the cost of cellular.

Are many of your cellular calls made to the same people – co-workers, suppliers or customers?

If so, Nextel Direct ConnectSM can slash your communication costs and speed your connection to your most valuable contacts. Only the Nextel phone offers the one-touch efficiency of Direct ConnectSM – the digital two-way radio that connects with one or several colleagues instantly, at the touch of a button. It's a new way to communicate – efficient in ways that cellular will never be:

- Immediate** Push the big button and talk
- Short and to the point** Conversations are one-fourth as long as the average cellular call
- 1 second rounding** From the first second
- Talk to a group** Pre-select groups who receive your call all at once
- Easy to reach** Preprogram numbers or names
- Prescreen your calls** Name or number appears on your screen
- Guaranteed alert** An audible signal and your name appears on their Nextel phone
Periodically beeps until acknowledged
- Nextel digital technology** Clear and private

Look at the numbers

Sample based on 150 minutes of talk time per month charged at 26¢/min. for cellular calls.

Typical Cellular		Nextel phone with Direct ConnectSM	
	150 min./mo. x 26¢/min. = \$39	Typical Direct Connect SM usage is	
		30% of total calls	
		70% x 150 min./mo. x 26¢/min.	\$27.30
		Typical Direct Connect SM call lasts	
		25% as long as cellular	
		(30% x 150 min./mo. x 15¢/min.) x 25% =	\$1.69
Total	\$39	Total	\$28.99

Nextel Savings: \$39 – \$28.99 = \$10.01, or 26%
And less time spent on the phone!

YOU'VE NEVER USED A PHONE LIKE THIS BEFORE.SM



**Just because
a cellular phone
claims to be
all-digital doesn't
mean your
cellular calls are
all-digital.**

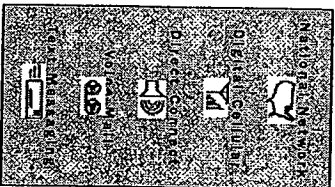


The whole point of having a digital cellular phone is to have digital cellular protection that digital promises. Unfortunately, with many services, digital isn't always digital. Which means even in your home market your digital phone can default to analog whenever there's not an available digital channel.

Denying you many of the benefits you're paying for. At Nextel, however, our service is guaranteed all-digital all the time. Thanks to our national network you're assured of superior sound quality, privacy, and cloning protection as well as the ability to



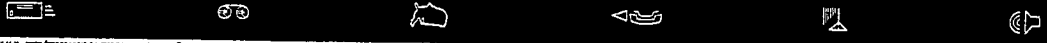
take your digital benefits with you wherever you travel on the Nextel network. So before your company invests in digital phones, invest a little time comparing digital services. You'll quickly find that nothing compares to Nextel.



time comparing digital services. You'll quickly find that nothing compares to Nextel.

GET SMART. GET NEXTEL.™ CALL 1.800.NEXTEL9.

NEXTEL



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INSERT YOUR NAME HERE

For more information in the New York Metro Area, call your local
Nextel authorized representative:

GET SMART. GET NEXTEL.

how easily we can customize a Nextel system to the needs of you and your workers. You'll feel a lot lighter.

your co-workers instantly, then talk for a fraction of the cost of cellular. Find out
NEXTEL
digital two-way radio feature. With Nextel Direct Connect, a single button lets you reach one, three or all of
cation; text messaging and numeric paging to receive messages; and our unique Nextel Direct Connect™ a


How to rid yourself of all that excess weight.



Every day you carry around tools, supplies and the responsibility of the job. The last things
you need to lug along are a pager, a cell phone and a two-way radio just to stay in touch
with customers, suppliers and co-workers. Well now there's a way to lighten the load. It's called Nextel.
Our all-in-one, pocket-size phone by Motorola® combines digital cellular for crisp, clear phone communi-



YOU ARE LEAVING YOUR
CALLING AREA AND WILL NOW BE
CHARGED UP THE WAZOO
TO USE YOUR CELLULAR PHONE.
HAVE A NICE DAY.



If you travel a lot, you probably pay a hefty premium to use your cellular phone. Thanks to an industry-wide practice called the roaming charge, a per-minute fee that gets added to the long distance charge every time you make a call from outside your home market. In fact, some networks actually bill an administrative fee just for the "right to roam." Combine that with the inconvenience of needing PINs and access codes when you travel and it's enough to make you

leave your phone at home. At Nextel, there are no PINs, no access codes and no roaming charges. Instead, our all-digital national network and reliable Motorola® phones let you take your low home market rates and all your digital features with you to any city covered by our network. Saving you time and money. And assuring that you actually do have a nice day.

GET SMART. GET NEXTEL.™ CALL 1.800.NEXTEL9.

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Northern
 Page 1 of 2
 Northern OH

Unit-Based Rate Plans

Plans that are easy to understand

NexTel offers your company a number of ways to save. First, we offer rates that are undeniably competitive. Second, we understand that every company has unique communication needs. So we provide you with different plans and option packages. You simply choose the plan that best suits your business. NexTel also makes it easy to save. No matter how many rate plans your company chooses, you'll receive only one bill. And the NexTel National Network not only eliminates roaming charges, it also allows your digital cellular, voice mail and messaging features to go along with you at your home rates. Because at NexTel, we think saving money should be easy to understand.

Digital Wireless Service

- Monthly Access Charge
- Digital Cellular
- included anytime anywhere on national network (long distance fees may apply)
- additional minutes
- Long Distance
- calls made to numbers outside NexTel local calling area
- calls received while traveling outside home calling area
- Nextel Direct Connect™
- included anytime
- additional minutes per person

- Messaging
- numeric pages included
- text messages included
- each additional text message
- each operator-assisted text message
- Basic voice mail
- enhanced voice mail
- call hold, call waiting and call forwarding

Optional Packages

- Optional Messaging Package (replaces message package shown above)
- 100 text messages
- 30X text messages
- Intercountry Private Call
- airtime included
- additional minutes per person

Integrated Plans

Plan	Basic	Enhanced	Premium	Ultra
Monthly Access Charge	\$37.00	\$59.00	\$109.00	\$179.00
Long Distance	20	100	300	600
calls made to numbers outside NexTel local calling area	\$0.39	\$0.38	\$0.31	\$0.27
calls received while traveling outside home calling area	\$0.15	\$0.15	\$0.15	\$0.15
Nextel Direct Connect™	\$0.15	\$0.15	\$0.15	\$0.15
included anytime	250	250	250	250
additional minutes per person	\$0.10	\$0.10	\$0.10	\$0.10
Messaging	unlimited	unlimited	unlimited	unlimited
numeric pages included	25	25	25	25
text messages included	\$0.10	\$0.10	\$0.10	\$0.10
each additional text message	\$0.50	\$0.50	\$0.50	\$0.50
each operator-assisted text message	unlimited	unlimited	unlimited	unlimited
Basic voice mail	25	25	25	25
enhanced voice mail	\$0.10	\$0.10	\$0.10	\$0.10
call hold, call waiting and call forwarding	included	included	included	included
Optional Messaging Package (replaces message package shown above)	included	included	included	included
100 text messages	\$5.00	\$5.00	\$5.00	\$5.00
30X text messages	\$10.00	\$10.00	\$10.00	\$10.00
Intercountry Private Call	\$5.00	\$5.00	\$5.00	\$5.00
airtime included	\$25 per account	\$25 per account	\$25 per account	\$25 per account
additional minutes per person	\$0.10	\$0.10	\$0.10	\$0.10
Monthly Access Charge	\$10.00	\$10.00	\$10.00	\$10.00
Plus	\$49.00	\$49.00	\$49.00	\$49.00
Premium	\$88.00	\$88.00	\$88.00	\$88.00
Ultra	\$179.00	\$179.00	\$179.00	\$179.00
Basic	\$37.00	\$59.00	\$109.00	\$179.00
Enhanced	\$59.00	\$109.00	\$179.00	\$249.00
Premium	\$109.00	\$179.00	\$249.00	\$319.00
Ultra	\$179.00	\$249.00	\$319.00	\$389.00
Monthly Access Charge	\$37.00	\$59.00	\$109.00	\$179.00
Long Distance	20	100	300	600
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numeric pages included	25	25	25	25
text messages included	\$0.10	\$0.10	\$0.10	\$0.10
each additional text message	\$0.50	\$0.50	\$0.50	\$0.50
each operator-assisted text message	unlimited	unlimited	unlimited	unlimited
Basic voice mail	25	25	25	25
enhanced voice mail	\$0.10	\$0.10	\$0.10	\$0.10
call hold, call waiting and call forwarding	included	included	included	included
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30X text messages	\$10.00	\$10.00	\$10.00	\$10.00
Intercountry Private Call	\$5.00	\$5.00	\$5.00	\$5.00
airtime included	\$25 per account	\$25 per account	\$25 per account	\$25 per account
additional minutes per person	\$0.10	\$0.10	\$0.10	\$0.10
Monthly Access Charge	\$10.00	\$10.00	\$10.00	\$10.00
Plus	\$49.00	\$49.00	\$49.00	\$49.00
Premium	\$88.00	\$88.00	\$88.00	\$88.00
Ultra	\$179.00	\$179.00	\$179.00	\$179.00

GET SMART. GET NEXTEL. CALL 1.800.NEXTEL9.

Pricing effective 4/1/97. Equipment, service activation and labor fees also apply. Subject to change without notice.



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FACT SHEET

March 2003

Nextel Direct Connect™

Nextel Direct Connect, the only digital long range walkie-talkie feature built into every Nextel phone is the easiest and fastest way to instantly contact co-workers, contractors, family and friends, all at the push of a button and a fraction of the cost of a traditional cell phone call.

A Wide Reach and Growing Even Wider

Nextel's Direct Connect is instant conversation and answers. Use Direct Connect service to contact any Nextel customer within your local calling area.

Today, that's across hundreds of miles, and as Nationwide Direct Connect rolls out during 2003, you will be able to contact anyone on the Nextel National Network – coast-to-coast.

Since Direct Connect service works over Nextel's digital network, it creates an incredibly clear, secure link between you and the person you're calling.

Direct Connect Service Benefits and Features:

- **Instant Access and Long Range**
Just press a button to reach other Nextel customers--co-workers, family and friends--within your local Direct Connect™ calling area – and soon anywhere on the Nextel National Network.
- **Value**
With Nextel Direct Connect service, you don't have to use your cellular minutes. Every time you use the service it costs just a fraction of normal cell phone call.
- **Efficiency**
Direct Connect service eliminates phone tag and lets you get through without having to deal with voice mail, missed messages and busy signals.
- **Control and Privacy**
You decide who gets your Direct Connect number, and only those people can contact you. With Direct Connect you can also stay available without disturbing others, VibriCall® Alert provides a discreet way to receive calls and alerts.
- **Group Connect™**
Interact with multiple co-workers, clients and consultants on one easy conference call.



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FACT SHEET

March 2003

Enhance Your Phone with Downloadable Java Applications and Ring Tones

Java™ Applications

Get Java Applications specifically designed to work on the Nextel i95cl, i90c, i85s, i80s, i55sr and i50sx phones. Personalize and enhance your phone with the latest business tools and Network Aware Java Applications to streamline your mobile professional needs. You can also choose from a variety of available games and entertainment packages.

The i95cl, i90c, i88s, i85s, i80s, i55sr and i50sx phones come pre-loaded with several Java Applications and additional Java Applications can be purchased at Nextel.com

Mobile Application Manager

Mobile Application Manager enables Enterprise customers to wirelessly distribute custom or off-the-shelf Java applications to hundreds of employees' phones in a matter of minutes. Employees can quickly download these applications without the need for a cable or workstation access.

Use Mobile Application Manager to:

- Distribute Java applications directly to hundreds of Java-capable phones in your Nextel account.
- Maintain a private library of custom applications.
- Upload custom applications to your private library and assign them to individuals or groups of people.
- Nextel's over-the-air technology will help you manage your application deployment process more securely and efficiently. And you'll help your employees manage their time more efficiently as well.

Ring Tones - Set your i95cl or i90c phone apart from your co-workers' phones by downloading and activating ring tones that suit your personal style. Choose from nine categories: Country, R & B/Rap, Oldies, Classical, Patriotic/Folk Songs, Rock, Pop, TV/Movies and Holiday.

Business Tools - Get your work done on the go with these applications for your Nextel phone.

Games - Stay entertained on the go with these programs for your Nextel phone.

Ring Tones - Personalize your phone's ring.

Java Developers - Register as a Java Application Developer



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FACT SHEET

March 2003

Nextel Mobile Messaging Services

Nextel offers subscribers various ways to communicate. With Mobile Messaging, you can freely exchange electronic information using your Nextel phone and easily stay connected to clients, co-workers and family members.

Two-Way Messaging

Two-Way Messaging is Nextel's premiere messaging service and enables you to leverage the power of the Internet to stay connected even when you can't make or take a call. Two-Way Messaging offers a fast, convenient and discreet way for you to receive and respond to important information.

Two-Way Messaging Features:

- Receive delivery confirmation for critical messages.
- Create messages and responses up to 500 characters in length.
- Send messages to your Address Book contacts.

Send your message from Nextel.com

- Send a message to up to 20 recipients.
- Schedule message delivery up to six months in advance.
- Create preset replies to messages to make replies

On your Internet-ready phone:

- Send messages to almost any wireless customer regardless of their wireless provider.
- Receive and respond to messages from email applications.
- Send customized or preset replies.
- Automatically dial phone numbers and link directly to wireless Web sites.



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FACT SHEET

AOL Instant Messenger

Instant Communication

AOL® Instant Messenger™ (AIM®) gives you the power to communicate in real time with online co-workers and business associates. Using your Nextel Internet-ready phone, you can access a full array of instant messaging functions, no matter where you are. And best of all, you can send and receive unlimited messages without using up any calling plan minutes.

Features

Your Internet-ready Nextel phone is all you need to access AOL Instant Messenger features.

- Create, update or use the same online Buddy List that you currently use for your AIM communications, so there's no need to enter new information
- Keep track of who's online, and request notification when someone becomes available or sends you a message
- Use your current AOL or AIM screen name
- Your AIM connection is on whenever your phone is on and you're logged in, so you can be available at a moment's notice
- Easy set-up and management of AIM functions on your phone
- AIM functions as a data transmission, not voice, so there are no per-minute charges and you do not use up wireless rate plan minutes

Keep Your Contacts Close

If you already use AOL Instant Messenger, then you know how easy it is to manage contacts via Buddy Lists. But Nextel wirelessly enables your Buddy List, allowing you to keep track of online contacts in real time, at any time.

Text and Numeric Messaging

Text and Numeric Messaging is available on all Nextel phones. Use it to receive and save important messages up to 140 characters long, even when you're on another call or cannot answer the phone.

Text and Numeric messaging enables you to receive email and text messages, and automatically dial phone numbers from within messages.

Go online and send messages to up to 20 recipients, check message delivery confirmations and receive unlimited numeric messages.



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FACT SHEET

Nextel email Services

Nextel lets you access your office email, calendar and contacts with your Nextel Internet-ready phone.

Choose a solution that meets your needs:

- **Mobile Email** - Ideal for individuals and small businesses who need mobile access to MS Outlook, Lotus Notes and Internet Service Provider (ISP) email accounts. Read and send email and view appointment calendars and contact information on your handset or on any Internet connected PC.
- **Wireless Knowledge Workstyle®** - A server solution for companies that want real-time access to MS Exchange or Lotus Domino from their Nextel Internet-ready phones.
- **Hotmail™** - Access MSN's Hotmail™ Web-based email service. Available with Premium Web or Full Service Package.
- **AOL® Mail** - Access your AOL Mail via your Nextel phone. Available with Premium Web or Full Service Package.



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FACT SHEET

JANUARY 2001

Nextel WorldwideSM

Nextel Worldwide offers the largest all-digital wireless coverage in the United States and in more than 75 countries around the world including 18 of the world's 25 largest cities. With the i2000plusTM phone, the first dual mode iDEN®/GSM, 100 percent digital cellular, Internet-ready phone, customers can now use the same phone number no matter where they are, whether it's across town, in another country, or around the world.

Nextel Worldwide customers can make and receive calls throughout North and South America, Europe, Asia, Australia, the Middle East, and Africa on an all-digital cellular network. In the United States, Nextel Worldwide serves thousands of communities. In North and South America, Nextel delivers iDEN coverage in major cities in Argentina, Brazil, Canada, Mexico and Peru. In Asia and Europe, digital GSM coverage delivers ubiquitous access.

With Nextel Worldwide, customers now can have the convenience of one number, one phone, and one bill. In addition, Nextel Worldwide offers callers a flat rate in each country on the network (rate varies by country). As a result, there are no long distance charges, no surcharges, no landline connection fees, and no extra handset rental fees. With Nextel Worldwide, customers can use home services such as voicemail, text/numeric messaging, mobile office, etc. while traveling. With Nextel Worldwide, customers have access to customer care 24 hours a day, 7 days a week. Customers simply dial customer care from their Nextel phone. The call is free of charge anywhere in the world.

The i2000plus phone, the first Internet- capable phone to offer both iDEN and GSM platforms in one phone, offers all of the advanced features that Nextel phones deliver including: Nextel Wireless Web Service; Nextel Direct Connect® digital two-way radio; built-in speaker phone for hands-free conference calling; Text/Numeric Messaging; Caller ID; voicemail; Turbo DialTM – one-touch dialing for eight preprogrammed numbers; Quickstore, which instantly adds phone numbers and private IDs to a

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Nextel Worldwide Fact Sheet

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FACT SHEET

JANUARY 2001

personal directory; last 10 numbers received/sent list; a missed call indicator; 3-Way Calling; and VibraCall® silent notification.. The i2000plus also allows for the phone to display multiple languages – users can choose among English, French, Spanish, and Portuguese menus.

The handset price is \$199 and there is a flat rate, per minute pricing for all calls made or received outside of the U.S regardless of time of day or calling within the country or to another country. The per-minute charge is based on the country where the call is originated or received. The flat rate for most of Europe is \$.99 per minute. International minutes do not affect domestic voice plans.

Contact information: Nextel Corporate Communications, 703/433-4700.



Nextel Worldwide Coverage

NWW provides customers with cellular service in these countries:

IDEN	GSM			
United States	Australia	Germany	Kuwait	Singapore
Canada	Austria	Gibraltar	Latvia	Seychelles
Mexico	Bahrain	Greece	Lebanon	Slovak Republic
Argentina	Belgium	Guernsey	Liechtenstein	Slovenia
Brazil	Bosnia & Herzegovina	Hong Kong	Lithuania	South Africa
Peru	Brunei	Hungary	Luxembourg	Spain
Philippines	Bulgaria	Iceland	Malaysia	Sri Lanka
	Cambodia	India	Mauritius	Sweden
	China	Indonesia	Monaco	Switzerland
	Croatia	Ireland, Republic of	Morocco	Taiwan
	Czech Republic	Isle of Man	Netherlands	Thailand
	Denmark	Israel	New Zealand	Togo
	Egypt	Italy	Norway	Turkey
	Estonia	Ivory Coast	Poland	Ukraine
	Fiji	Jersey	Portugal	United Kingdom
	Finland	Jordan	Romania	Venezuela
	France	Kazakhstan	Russia	Zimbabwe
	Georgia	Kosovo	Saudi Arabia	

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Nextel Worldwide Fact Sheet

NEXTEL



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FACT SHEET

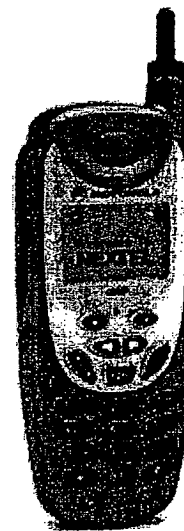
JANUARY 2001

i2000plus™

The i2000plus is the first and only dual mode iDEN®/GSM, 100 percent digital cellular, Internet-capable phone. This phone offers Nextel WorldwideSM wireless service—one phone and one number that can be used in the United States and in more than 75 countries worldwide.

The i2000plus is an outstanding communications solution featuring Nextel Direct Connect® digital two-way radio, digital cellular, Text & Numeric Messaging, and Nextel Wireless Web Services. The i2000plus has +Dialing, one button that connects the user to the international access code needed to call out of the country from which the user is calling. Other features of the i2000plus include:

- Caller ID
- Voice mail
- Missed call indicator
- Built-in speaker phone
- Nine selectable ring styles
- Turbo Dial™ one-touch dialing
- Last 10 numbers received/sent call list
- VibraCall®, to allow a user to be discreetly notified of incoming phone calls
- 3-Way Calling, delivering the convenience of conference calling away from the office
- Alternate Line Service, a second line that allows users to better manage business and personal calls
- Consolidated directory programming function to allow users to enter the name, phone number, and private ID of a person all in the same menu option
- Quickstore, which instantly adds phone numbers and Private IDs to a personal directory
- Multiple languages—English, Spanish, French, and Portuguese menus



To learn more about the Nextel i2000plus, visit Nextel at <http://www.nextel.com> or call

1-800-NEXTEL9.

Contact information: Nextel Corporate Communications, 703/433-4700.

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Nextel Communications, Inc.
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FACT SHEET

March 2003

Nextel Online Wireless Web Services

Nextel Wireless Web Services is the wireless Internet solution for business: an "always connected" wireless data service that provides business customers with the tools and applications they need to access time-sensitive content and information instantly to get business done.

Nextel customers now have access to the only national network with a wireless phone that serves as a four-in-one business communication tool. Nextel phones deliver wireless Internet service, digital cellular service, Nextel Direct Connect® digital two-way radio, and Text & Numeric Messaging. Nextel Wireless Web Service is available through Nextel's Internet-capable phones: the i1000plus™, i2000plus™, i700plus™ and i550plus™ manufactured by Motorola.

Online all the time... with the business content and information customers need now

As a result of Nextel's packet data network, Nextel Wireless Web Service customers are connected to the Internet as long as their phone is turned on. But wireless data access is only half of the story. Nextel Wireless Web also provides business users with access to content, business applications and services that are designed specifically for their industry.

Content and Commerce

Nextel Wireless Web provides content and commerce sites, search engines, and portals that offer customers with the convenience of quick information retrieval and the ability to make transactions right from their phone. Sites include finance, news, weather, travel and leisure, shopping and office solutions.

Nextel Industry Solutions

Nextel is developing valuable business applications in field services, fleet management, and field sales targeted to its customers in key vertical industries. By partnering with innovative application developers, Nextel will offer applications to help customers keep their businesses flowing smoothly and efficiently, while increasing productivity and decreasing costs.

Nextel Mobile Office

Nextel is developing solutions to enhance its customers' productivity, such as an address book that allows users to create, sort and edit contacts online and access the information from a Nextel Internet-capable phone. They can use their Nextel address book to place a call, Direct Connect, or send a two-way message. Additionally, Nextel offers solutions to enable mobile enterprise customers to access critical information via their corporate email system or existing POP3 email accounts with Internet Service Providers.



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FACT SHEET

March 2003

Access Services

Nextel offers ways for customers to access their corporate information via their Nextel Internet-capable phone. Solutions include Nextel Online Dial-up Service where the Nextel phone acts as a wireless modem allowing customers to connect to a mobile computing device (i.e., laptop or handheld device) to check e-mail, access the corporate network, or dial an Internet Service Provider.

Nextel Mobile Messaging

Nextel Two-Way Messaging enables Nextel subscribers to send, receive, and reply to messages between Internet-capable Nextel phones, any e-mail account, and Nextel.com allowing them to act on important business messages from anywhere on the Nextel National Network. Two-Way Messaging also allows the user to establish pre-programmed messages and replies for ease of messaging. Short Messaging Service (SMS) allows customers to send messages to work groups or individuals, receive verification of receipt, maintain a log of all messaging activity, and send messages to groups and individuals using non-Nextel paging products and applications.



Nextel Communications, Inc
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FACT SHEET

March 2003

Roadside Assistance Services

Another Way Business Gets Done

You're busy. Whether keeping up with family, with business or with life, you use Nextel to stay connected and keep things simple. Now Nextel can offer you peace of mind while you're on the road with Roadside Assistance Services.

For personal or for business use, our Roadside Assistance Program includes:

- Lockout Services
- Jump Starts
- Flat Tire Changes
- Oil and Water Delivery
- Fuel Delivery
- Vehicle Towing
- Winching and Extrication

Subscribers can call for assistance up to six times per year. Roadside Assistance services are available to subscribers 24 x 7 x 365 in the U.S. and Canada. Service is available both in and out of areas covered by the Nextel National Network.

Two Different Plans to Meet Your Specific Needs

Nextel and Signature Nationwide Auto Club, a GE Financial Assurance Company, have teamed up to create a Roadside Assistance Program specifically for Nextel customers. Whether traveling in the company sedan, making a cross-town delivery in a commercial truck, or pulling a boat behind the family minivan, we can offer you a roadside program to cover your needs. Roadside Assistance service is linked to your Nextel phone so assistance will be provided for any type of vehicle covered in your package as long as you have your Nextel phone with you.

Standard Roadside Assistance

Standard Roadside offers coverage of up to \$100 per incident for light vehicles owned by individuals or businesses and used for personal or commercial use. Light vehicles include:

- Passenger automobiles
- Sport utility vehicles
- Pickup trucks with four wheels
- Passenger vans/minivans/station wagons
- Motorcycles



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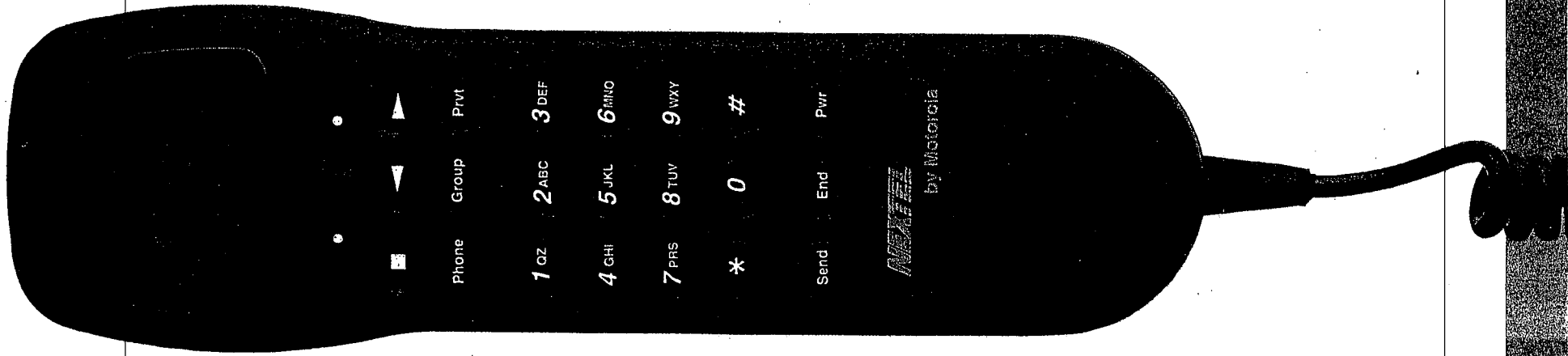
FACT SHEET

March 2003

Heavy Duty Roadside Assistance

Heavy Duty Roadside was created with our business customers in mind. This plan provides coverage up to \$500 per incident for the light vehicles listed above as well as for heavier duty vehicles, such as:

- Cargo vans
- Light and medium commercial trucks
- Heavy delivery and cargo trucks
- Medium- and full-sized buses
- Trailers
- Recreational vehicles
- Recreational vehicle trailers
- Pickup trucks with up to six wheels



Nobody Covers the Greater Chicagoland Area Like Nextel

Local Nextel Offices

622 W. Lake St.
Elmhurst, IL 60126
phone (708) 832-1904
fax (708) 832-0903

1082 E. Park Ave.
Libertyville, IL 60048
phone (708) 367-1904
fax (708) 816-8004

1051 Perimeter Dr. Suite 300
Schaumburg, IL 60173
phone (708) 517-5900
fax (708) 517-5910



NEXTEL

NEXTEL

The Next Generation of Wireless Communications.™

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Actual Size

Introducing the most efficient way to communicate.

The name Nextel® may be new to you, but the company behind it has been pioneering the next generation of wireless communications for years. Nextel got its start as Fleet Call, one of the largest and most respected names in mobile dispatch. Now Nextel is meeting the unique needs of Chicagoland, southeastern Wisconsin and northwestern Indiana dispatch users with the nation's first all-digital, integrated communications network. It features unprecedented dispatch, text and voice messaging, and digital cellular capabilities, and the power to use them easily. Take a few minutes and discover all Nextel has to offer.

Coverage as big as your needs.

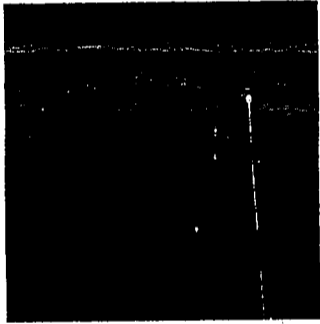
Nextel offers seamless digital dispatch coverage throughout most of the greater Chicagoland area, unlike other services which limit your coverage to only a few repeater sites. Which means service in Rockford is as loud and clear as in downtown Chicago. Or Milwaukee. Or Gary for that matter. So you'll never fall short of being able to stay in touch with the people and places in your business world.

Sound clarity that's consistent.

You won't get any static from Nextel. Or crackles, hisses, or pops. Thanks to its digital design, the Nextel system offers consistent sound clarity and the ability to control who can hear your dispatch. This privacy feature enables you to speak directly to one or several people in your fleet without anyone else listening. You can also add Nextel's digital cellular service to call people outside the Nextel network.

Watch the screen for more information.

The Nextel handset's built-in computer screen is more than a window for numbers, it's what makes the Nextel network so easy to use. The menu-driven commands quickly guide you through various functions, making it easy to program or configure talk groups. In addition, the screen keeps you posted on the status of voice and text messages. So you and your fleet can experience an increase in productivity almost immediately.



Get through every time.

Busy signals aren't just a frustration, they're a loss in productivity. Nextel keeps your fleet on the move and accessible. Our high-capacity network allows your calls to get through with virtually no system busy signals. So members of your fleet won't waste time or miss any calls.

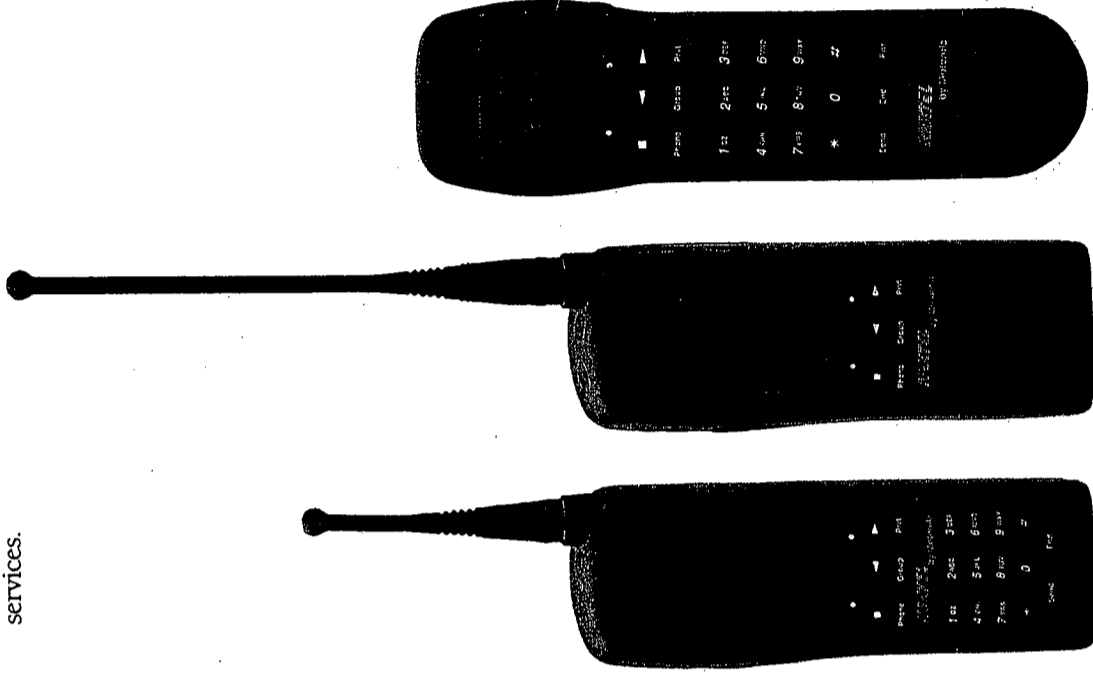
For ultimate efficiency, and guaranteed delivery of a message, use Nextel's text messaging feature: Message Mail™. This enables you to send a text message directly to the display screen of the recipient's handset. And unlike other systems that can't receive a message if the phone is turned off, the Nextel network will store your message and automatically deliver it when the handset is turned back on.

Customized for every need.

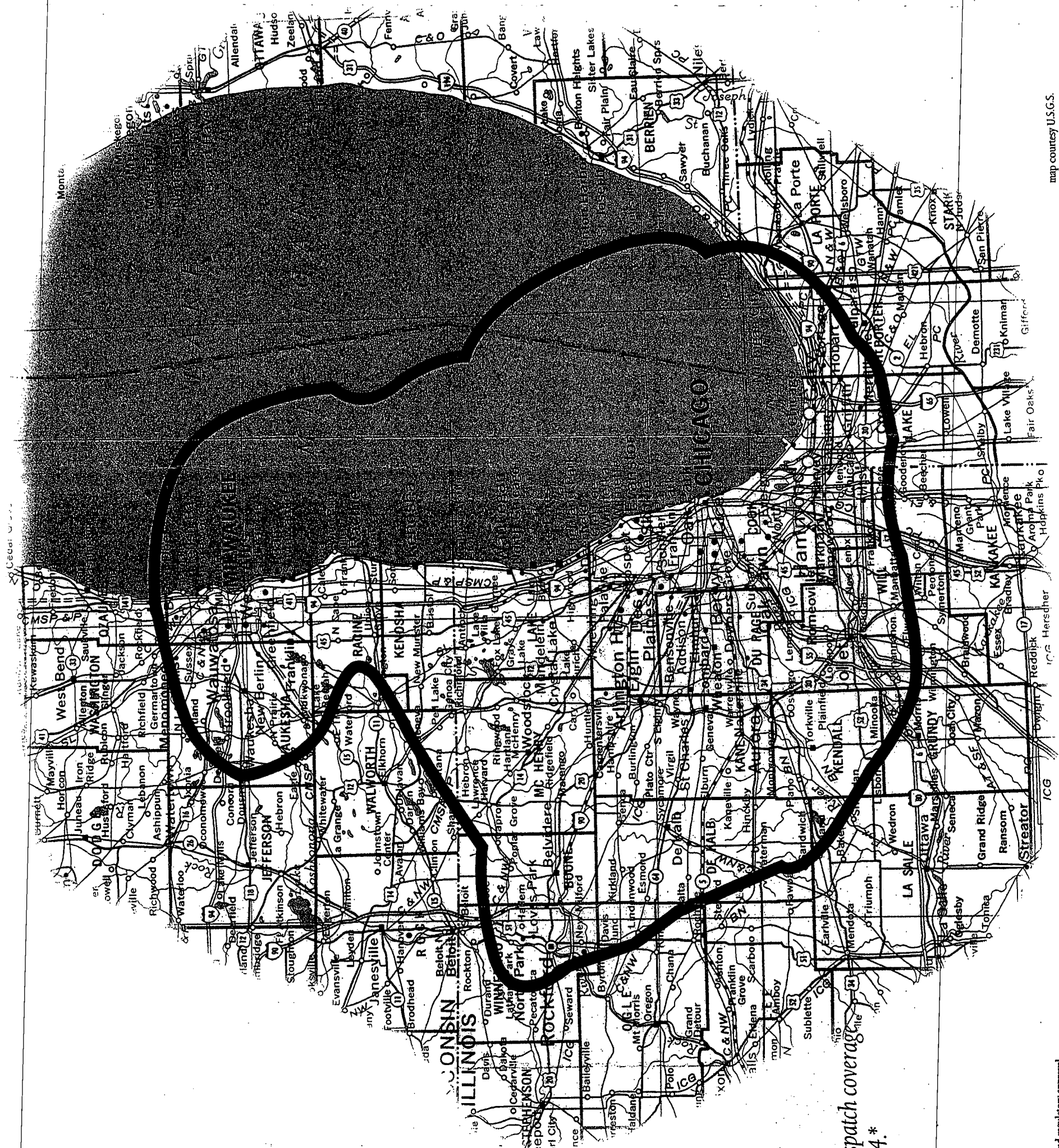
To customize your solution, choose and combine services that meet your needs. Choose from digital dispatch, digital cellular, and text and voice messaging capabilities. Nextel also offers a full range of products, from portable to vehicle-

mounted. All are made by Motorola for outstanding quality and durability.

Our communications consultants will work with you to determine your business needs and recommend appropriate solutions. So as your business grows and changes, you can easily expand your services to reflect your new situation. For your convenience, Nextel has designed a single consolidated bill for all of your Nextel services.




Put the power of the nation's first all-digital, integrated wireless network to work in your fleet. Call your local Nextel office now.



Nextel's digital dispatch coverage scheduled for 1994.*

* Upon completion of construction and regulatory approval.



Nextel's 100% digital dispatch coverage from Gary to Milwaukee*

Uninterrupted Coverage

Connect wherever your greater Chicagoland business takes you without a breakup in digital dispatch service or having to switch channels.

Always Accessible

Thanks to Nextel's large capacity network, there are no busy signals to slow you down.

Continuous Clarity

No other dispatch service matches Nextel's consistent sound quality.

Complete Privacy

With digital technology you get complete call privacy—something that no existing analog dispatch system can offer.

NEXTEL COMMUNICATIONS, INC.

2001 ANNUAL REPORT

Nextel Communications, Inc. ("Nextel") provides a number of integrated wireless communications services, with the largest guaranteed all-digital wireless network in the country. Nextel provides 4-in-1 service -- digital cellular; Nextel Direct Connect[®] digital two-way radio; text and numeric mobile messaging, and Nextel Wireless Web. In response to the Nextel Partners' demand for the first FCC-approved Standard Area Number ("SAN") in the U.S., Nextel has established the first SAN in the U.S. in 2001. Nextel is listed on the NASDAQ National Market under the symbol NXL. Our affiliate, Nextel Partners, is a separate company traded on the NASDAQ National Market.

- \$7.01 billion in domestic revenue
- 8.7 million domestic digital subscribers
- Only nationwide all digital voice and packet data network in the U.S.
- Nextel nationwide iDEN[®] network, with more than 15,500 cell sites
- Nextel enhanced Direct Connect[™] in 2001, with plans to launch nationwide Direct Connect beginning in 2003

Nextel ranks #1 in wireless Internet service satisfaction
- In-Stat/MDR Group

Nextel ranks #1 in Customer Lifetime Value
- The Yankee Group

Nextel named "Data Diva"
- RCR Communications

Nextel earns 5 out of 5 rating for Nextel's i90c, i85s handsets by Motorola and Nextel Mobile Email applications
- PC Magazine

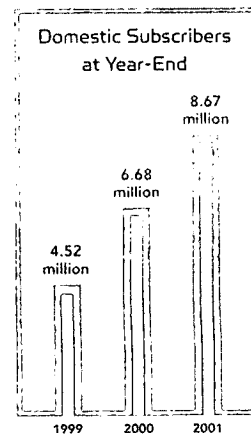
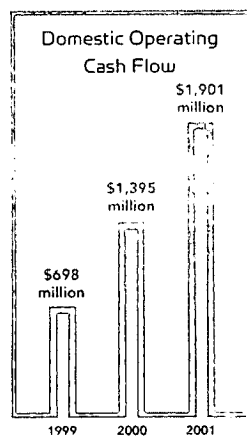
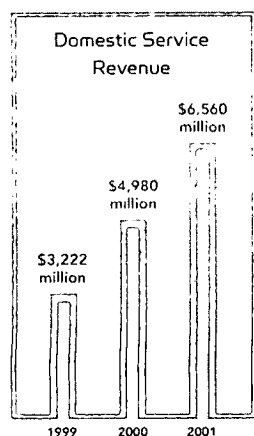
Consolidated Financial Highlights

Year ended December 31	2001	2000	1999
(in millions, except per share data)			
Operating revenues	\$ 7,689	\$ 5,714	\$ 3,786
Operating expenses	5,889	4,450	3,251
EBITDA ⁽¹⁾	1,800	1,264	535
Restructuring and impairment charges	(1,769)	-	-
Depreciation and amortization	(1,746)	(1,265)	(1,004)
Interest expense, net	(1,196)	(849)	(782)
Other (expense) income, net	(318)	106	(47)
Income tax benefit	135	33	28
Loss before extraordinary item and preferred stock dividends	(3,094)	(711)	(1,270)
Extraordinary item - gain (loss) on early retirement of debt, net of income tax	469	(104)	(68)
Mandatorily redeemable preferred stock dividends	(233)	(209)	(192)
Loss attributable to common stockholders	\$ (2,858)	\$ (1,024)	\$ (1,530)
Loss before extraordinary item attributable to common stockholders	\$ (4.27)	\$ (1.21)	\$ (2.29)
Extraordinary item	0.02	(0.14)	(0.10)
Loss per share attributable to common stockholders, basic and diluted	\$ (4.25)	\$ (1.35)	\$ (2.39)
Weighted average number of common shares outstanding	672	756	639
Selected Balance Sheet and Other Data			
Capital expenditures	\$ 3,136	\$ 3,631	\$ 2,127
Total assets	\$22,064	\$ 22,686	\$ 18,410
Debt of NII Holdings, non-recourse to and not held by parent ⁽²⁾	\$ 1,865	\$ 2,519	\$ 1,549
Domestic long-term debt, capital lease and finance obligations, including current portion	\$14,865	\$ 12,212	\$ 9,954
Mandatorily redeemable preferred stock	\$ 2,114	\$ 1,881	\$ 1,770

(1) EBITDA consists of loss before extraordinary item, net interest expense, income tax benefit, depreciation and amortization and other charges determined to be non-recurring in nature, such as restructuring and impairment charges. EBITDA is not a measurement under accounting principles generally accepted in the United States and may not be similar to EBITDA measures of other companies.

(2) NII Holdings' 2001 balance is in default and callable or subject to acceleration by third parties and classified in current liabilities. Does not include \$800 million of debt held by Nextel Communications which eliminates when reporting consolidated results.

Key Domestic Data





"Nextel delivered its best financial results ever in 2001. We met our goals, adding nearly 2 million new domestic subscribers, and generating \$1.9 billion in EBITDA for domestic operations."

The economic and emotional damage wrought by the events of September 11th has created a moment in history when even simple realities and clear truths are masked by fear and uncertainty. In the context of 2001, questions of trust, confidence and credibility are omnipresent.

Nextel is worthy of the trust and confidence of our customers, our employees and our investors. Our intense focus helped us thrive last year when so many others faltered. Asked to describe our culture in one word, my answer is "Driven."

We are driven to make a difference. Driven to deliver the best wireless voice and data experience in the U.S. Driven to innovate and collaborate. Driven to produce results. Driven to attract and retain the most valuable customers – and the most talented employees – in wireless. In these pages, we will tell you how we are achieving these goals and why we believe in the promise of Nextel.

Nextel has certainly been enhanced by the additions of our new Executive Vice President and Chief Operating

Officer Jim Mooney and our new Executive Vice President and Chief Financial Officer Paul Saleh. Their credentials are impressive, coming from two of the most-respected corporations in the world, IBM and The Walt Disney Co., respectively. They bring with them outstanding operational expertise, and Nextel is already benefiting from their combined drive for greater efficiencies and improved processes. Their leadership is taking Nextel to a new level of success.

Nextel delivered its best financial results ever in 2001. We met our goals, adding nearly 2 million new domestic subscribers, and generating \$1.9 billion in EBITDA (earnings before interest, taxes, restructuring and impairment charges, depreciation and amortization) for domestic operations. We continue to lead the national carriers with the highest monthly revenue per unit, and have the highest customer loyalty rate. In fact, Nextel ranks #1 in Customer Lifetime Value, according to The Yankee Group.

Our Network

We believe Nextel offers the best 2.5G network in the world. Our nationwide packet data network and Nextel Direct Connect, our digital two-way radio service, provide unmatched differentiation. With the rollout of enhanced Direct Connect and the planned launch of nationwide Direct Connect beginning in 2003, we intend not only to preserve but also to enhance significantly our excellent voice differentiation, especially for our valuable business customers. Through a Motorola software enhancement, we plan to nearly double the calling capacity of our existing iDEN network and we believe we have ample radio spectrum to accommodate our current and future growth plans. In short, we are in the enviable position of reducing our capital spending while maintaining our competitive edge at a time when most of the industry is increasing capital spending to deliver competitive services on a nationwide scale.

Our newest handsets have received high praise. We introduced eight new wireless products – from the first Java™

technology-enabled wireless phones in the U.S. to the critically acclaimed i90c. We sold 1.4 million Java technology-enabled phones in just 12 months. Our data offerings have also broadened considerably during the past year with the development of wirelessly downloadable business applications, as well as custom applications tailored to the mobile data needs of particular market segments, such as transportation, government and the hospitality industries. With nationwide Direct Connect we plan to expand the effectiveness and value of instant communication for customers everywhere on the Nextel National Network. We see tremendous opportunity ahead in the enterprise market and are committed to continuing to develop specialized voice and wireless data solutions to serve corporations and government entities. And, we are reaching our customers in new ways. Our branding strategy has expanded our ability to target key business decision makers. We are broadening our distribution to include our new Nextel stores, which are showing exciting potential, along with our other lower cost distribution channels such as Web Sales and TeleSales.

In this report, we also share the story of our own September 11th experience, which helped marshal our resolve to present an innovative proposal to the Federal Communications Commission. If adopted, this proposal will eliminate the growing problem of radio interference with public safety systems. The result could also enhance public safety communications capabilities by improving and increasing their spectrum position.

The Challenge of the Market

Equity markets across the globe have reduced the value of wireless equities in recent months, and unfortunately Nextel is no exception. Our response to this market pressure is to stay focused on our value-creating business plan. We feel good about our current business plan. Our domestic operations are fully funded and our cash position is strong with approximately \$3.5 billion on our balance sheet at year end. In this challenging market, we are very sensitive to concerns about our debt, and we are committed to improving our credit profile, and, ultimately, to enhancing shareholder value.

Separately, with the downturn of international economies and the resulting limited access to capital, NII Holdings, Inc., our international business unit, is in discussions with its creditors regarding restructuring its debt. As a shareholder in Nextel, it is important for you to know that NII Holdings, as a separate business, is fully responsible for its own debt.

The Road Ahead

The future is bright, and success will come with hard work. We're targeting domestic positive free cash flow by 2004 or earlier. To achieve our goal, we are targeting high-quality subscriber growth in our target markets, lower capital expenditures in 2002 and increased EBITDA, all of which should allow us to reduce our net cash spending 50 percent or more this year.

Our focus is to drive value to our customers and to you, our shareholders. Thank you for investing in us. We will continue to work hard to maintain your confidence in the coming year.

Sincerely,



Timothy M. Donahue
President and
Chief Executive Officer



Network Leadership

Nextel's goal is to provide the most advanced national wireless network in the U.S., and once again, in 2001, we succeeded. No other nationwide wireless carrier enables so many different means of communicating with a mobile device.

STARWOOD HOTELS AND
RESORTS WORLDWIDE, INC.

Nextel Wireless Business Solution

Using more than 2,000 of our handsets, Starwood relies on Nextel Direct Connect and two-way messaging for seamless communications across properties in North America. Network coverage enhancements on their properties are a Starwood attraction, and we are now partnering to develop wireless data applications for the hospitality industry.

"Nextel's unique product line offers Starwood a solution to connect all properties - with extremely competitive pricing."

— Bill Oates, Chief Information Officer,
Starwood Hotels and Resorts Worldwide, Inc.

Network Update

Motorola's and Nextel's unique experiences developing and operating a nationwide packet voice and data network enable us to deliver cost-effective, differentiated products and services to our customers today. A new voice coder which Motorola plans to deliver next year will enable us to nearly double the voice capacity of our existing radio network. With an eye to the future, we have signed development contracts with Motorola and QUALCOMM, Inc. to ensure the continuation of our digital two-way radio differentiation both in the U.S. and worldwide.

Enhanced Direct Connect

Already unique among wireless voice services, Nextel made it even better. Now all Nextel customers in a calling area can reach each other instantly via digital two-way radio. At a fraction of the cost of a cellular call, users can Direct Connect thousands of other Nextel customers, either one at a time or in groups, across hundreds of square miles. And, you can take

Direct Connect with you! This year, Nextel expects to further enhance Direct Connect to allow traveling groups of colleagues to Direct Connect each other and anyone else in the market they're visiting. We also expect to begin our launch of nationwide Direct Connect in 2003, which will allow any Nextel customer to Direct Connect any other Nextel customer across the Nextel National Network.

More Coverage More Service

Nextel has more than 15,500 cell sites nationally, having added 2,800 cell sites in 2001. Along with our affiliate, Nextel Partners, we offer our all-digital services in the top 100 markets, and our network covers a population of roughly 230 million.

iDEN Strength

Nextel uses a packet-based platform, the integrated Digital Enhanced Network (iDEN) technology, developed by Motorola. This all-digital technology provides excellent sound and transmission quality using state-of-the-art transmission methods that deliver these Nextel-exclusive services:

Digital Cellular Service

Crystal clear calls and guaranteed message delivery in a secure environment, no matter where customers travel within the Nextel National Network.

Nextel Direct Connect

Digital two-way radio service that lets customers get right through to business associates, family and friends without placing a phone call.

Nextel Mobile Messaging

The untethered power of the Internet keeps customers connected to clients, co-workers and family with text, numeric and two-way messaging.



"Nextel's iDEN network is already a fully packetized radio network comparable to both the GSM/GPRS networks and also to the CDMA 1x networks which are only now beginning to be deployed in the U.S. We are already ahead of the curve."

— Barry J. West, Executive Vice President and Chief Technology Officer, Nextel Communications, Inc.

NESTLÉ S.A.

Nextel Wireless World

Anywhere access to office or personal email, wireless-enabled Internet sites, and company databases.

Nextel Java-Enabled Technology

Enables mobile professionals to personalize and enhance their phones with the latest business tools and network applications to make life easier.

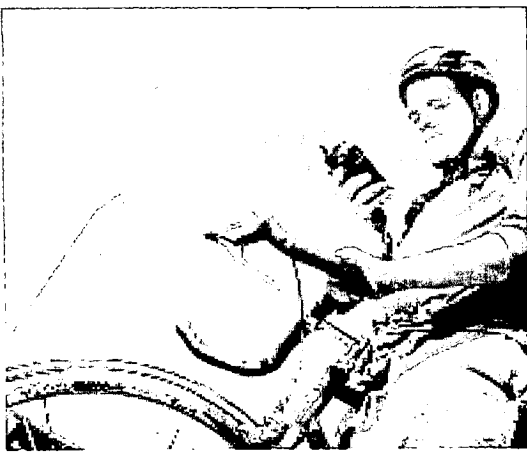
Nextel Wireless Business Solution

At the world's largest food company, multiple Nestlé R&D facilities are charged with product enhancement for a wide array of food and beverages. At Nestlé's Marysville, OH facility, a team directs the development of coffee, ice cream and confections. Nextel handsets have enabled greater efficiency through instant connections via two-way text messaging and Direct Connect. Today, high-quality transmission equals smooth operations for Nestlé's Marysville team.

"As a result of Nextel's wireless solution for Nestlé, our most significant return on our investment is a dramatic increase in productivity."

— Jeff Renz, Controller, Nestlé, Marysville, OH





LASERSHIP, INC.

Product Innovation

2001 was a record year for Nextel, with the launch of eight market-leading innovations – all leveraging the Internet, all geared to our business consumers.

Nextel Wireless Business Solution

Nextel's two-way voice and text messaging solution is integrated with LaserShip Dispatch Management to support 8,000 daily intracity, on-demand deliveries from Manhattan to Atlanta, plus local distribution in more than 80 markets and worldwide next-flight-out services. 10,000 LaserShip messages cross Nextel's network daily, and our full-featured phones have saved LaserShip \$65,000 in annual equipment costs.

"Customer service is the single greatest benefit of Nextel's Mobile Messaging. LaserShip's satisfaction ratings have doubled with customers using our real-time online delivery information services."

– Blake Averill, Executive Vice President, LaserShip, Inc.

Java-enabled Phones Enable Management



i90c

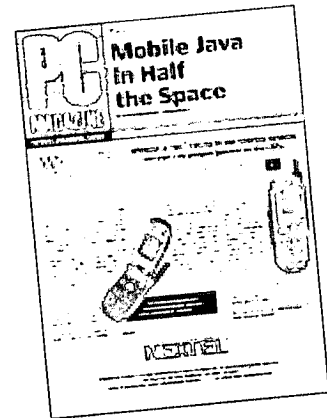
With Motorola, Nextel untethered the power of Java technology, introducing the first Java technology-enabled wireless phones in the U.S. First with the i85s and the i50sx, followed by the i90c, one of the smallest flip-style wireless phones with a speakerphone, and the i80s, the slimmest and lightest phone to operate on the Nextel National Network.

Our four critically acclaimed Java-enabled wireless phones come pre-loaded with heavily relied upon business tools, such as a specialized calculator and an expense pad.

Other business and recreation applications can be downloaded to the Java-enabled wireless phones over the air. Buoyed by the praise of product reviewers such as



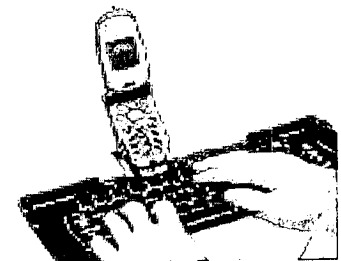
i80s



PC Magazine, we surpassed our own expectations, selling 1.4 million Java-enabled wireless phones in a year's time.

Motorola iBoard™

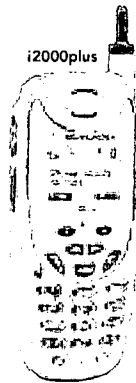
Another first for mobile professionals, the Motorola iBoard sports the utility of a full-sized keyboard, but folds away for pocket-sized convenience. Nextel launched it in 2001, making composing email, managing address books and calendars, and using Java-enabled applications easy – and all from a wireless phone.



i90c phone attached to Motorola's iBoard

Nextel's RIM BlackBerry™

In a deal announced in January 2002 and expected out by year's end, Nextel plans to launch the only BlackBerry wireless handheld, created by Research In Motion (RIM), that will offer Nextel's full suite of wireless mobile solutions: all digital cellular, Nextel Direct Connect digital two-way radio service, text and numeric messaging, email, Java technology and Nextel Wireless Web.



Nextel Worldwide

International travelers roam around the world with the i2000plus by Motorola, Nextel's first Internet-ready global phone. The i2000plus operates on the iDEN network in the U.S., and seamlessly moves to GSM in more than 80 countries. But more importantly, the i2000plus delivers Nextel customers one phone number, one phone, one bill – worldwide.

"The i90c is a robust platform for running J2ME™ (Java) applications.. Without a 'six' rating in our scoring system, we can't do proper justice to the i90c. Rated 5 out of 5."

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Get a phone number that works from ONE bill – worldwide with Nextel Worldwide service via the i2000plus.



Business Solutions

Wireless data is the cornerstone of Nextel's varied offerings, and the hallmark of our solution-driven business focus. Through innovation and collaboration, we deliver on what our customers demand.

With Nextel, Tennessee's Shelby County Sheriff's Office now communicates using Direct Connect. In addition, Nextel's Wireless Web and Java-enabled handsets allow secure mobile real-time access to critical data in state and local law enforcement databases, such as warrant and arrest records and vehicle registrations.

"Nextel's Direct Connect feature has made a huge difference in Shelby County. Our officers are finally able to speak with other agency personnel by radio, with a critical emphasis on up-to-the-minute information, security and safety."

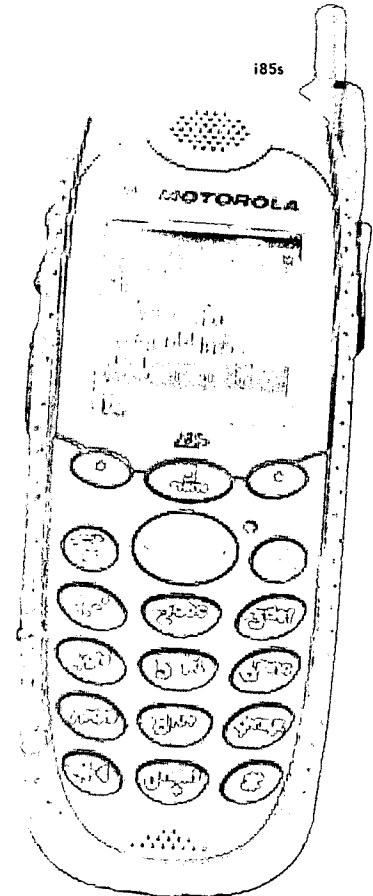
- Brian Douglas, Director,
Shelby County Sheriff's Office

Wireless Data Solutions

Communication and the ability to access and use information separate the leaders from the followers. Nextel is the unmistakable leader in providing wireless data to business customers of all sizes, in a host of industries. Nextel's Wireless Web is "always connected," offering subscribers instant wireless access to specialized business applications, wireless email and real-time information.

With 20 percent of Nextel's subscribers on data plans, we lead the industry in data penetration. Deemed the "Data Diva" by RCR Communications, Nextel was also ranked #1 in wireless Internet service satisfaction in the U.S. by In-Stat/MDR Group.

Nextel's data customers have staying power and recognize the value in our unique wireless business solutions. We collaborate with market-leading software



companies to continuously deliver data solutions to these valuable customers in key industries, such as:

- Banking/ Finance
- Building/ Construction
- Communications/ Cable
- Government
- Manufacturing
- Medical/ Health Care
- Real Estate
- Transportation

Nextel Custom Network Solutions

Today, we bring the Nextel National Network into the private corporate buildings and campuses of our business customers. With Custom Network Solutions they are able to leverage the same great integrated mobile voice and data services that help them drive business efficiency whether they are working in their offices or on the road. Our Custom Network Solutions also enable the extension of the Nextel National Network to their laptop computers, allowing wireless mobility within their local area networks whether in their offices or in meetings elsewhere in their corporate buildings or campuses.



"Nextel Custom Network Solutions is a key element in our strategy to provide our business customers with the highest quality mobile voice services and the ability to use their mobile devices to access our services. Our customers are able to work more effectively and efficiently, and we are able to deliver the services and applications to meet their demand."

Thomas J. Kelly, Jr., Executive Vice President
and Chief Marketing Officer,
Nextel Communications, Inc.



Nextel Wireless Business Solution

Encompass Services is the nation's largest provider of electrical, mechanical and cleaning services and systems for commercial, industrial and residential customers. With more than 7,800 Nextel handsets at their fingertips, Encompass' subsidiaries' employees use Nextel's unique business networks, Direct Connect and always-on data network to improve lines of communication, as well as the bottom line.

"At Encompass, our tagline is 'All Systems Go.' We live in a highly competitive environment in the facilities services industry, and Nextel plays an integral role in the communications success among our companies' employees and valued customers."

- Larry K. H. Jenkins, Vice President,
Corporate Marketing and
Communications,
Encompass Services



Targeted Sales

LOOMIS, FARGO & CO.

Nextel Wireless Business Solution

More than 3,300 units deployed across Loomis, Fargo & Co. use Nextel's 4-in-1 wireless solution – digital cellular, Direct Connect, text and numeric mobile messaging and wireless web – to keep thousands of the company's 7,200 employees across its fleet of 2,500 armored vehicles in touch – coast to coast and around the world. And, the Nextel i2000plus offers easy international access to Loomis, Fargo & Co. executives and their teams.

"Nextel's Enterprise Account team and solution-driven service separate Nextel from the competition. We consider Nextel a key member of the Loomis, Fargo & Co. team."

– Tommy Harden, Executive Vice President,
Fleet Management,
Loomis, Fargo & Co.

In 2001, Nextel aggressively diversified its distribution strategy. With 200 new Nextel stores, targeted TeleSales, Web Sales and an enhanced enterprise-focused sales team, we are reaching the most valuable customers in the marketplace through new, lower cost, customer-accessible channels.

Enterprise Opportunity

With unrivaled single-mindedness, our Direct Sales Team sets its sights on serving large enterprise organizations. We have a simple, proven approach to growing our customer base: demonstrate value and return on investment.

Nextel serves more than 80% of America's FORTUNE 500 companies, and there's great opportunity to grow these accounts within the large enterprise market. Our dedicated, experienced executive sales team's mission is to bring success to our bottom line by helping corporations and government enterprises add value with Nextel Wireless Business Solutions and Custom Network Solutions.

Data Sales

Nextel's network gives us an unparalleled advantage over our competitors to create and run tailored applications for specialized industry segments on our wireless phones. In 2001, we upped the ante, creating a team of experts from key target industries – transportation and logistics, government and education, financial services, manufacturing, professional services, and field sales and service – to pinpoint customer needs and collaborate with partners to provide solutions that enhance the way business gets done. Our Data Sales Team outdid itself in 2001, doubling the subscriber take-rate on wireless data plans, and doubling the data traffic that crosses our network. When customers buy our data services, they are more loyal than the average voice-only customer, and bring us higher revenue per user. Nextel boasts fast data speeds and is the #1 rated wireless Internet service in the market.



...entirety about driving balanced
 growth by addressing our core customers,
 providing superior service and
 maintaining a strong financial position.

...and the... ..

Executive Vice President and Chief Operating Officer,
 Nextel Communications Inc.

Distribution Channels

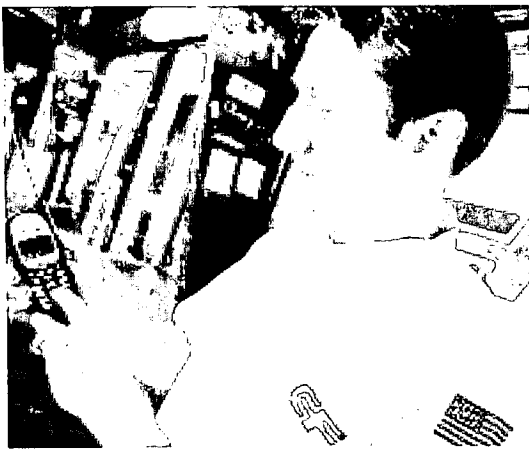
- Direct Sales Staff
- 200 Nextel stores, with plans to double in 2002
- More than 1,600 authorized Nextel Dealers and Retailers
- More than 3,000 authorized service centers
- Telesales

THE STAUBACH COMPANY



"One of our key operating principles is our commitment to providing superior client services. In doing this, we continually strive to understand our clients' long-term needs through consistent communication with our customers and partners. Nextel helps us realize this vision every day by offering our team superior voice and data services."

— Roger Staubach,
 Chairman and Chief Executive Officer,
 The Staubach Company



CONSOLIDATED FREIGHTWAYS CORPORATION

Nextel Wireless Business Solution

With 40,000 vehicles, 7,400 city drivers, 3,000 long haul drivers and 80,000 daily pickups and deliveries, Consolidated Freightways keeps moving with smooth communications. Web-enabling their business applications made it possible to extend them onto the Nextel National Network and transform the company's communications. Today, the Nextel solution is in CF terminals in 174 cities and in Q2 2002, 75% of all pickups will be recorded with wireless data devices.

"Our ultimate goal was to reduce cost through process and productivity improvements, and add competitive advantage – but not to dramatically change the Consolidated Freightways culture. Drivers like the simplicity and consistency of a common solution across more geographic areas."

– Marty Larson, Senior Vice President, Sales,
Consolidated Freightways

Nextel's product and service differentiation, coupled with our distribution strategy, are the key drivers for our success. The right customer through the right channel at the right price equals a lower customer acquisition cost and a higher rate of return.

Nextel Stores

With our May 2001 acquisition of "Let's Talk Cellular & Wireless" came the re-branding of 200 prime retail locations into Nextel stores. These stores facilitate service and repair for our existing customers and generate new sales and brand awareness for Nextel.

To date, Average Revenue Per Unit (ARPU) at Nextel stores is even higher than average revenue across our other sales channels. We are on track to add 200 more locations in 2002. These stores demonstrate that high-value customers can be generated through lower-cost channels.

Tele Sales

1-800-NEXTEL-9, our TeleSales channel, received millions of incoming calls last year, an 81% increase over 2000. Even more impressive is our productivity – we sold 209% more new phones through this channel than in the previous year. In part, we attribute this growth to our decision to out-source our TeleSales center operations to companies with core competencies in telemarketing. With nominal fixed costs and scalability, TeleSales helps drive Nextel's success.

Authorized Dealers & Retailers

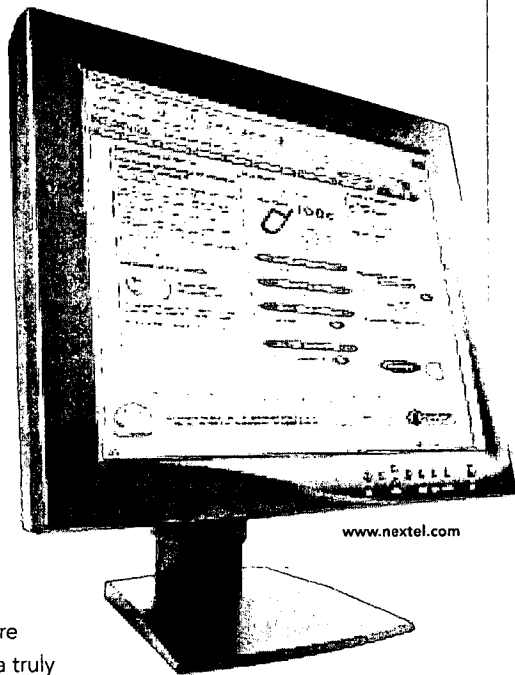
With more than 1,600 Authorized Dealers and Retailers acting as our partners in the market, this channel delivers great reach and satisfied customers. With more than 5,000 storefronts across the country, our Indirect Distribution Channel accounts for more than 50% of gross sales. In 2002, we will launch a new wireless data training pro-

gram for our current Authorized Retailers to help them extend their profits with data sales.

Web Sales

Nextel's Web Sales grew more than 240% in 2001, creating a truly efficient channel for high-value new customers. The customer acquisition cost for this channel is one of our lowest per customer.

We expect to drive even more of Nextel's new business through Nextel stores, Web Sales and TeleSales in the year ahead.



Nextel broke the wireless email barrier as the first nationwide wireless service provider to deliver both voice and text access to Internet-enabled devices and applications.

CVS CORPORATION

CVS/pharmacy

"As a Fortune 100 company, CVS has used Nextel to help us navigate our business through a challenging economy. Our partnership with Nextel positions us very well for the future."

- David J. Burton, Manager,
Telecommunications,
CVS Corporation

Streamline your business operations

CVS, a leading drugstore chain, chose Nextel as its vendor of choice for corporate on-campus services and as a recommended nationwide CVS vendor. Nextel's mobile on-campus in-building system now supports more than 1,000 wireless phones. Today, CVS and Nextel are partnering to streamline pharmacy and store operations.

By partnering with market leaders, Nextel drove new customer gains, launched new services, and enhanced our own business efficiencies. And, our strategic alliances hold great promise for Nextel's Wireless Business Solutions. Our partners need no introduction...

Technology Ingenuity

Motorola is one of our most valued partners, and we elevated our alliance to a new level in 2001. Not only do they provide our iDEN network and develop our feature-rich wireless phones, but they also partner with us to bring even greater technological advancements to the market. Motorola software enhancements are expected to nearly double our voice capacity allowing us to economically grow our ability to serve new customers.



Driving Efficiency

With **EDS**, Nextel is developing, marketing and selling joint wireless data solutions to business customers in the U.S. In addition, Nextel outsourced to EDS key Information Technology services, including our corporate data center, database administration, help desk, desktop services and other technical functions. The results: new efficiencies, streamlined Nextel IT processes, and expected savings of \$140 million over five years.



Premium Customer Care

Nextel announced an eight-year outsourcing initiative with **IBM** and **TeleTech** to manage and further enhance Nextel's customer care capabilities. With **IBM**, Nextel is also developing, marketing and deploying mobile e-business solutions to enterprise customers in the U.S. The goals: to reduce Nextel's future customer care costs by more than \$1 billion over eight years, to enhance our customers' experience, and to enhance Nextel's revenues with new enterprise wireless data solutions.



Nextel ranks highest in customer satisfaction for national wireless services providers in the top 25 markets in the U.S., according to a leading research firm.

Enhanced Billing and Service

We began rolling out the **Amdocs** world-class Ensemble Customer Care and Billing system to enhance the customer care experience, scalability and operational efficiency. Our strategic outsourcing agreement with Amdocs supports our provisioning and billing infrastructure, which is expected to improve our billing accuracy, significantly lower our operational costs and enable a rapid rollout of new services to our customers.



Our People

The Nextel team is more than 13,000 members strong in the U.S. They are the power behind our performance and results. They anticipate our customers' needs. They push innovation. They create wireless solutions to business challenges. They form one national team.

In 2002, we are investing in significant enrichment initiatives with Nextel University and Quarterly Career & Development Planning. These important programs will help ensure that our employees have industry-leading skills and knowledge to help continue to advance our business in this competitive marketplace.



September 11th

Nextel employees watched the horrifying events in shock along with the rest of the nation, and then responded by the thousands. Across every department in the company, they banded together to activate phones, charge batteries and deliver thousands of Nextel handsets to police, fire, rescue and social service agencies at Ground Zero, the Pentagon and the crash site in Pennsylvania. Nextel Direct Connect, our two-way digital radio service, remained in operation throughout the devastating loss of

the World Trade Center and the failure of other communications services, and made it possible for public safety officials and rescue workers to communicate.

By nightfall on September 11th, more than 2,000 Nextel phones were in the hands of rescuers. By week's end, that number was 8,500. Without the dedication of Nextel's people – and Motorola's generous donation of phones – this would not have been possible. Our network team worked 24 hours a day for

weeks on end to ensure that emergency responders and our customers alike had communications capabilities. Like our nation, our people were tested, and their determination and resolve shone through.

Nextel Communications, Inc.
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 William E. Conway, Jr., Chairman;
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 O'Brien, Vice Chairman; Craig O.
 McCaw; William E. Kennard;
 Keith J. Bane; Frank M. Drendel;
 J. Timothy Bryan; V. Janet Hill;
 and Dennis M. Weibling.



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 and Managing Director
 The Carlyle Group

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 President and
 Chief Executive Officer
 Nextel Communications, Inc.

Morgan E. O'Brien
 Vice Chairman
 Nextel Communications, Inc.

Keith J. Bane
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 Corporate Development
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Thomas N. Kelly, Jr.
 Executive Vice President
 and Chief Marketing Officer

Barry J. West
 Executive Vice President
 and Chief Technology
 Officer

Mark Angelino
 Senior Vice President,
 Sales and Distribution

Cathy L. Bradley
 Senior Vice President and
 Chief Service Officer

Robert S. Foosaner
 Senior Vice President and
 Chief Regulatory Officer

Limond Grindstaff
 Senior Vice President,
 Engineering and
 Operations

Randall C. Harris
 Senior Vice President,
 Human Resources

Leonard J. Kennedy
 Senior Vice President and
 General Counsel

Richard LeFave
 Senior Vice President and
 Chief Information Officer

Richard Orchard
 Senior Vice President,
 Customer Care
 Operations

William G. Arendt
 Vice President and
 Controller

Paul H. Blalock
 Vice President,
 Investor Relations

Elizabeth R. Brooks
 Vice President,
 Corporate
 Communications

Christie A. Hill
 Vice President and
 Corporate Secretary

Gregory Santoro
 Vice President, Internet
 and Wireless Services

Investor Information

General inquiries from stockholders concerning Nextel investor communications may be directed to Investor Relations at (703) 433-4300.

Stockholders are also encouraged to use the Nextel World Wide Web site at www.nextel.com to view financial information, an electronic version of the 2001 annual report and the Form 10-K.

SEC Reports

The Company's annual report filed with the Securities and Exchange Commission on Form 10-K is available free of charge to any Nextel stockholder by writing to Investor Relations at the Corporate Office.

Stock Listed

NASDAQ
Symbol NXTL

Transfer Agents/Registrars

Class A Common Stock, Series D
Preferred Stock, Series E Preferred
Stock and Zero Coupon Convertible
Preferred Stock

EquiServe Trust Company, N.A.
P.O. Box 2500

Jersey City, NJ 07303-2500
(201) 324-0313

www.equiserve.com

Hearing impaired #:

TDD (201) 222-4955

Bonds

BNY Midwest Trust Company
2 North LaSalle Street
Chicago, IL 60602
(312) 827-8547

Independent Auditors

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, VA 22102

Forward Looking Statements

This 2001 annual report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include forward looking statements concerning expected technological improvements, new products and services, operating results, cost savings and liquidity levels that are based on the expectations of our management as of the date of this annual report. 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, or by discussions of strategy that may involve risks and uncertainties. However, these statements concern events in the future that we may not be able accurately to predict or over which we have no control. We caution you that actual results may differ materially from those contained in the forward looking statements as a result of uncertainties and risks, including those relating to economic conditions in our targeted markets, performance of our technologies, timely development and delivery

of new technologies, competitive conditions, market acceptance of our services and those set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2001 annual report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002. This 2001 annual report speaks only as of its date, and we disclaim any duty to update the information herein.

© 2002. All rights reserved.

Nextel, the Nextel logo, Nextel Direct Connect, Direct Connect and Nextel Worldwide are trademarks and/or service marks of Nextel Communications, Inc.

Motorola and the stylized M logo are registered trademarks of Motorola, Inc. filed with the U.S. Patent and Trademark Office.

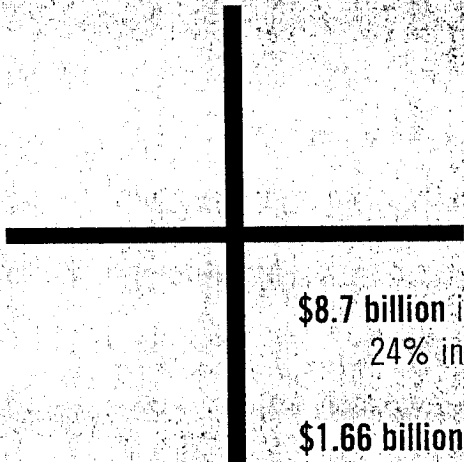
All other trademarks and product names and services are the property of their respective companies.

The Yankee Group defines Customer Lifetime Value as the discounted cash flow of the average revenue per user minus the cost of providing service minus customer acquisition costs for the average duration of the length of service excluding capital investment.

Nextel Communications, Inc.
2001 Edmund Halley Drive
Reston, VA 20191
703.433.4000 www.nextel.com

Nextel Communications, Inc. 2002 Annual Report

POSITIVELY DIFFERENT



\$8.7 billion in domestic revenue
24% increase over 2001

\$1.66 billion net income
Earnings per share: \$1.88
First full year of net income in company history

\$122 million free cash flow
First full year of free cash flow

\$3.2 billion debt retirement
\$5.4 billion avoided in future payments of principal,
interest and dividends

10.61 million subscribers
22% increase over 2001
1.96 million new subscribers in 2002

10% market share among top six national wireless carriers
18% share of new wireless subscribers garnered

72.9 billion minutes of use
41% increase over 2001

Nextel Communications is the premier provider of highly differentiated, seamlessly integrated, wireless communications products, services and solutions. Nextel Digital Cellular, Direct Connect™ long range digital walkie-talkie, Nextel Mobile Messaging and Nextel Online® Wireless Web services are delivered to corporate and government users and individual decision-makers on the largest guaranteed, all-digital, wireless voice and data network in the country. In association with Nextel Partners, Inc., we serve all of the top 100 Metropolitan Statistical Areas in the U.S. and 197 of the top 200 U.S. markets, where approximately 240 million people live or work. Customers subscribe to Nextel services and obtain innovative wireless phones through our direct and indirect channels, Nextel TeleSales, nextel.com Web Sales and more than 400 conveniently located Nextel Stores. Nextel is traded on the NASDAQ National Market under the symbol NXTL. Our affiliate, Nextel Partners, is a separate company traded on the NASDAQ National Market.

During a very tough year for the telecommunications industry, Nextel excelled. We outperformed other national wireless carriers in profitability, growth, customer satisfaction and delivery of value.

In 2002, our performance, products and services established Nextel as positively different in every way that matters.

March 17, 2003

DEAR FELLOW SHAREHOLDER,

In 2002, the Nextel team delivered on every one of our commitments and reached two of our most important financial goals well ahead of schedule. We achieved our first-ever annual net earnings and free cash flow. During a very tough year for the telecommunications industry, Nextel excelled. We outperformed other national wireless carriers in profitability, growth, customer satisfaction and delivery of value. In 2002, our performance, products and services established Nextel as positively different in every way that matters to those with a stake in our success.

First, let me address the issue on all of our minds: financial performance. Nextel reported our first-ever annual net earnings of \$1.66 billion of income on \$8.7 billion of revenue, for earnings per share of \$1.88. After posting three consecutive quarters of positive earnings per share, we achieved positive free cash flow more than a year ahead of our 2004 target. We gained market share, attracting an estimated 18 percent of all new national customers. Our nearly two million new subscribers increased our total customer base to 10.61 million at year-end, a 22 percent increase over 2001.

We also delivered on another financial promise. We slashed \$3.2 billion of debt and preferred stock from our balance sheet, which eliminates \$5.4 billion in future cash obligations.

And the market took note. By December 31, the value of our stock quadrupled from its mid-year low. For the year, Nextel shares were up almost 10 percent while shares of other wireless companies declined more than 44 percent.

We achieved these remarkable results by adhering to Nextel's fundamental principle of focusing on People, Service and Value. Each year we set company-wide "PSV" goals. Once again, Nextel's people are to be commended for their stellar performance and unfailing dedication. We have the best team in the industry and building on this strength is a priority. Our 2002 annual employee opinion survey recorded the highest employee morale in Nextel's history, indicating that we are on the right track.

The Service and Value components of the PSV goals are addressed through Smart Growth, Nextel's strategic planning process, which drives value from every facet of our business through rigorous financial and operational planning.

In 2002, Smart Growth helped us balance top line growth with disciplined cost management. By outsourcing certain customer care and IT functions, reducing capital expenditures, increasing sales through low-cost channels and realizing company-wide process efficiencies, we drove hundreds of millions of dollars in costs out of the business. And, we still turned in impressive performance in sales growth and network service. With the launch of sleek, feature-rich new wireless devices and ROI-centric data applications, we continue to provide truly differentiated products and services that deliver great value to our customers.

These are among the reasons Nextel continues to lead all national carriers in monthly revenue per unit, lifetime customer revenue and customer loyalty.

In another positive development, NII Holdings, Inc., our former subsidiary, successfully completed its debt restructuring in 2002 with the support of all involved parties. Our ownership is now 36 percent, and NII Holdings operates as a separate business, delivering Nextel value to wireless customers in key Latin American markets.

For 2003, we have our sights set even higher. We expect to further outpace the competition by offering services no company can match on a network no one can duplicate. We've begun the rollout of Nationwide Direct Connect,[™] the first and only nationwide digital walkie-talkie. This service will be fully available in the third quarter of 2003, with service stretching from Honolulu to Boston. We'll continue to offer exclusive and innovative new voice and data solutions for business. And we'll take advantage of our ability to nearly double our network capacity with a software upgrade from Motorola—saving us billions of dollars on infrastructure.

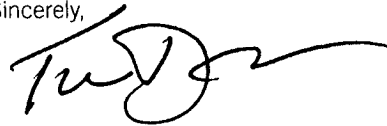
Above all else, 2003 will be the year that Nextel becomes positively different in the area of customer service. We have made the right investments in the systems, tools, processes and outsourcing relationships necessary to make the Nextel brand synonymous with the best customer service in the wireless industry in 2003 and beyond.

Nextel's culture has always been one of professionalism, credibility and accountability. We will continue to adhere to the highest ethical standards. Independent directors chair and comprise the majority of our Board of Directors' committees. And Nextel's company-wide Extreme Integrity compliance program was part of our fabric well before the high-profile misdeeds of others captured public attention.

I am proud of the accomplishments of Nextel's 15,000 employees and our strong management team. I am honored to be the standard-bearer for the company that is setting the pace for excellence in the wireless industry. Your continued confidence in Nextel has helped us build a brand that stands for what is truly good in business—superior service, growing shareholder value and talented, energized people. The future is bright and Nextel is ready.

Thank you for helping Nextel continue to be positively different.


Sincerely,



Timothy M. Donahue
President and Chief Executive Officer



Nextel's senior management team (left to right): Timothy M. Donahue, Thomas N. Kelly, Jr., Paul N. Saleh, Elizabeth R. Brooks, Barry J. West, Randall C. Harris, Robert S. Foosaner, Leonard J. Kennedy, Morgan E. O'Brien and Christie A. Hill.



"Our wireless solution
integrates voice, data
and Direct Connect.
We're able to send

and receive e-mail on
laptops. Plus, we
can also manage all
our wireless phones
with Mobile Account
Manager. It's a huge
cost advantage."

Stephen R. Poppe
Chief Information Officer
**Roto-Rooter Services
Company**

POSITIVELY DIFFERENT SOLUTIONS INCREASE BUSINESS PRODUCTIVITY

Businesses today need maximum productivity and real returns on their investments. That's what wireless data is all about. And Nextel holds an unequaled advantage in providing wireless solutions that help businesses run more efficiently.

In 2002, we leveraged this advantage with the launch of our Wireless Business Solutions initiative. Our enterprise-strength all digital packet data wireless platform helps customers become more productive with "always-on" nationwide access to their strategic information and applications.

Airborne Express, for example, is saving millions of dollars a year in cost reductions and productivity improvements by tracking 1.4 million daily shipments—with barcode data wirelessly transmitted from 6,000 integrated driver devices operating on the Nextel nationwide network.

Nextel customer Atlantic Contracting and Specialties, a New England industrial insulation company, reduced the time foremen spend on payroll tasks, from nearly one day each week to less than one hour, by enabling wireless entry and transfer of workers' timesheet data directly from job sites to the back office.

Working with industry-leading partners such as EDS, Sun Microsystems, IBM, Accenture and Unisys, we have created wireless data solutions for companies in

transportation, utilities, financial services, manufacturing, healthcare, field services, government and public safety. These applications include real-time location status, remote IT trouble shooting, inventory look-up, and internal database access and management.

In 2002, we constructed the Center of Excellence, a state of the art facility at Nextel headquarters, to provide a test environment for future wireless solutions. Meanwhile, we benefit from a community of 7,000 freelance developers creating market-specific mobile data applications.

It takes industry know-how to bring relevant, value-added solutions to Nextel customers, who already include more than 80 percent of the FORTUNE 500. So we have assembled the most experienced data sales team in the wireless industry, staffed and led by seasoned professionals from our target markets.

Of course, companies aren't alone in gaining value from wireless data. Services such as Nextel Online,[®] Address Book, Two-Way Messaging, wireless email and AOL[®] Instant Messenger™ also appeal to Nextel's government customers and high value individual subscribers. This helped Nextel achieve one of the highest adoption rates in the industry for wireless data services, with nearly 20 percent of Nextel customers subscribing to wireless data plans.

Streamlining the Business of Government

Government agencies continually need to do more with less, and Nextel solutions are uniquely tailored to meet that need. This is one reason government is one of Nextel's fastest growing markets. Governments at all levels spent \$2.1 billion on wireless service in 2002, and their spending is projected to grow 14 percent a year. We have significant momentum in this segment and ample opportunity to press our advantage in 2003. As 2002 ended, we extended a major contract with the U.S. General Services Administration, representing a potential \$1 billion in revenue over five years.

Our partners at Motorola help strengthen our position by providing us with the product features and functionality that government customers demand. For example, Nextel Direct Connect® provides law enforcement and fire and rescue organizations with secure, interoperable communications and priority access for coordinated

emergency response. With other partners, we're providing solutions that give police officers mobile wireless access to criminal and civil databases, for information that can help them save lives, prevent crime and manage potentially dangerous situations.

Taking leadership in seeking to eliminate interference with public safety uses at 800 MHz, Nextel has offered to exchange some of our valuable spectrum holdings to create contiguous blocks for both public safety and Nextel. We have committed up to \$850 million to relocate affected users, 90 percent of whom support our consensus plan. We are hopeful the Federal Communications Commission will also agree ours is the only reasonable proposal for solving this important issue.



An all-digital nationwide network optimized for wireless data applications, 100-percent data-capable handsets and an industry-leading business focus—that's what gives Nextel unequaled advantage in creating solutions that deliver real and measurable return on investment.

For Nextel, public safety is more than a market to pursue, it's an opportunity to serve. Time and again throughout 2002, large-scale emergency situations demonstrated the

ERT deployments translated into more than just good citizenship. In addition to serving the community, Nextel was able to demonstrate the value of its services to public safety agencies, build awareness of the Nextel brand and transform this into sales.

Serving the Community, Building the Nextel Brand

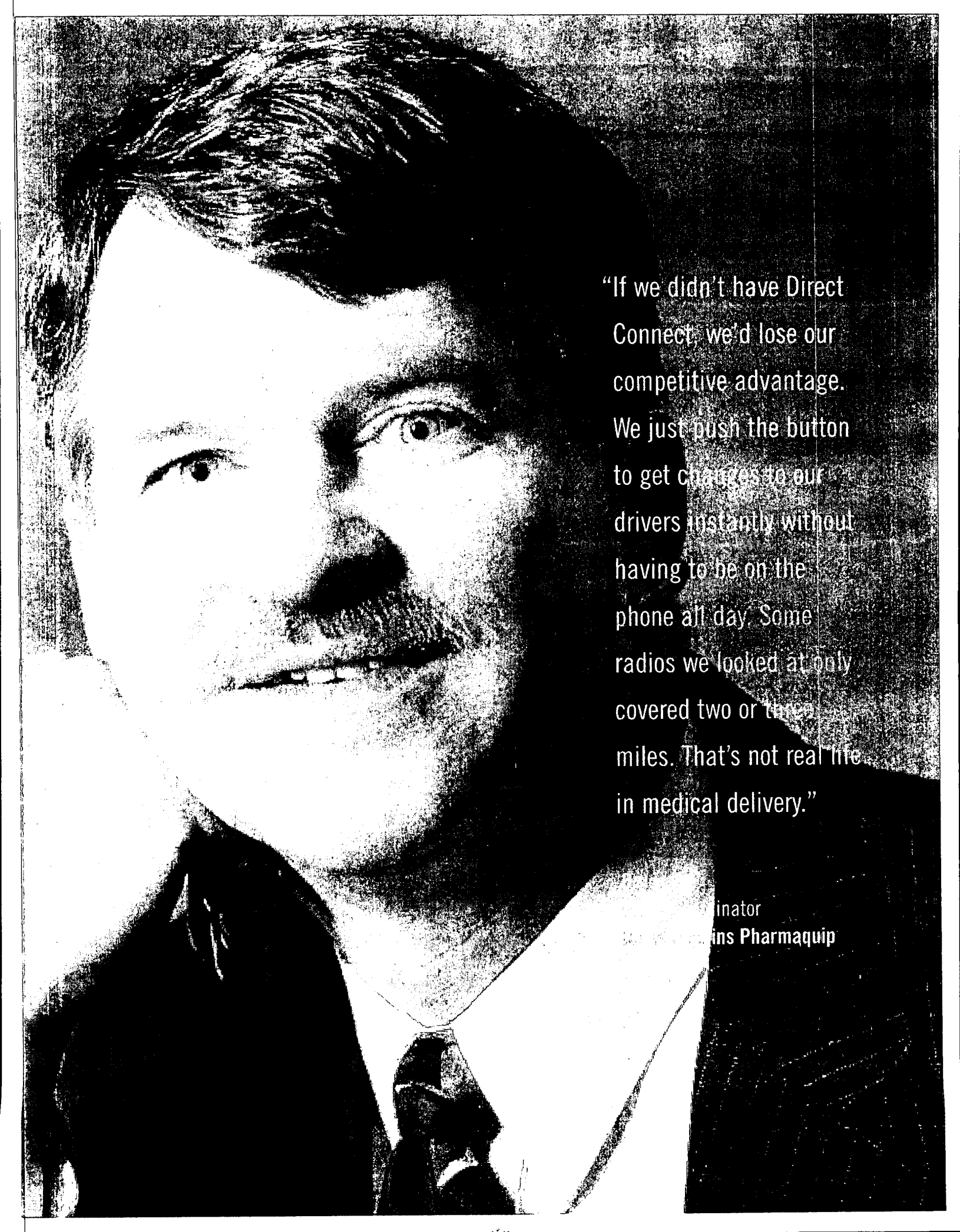
urgent need for secure, interoperable communications. Nextel answered the call by creating a dedicated Emergency Response Team (ERT). We deployed ERT eight times in 2002, providing phones, personnel, technical support and temporary cell sites to the hard working people at the front lines of natural disasters, criminal investigations and major public events.

Hundreds of firefighters and support agencies from across the country responded to the devastating Arizona and Oregon wildfires, and the dangerous rescue mission on Mt. Hood, Oregon. Before Nextel arrived on the scenes, rescue teams could not communicate with each other because each operated its own proprietary radio system. Nextel provided hundreds of phones and set up temporary mobile cell sites to provide the critical interoperability of Direct Connect.™

Under our nationwide agreement with the American Red Cross, Nextel also provided hundreds of phones to assure communication among the relief workers responding to Hurricanes Lili and Isadore and the Mississippi tornados.

But it doesn't take an emergency to engage Nextel's community spirit. Hundreds of times a year, Nextel provides wireless phones and service for programs such as Habitat for Humanity construction events, charity walk-a-thons, marathons and community cleanup days.

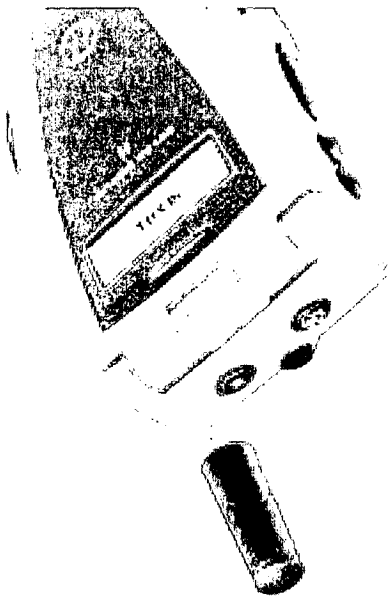
Together with the National Football League, Nextel ran Donate-a-Phone events to support Call to Protect, a program to provide wireless phones to protect victims of domestic violence. A similar Nextel Donate-a-Phone program in conjunction with 10 National Hockey League teams raised money for the Hockey Fights Cancer Program.



“If we didn't have Direct Connect, we'd lose our competitive advantage. We just push the button to get charges to our drivers instantly without having to be on the phone all day. Some radios we looked at only covered two or three miles. That's not real life in medical delivery.”

Director

Pharmaquip



POSITIVELY DIFFERENT PRODUCTS

Nextel leads the wireless industry in providing differentiated wireless products, services and solutions that business customers depend on for their success.

One of our greatest differentiators is Direct Connect, the unique long-range digital walkie-talkie feature that provides instant one-to-one or one-to-many communication. Every device we sell includes Direct Connect. More than 90 percent of our customers use it. And the rollout of Nationwide Direct Connect, initiated in 2002 and scheduled for completion in 2003, will strengthen our competitive advantage.

Another differentiator introduced in 2002 is the BlackBerry 6510™ for Nextel. It combines a wireless phone, PDA, Direct Connect, wireless email and Nextel Online® services into a single device attuned to the voice and data needs of business customers. Its December launch marked one of the most successful introductions of a Research in Motion BlackBerry.

In 2002, we expanded our handset line with ten new wireless phones offering Nextel customers more choices than ever in terms of form factors, functionality and price points.

Together with Motorola and Sun Microsystems, we introduced the first Java™ technology-enabled phone with a color display in the U.S. The Motorola i95cl is the ideal choice for running robust business data applications.

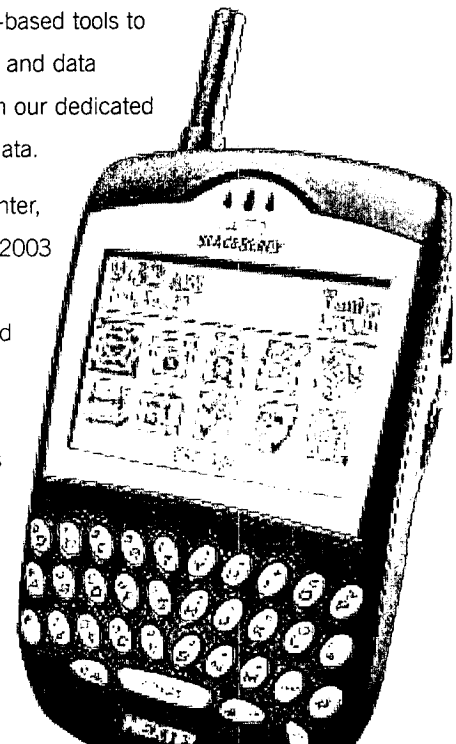
The GPS-enabled i58sr is designed for industrial-strength environments. Also GPS-capable, the i88s provides access to exciting new location-based data services such as voice-enabled turn-by-turn driving directions.

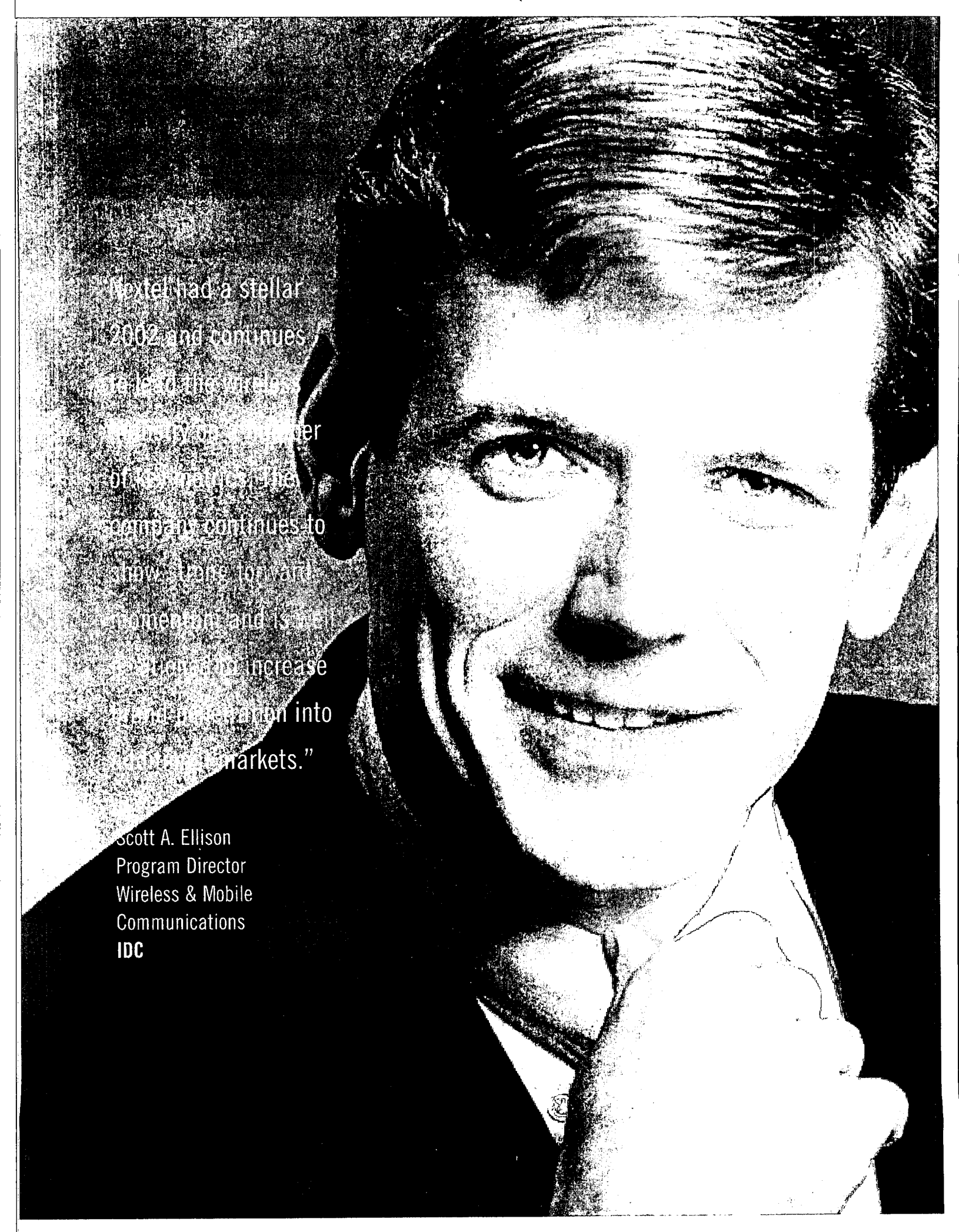
Customers seeking high value features at moderate cost were attracted to the compact i60c, the customizable i30sx, and the stylish limited edition Swiss Army version of the i90c phone.

International travelers can transfer the identity card from their current Nextel phone into a v60 or p280 and— with Nextel Worldwide™ Service—use their same phone number and many of their favorite features in more than 80 countries around the world.

Business customers use Web-based tools to manage their wireless phones and data applications and get help from our dedicated customer support center for data.

Besides being smaller and lighter, many new phones arriving in 2003 will offer AGPS capability, extended battery life, improved color screens, and increased processing power to support business applications such as remote claims adjustment, accounting programs and vehicle tracking.





NexTel had a stellar
2002 and continues
to lead the wireless
communications market
of tomorrow. The
company continues to
show strong forward
momentum and is well
positioned to increase
its market penetration into
new markets."

Scott A. Ellison
Program Director
Wireless & Mobile
Communications
IDC

REACHING THE MOST VALUABLE CUSTOMERS IN POSITIVELY DIFFERENT WAYS

Unique among the national wireless carriers, Nextel competes on value rather than price. We've built one of the most recognized and respected brands in telecom and in business. We reach, attain and serve the most valuable customers in wireless and we're doing it through progressive, cost-effective means.

An important contributor to Nextel's top-line growth and bottom-line profit in 2002 was the performance of our lower cost sales channels: TeleSales, Web Sales and Nextel Stores. Two years ago, these customer accessible channels were primarily in the planning phase. By the end of 2002, they contributed 22 percent of all Nextel sales.

By making it easier and more convenient for high-value customers to do business with Nextel, these lower cost channels are producing the same high quality, high revenue-generating customers as our other sales channels. So we continue to lead the industry with an average monthly revenue per unit (ARPU) of \$70.


In 2002, we doubled the number of Nextel Stores, bringing the total to more than 400. Sales volume from the stores also doubled, reducing our cost per sale.

Web and TeleSales channels increased more than 120 percent over 2001, at a 30 percent lower cost per unit. Reduced subsidies on new phones in 2002 also helped lower subscriber acquisition costs. An additional 200 Nextel Stores are slated to open in 2003.

Our highly skilled Enterprise Sales Team and the 1,800 Nextel Authorized Representatives in our Indirect Distribution Channel continue to be our primary drivers of new corporate and government business. Demand from these important customers will drive the growth of our integrated voice and data solutions.

Generating about half of all sales in 2002, our indirect channel has never been more productive. We expect significant contributions from our dealers again in 2003. And we'll be providing high-level training and resources to help us meet our ambitious revenue goals.

We are committed to serving our customers through the channels they find most valuable—and that's positively driving value for Nextel.



“We succeeded in 2002 thanks to the shared persistence and determination of Nextel management and employees to get the job done—even in an incredibly challenging economic environment. Some industry watchers said we couldn’t do it, but we knew we could—and did.”

Stephanie Nelson
Senior Manager,
Corporate Finance, Nextel
Nextel Group of Excellence and
Award Winner

STRIVING TO KEEP CUSTOMERS POSITIVELY HAPPY

We made great strides in improving the customer experience in 2002. We're determined to be better still in 2003.

Our industry-leading customer retention rates and #1 rankings in major analyst firms' customer satisfaction surveys demonstrate our progress. This, coupled with the fact that 38 percent of our new customers come from existing accounts, speaks to our growing customer satisfaction.

Now, our new customer life cycle service approach turns every contact with a customer into an opportunity to enhance satisfaction, increase retention and generate higher lifetime revenue. And we've invested in the systems and tools to make that happen. From sales through service to billing, our newly integrated database system helps us capture, track and leverage every customer transaction. Nextel reduced 14 customer database systems into one, giving customer care representatives an entire customer history at their fingertips. These system enhancements resulted in

a single nationwide billing platform that allows us to bill and collect more efficiently than ever.

To realize even more significant efficiencies, we outsourced the majority of our call center operations to the real experts, IBM and TeleTech, and our IT infrastructure to EDS. Besides improving customer service, these moves and the new billing system are expected to generate \$1 billion in savings over eight years.

We also launched a new technology-driven ordering process that enables Motorola to ship products from its warehouse directly to customers and dealers. This increases the speed and accuracy of order fulfillment, drives down costs and provides one more way to satisfy the needs of Nextel's valuable customers.

Customer satisfaction is an area in which there's great opportunity for enhancement. We're unwavering in our determination to meet and exceed our customers' expectations in 2003 and beyond.



"iDEN[®] technology and what Nextel has been able to do with it is truly one of Motorola's greatest achievements. Together, we continue to evolve the unique technology to maintain Nextel's competitiveness."

C. Fred Wright
Senior Vice President and
General Manager
Worldwide iDEN
Infrastructure Business
Motorola, Inc.

THE NETWORK OF THE FUTURE, HERE TODAY

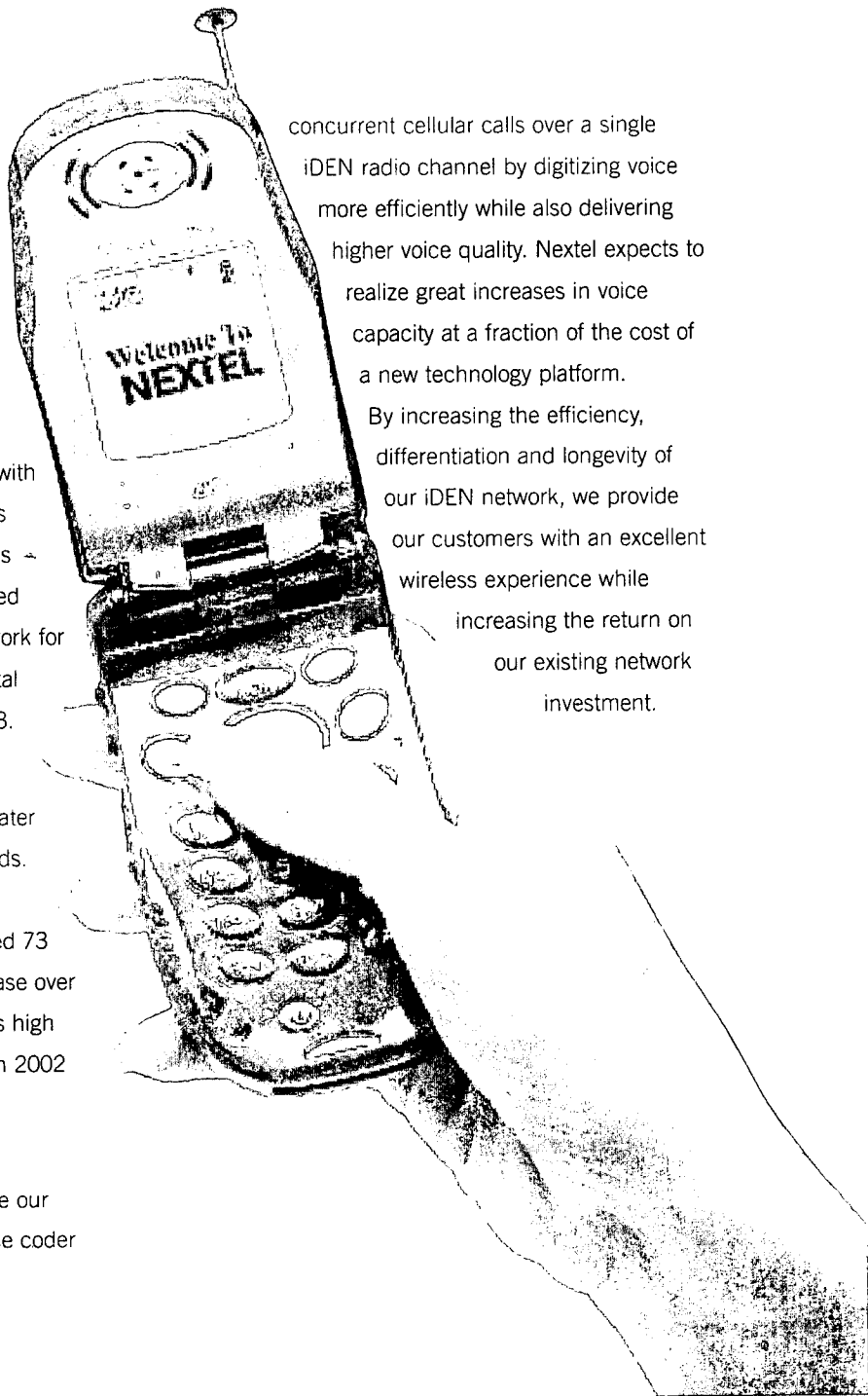
Available nationwide in 197 of the top 200 U.S. markets, Nextel's iDEN digital voice and all digital packet data network has never been more robust, more efficient or more reliable.

Not only did we increase capacity of the network some 20 percent in 2002, but we did it while decreasing capital expenditures 22 percent. We added 800 new cell sites—bringing our nationwide total to 16,300. We achieved significant increases with a new automated frequency-planning tool that uses spectrum more efficiently and automatically relieves traffic congestion at cell sites. In addition, we offered inter-carrier text messaging and prepared our network for Nationwide Direct Connect, our coast-to-coast digital walkie-talkie feature that we plan to launch in 2003.

We improved in every measure of network performance, delivering higher call quality and greater than 98 percent call completion during peak periods. Customers responded by giving us high marks in subscriber surveys. They should know—they logged 73 billion minutes of use in 2002, a 41 percent increase over 2001. And it costs us less than ever to provide this high quality service. Cost of service per minute of use in 2002 was nearly half of what it was as recently as 1999. And we're on target to reduce it further still.

In 2003, we will begin the process to nearly double our network's cellular capacity with Motorola's 6:1 voice coder technology. This innovative software enables six

concurrent cellular calls over a single iDEN radio channel by digitizing voice more efficiently while also delivering higher voice quality. Nextel expects to realize great increases in voice capacity at a fraction of the cost of a new technology platform. By increasing the efficiency, differentiation and longevity of our iDEN network, we provide our customers with an excellent wireless experience while increasing the return on our existing network investment.



" Nextel has successfully identified the major challenges, drivers and restraints in the mobile communications environment, and addressed market dynamics with sound strategic solutions. By utilizing these strategies for success, Nextel has established itself as a clear leader in the wireless space."

— Frost & Sullivan

Strategic Global Market and Growth Consultants

CONSOLIDATED FINANCIAL HIGHLIGHTS

Year Ended December 31,	2002 ⁽¹⁾	2001	2000
(in millions, except per share and per handset data)			
Operating revenues	\$ 8,721	\$ 7,689	\$ 5,714
Operating expenses:			
Cost of revenues	2,516	2,869	2,172
Selling, general and administrative	3,039	3,020	2,278
Restructuring and impairment charges	35	1,769	-
Depreciation and amortization	1,595	1,746	1,265
Operating income (loss)	1,536	(1,715)	(1)
Interest expense, net	(990)	(1,196)	(849)
Gain (loss) on retirement of debt, net of debt conversion costs	354	469	(127)
Gain on deconsolidation of NII Holdings	1,218	-	-
Equity in losses of unconsolidated affiliates	(302)	(95)	(152)
Other (expense) income, net	(39)	(223)	281
Income tax (provision) benefit	(391)	135	33
Net income (loss)	1,386	(2,625)	(815)
Gain on retirement of mandatorily redeemable preferred stock	485	-	-
Mandatorily redeemable preferred stock dividends and accretion	(211)	(233)	(209)
Income (loss) available to common stockholders	<u>\$ 1,660</u>	<u>\$ (2,858)</u>	<u>\$ (1,024)</u>
Earnings (loss) per common share			
Basic	\$ 1.88	\$ (3.67)	\$ (1.35)
Diluted	\$ 1.78	\$ (3.67)	\$ (1.35)
Weighted average number of common shares outstanding			
Basic	884	778	756
Diluted	966	778	756
Selected Balance Sheet and Other Data			
Cash, cash equivalents and short-term investments,			
including restricted portion	\$ 2,686	\$ 3,801	\$ 4,674
Total assets	\$ 21,484	\$ 22,064	\$ 22,686
Long-term debt, capital lease and finance obligations,			
including current portion	\$ 12,550	\$ 16,730	\$ 14,731
Mandatorily redeemable preferred stock	\$ 1,015	\$ 2,114	\$ 1,881
Stockholders' equity (deficit)	\$ 2,846	\$ (582)	\$ 2,028
Capital expenditures, including capitalized interest	\$ 1,904	\$ 3,136	\$ 3,631
Domestic average monthly billable minutes of use per handset	630	565	470

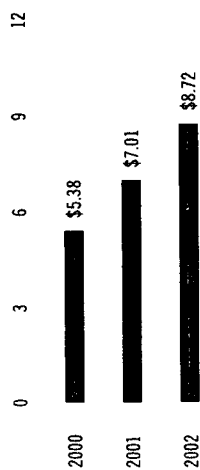
(1) In May 2002, NII Holdings, Inc. filed a voluntary case to restructure its obligations under Chapter 11 of the U.S. Bankruptcy Code. As a result of its bankruptcy filing, we began accounting for our investment in NII Holdings using the equity method. In November 2002, NII Holdings successfully emerged from bankruptcy. All previously outstanding equity interests in NII Holdings were cancelled in the reorganization. As of December 31, 2002, we owned about 36% of the outstanding common stock of NII Holdings and accounted for our new investment in NII Holdings using the equity method. In accordance with generally accepted accounting principles, our 2002 results include (a) the pre-emergence results of NII Holdings through May 2002, (b) a non-cash gain recorded when NII Holdings emerged from bankruptcy consisting primarily of the reversal of equity in losses in excess of our investment in NII Holdings, and (c) our share of the post-emergence results of NII Holdings from November through December.

SUMMARY

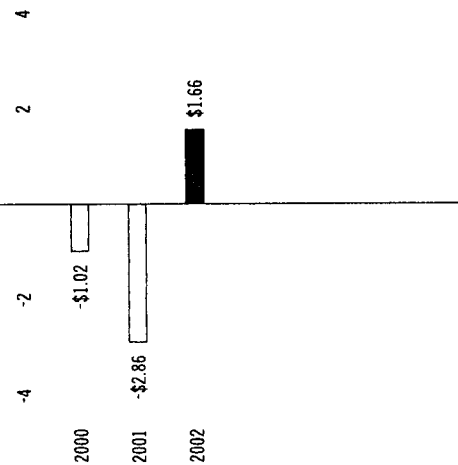
2002 was a breakthrough year for Nextel as we met and surpassed our operating and financial goals. We added nearly two million customers and grew our domestic revenue 24%. We reported the company's first-ever net earnings—in fact, three consecutive quarters of earnings. Domestic EBITDA (earnings before interest, taxes, depreciation and amortization) grew an impressive 67%.

We delivered on our plans to increase operating efficiencies. Technology advancements and better management tools enabled us to significantly lower our capital expenditures. And we improved our credit profile, opportunistically slashing \$3.2 billion in debt and preferred stock from our balance sheet.

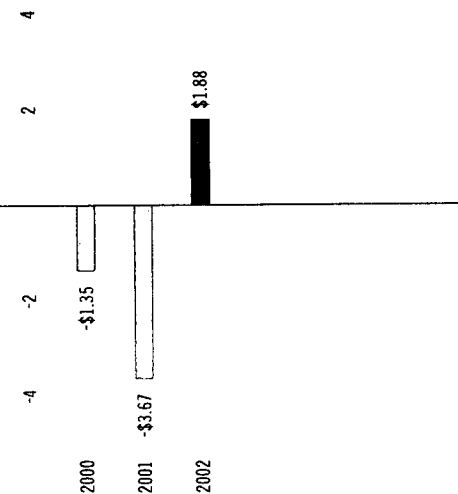
A. Domestic Revenue (\$ in billions)



B. Income Available to Common Stockholders (\$ in billions)



C. Earnings Per Share



INCREASED REVENUE, EARNINGS AND CASH FLOW

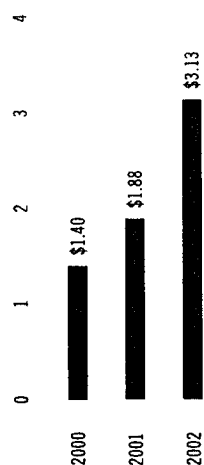
Our intense focus on attracting and retaining the right customers paid off in record-setting **DOMESTIC REVENUE (CHART A)** of \$8.7 billion in 2002. That was an increase of 24% over 2001. We achieved positive net income for the first time in our history in the second quarter, then each quarter after that and ultimately for the full year. **INCOME AVAILABLE TO COMMON STOCKHOLDERS (CHART B)** for all of 2002 was \$1.66 billion, for **EARNINGS PER SHARE (CHART C)** of \$1.88, compared with a net loss of \$2.86 billion or \$3.67 per share in 2001.

We delivered \$122 million of free cash flow for the entire year of 2002, beating both our own 2004 goal and others' expectations. **DOMESTIC EBITDA (CHART D)** increased to a record \$3.13 billion, 67% higher than in 2001. We posted impressive **DOMESTIC EBITDA MARGINS (CHART E)** of 38% for the year—and 40% or better in the second, third and fourth quarters.

We achieved these results by executing on five key elements of our Smart Growth strategy:

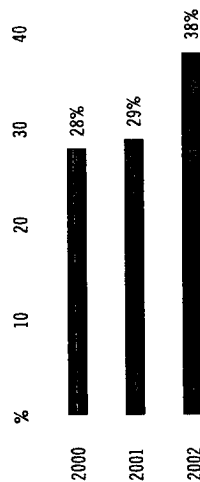
- **Gaining share from national competitors.** Based on reports from the six national wireless carriers, we estimate that Nextel captured 18% of all new national subscribers in 2002, nearly double our 10% total market share.
- **Expanding value of existing customers.** In the fourth quarter alone, approximately 38% of Nextel's gross additions came from existing accounts, testimony to our customers' satisfaction with the value of Nextel's differentiated wireless products and services.
- **Increasing use of services.** Customers are using their wireless phones instead of their landline phones. That's one reason our customers' total minutes of use increased 41% to 73 billion minutes in 2002. Approximately 33% of minutes used are Direct Connect, our highest margin voice product.
- **Relying on scalable distribution strategies.** Lower cost channels—TeleSales, Web Sales and Nextel Stores—generated 22% of sales in 2002 compared to only 10% a year ago, at a lower cost per unit.

D. Domestic EBITDA (\$ in billions)



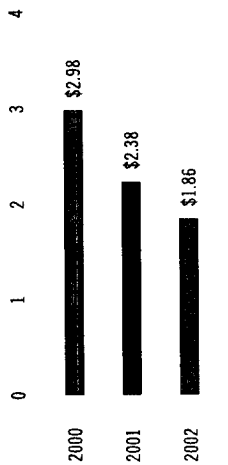
(EBITDA defined as earnings before interest, taxes, depreciation and amortization)

E. Domestic EBITDA Margins



(defined as EBITDA divided by Service Revenues)

F. Domestic Capital Expenditures, excluding capitalized interest (\$ in billions)

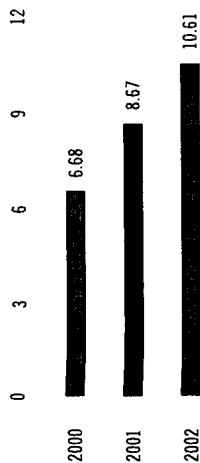


- **Driving efficiencies.** Even as subscribers and minutes of use increased, and our network capacity expanded, we saved \$80 million through back-office improvements and slashed annual **DOMESTIC CAPITAL EXPENDITURES (CHART F)** by 22%, from \$2.38 billion in 2001 to \$1.86 billion in 2002.

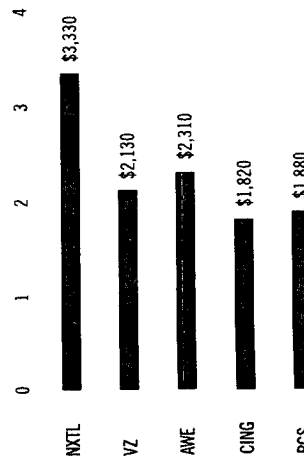
STRONG SUBSCRIBER GROWTH AND HIGHEST QUALITY

We said last year that Nextel would take an increasing share of wireless subscribers. We followed through by capturing 1.96 million new customers, growing our **TOTAL DOMESTIC SUBSCRIBERS (CHART G)** by 22% to 10.61 million, while continuing to attract the highest quality customers. Our average monthly revenue per unit (ARPU) of \$70 is still the industry's highest—far greater than the \$50 industry average. And by improving our industry-leading customer retention, our **AVERAGE SUBSCRIBER LIFETIME REVENUE (CHART H)** increased to \$3,330—again, highest in the industry and 44% greater than our nearest competitor.

G. Total Domestic Subscribers (millions)



H. Average Subscriber Lifetime Revenue



LOWER OPERATING AND ACQUISITION COSTS

Nextel's cost of service as a percentage of revenue improved two points in 2002 and our **INDUSTRY-LEADING DOMESTIC OPERATING COST PER USER (CHART I)** declined 10% to \$26. More important is the continued rapid reduction in our cost of service per minute of use—which, in 2002, was nearly half of what it had been as recently as 1999.

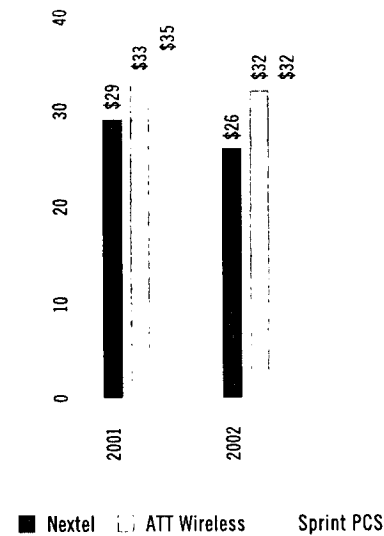
It is also costing us less to acquire new customers. In 2002, our cost per gross add (CPGA) declined, thanks largely to lower subsidies on new phones, greater use of Motorola's value added direct-ship capability and increased share of sales from our lower cost distribution channels. TeleSales, Web Sales and Nextel Stores generated 22% of sales in 2002.

RESURGING STOCK AND BOND PERFORMANCE

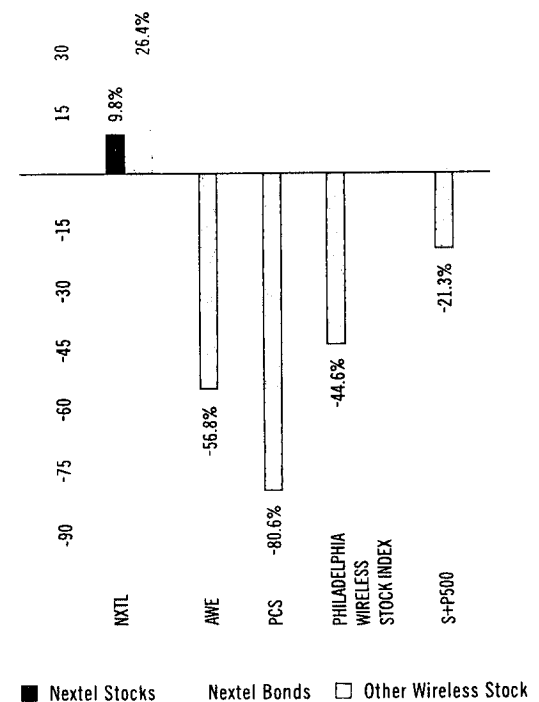
Other welcomed news for Nextel investors was the **MARKET-BEATING PERFORMANCE (CHART J)** of our stocks and bonds. Nextel stock was up almost 10% for the year and more than quadruple its position at mid-year. This compares rather favorably to other carriers' performance and the Philadelphia Wireless Index, which was down more than 44%. The value of Nextel bonds increased 26% for the year and 50% from its mid-year low.

Improvement of our credit profile was a major contributor to our resurging stock price. In 2002, we retired \$3.2 billion in debt and preferred stock obligations. These deleveraging actions will avoid about \$5.4 billion in future principal, interest and dividend payments and save approximately \$294 million per year in interest and dividends. Total debt to annualized EBITDA has been reduced to 3.5 times, compared with 6.4 times at December 31, 2001.

I. Industry-Leading Domestic Operating Cost Per User



J. Market-Beating Performance



" I am proud of the accomplishments of Nextel's
15,000 employees and our strong management team.
I am honored to be the standard-bearer for the
company that is setting the pace for excellence
in the wireless industry."

-- Timothy M. Donahue

President and CEO, Nextel Communications, Inc.

Nextel Communications, Inc. Board of Directors (left to right): Timothy M. Donahue, V. Janet Hill, Dennis M. Weibling,
Frank M. Drendel, William E. Conway, Jr., *Chairman*, Morgan E. O'Brien, *Vice Chairman*, William E. Kennard, Craig O. McCaw,
Timothy Bryan and Keith J. Bane.

BOARD OF DIRECTORS

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Chairman
Nextel Communications, Inc.
and Managing Director
The Carlyle Group

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Chief Executive Officer
Nextel Communications, Inc.

Morgan E. O'Brien
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Nextel Communications, Inc.

Keith J. Bane
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and President (retired)
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Corporate Development
Motorola, Inc.

J. Timothy Bryan
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Eagle River, Inc.

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CommScope, Inc.

V. Janet Hill
Vice President
Alexander &
Associates, Inc.

William E. Kennard
Managing Director
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and Media
The Carlyle Group

Craig O. McCaw
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Chief Executive Officer
Eagle River, Inc.

Dennis M. Weibling
Vice Chairman
Eagle River, Inc.

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Chief Executive Officer

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Vice Chairman

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Executive Vice President
and Chief Operating Officer

Paul N. Saleh
Executive Vice President
and Chief Financial Officer

Barry J. West
Executive Vice President
and Chief Technology Officer

Mark Angelino
Senior Vice President,
Sales and Distribution

Robert S. Foosaner
Senior Vice President and
Chief Regulatory Officer

Limond Grindstaff
Senior Vice President,
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Senior Vice President,
Human Resources

Leonard J. Kennedy
Senior Vice President
and General Counsel

Richard LeFave
Senior Vice President and
Chief Information Officer

Richard Orchard
Senior Vice President,
Customer Care Operations

William G. Arendt
Vice President and Controller

Paul H. Blalock
Vice President,
Investor Relations

Elizabeth R. Brooks
Vice President,
Corporate Communications

Christie A. Hill
Vice President and
Corporate Secretary

Richard Lindahl
Vice President and
Treasurer

Gregory Santoro
Vice President, Internet and
Wireless Services



INVESTOR INFORMATION

General inquiries from stockholders concerning Nextel investor communications may be directed to Investor Relations at (703) 433-4300.

Stockholders are also encouraged to use the Nextel World Wide Web site at www.nextel.com to view financial information, an electronic version of the 2002 annual report and the Form 10-K.

SEC Reports

The Company's annual report and other documents filed with the Securities and Exchange Commission on Form 10-K are available free of charge on our Web site and to any Nextel stockholder by writing to Investor Relations at the Corporate Office.

Stock Listed

NASDAQ
Symbol NXTL

Transfer Agents/Registrars

Class A Common Stock, Series D
Preferred Stock, Series E Preferred
Stock and Zero Coupon
Convertible Preferred Stock

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, NJ 07303-2500
(781) 575-2724
www.equiserve.com
Hearing impaired #:
TDD (201) 222-4955

Bonds

BNY Midwest Trust Company
2 North LaSalle Street
Chicago, IL 60602
(312) 827-8547

Independent Auditors

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, VA 22102

This 2002 annual report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include forward looking statements concerning expected technological improvements, new products and services, operating results, cost savings and liquidity levels that are based on the expectations of our management as of the date of this annual report. 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, or by discussions of strategy that may involve risks and uncertainties. However, these statements concern events in the future that we may not be able accurately to predict or over which we have no control. We caution you that actual results may differ materially from those contained in the forward looking statements as a result of uncertainties and risks, including those relating to economic conditions in our targeted markets, performance of our technologies, timely development and delivery of new technologies, competitive conditions, market acceptance of our services and those set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2002 annual report on Form 10-K filed with the Securities and Exchange Commission. This 2002 annual report speaks only as of its date, and we disclaim any duty to update the information herein.



AN AWARD WINNING YEAR

Wireless Week Super Carrier for 2002

Frost & Sullivan *2003 Mobile Communications Company of the Year*

Nextel President and CEO Timothy M. Donahue named one of the best managers in 2002 by *BusinessWeek* Magazine

2002 *Billing World* Excellence Award: Integration Project of the Year

Ranked 1st Overall in Online Customer Respect, The Customer Respect Group

#1 in In-Stat MDR Wireless Internet Early Adopters Customer Satisfaction, Third Quarter 2002

2002 Center for Moral Courage Award for underwriting the CBS documentary *9/11*

2002 *Computer World* Magazine Honors Award

NEXTEL

Nextel Communications, Inc. 2001 Edmund Halley Drive Reston, Virginia 20191 703.433.4000 nextel.com

DONE.

2003 HIGHLIGHTS



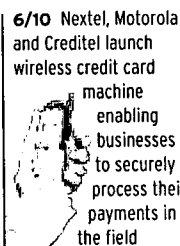
1/13 Rollout of Nationwide Direct Connect™ begins

3/4 New wireless solutions for public safety customers support routine and emergency communications with Priority Connect™, Emergency Group Connect™ and a new rugged handset



3/28 Nextel ranked 101 in *Forbes* 500

4/22 Nextel posts Earth Day milestone: recycling more than 1 million phones



6/10 Nextel, Motorola and Creditel launch wireless credit card machine enabling businesses to securely process their payments in the field

6/23 Nextel ranked #1 in *BusinessWeek* IT 100

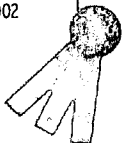
1/13 *BusinessWeek* names Tim Donahue one of the best managers of 2002

3/5 *Wireless Week* names Nextel 2002 Supercarrier

4/14 Nextel ranked 216 in *Fortune* 500

5/21 Nextel IBM Alliance delivers secure, fast and efficient virtual private network solution for mobile workers

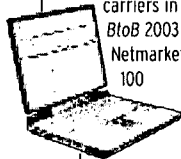
6/19 Nextel agrees to become title sponsor of premier NASCAR championship series – the NASCAR NEXTEL Cup Series™



Nextel Communications, Inc. helps people get things done with differentiated products, services and solutions. More than 12 million subscribers use Nextel digital cellular, Nationwide Direct Connect™ coast-to-coast walkie-talkie, Nextel Mobile Messaging and

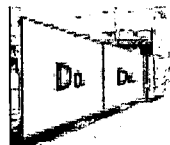
Nextel Online® Wireless Web services on the largest guaranteed, all-digital, wireless voice and data network in the country. Together with Nextel Partners, Inc., we serve 293 of the top 300 U.S. markets – where approximately 250 million people live or work.

7/14 Nextel ranked 244 in *BusinessWeek* Global 1000



8/11 nextel.com Web site scores highest among all telecommunications carriers in *BtoB* 2003 Netmarketing 100

8/19 Nextel scores highest in Summer 2003 report by Online Customer Respect Group



9/15 Nextel launches bold and inventive brand celebrating the Doer: NEXTEL. Done.™

11/18 Nextel announces sponsorship of Las Vegas monorail train and Convention Center station



7/29 Nationwide Direct Connect™ rollout completed for the first coast-to-coast walkie-talkie service

8/19 Nextel offers first in-building wireless platform integrating Nextel services and WLAN

9/9 Nextel and NII Holdings, Inc. expand Nationwide Direct Connect™ to parts of Mexico



10/14 In an evaluation of several leading wireless providers, *Good Housekeeping* magazine recommended Nationwide Direct Connect™ service for instant communication in the event of an emergency

12/4 Nextel introduces the first all-weather rugged mobile phone equipped with Nationwide Direct Connect™



Customers subscribe to Nextel services and obtain our innovative products through channels designed to serve them best: a nationwide direct sales force, Authorized Representatives, Nextel TeleSales, nextel.com Web Sales and more than 600 conveniently

located Nextel Retail Stores. People who want to share in our success will find Nextel on the NASDAQ National Market under the symbol NXTL. Nextel Partners is a separate, affiliated company.



DEAR FELLOW SHAREHOLDER:

2003 marked a year of unparalleled accomplishment for Nextel. By any measure, we have done what only two years ago many said was impossible.

We are profitable – and have been for seven consecutive quarters. We have slashed our debt, producing a balance sheet that is among the strongest of the telecommunications companies, many of which carry the investment grade rating. During 2003, each of the major credit rating agencies raised our credit ratings, and recently Standard & Poor's raised Nextel's corporate credit rating to within one notch of investment grade. Our network is recognized by esteemed organizations as one of the best wireless networks. Anywhere. And we continue to attract and retain the industry's most loyal and most valuable customers. Our lifetime revenue per subscriber exceeds our nearest national competitor's by 38 percent.

We have accomplished all this by balancing disciplined financial management with smart strategic investments. Our margins prove it. Our 43 percent margin for operating income before depreciation and amortization in 2003 was the highest in our history, best of the national wireless carriers, five percentage points over last year, and far above the 33 percent industry average. Our revenue increased 24 percent in one year to \$10.8 billion, while free cash flow skyrocketed to \$1.3 billion. This performance enabled us to opportunistically reduce our long-term debt and preferred stock obligations by 24 percent during the year.

We have invested in the tools and technology to deliver industry-leading customer service. State of the art customer care technology; one fully integrated care, fulfillment and billing platform; and standardized national price plans work together to assure customers of a consistent experience – in every contact they have with us. In 2003, we made great strides in identifying and eliminating the root causes of customer dissatisfaction. The evidence is again in the numbers. We reduced monthly churn to 1.6 percent – the best of the national wireless carriers.

We continued to set the pace in product differentiation and innovation. Our launch of Nationwide Direct Connect™ took the gold standard in walkie-talkie to the next level. The first-of-a-kind service arrived ahead of schedule. And performed with the same sub-second response that "doers" have come to rely on from our one of a kind Push To Talk™ service. Our instant walkie-talkie service now reaches from Hawaii to Maine and across the border to Baja California, Mexico. In 2004, we'll erase borders, extending Direct Connect® service into Canada and Latin America. Another area of differentiation is our youth lifestyle brand, Boost Mobile, which launched as a trial in California and Nevada in 2002 and will expand into new markets this year. Innovations to enterprise productivity solutions, such as GPS-based fleet management and asset tracking, are a constant area of focus and collaboration to ensure that we are adding value to our customers' operations. Finally, our trial of wireless broadband in Raleigh-Durham, North Carolina, will demonstrate the market – and profit – potential of wireless Internet access at speeds that rival DSL.



The performance of our network is key to delighting our customers with services that only we can provide. Again in 2003, our customers experienced unprecedented network quality, even as we added 2.3 million net subscribers and increased usage 37 percent. Upgraded network management software and tools have enabled us to reduce the investment required to deliver one of the highest quality user experiences among national wireless carriers. Planned new investments in network expansion this year will bring Nextel's superior all-digital voice and data experience to more customers in more places.

Moving forward, we will continue to find ways to be first, better and different. Our brand launch in 2003 presents the perfect vehicle for telling that story. "NEXTEL. Done!" celebrates the doers who depend on Nextel. It's a message that resonates with our people and reflects our customers. We also had the opportunity to become the title sponsor of America's number one motor sport. The NASCAR NEXTEL Cup Series™ brings Nextel to 75 million of the most brand-loyal sports fans in the U.S. We are as enthusiastic about enhancing their NASCAR experience as we are about welcoming them as Nextel customers.

Finally, as I write, the Federal Communications Commission continues to wrestle with proposals to address the growing problem of interference to public safety radios. Perhaps by the time this reaches you, the FCC will have taken the significant actions needed to resolve this critical public safety issue. We are proud to stand behind the Consensus Plan with the

men and women of the public safety community, and continue to urge its immediate adoption.

Nextel's success is built first and foremost on People, Service and Value, against which we set goals each year. I am proud to work with the best employees in the wireless industry. I am determined to make Nextel the first telecommunications company that draws customers because of – not despite – the quality of both our network and our customer service. As your chief executive, I assure you that we conduct ourselves with extreme integrity and that our people live by our rigorous Code of Conduct. I am confident that the business decisions we are making will create value for each of us as shareholders.

Our strategic planning and laser-like focus brought us this far. With a renewed view of the market potential, competitive landscape and opportunities we have before us, we have updated and refocused our strategic plan for success in the coming years. Nextel will continue to be first, better and different. We will continue to set the pace for the wireless industry. Though 2003 was a record year, we believe that the best is yet to come.

Sincerely,

Timothy M. Donahue
President and Chief Executive Officer

March 23, 2004

**OUR BUSINESS IS WIRELESS COMMUNICATIONS.
BUT OUR MISSION IS ACTUALLY TO HELP PEOPLE
TALK LESS AND DO MORE.**



WIRELESS PRODUCTS AND SERVICES THAT HELP DOERS GET IT DONE. INSTANTLY. ANYWHERE.



NEXTEL CUSTOMERS KNOW THE ONLY INSTANT IS OUR INSTANT. That's what makes them doers.

To help them do more in 2003, we took instant communications to a whole new level. Our mid-year launch of Nationwide Direct Connect™ service introduced the first nationwide walkie-talkie. Now every Nextel customer can use the Push To Talk™ service to make instant contact with any other Nextel customer anywhere across the continental U.S. and to and from Hawaii. It was an instant success and nearly 5 million doers had used it by year-end.

More importantly, Nationwide Direct Connect outperformed competitors' walkie-talkies. Their service makes users wait through a long set up process. Nextel provides instant communication for doers. And now ours is going international.

In September, together with NII Holdings, Inc., we extended instant walkie-talkie service across the border into the Mexican state of Baja California. In 2004, we will extend coverage to connect customers in Canada and Latin America.

Plus, we are accelerating our leadership with our Push To Talk™ walkie-talkie service. We will continue to expand Push To Talk™ service geographically to allow our customers to communicate instantly with their customers, suppliers and employees. We will continue to introduce innovative new features such as short-range off-network Push To Talk™ calling for the public service industry. We plan to integrate Push To Talk™ with wireless data, enabling such capabilities as instant voice-enabled email, desktop dispatch and other truly differentiated services that will provide real value to our customers.

At Nextel, we believe our communities should benefit from our technologies as much as our customers do. In 2003, our Nextel Community Connect initiative proved that even old products can still do tremendous good. Our nationwide participation in the Donate A Phone[®] program with the American Red Cross raised more than \$390,000. Proceeds from recycled phones and other fundraising efforts helped the Armed Forces Emergency Program keep U.S. military families connected with their loved ones. A similar recycling campaign teaming Nextel Retail Stores, the NHL and the Wireless Foundation raised \$25,000 for Hockey Fights Cancer.

BlackBerry 7510™

Customers always ask for compact and productive handsets. In 2003, we introduced the sleekest, most feature-rich phones in our history, featuring high-resolution color screens, rugged designs, and downloadable ring tones and wallpapers. In the fourth quarter, Global Positioning System (GPS) capability became a standard feature in every new Nextel handset so that more customers can take advantage of location-based solutions, including our exclusive audible turn-by-turn driving directions.

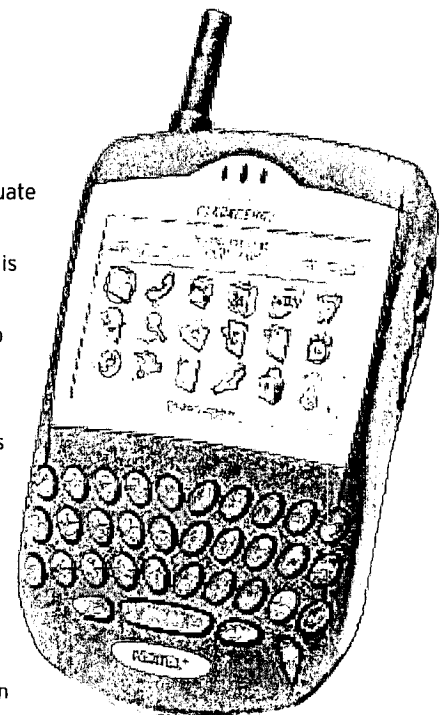
New handsets and devices to be launched in 2004 will do even more. We plan to offer a series of camera phones with flash, including a new international phone for travelers. We just introduced the new color-screen BlackBerry 7510™ from Nextel, which is the first BlackBerry® handheld with walkie-talkie and speakerphone.

To assure that future Nextel products fulfill our objective to be first, better and different, we

created our own research lab to evaluate new and innovative technologies.

One exciting product of our research is Nextel Wireless Broadband™ service, which has now moved outside the lab and into a market trial in Raleigh-Durham, North Carolina. The Nextel Wireless Broadband trial incorporates Flarion Technologies' FLASH-OFDM® technology, which is expected to deliver secure Internet access as fast as DSL, but without the wires. Instead, users get unprecedented mobility and the freedom to connect from anywhere in their coverage area on desktop and laptop computers, PDAs and other devices.

Doers don't stay in one spot all day. Neither should their phone, messaging or broadband services.



EVERY CUSTOMER CONTACT IS ANOTHER OPPORTUNITY TO DO MORE.



NEXTEL HAS THE BEST CUSTOMERS IN THE WIRELESS INDUSTRY. They deserve the industry's best customer service, which is exactly what we continually strive to provide.

In survey after survey by independent rating organizations, Nextel scored in the top tier in customer care, customer satisfaction and customer respect. We continue to lead all national wireless carriers in customer retention. That key performance measure is more meaningful than ever, because Wireless Local Number Portability now allows customers to take both their business and their phone numbers to the carrier of their choice.

So far, switchers are choosing Nextel. We ended 2003 with a net gain of new phone numbers coming in. Now that customers can also transfer landline numbers to wireless phones, we see

number portability as an opportunity to gain even greater share of the telecommunications marketplace.

To make that happen, we need to do more than just improve customer service. Our comprehensive Customer Touch Point strategy allows us to understand better than ever customer expectations at every point of contact.

Every touch point provides an opportunity to anticipate, address and exceed our customers' needs and expectations. We believe that our focus on customer care will result in an increase in customer satisfaction and loyalty, which in turn will result in increased lifetime revenue generated per subscriber.

One factor, above all others, is vital to the ability to satisfy customers: satisfied employees. In 2003, Nextel's overall employee satisfaction, measured on more than 80 key questions, increased to the highest level in our history. At the same time, voluntary employee attrition continued to decline. Our new Employee Lifecycle initiative, supported by the training opportunities of Nextel University, is helping us attract and retain the best and the brightest: employees who exemplify the Nextel culture that places priority on People, Service and Value.

CUSTOMERS WORK WITH US IN WHATEVER WAY WORKS BEST FOR THEM.

THE EARLIEST TOUCH POINTS OCCUR IN OUR MULTI-CHANNEL DISTRIBUTION SYSTEM. It's geared to help doers choose the Nextel products and services they need.

In 2003, we restructured our direct sales organization for smarter, more productive selling. A new sales force automation tool enables account representatives to access comprehensive information to help them better serve their customers. This makes it easy to assemble sales teams with the talents to serve each customer best and become more effective in bringing business solutions to enterprise customers.

We launched a Preferred Partner Program with new incentives for Nextel Authorized Representatives (ARs) to provide them with resources aimed at growing their business, increasing customer loyalty and successfully deploying and retaining their sales forces. Many of our ARs responded by

becoming authorized Nextel service centers, offering customers a more consistent Nextel experience in more locations.

We opened more than 200 new retail stores in 2003. That's zero to 600 stores in three years. We expect to open another 200 in 2004. As Nextel "stores of the future," they'll include systems to make us more efficient, make the customer's experience more meaningful and capture the information we need to enhance our customer relationships.

Web Sales, TeleSales and Nextel Retail Stores channels continue to attract high-quality customers. With convenient service designed for doers, these channels produced 30 percent of all new subscribers.



**YOU KNOW WHO THE DOERS ARE.
THEY ALWAYS HAVE A GOOD ANSWER TO THE
QUESTION "WHAT DID YOU DO TODAY?"**



A NETWORK THAT DELIVERS THE POWER TO DO.



IN 2003, MORE THAN 12 MILLION NEXTEL SUBSCRIBERS logged more than 101 billion minutes of use, pushed the walkie-talkie button more than 75 billion times and transmitted 11.9 terabytes of data. They increased our voice traffic 37 percent from 2002, while enjoying record call-completion rates and industry-leading network quality and reliability – even through blackouts, hurricanes and wildfires.

Nationwide Direct Connect™ – launched mid-year 2003 – was a technological breakthrough extending Nextel's undeniable leadership in instant communications. Forty percent of our customers have already used the coast-to-coast walkie-talkie, which now includes Push To Talk™ service between the U.S. and parts of Mexico.

Our scalable network is designed to expand efficiently while providing the high-quality experience our customers have come to expect.

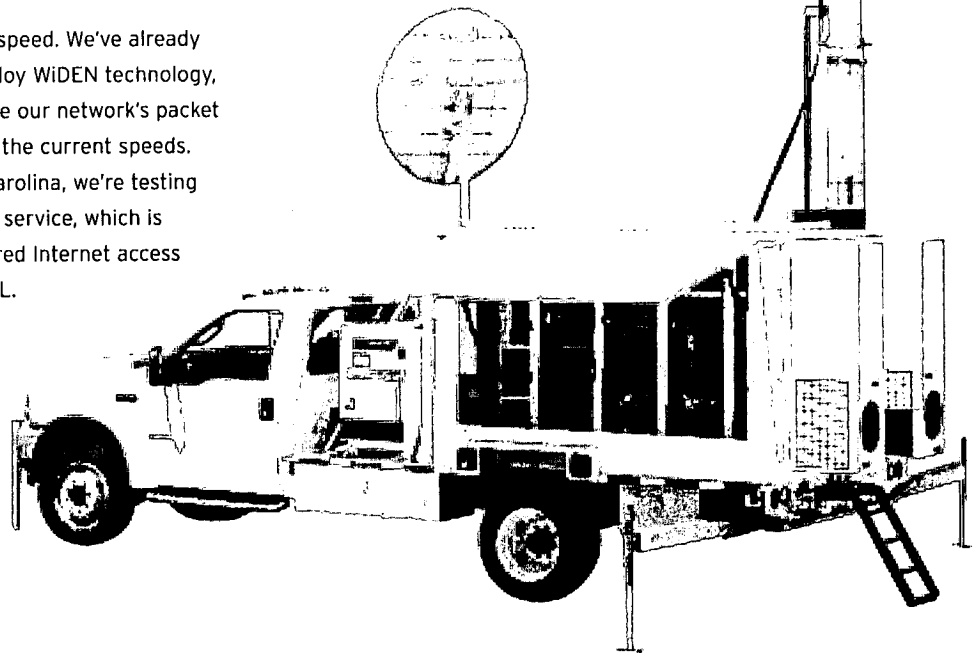
We built 1,200 new cell sites in 2003 to improve quality and expand coverage, extending our network to 17,500 cell sites. Our engineering team maintained the network's performance by further developing staff skills and identifying and implementing best network practices. We also relied on advanced system software that automatically relieves network congestion by handing off calls to adjacent cell sites. In 2004, new network management tools will give our engineers nationwide visibility into network components. So instead of reacting to incidents, they can prevent them from occurring in the first place.

Emergencies can happen anywhere. Often where there's no wireless communication coverage for first responders. That's when Nextel's Emergency Response Team (ERT) goes into action. The ERT can rapidly deploy Nextel equipment, services and support wherever wireless communications between agencies and jurisdictions will help authorities bring a situation under control. In 2003, the ERT supported the recovery operations following Hurricane Isabel and the Columbia Space Shuttle disaster. Our unique Satellite Cell Site on Wheels brought Nextel digital cellular, walkie-talkie and data networks to remote areas, so local, state and federal agencies could work together – and get it done.

Even as network coverage, capacity, reliability and traffic all increased, we reduced our operating cost per minute of use by 21 percent.

For the future, it's all about speed. We've already announced our plans to deploy WiDEN technology, which is designed to increase our network's packet data speed up to four times the current speeds. In Raleigh-Durham, North Carolina, we're testing Nextel Wireless Broadband™ service, which is expected to deliver untethered Internet access at speeds comparable to DSL.

Satellite Cell Site on Wheels



WIRELESS SOLUTIONS. BUSINESS HAPPENS ANYWHERE.



NEXTEL IS THE WIRELESS INDUSTRY'S LEADER IN HELPING PEOPLE GET THINGS DONE. Our Wireless Business Solutions help companies set the pace in their own fields.

- In St. Louis, doctors and other emergency personnel trace patients from accident scene to ER with a Raytheon-designed system that combines bar code data and GPS-enabled Nextel phones.
- EDS manages trouble tickets and helps technicians solve problems in the field by giving them wireless access to service and repair information.
- The ServiceMaster Company maintains its competitive advantage by utilizing Nextel's Push To Talk™ communication solutions. Implementing this technology allows ServiceMaster to better meet customers' expectations and increase technician

productivity. ServiceMaster is also testing workflow management and GPS application solutions with Nextel.

These are just a few examples of how our business customers save time, cut costs and get more done with targeted solutions we launched for them throughout the year.

Our new solution suite for federal, state and local government supports the inter-agency coordination required in public safety and homeland security. Priority Connect™ puts public agencies' Direct Connect® calls ahead of others in times of potential network congestion. Emergency Group Connect™ gives priority treatment for participants in Nextel Group Connect™ calls, which can be initiated with the easy to find red button on the rugged r750plus Advanced Feature Unit phone.

Unlike many hospitals, Shands Health Center at the University of Florida in Gainesville welcomes wireless phones. Ours, that is. As a sign there says: "Nextel is the only system that has coverage throughout the building and can be used in all patient care areas... ." That's because a rooftop cell site, downward tilted outdoor antenna array and 188 in-building antennas designed and installed by Nextel Custom Network Solutions allow Nextel phones to operate at extremely low power anywhere in the facility. So staff, patients and visitors can use their Nextel phones, and not interfere with the quality of care.

1530

With this well-defined offering and our government marketing efforts, the public sector was a significant contributor to new business for the year. Based on our record of government customer retention, we can count on these customers for excellent lifetime revenue.

Customers who need to improve wireless coverage and capacity throughout their buildings and campuses turn to Nextel's Custom Network Solutions. We enhanced this offering in 2003 with a new solution that integrates Nextel services and high-speed wireless LAN, reducing customers' networking costs and complexity. A CNS deployment at John Carroll University delivers reliable voice service and wireless data access, even in basements and elevators all across the 60-acre campus.

Sometimes, simple solutions are the most effective. So we now offer packages of basic data

services that address common needs of general business owners. Asset tracking, time reporting, mobile email and wireless payment are already proving popular with smaller businesses.

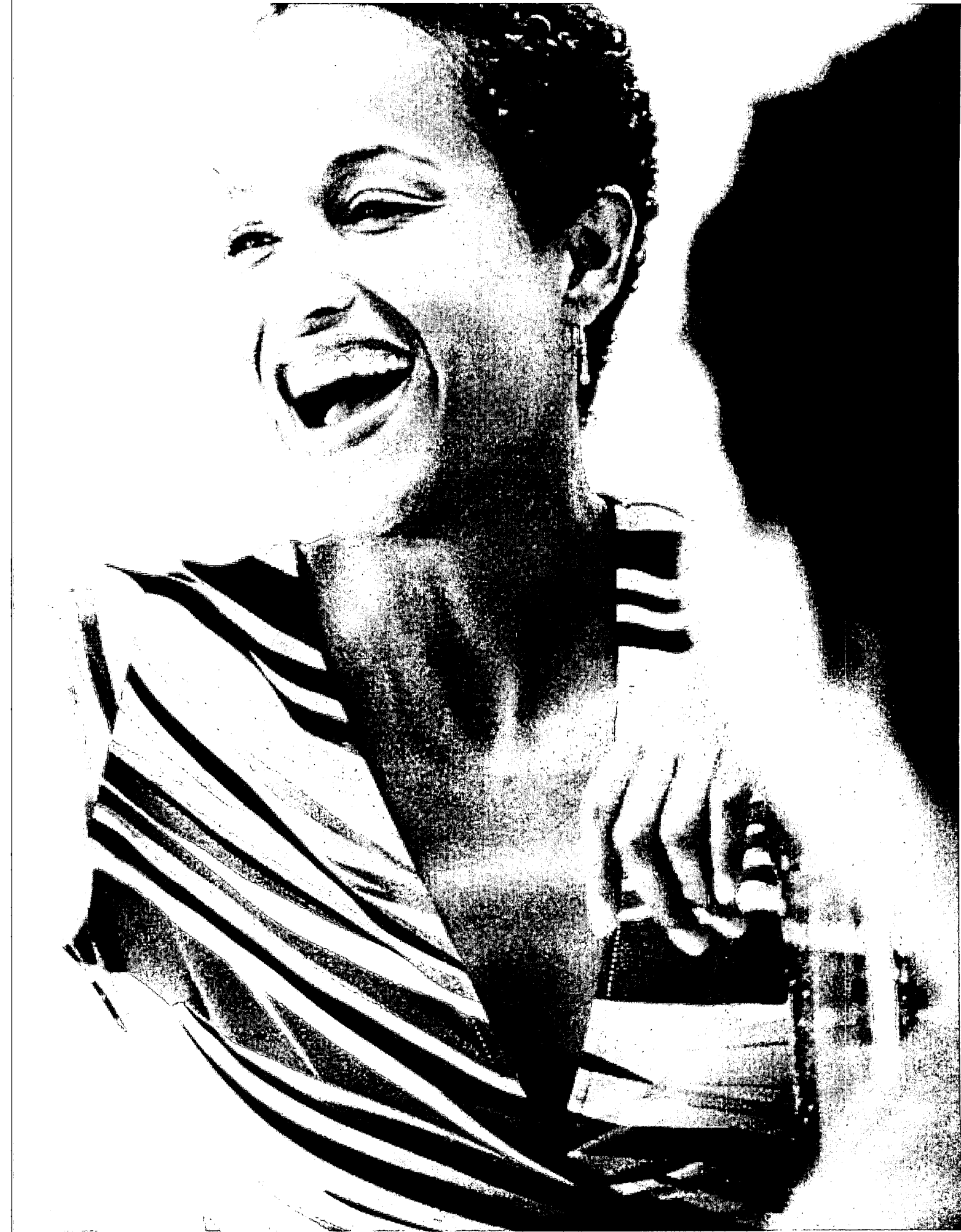
Customers at all levels want ease of use. In 2004, we'll simplify and improve the digital experience in a new line of phones. Users will find it easy to manipulate and view pictures, audio files and other multimedia content from their phones as well as manage their phones from their PCs.

At Nextel, we're doing everything we can to provide doers with access to the people, information and applications they need to be more productive.

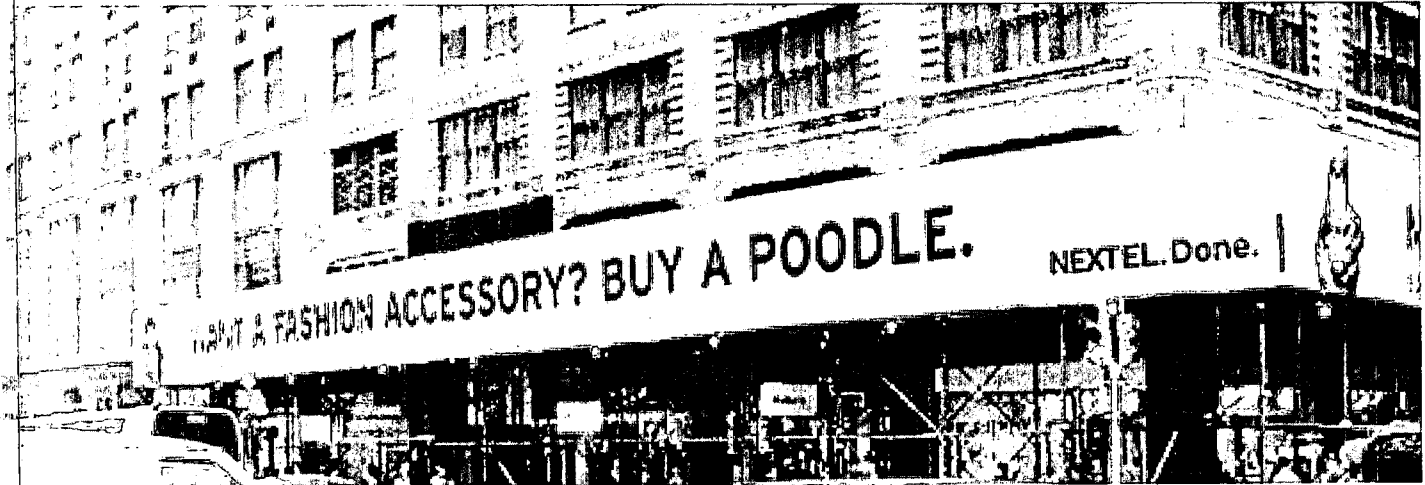




**IT'S SO MUCH MORE REWARDING
TO WORK IN THE COMPANY OF DOERS.**



**THE NEXTEL BRAND. IT'S ALL ABOUT SPEED.
PERFORMANCE. TEAMWORK.**



**FOR PEOPLE WHO START, FINISH AND MOVE
ON TO THE NEXT THING, ONE WORD SAYS IT
ALL. DONE.**

It's in their DNA. And the new branding campaign we launched in September tells them we know who they are. They're people for whom a wireless phone isn't a fashion accessory, but an action necessity. People who know only one way to work and communicate. Instant. To the point. Done. The people we call "Doers."

Our revolutionary campaign began with two weeks of attention-grabbing outdoor teasers. Then it broke with full force on network and cable TV, national print, radio, direct mail and the Web. It was instantly clear we were hitting our target. We saw a three-fold increase in online inquiries the first month. Daily prospect calls increased steadily.

One reason we could so warmly embrace and act on our new brand is that Nextel itself is a company of doers. Like our customers, our employees are in a constant state of action – getting it done. A company so single-mindedly focused on accomplishment, teamwork and leadership needs to proclaim its message from the world's biggest stages.

And in 2003, we had a rare opportunity to become the 10-year sponsor of the NASCAR NEXTEL Cup Series™. It's a perfect fit. Nextel and NASCAR have a shared passion for performance, innovation, loyalty and excellence. There is much we can do for each other.

NASCAR represents an exciting new venue to showcase Nextel products and services. NASCAR's popularity is evident as it is the second-most watched sport on television and boasts sold-out events at race tracks in many of the top U.S.

Nextel is proud of our continuing partnership with Habitat for Humanity. We provide free wireless phones and services to many local Habitat affiliates, and Nextel employees participate hands-on in Habitat projects nationwide. As a wireless provider for the Western States Region, we supplied phones for a Habitat *Blitz Build* project in Albuquerque. Nextel employees were among the 4,000 international volunteers who traveled to Georgia and Alabama for Habitat's annual Jimmy Carter Work Project. Our phones kept doers connected as they built 92 houses in three cities in just one week. Done.

NASCAR NEXTEL Cup Series™ Phone, i736

markets, which provides unique exposure of our products and services to the estimated 75 million fans who lead all sports in brand loyalty. We are working to increase our share of the billions of dollars they spend each year on wireless products and services. Fans snapped up the NASCAR NEXTEL Cup Series Phone and 10 different NASCAR NEXTEL Cup Driver Series Phones we launched just before the 2004 Daytona 500.

At the same time, Nextel represents an opportunity to build NASCAR. We're extending coverage to every NASCAR NEXTEL Cup Series venue and we're using technology to enhance the fan experience. Fans can receive NASCAR alerts and access a real-time leaderboard – all from their Nextel phones. They can also enjoy hands-on racing adventures at The Nextel Experience – our 6,400-square-foot interactive exhibit that travels to every NASCAR NEXTEL Cup Series race. For the first time in 33 years, the title sponsor of

NASCAR's elite series will be able to advertise its involvement with the sport on network television. Nextel has developed a national advertising campaign that pays tribute to the sport's rich heritage and celebrates the "Doers" in NASCAR – the drivers and fans.

Beginning in 2004, we'll also gain huge visibility for our brand from the Nextel-sponsored Las Vegas Convention Center monorail station. Our 15,000-square-foot showcase is expected to become a destination in itself – featuring hands-on, 3D-interactive video displays about Nextel phones, wireless data and networking technology, and business solutions.

And that's the way it's done.

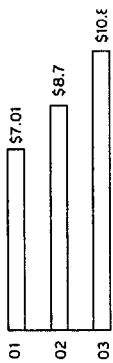


GETTING IT DONE IN RECORD FASHION.

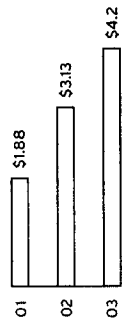
IN 2003, THE 17,000 DOERS WHO ARE NEXTEL GOT IT DONE LIKE NEVER BEFORE. We added a record 2.3 million net new subscribers (not including Boost Mobile) and produced a best ever total revenue of \$10.8 billion. We generated record earnings of \$1.47 billion and record operating income before depreciation and amortization (OIBDA) of \$4.2 billion. Our 43 percent OIBDA margin continued to lead the national wireless carriers, as did our \$69 monthly average revenue

per unit (ARPU) and record customer retention. Free cash flow soared to \$1.3 billion – a tenfold increase from 2002. We reduced our total debt and preferred stock by 24 percent, to end the year financially stronger than ever, and solidly positioned for future profitable growth.

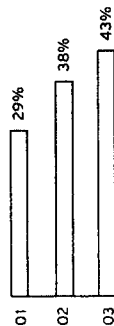
We achieved the best year in Nextel history by executing on all aspects of our strategy to be first, better and different.



Total Domestic Revenue
(\$ in billions)



Operating Income Before Depreciation and Amortization (OIBDA)
(\$ in billions)



OIBDA Margin



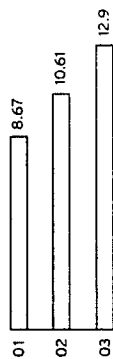
Free Cash Flow
(\$ in billions)

Top-line revenue was driven by customers' strong use of our differentiated products and services. By year-end, 40 percent had used our breakthrough Nationwide Direct Connect™ service and more than 90 percent used the walkie-talkie locally. Customers' growing adoption of Nextel Online® services and our Wireless Business Solutions fueled an increase in wireless data revenues.

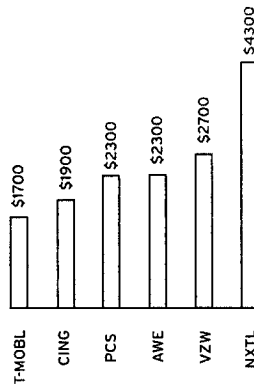
Aligning sales for maximum return is what we call Smart Growth. In 2003, we continued to target the industry's most valuable customers, growing in all sectors. We ended the year with approximately 2.7 million corporate and government customers, 6.1 million small and medium business users and 4.1 million high-value individual users who utilize premium mobile communications features and services.

With our Customer Touch Point strategy driving customer loyalty, we reduced our monthly churn rate for the year to 1.6 percent – that's the best of all national wireless carriers. High customer retention combined with high monthly ARPU increased our industry-leading average lifetime revenue per subscriber to a record high \$4,300 for the year – about one-and-a-half times as much as our nearest national competitor.

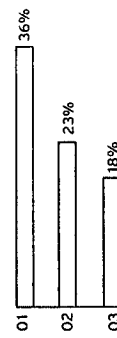
Our network supported a 37 percent increase in minutes of use from 2002, providing customers the coverage and quality they demand. Thanks to capital efficiency initiatives such as directed retry and our frequency-planning tool, we held capital expenditures to a relatively flat \$1.8 billion year-over-year. Our cap ex-to-service revenues ratio of 18 percent was lowest among the national wireless operators.



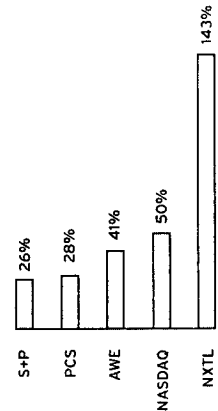
Total Domestic Subscribers
(in millions)



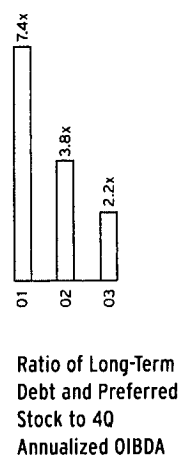
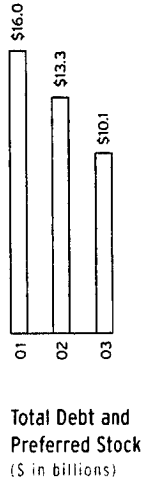
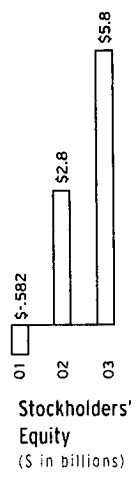
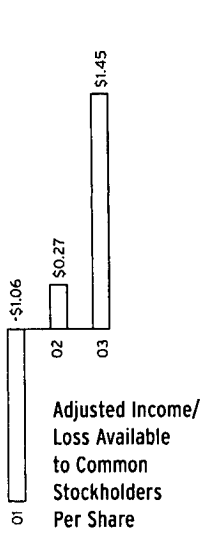
Average Lifetime Revenue Per Subscriber



Capital Expenditures
(as a percentage of service revenues)



Market-Beating Stock Performance
(as a percentage of service revenues)



Strategic sourcing initiatives and efficiencies from our integrated billing, care and collection system helped us to hold the line on costs, and post the highest OIBDA margins of all national wireless carriers.

Our solid 43 percent OIBDA margin for 2003 was a five-percentage point improvement over 2002. More importantly, we have now posted OIBDA margins in excess of 40 percent for seven consecutive quarters. Our ability to generate strong free cash flow allows us to make smart network and other investments that are designed to serve as the groundwork for continued profitable growth.

In 2003, our debt and preferred stock buy-backs, retirements and refinancing will save the company approximately \$375 million per year in interest and dividends. We reduced our total debt and preferred stock to approximately \$10.1 billion. Year-end debt and preferred stock, net of cash and short-term investments, was approximately \$8.2 billion. And our ratio of long-term debt and preferred stock to annualized 4Q 2003 OIBDA now stands at 2.2 times, down from 3.8 times just one year ago. Reflecting our stronger financial position, stockholders' equity grew 105 percent in 2003 to \$5.8 billion while the price of our stock increased 143 percent per share.

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Nextel Communications, Inc.
and Managing Director
The Carlyle Group

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Vice Chairman
Nextel Communications, Inc.

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Keith J. Bane
Retired

Frank M. Drendel
Chairman and
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CommScope, Inc.

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Chief Information Officer

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Brian Meadows
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Supply Chain Management

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Corporate Communications

Paul N. Saleh
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and Chief Financial Officer

Limond Grindstaff
Senior Vice President
Engineering and Operations

Marc Montagner
Senior Vice President
Business Development

Christie A. Hill
Vice President
Governance and Corporate
Responsibility and
Corporate Secretary

Barry J. West
Executive Vice President
and Chief Technology Officer

Randall C. Harris
Senior Vice President
Human Resources

Richard W. Orchard
Senior Vice President and
Chief Service Officer

Richard S. Lindahl
Vice President and Treasurer

Mark Angelino
Senior Vice President
Industry Sales and Services

Robert L. Johnson
Senior Vice President
National Field Operations

Christopher Rogers
Senior Vice President
Strategic Alliances

Leonard J. Kennedy
Senior Vice President
and General Counsel

Mark Schweitzer
Senior Vice President
Marketing

Nextel's Senior Management Team as pictured on pages 2 and 3 (left to right): Timothy M. Donahue, Thomas N. Kelly, Jr., Elizabeth R. Brooks, Barry J. West, Robert S. Foosner, Randall C. Harris, Christie A. Hill, Leonard J. Kennedy, Paul N. Saleh and Christopher Rogers.



V. Janet Hill
Vice President
Alexander & Associates, Inc.

William E. Kennard
Managing Director
Telecommunications
and Media
The Carlyle Group

Stephanie M. Shern
Chief Executive Officer
Shern Associates, LLC

Dennis M. Weibling
Chief Executive Officer
Teledesic Corporation

INVESTOR INFORMATION

General inquiries from stockholders concerning Nextel investor communications, or to receive an investor package, please contact:

Investor Relations
2001 Edmund Halley Drive
Reston, VA 20191
(703) 433-4300
Email:
investor.relations@nextel.com

Stock Listed:
NASDAQ: NXTL

Transfer Agents/Registrars
Class A Common Stock and
Zero Coupon Convertible
Preferred Stock

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
(888) 790-8112
www.equiserve.com
Hearing impaired #:
TDD (800) 952-9245

Bonds
BNY Midwest Trust Company
2 North LaSalle Street
Chicago, IL 60602
(312) 827-8547

Independent Auditors
Deloitte & Touche, LLP
1750 Tysons Boulevard
McLean, VA 22102

Annual Meeting
The annual meeting of stockholders will be held on Thursday, May 27, 2004 at 10:00 a.m. ET at:
The Hyatt Regency Reston
1800 President Street
Reston, VA 20190
(703) 709-1234

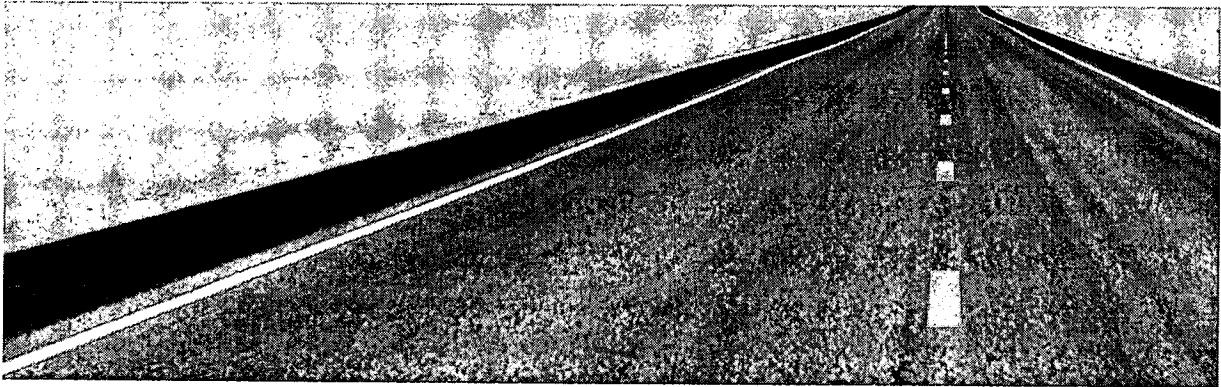
This 2003 annual report contains forward looking statements under the Private Securities Litigation Reform Act of 1995. These include forward looking statements concerning expected technological improvements, new products and services, operating results, cost savings and liquidity levels that are based on the expectations of our management as of the date of this annual report. 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, or by discussions of strategy that may involve risks and uncertainties. However, these statements concern events in the future that we may not be able accurately to predict or over which we have no control. We caution you that actual results may differ materially from those contained in the forward looking statements as a result of uncertainties and risks, including those relating to economic conditions in our targeted markets, performance of our network and systems, timely development and delivery of new technologies, competitive conditions, market acceptance of our services and those set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. This 2003 annual report speaks only as of its date, and we disclaim any duty to update the information herein.

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Nextel Communications, Inc. 2001 Edmund Halley Drive Reston, Virginia 20191 nextel.com



NEXTEL ANNUAL REPORT 2004



**UNMATCHED PERFORMANCE.
UNEQUALED OPPORTUNITY.**

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2 North LaSalle Street
Chicago, IL 60602
(312) 827-8547

Independent Registered Public Accounting Firm

Deloitte & Touche, LLP
1750 Tysons Boulevard
McLean, VA 22102

A number of the matters discussed in this annual report deal with potential future circumstances and developments, in particular, matters related to Nextel's expected future operations and information regarding the merger of Sprint and Nextel. The discussion of such matters may materially differ from actual future experience and is qualified by the inherent risks and uncertainties surrounding future expectations, including competitive and economic conditions in Nextel's targeted markets, market acceptance of Nextel's services, performance of existing technologies and timely development and delivery of new technologies, actions by regulatory agencies, risks and conditions in connection with consummation of the proposed merger with Sprint, and the risks that are described from time to time in Sprint and Nextel's respective reports filed with the SEC, including Sprint's registration statement on Form S-4 filed on March 15, 2005 and each company's annual report on Form 10-K for the year ended December 31, 2004. Sprint and Nextel each disclaims any duty to update the information herein.

Additional Information and Where to Find It

Sprint's registration statement contains a preliminary joint proxy statement/prospectus regarding the proposed transaction. Shareholders of Sprint and Nextel are encouraged to read the registration statement, including the joint proxy statement/prospectus, because it contains important information about the merger. The final joint proxy statement/prospectus will be mailed to shareholders of Sprint and Nextel. Security holders will be able to obtain this document free of charge at the SEC's web site, www.sec.gov, from Sprint Investor Relations at 800-259-3755 or from Nextel Investor Relations at 703-433-4300.

Participants in Solicitation

Sprint, Nextel and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies in respect of the merger. Information concerning Sprint and Nextel's participants, as well as the interests of those participants in the solicitation of proxies in respect of the combination, is set forth in the joint proxy statement/prospectus.

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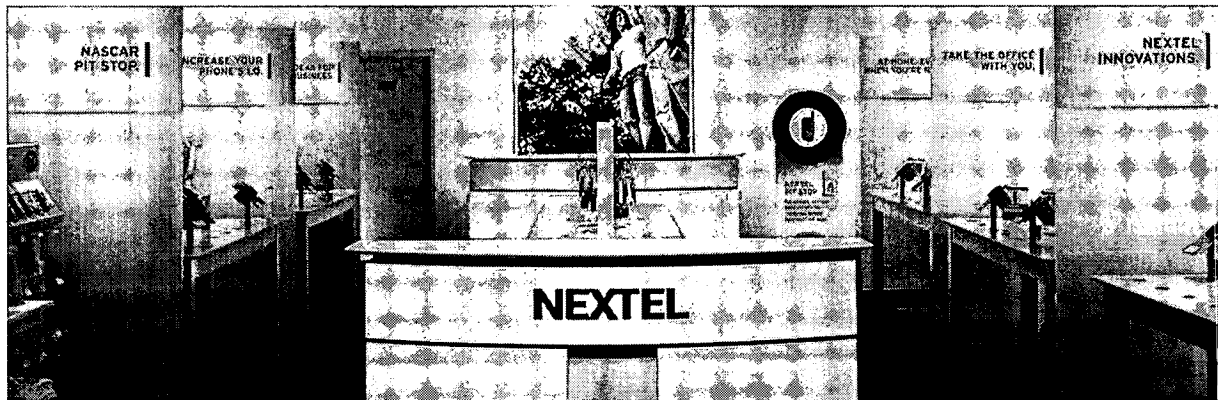
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Responsibility and
Corporate Secretary

Richard S. Lindahl
Vice President and Treasurer

ONE WAY WE STRIVE TO SET NEXTEL APART is by providing a customer experience better than any in the industry. Based on results in 2004, we're succeeding.



IMPROVING THE CUSTOMER EXPERIENCE.

In the first full year of customers being able to take their wireless phone numbers with them to another company, we achieved high customer retention and customer satisfaction in service and repair. High levels of satisfaction among our valuable corporate and government accounts showed that we are turning customer care into a competitive differentiator.

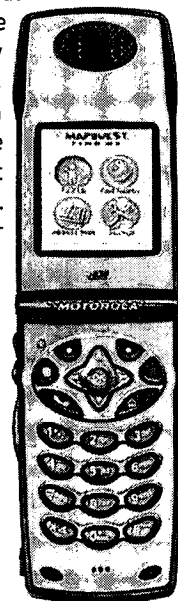
In 2004, we continued to standardize our marketing across all channels, to provide customers a

consistent brand experience whether they contact us through our direct sales force, Nextel Retail Stores, Authorized Representatives, Web Sales or TeleSales. We know that customers want to do more at our stores than just buy phones. So at our new "stores of the future," customers can pay their bills, change rate plans, obtain repairs and get their questions answered. Helping us to continue to deliver

superior customer service at every contact, our new nView system provides front-line representatives with access to complete customer information, so they can better understand and respond to each customer's needs.

It's all because our future success depends on making sure the industry's best customers receive the industry's best service.

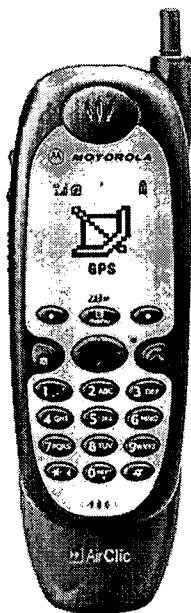
IN 2004, NEXTEL MADE IT EASIER FOR CUSTOMERS TO PERSONALIZE THEIR PHONES. OVER-THE-AIR PURCHASE AND DOWNLOAD OF COLOR WALLPAPERS, RING TONES, DIGITAL MEDIA APPLICATIONS AND GAMES ALLOWED CUSTOMERS TO TAILOR THEIR PHONES TO FIT THEIR PERSONALITIES AND NEEDS.



IN 2004, BUSINESSES OF ALL SIZES capitalized on wireless A-GPS location-based solutions as the key to improving service, reducing costs and increasing productivity.



MAKING BUSINESSES MORE PRODUCTIVE.



Named by the Yankee Group as the industry leader in GPS location-based services, Nextel introduced 15 new A-GPS-enabled applications in 2004, including workforce location, asset tracking and the only navigation system delivering audible turn-by-turn directions to a cellular phone.

We maintained our solutions marketing focus on customers in construction and field services, finance, manufacturing and transportation.

Wireless payment, mobile office, remote timesheet and work order management solutions proved especially popular in these industries.

Our Technology Partners Program drove the creation of new wireless business solutions. Manufacturers embed Nextel network services into innovative mobile products such as voice- and data-capable wireless modems, barcode scanners and handheld computers.

A-GPS-ENABLED APPLICATIONS HELP BUSINESSES INCREASE EFFICIENCY BY LOCATING VEHICLES, PEOPLE AND ASSETS.



NEXTEL CUSTOMERS HAD MORE PRODUCT CHOICES than ever last year. Soon they will have even more. The seven feature-rich phones and two BlackBerry® handheld devices introduced in 2004 completed our most ambitious new-product year ever.



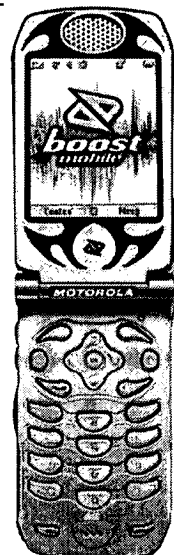
PROVIDING INNOVATIVE CHOICES.

Products launched last year included smaller and lighter multimedia-capable phones and the first BlackBerry® that combines Direct Connect®, Bluetooth® and GPS technology. We plan to expand our portfolio to approximately 20 phones and devices by year-end 2005.

We also launched an exciting array of differentiating services that help our customers get more done. The leading breakthrough was International Direct Connect™. Now customers can make instant walkie-talkie contact with other

Nextel users in and between the U.S. and Mexico, Brazil, Argentina, Peru and Canada. NextMail™ now enables users to send mp3 voice messages to any email address simply by pressing their phone's Direct Connect button. Direct Talk™, Nextel's off-network, short-range, walkie-talkie, provides back-up communications, especially in remote locations. Direct Send™ gives users the ability to instantly forward contact information from one

Nextel phone to another. In 2005, we'll introduce more new products that extend the "push to" power of Direct Connect. And, we'll build on our lead in offering Assisted Global Positioning System (A-GPS) location-based services, as we did in 2004 when we introduced the only navigation and trip planning service that uses GPS-enabled mobile phones.



BOOST MOBILE™, NEXTEL'S YOUTH LIFESTYLE BRAND, SIGNED UP ITS ONE-MILLIONTH CUSTOMER AND WILL EXPAND NATIONWIDE TO NEARLY ALL OF NEXTEL'S MARKETS IN 2005.

IN 2004, NEXTEL GOT IT DONE like never before. We expanded network coverage and capacity, took our instant walkie-talkie international, introduced more new phones than ever, reduced Nextel's bill cycle to an industry-leading two days and expanded our customer base on the wheels of our NASCAR sponsorship.



STRENGTHENING OUR NETWORK.

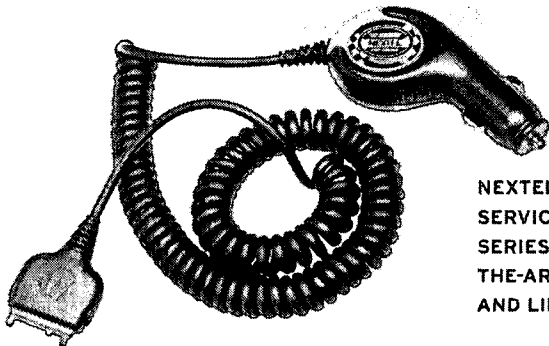
With the addition of 2,300 new cell sites, the company ended 2004 with 19,800 cell sites. The Nextel network supported 134 billion total minutes of use, a 32 percent increase in just one year. Network capacity was also expanded by our nationwide rollout of the new spectrally efficient 6-to-1 voice coder software. As the year ended, nearly every new phone we

sold supported this capital-saving technology.

Our network team extended coverage to every NASCAR venue with innovative distributed fiber or cell site on wheels solutions. We also expanded network capacity at several tracks to meet demand for the new Nextel FanScan In-Car Audio service that lets spectators listen in on live conversa-

tions between drivers and their teams during a race.

A robust network is always a primary goal. Based on the lessons learned from a historically severe hurricane season, we embarked on a multi-year program to harden our network with backup power sources and redundant telephone company links.



NEXTEL HAS COMMITTED MORE THAN \$1 MILLION, AS WELL AS PRODUCTS AND SERVICES AND A PORTION OF THE PROCEEDS FROM NASCAR NEXTEL CUP SERIES™ MERCHANDISE, TO THE VICTORY JUNCTION GANG CAMP – A STATE-OF-THE-ART MEDICAL SLEEP AWAY CAMP FACILITY FOR CHILDREN WITH CHRONIC AND LIFE-THREATENING ILLNESSES.

Sprint Nextel will commit itself to providing all Sprint Nextel customers with a robust instant push-to-talk service on CDMA equal to Nextel's Nationwide Direct Connect® on the iDEN® network. And Sprint Nextel will maintain Nextel's differentiated voice features and industry solutions while building on Sprint's differentiated data offerings.

Nextel's iDEN network has been valuable to Nextel's customers and we expect to provide service on this network well into the future. The iDEN network was the first to enable digital cellular, walkie-talkie and messaging on a single device when we launched it in 1996. With Nationwide Direct Connect, we offer a truly differentiated voice service. Our customers are loyal to Nextel, and we will continue to invest in the network that has served them so well until we are able to make a rational transition to a CDMA-based network that offers them the same high-quality experience.

Beyond the powerfully competitive business and technology advantages that promise an exciting future for Sprint Nextel, the new company will succeed because it represents the merger of two extraordinary companies. When I look at Sprint's history in long distance and PCS, I see a company that, like Nextel, has competed aggressively in this highly competitive industry and has continually found itself going head-to-head against the largest, most entrenched companies in telecommunications. Coming together, our employees have the opportunity to create a company that is even more entrepreneurial, innovative and driven.

As we prepare to write a new chapter in Nextel's history, there are far too many people to thank by name for all they have done to lead us to this point. Nonetheless, there are a few who deserve special recognition. In 1987, co-founder and Vice Chairman Morgan O'Brien, the wireless industry pioneer, had the entrepreneurial vision to establish the company that would go on to become Nextel. We also owe much to Craig McCaw, whose 1995 investment made possible the launch of our iDEN network and the rebirth of Nextel as a nationwide wireless carrier. And there simply are not words sufficient to express our appreciation for Chairman Bill Conway and the members of Nextel's entire board of directors for their unselfish and remarkable support, wisdom and guidance.

Nextel is a great American story. And we have only written the first chapter. Many of the same people who brought Nextel this far are going to carry Sprint Nextel forward into the future. And this is why I tell you with utmost confidence that our greatest achievements are still ahead of us.

Sincerely,



Timothy M. Donahue
President and Chief Executive Officer

Nextel is, and always will remain, committed to the needs of the public safety community. That is why we worked for three years through an innovative public-private partnership of citizens, wireless organizations and leading public safety agencies to secure this decision – and why, in February 2005, we wholeheartedly accepted the FCC's Report and Order.





The typical NASCAR NEXTEL Cup spectator uses hundreds more Nextel cellular and Direct Connect[®] walkie-talkie minutes and generates significantly higher revenue than the average Nextel customer.

Our investments in the quality of the Nextel customer experience further solidified the loyalty of our customers. In 2004, we maintained our industry-leading average revenue per unit and industry-leading customer loyalty rates and increased our monthly Operating Income Before Depreciation and Amortization (OIBDA) per subscriber.

We ended 2004 in our strongest financial position yet. The free cash flow that we generated in 2004 allowed us to take advantage of opportunities to reduce our net debt by 17 percent.

Of course, all of these results were possible only through the tireless efforts of the 19,000 Nextel employees whose response to every challenge always exceeds our every expectation. They are the ultimate doers, continually demonstrating incredible teamwork, dedication and a passion for getting things done for our customers. Working with them is a privilege every day.

No event of 2004 reflects our unwavering commitment to success more so than the Federal Communications Commission's (FCC) decision to permanently resolve interference to public safety radios by realigning the 800 MHz band of spectrum. As former FCC Chairman Michael Powell stated in announcing the FCC's decision, "to protect our communities, our citizens and our nation, we must take every action at our disposal to achieve the seamless communications necessary for emergency preparedness and response." We agree. Nextel is and will remain committed to the needs of the public safety community.

That is why we worked for three years through an innovative public-private partnership of citizens, wireless organizations and leading public safety agencies to secure this decision – and why, in February 2005, we wholeheartedly accepted the FCC's Report and Order. There is no doubt this will be remembered as one of the most significant events in Nextel's history.

Nextel will solve this critical public safety problem by turning in valuable spectrum in the 700 and 800 MHz bands and paying costs associated with retuning incumbents in the 800 MHz band. In return, Nextel received licenses for 10 MHz of nationwide spectrum in the 1.9 GHz band and we will also retune the incumbents in this band. The FCC order resolves interference to public safety by Nextel and other wireless carriers and also leaves Nextel well positioned for the future.

By the time you read this, we expect to be within months of completing the merger with Sprint. The new Sprint Nextel expects to offer the most comprehensive selection of voice, data and multimedia products and services available in the United States. Sprint Nextel's combined spectrum assets – coupled with Sprint and Nextel's unmatched track records of innovation – will allow Sprint Nextel to develop the services that businesses and consumers demand. And our spectrum and network assets will allow us to deliver services where customers want to use them. With these assets and the added capabilities of Sprint's global IP network and nationwide long distance, Sprint Nextel will have the size and scale to compete against even the largest telecommunications companies.

Our greatest achievements are ahead of us.

Dear Fellow Shareholder,

2004 was our best year ever – a year of unmatched performance. Nextel is in the strongest position we have ever achieved. And the pending merger with Sprint, announced on December 15, 2004, will position us as America's premier communications company. As the designated chairman of the board of the planned Sprint Nextel, I can tell you I have never been more excited about the potential to hasten disruptive change in the wireless industry.

I am very pleased to report that in 2004 Nextel delivered yet another record year. By focusing on our strategy of being the wireless company that is first, better and different, we met or exceeded our goals for top-line performance and bottom-line growth. Just as important, we again outpaced, outperformed or outright led the wireless industry in nearly every important metric.

We grew total revenue by 24 percent, to a record \$13.4 billion, and nearly doubled our net income to \$3 billion, achieving 11 straight quarters of profitability.

In 2004, we remained the leader in attracting and retaining the most valuable customers in all of wireless. Strong demand for Nextel services drove a 22 percent increase in total subscribers, nearly twice the industry's 12 percent growth rate. We added 2.9 million new customers in 2004, reaching a year-end total of more than 16.2 million subscribers: 15 million Nextel users and 1.2 million users of our Boost Mobile™ branded pre-paid service.


Last year, more than 500,000 NASCAR spectators used Nextel service at NASCAR NEXTEL Cup races, surpassing our first-year expectations as title sponsor of the NASCAR NEXTEL Cup Series™. And these spectators have quickly become some of our most valuable customers. In 2004, the typical NASCAR NEXTEL Cup spectator used hundreds more Nextel cellular and Direct Connect® walkie-talkie minutes per month and generated significantly higher revenue than the average Nextel customer. Our association with the sport also helped us to achieve higher levels of awareness and acceptance for the Nextel brand. Partnering with NASCAR was one of the best decisions we have ever made. We are looking forward to building on the success of our inaugural year.



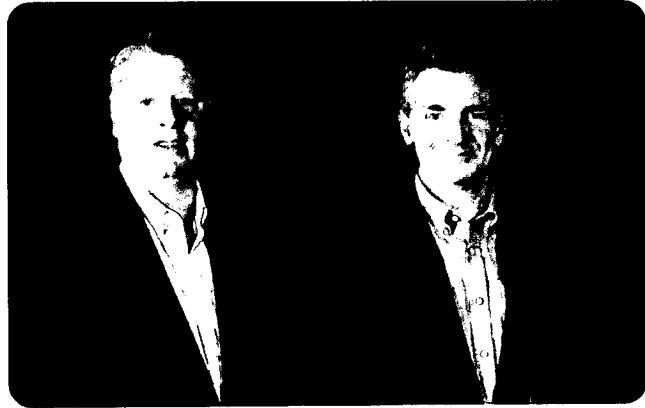
Timothy M. Donahue
President and
Chief Executive Officer

All
Together
Now.





Sprint Nextel offers a comprehensive range of wireless and wireline communications services to consumer, business and government customers. Formed by the merger of Sprint and Nextel in August 2005, the new Sprint Nextel offers a broad choice of products and services, empowering its customers to conduct personal and professional business better, faster and simpler from the desktop to the palm of their hand. Sprint Nextel is widely recognized for developing, engineering and deploying innovative technologies including two robust wireless networks offering industry leading mobile data services, instant national and international walkie-talkie capabilities and an award-winning and global Tier 1 Internet backbone. Customers may find these offerings in targeted channels including a nationwide direct sales force, Sprint.com online sales, telesales and conveniently located Sprint Retail Stores. For more information, visit www.sprint.com.



Timothy M. Donahue, Executive Chairman
Gary D. Forsee, President and Chief Executive Officer

Dear Fellow Shareholders:

We are proud to report that 2005 was an outstanding year for Sprint Nextel. We combined two innovative telecommunications leaders into one company—uniquely positioned to help fulfill our customers' increasing desire to do whatever they want, whenever they choose, wherever they are. In 2005, Sprint Nextel delivered strong revenue and earnings, gained millions of new wireless subscribers and laid a foundation on which to build long-term value for our customers, employees and shareholders.

And that is exactly why we combined Sprint and Nextel. With the two companies together as one, our already strong prospects for growth are even brighter.

Sprint Nextel enters the marketplace with established leadership positions in the markets for fast-growing wireless data and walkie-talkie services, an enviable base of key wireless assets that include excellent spectrum holdings and a global Internet backbone that provides enhanced wireline services and supports our wireless services. With the operational efficiencies that will come from being one company and the capital that will be saved by focusing on just one next-generation high-speed wireless network, Sprint Nextel has the strength, scale and resources to compete and win against our industry's largest players and newest entrants.

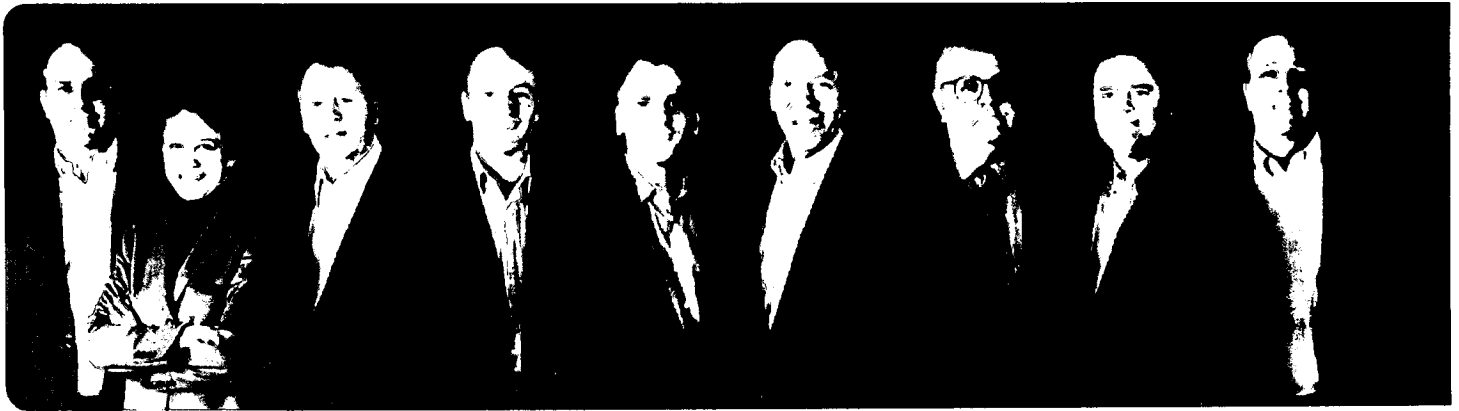
And we have the combined track record of two companies that understand the key to competitive success in this industry is to offer customers a choice of truly differentiated services. Sprint Nextel's customer-focused "Yes You Can™" philosophy captures the essence of our mission. Driven by our customers' needs, we're erasing the artificial wireline/wireless barrier to create a new seamless experience of personalized communications, information and entertainment, converging the speed of computers and the reach of television into the mobile third screen that keeps customers connected wherever they need to be.

Our completion of the merger on Aug. 12, 2005, was the culmination of a quick and smooth regulatory review and extensive integration planning process that positioned our new company to enter the marketplace with investment-grade ratings, a new brand and an expanded portfolio of products and services. We hit the ground running, thanks to a top management team and an impressive team of associates representing the best talent from both Sprint and Nextel. We are proud that our strategy, strong management team and performance were recognized by business publications such as *BusinessWeek* and *Forbes*.

Strong 2005 Financial Results

We reported strong 2005 results, including pro forma revenues—that is, revenues adjusted to assume that the merger had taken place at the beginning of the year—of \$44 billion, up 8 percent over 2004 revenues stated on a pro forma basis. Pro forma diluted earnings per share for 2005 were 54 cents, up from a pro forma 2004 loss per share of 50 cents, and included strong growth of wireless data revenues. We also recorded strong growth in adjusted operating income before depreciation and amortization (OIBDA) and the highest average revenue per subscriber unit among major U.S. wireless carriers.

Our focus on customer service and innovation helped support strong wireless subscriber growth in 2005, ending with a combined wireless subscriber base of 47.6 million, a 17 percent increase, compared to the combined subscriber base of Sprint and Nextel at the beginning of the year. We acquired three Sprint PCS affiliates in 2005, and two other Sprint PCS affiliates in the first quarter of 2006. In 2005, the price per share that we will pay to acquire Nextel Partners was determined, and the completion of this purchase, expected in second quarter 2006, will increase our direct subscriber base. At year-end, our wireless networks reached areas where



Left to Right: William G. Arendt, Senior Vice President and Contoller; Kathryn A. Walker, Chief Network Officer; Barry J. West, Chief Technology Officer; Len J. Lauer, Chief Operating Officer; Paul N. Saleh, Chief Financial Officer; Daniel R. Hesse, Chief Executive Officer, Local Telecommunications Division; Richard T.C. LeFave, Chief Information Officer; Mark A. Schweitzer, Chief Marketing Officer; Richard S. Lindahl, Vice President and Treasurer

more than 275 million people live or work, more than 90 percent of the U.S. population. Our long distance business also remained strong and by the year's end served 826,000 customers who are buying wireline services through cable network operators.

Importantly, we are confident that we remain on track to meet our merger synergy target of \$14.5 billion, including 2006 goals of nearly \$1 billion in operating synergies, and \$300 million to \$500 million in capital synergies. We're aggressively moving forward on a series of initiatives to renegotiate vendor and service provider contracts, streamline our sales force and distribution channels and cross-sell more products and services to existing customers. Most capital synergy for 2006 is expected to result from savings driven by our ability to focus our investment on a single next-generation platform.

We ended the year on solid financial footing, with total assets of \$103 billion, and shareholders' equity of \$52 billion. Cash and marketable securities totaled \$10.7 billion, while gross debt stood at \$25.7 billion. We also put a new credit facility in place in the fourth quarter, which included better economic terms and increased our available credit by \$2 billion.

Central to our strategy of focusing on wireless and broadband opportunities,

Sprint Nextel has been preparing to spin off our local telecommunications operations into an independent company, which will operate under a new brand—EMBARQ.™ In 2005, the local telecommunications operations generated \$6.5 billion in net operating revenues, and at year's end provided service on 7.4 million access lines. The separation is expected to occur in mid-2006.

Culture and Core Values

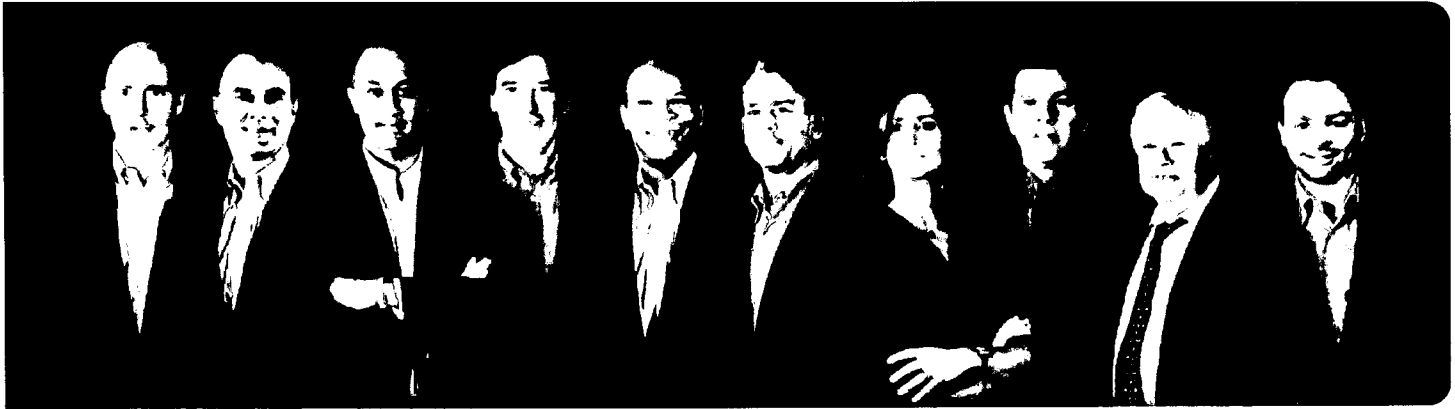
A key component of our integration planning effort was early attention to establishing our company's culture and gaining the commitment of our employees to our core values of integrity, customer service, delivery of results, teamwork, respect for each other and leadership by example. In support of these values, the Sprint Nextel Code of Conduct sets forth our philosophy and commitment to the ethical business practices and culture benefiting our employees, subscribers, stakeholders and the communities in which we do business. The principal foundations of our values-based approach to integrity, personal accountability and judgment are reinforced through operational policies, training and objective evaluation. And our Corporate Governance and Ethics organization is functionally independent and provides an enhanced level of visibility

into the organization for all of our stakeholders.

Our merger also generated momentum in the workplace and in the marketplace. Our Sept. 1 brand launch included a new logo and a sweeping overnight retail makeover of 1,600 Sprint and Nextel stores. And in the largest immersion advertising campaign ever launched by either company, America encountered the new Sprint brand more than 10 billion times.

As new and different as we have become, we will never change our traditional commitment to supporting the communities in which we work and live. That's why within two weeks of our merger, our company and employees immediately rallied to aid those impacted by Hurricanes Katrina, Rita and Wilma. Donations from the Sprint Foundation and employees, together with in-kind giving, exceeded \$10 million.

And, most importantly, we will always remain driven by and responsive to the needs of our consumer, business and government customers. In that regard, 2005 provided just a glimpse of what lies in store, as we begin delivering on our vision of the new and simpler wireless experience, enabling us to improve their lives at home, at work and on the go.



Left to Right: Christopher T. Rogers, Senior Vice President, Global Development/Spectrum Management; James G. Kissinger, Senior Vice President, Human Resources; Atish S. Gude, Senior Vice President, Corporate Strategy and Business Development; Timothy E. Kelly, President, Consumer Solutions; Leonard J. Kennedy, General Counsel; Steven M. Nielsen, Senior Vice President, Integration Management Office; Christie A. Hill, Vice President, Corporate Governance & Ethics and Corporate Secretary; Mark E. Angelino, President, Business Solutions; Robert S. Foosaner, Senior Vice President and Chief Regulatory Officer; Oliver Valente, Senior Vice President, Product Development

Enhancing the Network

We're committed to improving our network coverage and capabilities with a planned investment of capital in support of new and innovative services. We expanded our high-speed Sprint Power Vision™ Network in 2005, providing access to entertainment, information and communications services with full-motion video, high-quality sound and broadband-like speeds—all on wireless phones. This network supports more than 40 channels of video with multiple streams of programming, including 20 channels of live content. We launched the Sprint® Music Store, the first U.S. wireless service that allows subscribers to purchase and instantly download full-length songs over the air.

We continued our investment in the Nextel® National Network, which we have committed to support for years to come. In 2006, we plan to introduce a dual-mode phone, designed to allow customers to enjoy the benefits of the data capabilities of the Sprint network and Nextel's flagship walkie-talkie service in one device. We also are fulfilling our commitment to improve public safety communications through the 800 MHz band reconfiguration process.

We have targeted unique customer segments by signing the Walt Disney Internet Group and ESPN as new mobile

virtual network operators and continue to see strong benefits from our youth-oriented prepaid brands, Boost Mobile® and Virgin Mobile®. The second year of our highly successful NASCAR NEXTEL Cup Series™ sponsorship and our new National Football League sponsorship provided exclusive racing and other sports video content, interactive features and other premium services to subscribers who want their favorite sports on their wireless phone.

In the "wired" world, we are developing differentiated solutions that will meet the unique needs and improve productivity of our business and government customers. Using our Multiprotocol Label Switching (MPLS) and voice-over-the-Internet services, businesses can cost effectively consolidate all voice and data traffic onto one service for secure, flexible communications between all their locations.

The Potential of Cable Collaboration

Perhaps the greatest potential for our customers lies in our recent joint venture agreement with four of the nation's largest cable companies to develop and offer services that converge the flexibility of wireless with the power of cable. The initial offering of our advanced services combining entertainment, communications and wireless services is expected to be available in mid-2006. Beyond that,

development and evaluation of wireless interactive multimedia services continue in anticipation of our nationwide next-generation, wireless broadband network that will utilize our spectrum position in the 2.5 GHz band.

Having operated as a merged company for fewer than five months in 2005, Sprint Nextel has exceeded expectations for the progress of our integration, established a successful new brand and aggressively executed on a clear vision with strong financial results. We called it a merger of equals, and we meant that—but today our company is truly something new, and far better than the sum of two strong parts. We are poised for even greater success in 2006 as Sprint Nextel moves to realize its potential for investors and customers as the nation's premier communications company. You can count on it.

Yes you can.

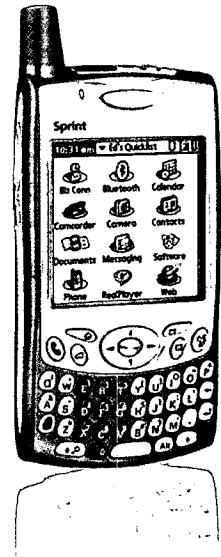
Timothy M. Donahue
Executive Chairman

Gary D. Forsee
President and Chief Executive Officer

All Together Now.



Now, take your
office with you and
make anyplace a
workplace.



All together now: One new company. Energized employees dedicated to our customers. Technology choices that can be tailored simply to your life and work. Video, music, voice and data in one high-powered handset. A “Yes You Can™” approach to everything we do. And all because our customers deserve it.

First, television revolutionized entertainment. Then computers revolutionized productivity. In 2005, Sprint Nextel combined the two with wireless communications converged into a *third screen*, giving customers the mobility and flexibility to do everything they want—at home, at work or on the go.

Watch game clips.
Follow the race.
Check the news.
See movie trailers.
All together now—
in the palm of
your hand.

Here's how we're leading
this new revolution. All together now:

Broad and innovative wireless and IP assets.

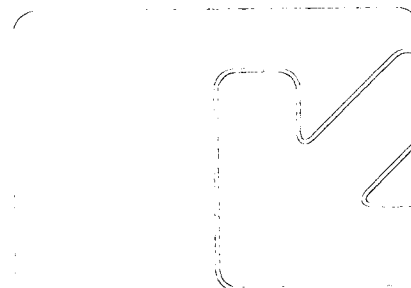
Our all-digital Nationwide Sprint PCS® Network, with industry-leading data usage, operates alongside our Nextel® National Network supporting the Nextel® Walkie-Talkie services that let people connect instantly coast-to-coast or internationally at the push of a button. And we're improving our network every day, with planned investments to expand capacity and broaden service areas. We also plan to introduce a dual-mode handset designed to work on both networks, giving subscribers more ways to communicate in more places. Supporting these networks is Sprint's Global IP Network, with 75,000 route-miles of fiber and an ownership stake in the world's major public undersea cable system.

Greater network power and devices that meet *your* needs.

For customers with more to do and no time to wait, the new Sprint Power Vision™ Network brings near-broadband speed, a TV-like viewing experience and high-quality sound to their wireless devices. Providing access to this network's expanding selection of video, music, high-resolution imaging, on demand information and Web-based services, our new Power Vision™ handsets give customers numerous cutting-edge choices for entertainment and work uses. Plus, our customer care team is trained to help make our technology easy to choose and easy to use.

TV, music, data, voice and the Internet on one device—with more coming.

Whoever thought a wireless phone could do so much? Well, we did. We were the first to offer mobile TV. And now Sprint's Emmy® Award-winning Sprint Multimedia Services offers more than 40 channels of news, sports, weather, movie trailers and entertainment, including live TV. Sprint Music Store offers instant downloads of full length songs right to your wireless phone in as little as 30 seconds. Sprint PCS Picture Mail lets you send and receive unlimited pictures, videos and audio messages with text to family and friends. You can order prints from your camera phone for pick-up at any of 3,000 retail locations nationwide. And Sprint On Demand makes it easy to use your wireless phone to retrieve Web content customized by ZIP Code.



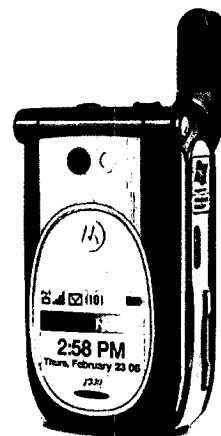
47.6 million subscribers on wireless networks that are growing stronger every day, with more cell sites, better building coverage and greater reach. When connected to Sprint's global Internet backbone, subscribers can do whatever they want, whenever they choose, wherever they are.



Conduct business anywhere with Sprint® Mobile Broadband—high-speed wireless services optimized for data. Ten times faster than current wireless speeds, our EV-DO (Evolution Data Optimized)-based technology drives increased efficiency and productivity for anyone—in any sized company—who uses a laptop computer or handheld device.



Walkie-talkie service that's all talk and action too, with location-based services that help you work more efficiently.



Cutting-edge voice, data and location-based services for business.

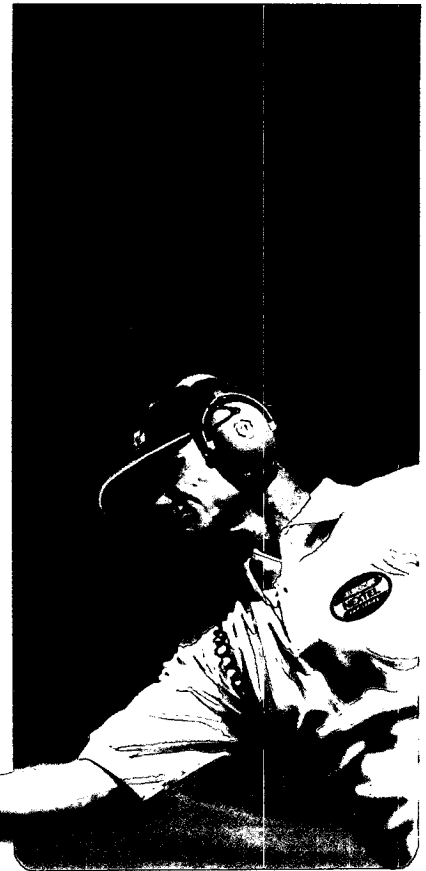
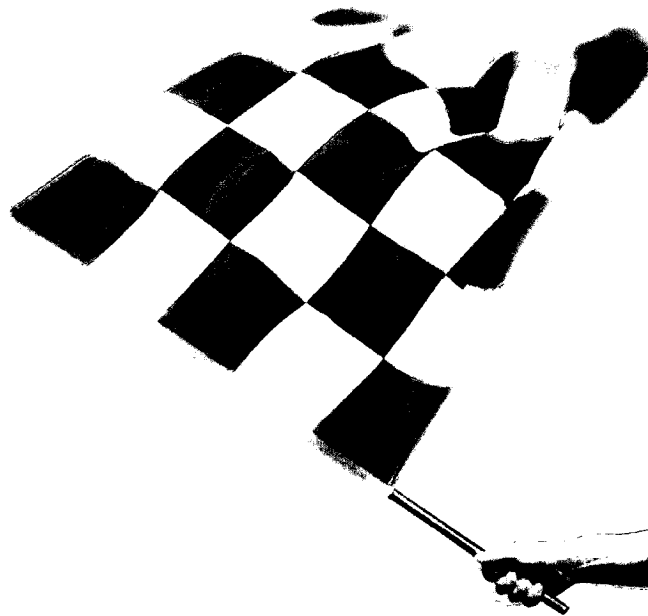
Proving again that no one understands business better than Sprint, in 2005 we introduced Sprint Managed Mobility Services,SM providing business subscribers the security, cost savings and efficiency of end-to-end management of their wireless devices and services. We expanded our location-based services in 2005, by partnering to offer satellite and cellular location services and communications on Nextel handsets, extending GPS navigation services to Sprint handsets and enlarging the footprint of our nationwide Wi-Fi connectivity services. For wireline customers, our global Multiprotocol Label Switching Services (MPLS) allow businesses to connect all their locations and combine all their traffic onto one cost effective, secure and flexible network. And with a corporate Wi-Fi solution, businesses can expand their options on how and where employees work.

NASCAR, NFL and other premium content in one place.

In our second year as title sponsor of the NASCAR NEXTEL Cup Series,SM we continued to build customer awareness of our brand and services. We're bringing innovative technology to the sport, along with enhanced services and content for NASCAR fans—including real-time race information, news and ringtones. Our new National Football League sponsorship also highlighted our brand and provided wireless access to first-ever exclusive NFL content, including original video, audio and statistics programming.

Wireless and cable joined as one.

Watch cable TV or program your Digital Video Recorder from your phone. Surf the Internet or check email from your television. Receive work, home and mobile voice-mails all in one in-box. That's what we believe the convergence of cable and wireless services will offer our customers. Together with four of the nation's largest cable companies, we expect to initiate service in 2006. It's not just about bundling video, wireless, Internet and cable phone services into one bill. It's about integrating technologies and services on one device, more simply, to do more than you ever imagined.



More ways to get the value of Sprint.

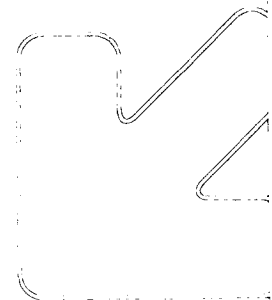
We're extending the value and reach of our network to new customer segments in another way—as the wholesaler to mobile virtual network operators who in turn offer branded wireless services relevant to their customers. The newest of these include the family-oriented Disney Mobile and Mobile ESPN, the nation's first wireless service with features and programming especially for sports fans.

Today's innovations and tomorrow's even faster network.

Our merger brought together spectrum holdings that we believe will support an even more powerful wireless broadband network. In 2006, we plan to test and further develop technology for an even higher speed network that will be designed to allow customers to download a movie in seconds, work interactively with others online in real time or even conduct a video chat, all from a wireless device.

Each innovation brings into sharper focus our vision of a highly capable third screen, as we anticipate and respond to our customers' desire to get more done at work and get more enjoyment in their personal lives.

One company. Providing everything you need.
All together now.



Sprint Nextel works hard to help you. Instant walkie-talkie communications, turn-by-turn driving directions, off-road navigation tips, easy tracking of mobile resources, start-to-finish involvement in NASCAR races—it's all part of our job to make your life better at work, at home or on the go.

Board Of Directors

Timothy M. Donahue
Executive Chairman
Sprint Nextel Corporation

Keith J. Bane
Retired Executive Vice President and
President, Global Strategy and
Corporate Development
Motorola, Inc.

Gordon M. Bethune
Retired Chairman and
Chief Executive Officer
Continental Airlines, Inc.

William E. Conway, Jr.
Founding Partner and
Managing Director
The Carlyle Group

Frank M. Drendel
Chairman and
Chief Executive Officer
CommScope, Inc.

Gary D. Forsee
President and
Chief Executive Officer
Sprint Nextel Corporation

James H. Hance, Jr.
Retired Vice Chairman
Bank of America Corporation

V. Janet Hill
Vice President
Alexander & Associates, Inc.

Irvine O. Hockaday, Jr.
Retired President and
Chief Executive Officer
Hallmark Cards, Inc.

William E. Kennard
Managing Director
The Carlyle Group

Linda Koch Lorimer
Vice President and
Secretary of the University
Yale University

Stephanie M. Shern
Chief Executive Officer
Shern Associates LLC

William H. Swanson
Chairman and
Chief Executive Officer
Raytheon Company

Principal Officers

Timothy M. Donahue
Executive Chairman

Gary D. Forsee
President and
Chief Executive Officer

Len J. Lauer
Chief Operating Officer

Paul N. Saleh
Chief Financial Officer

Richard T.C. LeFave
Chief Information Officer

Mark A. Schweitzer
Chief Marketing Officer

Kathryn A. Walker
Chief Network Officer

Barry J. West
Chief Technology Officer

Leonard J. Kennedy
General Counsel

Daniel R. Hesse
Chief Executive Officer
Local Telecommunications
Division

Mark E. Angelino
President
Business Solutions

Timothy E. Kelly
President
Consumer Solutions

William G. Arendt
Senior Vice President
and Controller

Robert S. Foosaner
Senior Vice President and
Chief Regulatory Officer

Atish S. Gude
Senior Vice President
Corporate Strategy and
Business Development

James G. Kissinger
Senior Vice President
Human Resources

Steven M. Nielsen
Senior Vice President
Integration Management Office

Christopher T. Rogers
Senior Vice President
Global Development
Spectrum Management

Oliver M. Valente
Senior Vice President
Product Development

Christie A. Hill
Vice President
Corporate Governance
& Ethics and
Corporate Secretary

Richard S. Lindahl
Vice President and Treasurer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

OR

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 1-04721

SPRINT NEXTEL CORPORATION

(Exact name of registrant as specified in its charter)

KANSAS
(State or other jurisdiction of
incorporation or organization)

48-0457967
(I.R.S. Employer
Identification No.)

2001 Edmund Halley Drive, Reston, Virginia
(Address of principal executive offices)

20191
(Zip Code)

Registrant's telephone number, including area code:

(703) 433-4000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, Series 1, \$2.00 par value, and Rights	New York Stock Exchange
Guarantees of Sprint Capital Corporation 6.875% Notes due 2028	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer
Large accelerated filer Accelerated Filer Non-accelerated Filer

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

Aggregate market value of voting and non-voting common stock equity held by non-affiliates at June 30, 2005, was \$37,255,897,903.

COMMON SHARES OUTSTANDING AT FEBRUARY 28, 2006:

VOTING COMMON STOCK	
Series 1	2,849,846,056
Series 2	79,831,333
NON-VOTING COMMON STOCK	37,594,109

Documents incorporated by reference

Portions of the registrant's definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the end of Registrant's fiscal year ended December 31, 2005, are incorporated by reference in Part III hereof.

**SPRINT NEXTEL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
ANNUAL REPORT ON FORM 10-K**

Part I

Item 1. Business

Overview

The Corporation

Sprint Nextel Corporation, incorporated in 1938 under the laws of Kansas, is mainly a holding company, with its operations primarily conducted by its subsidiaries. Unless the context otherwise requires, references to "Sprint Nextel," "we," "us" and "our" mean Sprint Nextel Corporation and its subsidiaries. On August 12, 2005, a subsidiary of our company merged with Nextel Communications, Inc. and, as a result, we acquired Nextel.

We are a global communications company offering a comprehensive suite of wireless and wireline communications products and services that are designed to meet the needs of our targeted customer groups: individuals, and business and government customers. Although our operations are divided into three lines of business, wireless, long distance and local, we have organized our sales and distribution efforts to focus on the needs of two distinct customer types – individuals, and businesses and government agencies, which has enabled us to create customer-focused communications solutions that can incorporate any of our wireless and wireline services. We are one of the three largest wireless companies in the United States based on the number of wireless subscribers. We own extensive wireless networks and a global long distance, Tier 1 Internet backbone. We also provide regulated local exchange telephone services to approximately 7.4 million access lines in our local service territories in 18 states.

We, together with third-party affiliates, each referred to as a PCS Affiliate, and Nextel Partners, Inc., offer digital wireless service in all 50 states, Puerto Rico and the U.S. Virgin Islands. The PCS Affiliates, through commercial arrangements with us, provide wireless personal communications services, or PCS, under the Sprint® brand name in certain mid-sized and tertiary United States markets on wireless networks built and operated at their expense, in most instances using spectrum licensed to, and controlled by, us. Nextel Partners provides digital wireless communications services under the Nextel® brand name in certain mid-sized and tertiary United States markets on wireless networks built and operated at its expense. We, together with the PCS Affiliates, Nextel Partners and resellers of our wireless service, served more than 49.6 million wireless subscribers at the end of 2005. During 2005 and the first quarter 2006, we acquired five PCS Affiliates, and we expect to acquire Nextel Partners in the second quarter 2006.

We offer a wide array of wireless mobile telephone and wireless data transmission services on networks that utilize code division multiple access, or CDMA, and integrated Digital Enhanced Network, or iDEN®, technologies. We market wireless services provided on our CDMA network under the Sprint brand. We are deploying high-speed evolution data optimized, or EV-DO, technology, which increases by up to 10 times average mobile-device data speeds, across our CDMA network. The services supported by this technology, marketed as PowerVisionSM, give consumer and business subscribers with EV-DO-enabled devices access to numerous sophisticated data messaging, imaging, entertainment and location-based applications. We first introduced EV-DO commercially in the second quarter 2005, and we will continue to expand our EV-DO footprint to provide coverage to more people and markets in 2006.

We market wireless services provided on our iDEN network under two brand names: Nextel, for post-paid wireless services, and Boost Mobile™, for prepaid wireless services. Both brands feature our industry-leading walkie-talkie services, which give subscribers the ability to communicate instantly across the continental United

States and to and from Hawaii, and, through agreements with other iDEN-based providers, to and from selected markets in Canada, Latin America and Mexico, as well as a variety of digital wireless mobile telephone and wireless data transmission services.

We are one of the nation's largest providers of long distance services and one of the largest carriers of Internet traffic. We operate an all-digital long distance and Tier 1, Internet Protocol, or IP, network, over which we provide a broad suite of wireline communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as multi-protocol label switching, or MPLS, technologies, IP, asynchronous transfer mode, or ATM, and frame relay, and managed network services. We also provide switching and back office services to cable companies, which enable them to provide local and long distance telephone service over their cable facilities.

We also provide regulated local exchange telephone services to approximately 7.4 million access lines in our local service territories in 18 states. We provide local and long distance voice and data services, including digital subscriber line, or DSL, services, and other telecommunications-related services to customers in these service areas. We also operate a wholesale product distribution business. As discussed below, we plan to spin-off these operations to our shareholders in 2006.

Our Series 1 voting common stock trades on the New York Stock Exchange, or NYSE, under the symbol "S".

Sprint-Nextel Merger

On August 12, 2005, a subsidiary of ours merged with Nextel and, as a result, we acquired Nextel. The aggregate consideration paid for the merger was approximately \$37.8 billion, which consisted of \$969 million in cash and 1.452 billion shares of Sprint Nextel voting and non-voting common stock, or \$0.84629198 in cash and 1.26750218 shares of Sprint Nextel stock in exchange for each then-outstanding share of Nextel stock.

We merged with Nextel to secure a number of potential strategic and financial benefits, including:

- the combination of extensive network and spectrum assets, which enables us to offer consumers, businesses and government agencies a wide array of broadband wireless and integrated communications services;
- the combination of Nextel's strength in business and government wireless services with our position in consumer wireless and data services, including services supported by our global IP network, which enables us to serve a broader customer base;
- the size and scale of the combined company, which is comparable to that of our two largest competitors, is expected to enable more operating efficiencies than either company could achieve on its own; and
- the ability to position us strategically in the fastest growing areas of the communications industry.

We expect to realize significant synergies associated with this merger, which include:

- revenue and subscriber synergies primarily arising out of cross-selling opportunities and the accelerated deployment of new features and services;
- reduced capital spending due to the elimination of the need to build a data overlay network as had been planned by Nextel, reduced construction costs, expected volume discounts and benefits of increased purchasing capacity and reduced and consolidated facilities and back-office functions;

- reduced network operating costs primarily arising out of co-location of cell sites, process efficiencies and migration of Nextel backhaul and other telecommunications traffic to our long distance network;
- reduced selling, general and administrative expenses primarily arising out of consolidation of customer care, billing and other information technology, or IT, functions, increased scale and volume discounts and reduced sales and marketing costs and general administrative expenses; and
- marketing, sales and fulfillment savings as a result of headcount savings, the rationalization of distribution channels, greater volume discounts on devices and other scale benefits.

We began to realize some synergies in 2005, and expect to realize additional synergies over a number of years. However, we believe that our operating results for at least the next several quarters will be negatively impacted by costs that will be incurred to achieve these synergies. The ability to achieve these synergies and the timing in which the benefits can be realized will depend in large part on the ability to integrate our networks, business operations, back-office functions and other support systems and infrastructure.

Contemplated Spin-off of Local Telecommunications Business

At the time that we announced the merger with Nextel, we also announced that we intend to spin-off our local communications business to our shareholders on a tax-free basis. The business being spun-off, which is the business reported as the local segment in our financial statements, will be known as Embarq Corporation, and we refer to this business as Embarq, or Local.

We anticipate that the common stock of Embarq will trade on the NYSE under the symbol "EQ" and that the spin-off will be completed in the second quarter 2006.

Nextel Partners Purchase Right and Acquisitions of PCS Affiliates

As a result of the merger with Nextel, in October 2005, the shareholders of Nextel Partners exercised their right to require us to purchase, at fair market value, the 70% of the outstanding shares of Nextel Partners stock that we do not already own. In December 2005, we and Nextel Partners announced that the purchase price for each share of Nextel Partners stock under this right had been determined to be \$28.50. As a result, the aggregate amount payable to shareholders of Nextel Partners will be about \$6.5 billion, including amounts payable upon conversion of debt securities and settlement of options. The purchase is subject to customary regulatory approvals and is currently expected to be completed by the end of the second quarter 2006.

In the second half of 2005, we acquired the following three PCS Affiliates for a total of \$1.4 billion:

- US Unwired, Inc., which, at the time of acquisition, provided wireless service to more than 500,000 direct subscribers in nine Southeast region states, for \$968 million;
- Gulf Coast Wireless Limited Partnership, which, at the time of acquisition, provided wireless service to more than 95,000 direct subscribers in southern Louisiana and Mississippi, for \$211 million, net of the 13.4% ownership interest held by us; and
- IWO Holdings, Inc., which, at the time of acquisition, provided wireless service to more than 240,000 direct subscribers in five Northeast region states, for \$192 million.

In the first quarter 2006, we also acquired the following two PCS Affiliates for a total of \$3.5 billion:

- Alamosa Holdings, Inc., which, at the time of acquisition, provided wireless service to more than 1.5 million direct subscribers in 19 states, for \$3.4 billion of net cash paid; and

- Enterprise Communications Partnership, which, at the time of acquisition, provided wireless service to more than 50,000 direct subscribers in Alabama and Georgia, for \$77 million of net cash paid.

We believe that the acquisitions of Nextel Partners and the PCS Affiliates we have acquired to date will give us control of the distribution of services under our Sprint and Nextel brands, and provide us with the strategic and financial benefits associated with a larger customer base and expanded network coverage, which include a number of markets with favorable growth and competitive characteristics. We believe that the acquisitions also will facilitate the integration relating to the Nextel merger by allowing us to provide consistent service offerings and customer experiences across a wider geographic area.

Access to Public Filings and Board Committee Charters

Our website address is www.sprint.com. Information contained on our website is not part of this annual report. We provide public access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934. These documents may be accessed free of charge on our website at the following address: www.sprint.com/sprint/ir. These documents are provided promptly after filing with the SEC. These documents also may be found at the SEC's website at www.sec.gov.

We also provide public access to our Code of Ethics, entitled the Sprint Nextel Code of Conduct, our Corporate Governance Guidelines and the charters of the following committees of our board of directors: the Audit Committee, the Human Capital and Compensation Committee, and the Nominating and Corporate Governance Committee. The Code of Conduct, corporate governance guidelines and committee charters may be viewed free of charge on our website at the following address: www.sprint.com/governance. You may obtain copies of any of these documents free of charge by writing to: Sprint Nextel Investor Relations, 2001 Edmund Halley Drive, Reston, Virginia 20191. If a provision of the Code of Conduct required under the NYSE corporate governance standards is materially modified, or if a waiver of the Code of Conduct is granted to a director or executive officer, we will post a notice of such action on our website at the following address: www.sprint.com/governance. Only the board of directors or the Audit Committee may consider a waiver of the Code of Conduct for an executive officer or director.

Certifications

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached as Exhibits 31(a), 31(b), 32(a) and 32(b) to this annual report. We also filed with the NYSE in 2005 the required certificate of our Chief Executive Officer certifying that he was not aware of any violation by Sprint Nextel of the NYSE corporate governance listing standards.

Our Business Segments

Wireless

We offer a wide array of wireless mobile telephone and wireless data transmission services on networks that utilize CDMA and iDEN technologies.

The financial performance of our Wireless segment for 2005, 2004 and 2003 is summarized as follows:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>(in millions)</i>		
Net operating revenues	\$ 22,328	\$ 14,647	\$ 12,690
Operating income ⁽¹⁾	2,173	1,552	634

- (1) See "Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Segmental Results of Operations – Wireless" for more information regarding the financial performance of our Wireless segment.

Strategy

Our strategy for the Wireless segment is to utilize state-of-the-art technology to provide differentiated wireless services and applications in order to acquire and retain high-quality wireless subscribers. To enable us to offer innovative applications and services, we are deploying high-speed EV-DO technology across our CDMA network. The services supported by this technology, marketed as PowerVision, give consumer and business subscribers with EV-DO-enabled devices access to numerous sophisticated data messaging, imaging, entertainment and location-based applications. On our iDEN network, we continue to develop features and services that are designed to meet the needs of business and government customers, with a particular focus on services that build upon our walkie-talkie features. To offer customers all of the benefits of PowerVision and our walkie-talkie features, we expect to introduce a dual-mode handset designed to operate on both our CDMA and iDEN network platforms. We also seek to realize operating efficiencies in our business, in part from merger-related synergies, and optimize the performance of our network while minimizing costs.

Products and Services

We offer a wide array of wireless mobile telephone and data transmission services and features in a variety of pricing plans, including prepaid service plans. Our wireless mobile voice communications services include basic local and long distance wireless voice services, as well as voicemail, call waiting, three way calling, caller identification, directory assistance, call forwarding, speakerphone and voice-activated dialing features. Through a variety of roaming arrangements, we provide roaming services to areas in over 170 countries outside the United States, including areas of Asia, including China, Guam, Hong Kong, Taiwan and Thailand, New Zealand, Canada, Central and South America, including Argentina, Bolivia, Chile, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay and Venezuela, and most major Caribbean islands.

The data communications services include:

- wireless imaging, including the ability to shoot and send digital still pictures and video clips from a wireless handset;
- wireless data communications, including Internet access and messaging and email services;
- on our CDMA network, wireless entertainment, including the ability to view live television; listen to Sirius® satellite radio; download and listen to music from our Sprint Music StoreSM, a music catalogue with thousands of songs from virtually every music genre; and play games with full-color graphics and polyphonic sounds all from a wireless handset; and
- location-based, asset and fleet management, and dispatch services.

We also offer walkie-talkie services, which give subscribers with iDEN-based devices the ability to communicate instantly across the continental United States and to and from Hawaii. Also, through agreements with third parties, subscribers with iDEN devices can communicate instantly with our walkie-talkie feature to and from selected areas in Canada, Latin America and Mexico. Our walkie-talkie features offer subscribers instant communications in a variety of other ways, including push-to-email applications that allow a user to send a streaming voice message to an email recipient, and off-network walkie-talkie communications available on certain handsets.

Our services are provided using a wide variety of handsets and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We generally sell our handsets at prices below our cost in response to competition, to attract new customers and as retention inducements for existing customers.

We also sell accessories, such as carrying cases, hands-free devices, batteries, battery chargers and other items to consumers, and we sell handsets and accessories to agents and other third party distributors for resale.

We also offer wholesale services on our CDMA network to resellers, commonly known as mobile virtual network operators, or MVNOs. MVNOs purchase wireless services from us at wholesale rates and resell the services to their customers under their own brand names. These companies bear the costs of acquisition, billing and customer service. We currently provide wholesale services, through multi-year, exclusive wholesale agreements, to a number of MVNOs, including Qwest Communications International, Inc., Disney and ESPN. We also provide wholesale services to Virgin Mobile USA, which offers prepaid wireless service targeted to the youth and prepaid markets, and is a joint venture between us and the Virgin Group. As of December 31, 2005, the number of subscribers served through resellers represented approximately 18% of the total subscribers served by our CDMA network.

We offer customized design, development, implementation and support services for wireless services provided to large companies and government agencies. We also recently entered into a joint venture with several cable companies to develop converged next generation products for consumers designed to combine many of cable's core products and interactive features with wireless technology to deliver a broad range of services, including video, wireless voice and data services, high speed Internet and cable phone service.

Sales and Marketing

We focus the marketing and sales of wireless services on two targeted groups of customers: individuals, and businesses and government agencies. We offer a variety of pricing options and plans, including plans designed specifically for business customers, and individuals and families. We use a variety of sales channels to attract new subscribers of wireless services, including:

- direct sales representatives whose efforts are focused on marketing and selling CDMA- and iDEN-based wireless services primarily to mid-sized to large businesses and government agencies that value our industry and technical expertise and extensive product and service portfolio, as well as our ability to develop custom communications capabilities that meet the specific needs of these larger customers;
- retail outlets that focus on sales to the consumer market, including Radio Shack, Best Buy, Target, Wal-Mart and Sprint Nextel retail stores;
- indirect sales agents that primarily consist of local and national non-affiliated dealers and independent contractors that market and sell services to small businesses and the consumer market, and are generally paid through commissions; and
- customer-convenient channels, including web sales and telesales.

We market our post-paid services under the Sprint and Nextel brands. We offer these services on a contract basis typically for one or two year periods, with services billed on a monthly basis according to the applicable pricing plan. We market our prepaid services under the Boost Mobile brand, as a means to directly target the youth and prepaid wireless service markets.

Although we market our services using traditional print and television advertising, we also provide exposure to our brand names and wireless services through various sponsorships. We are the title sponsor of the NASCAR NEXTEL Cup Series™, the National Association for Stock Car Auto Racing, or NASCAR®, premier national championship series. We are NASCAR's official telecommunications sponsor, which entitles us to a variety of branding, advertising, merchandising and technology-related opportunities, many of which are exclusive with NASCAR, its drivers and teams, and the racetrack facilities. We also are the official telecommunications service provider of the National Football League, or NFL, and the provider of exclusive and original NFL-related content as part of our Sprint-branded wireless service. We also have been the exclusive sponsor of a number of NFL events, including the Super Bowl XL half-time show. The goal of these initiatives, together with our other marketing initiatives, which include affiliations with most major sports leagues, is to increase brand awareness in our targeted customer base and expand the use of our customer-convenient distribution channels: web sales, telesales and retail stores.

Wireless Network Technologies

CDMA Network

We provide our Sprint-branded wireless services over our CDMA network, an all-digital wireless network with spectrum licenses that allow us to provide service to the entire United States population, Puerto Rico and the U.S. Virgin Islands. The CDMA network uses a single frequency band and a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all voice and data bits, sending a scrambled transmission of the encoded bits over the air and reassembling the voice and data into its original format. We supplement the CDMA network through commercial affiliation arrangements with the PCS Affiliates. Under these arrangements, the PCS Affiliates offer wireless services under the Sprint brand on CDMA networks built and operated at their own expense. In most instances, the PCS Affiliates use spectrum licensed to, and controlled by, us. Following the acquisitions of US Unwired, Gulf Coast Wireless, and IWO Holdings, completed in 2005, and the acquisitions of Alamosa and Enterprise Communications completed in early 2006, there are five remaining PCS Affiliates with networks that collectively serve markets where about 23.3 million people live or work.

We, together with the PCS Affiliates, operate CDMA networks in over 400 metropolitan markets, including the 125 largest U.S. metropolitan areas, that reach where a quarter billion people live and work. We provide nationwide service through a combination of:

- operating our own digital network in both major and smaller U.S. metropolitan areas, and rural connecting routes using CDMA technology;
- affiliating under commercial arrangements with the remaining PCS Affiliates, each of which operates a CDMA network, mainly in and around smaller U.S. metropolitan areas;
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets; and
- roaming on other providers' digital networks that use CDMA.

CDMA subscribers can use their phones through roaming agreements in countries other than the United States, including areas of:

- Asia, including China, Guam, Hong Kong, Taiwan and Thailand;
- New Zealand;
- Canada;
- Central and South America, including Argentina, Bolivia, Chile, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay and Venezuela; and
- most major Caribbean islands.

We are in the process of deploying the high-speed EV-DO technology across our CDMA network. With peak rates of up to 2.4 megabits per second for downloads, EV-DO increases average mobile-device data speeds up to 10 times faster when compared to the prior generation technology. In addition, this technology delivers superior application and service performance on EV-DO-capable handsets and laptops equipped with EV-DO-enabled Sprint PCS Connection Cards™. The services supported by this technology, marketed as PowerVision, give consumer and business customers access to numerous sophisticated applications using EV-DO-enabled devices, including data messaging, imaging, entertainment and location-based applications. We first introduced EV-DO

commercially in the second quarter 2005, and at December 31, 2005 EV-DO was deployed in markets where about half of the U.S. population lives or works. We will continue to introduce EV-DO in additional markets in 2006.

The cell site equipment used in the CDMA network resides on space on communications towers. Although we own many of these towers, in May 2005, we closed a transaction whereby we provided Global Signal Inc. with the exclusive rights to lease or operate more than 6,600 of our communication towers for a negotiated lease term that is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful re-negotiation of the underlying ground leases at the end of their current lease terms. We have committed to sublease space from Global Signal on approximately 6,400 of these towers for a minimum of ten years. We have erected additional communications towers to expand the capacity and coverage of our CDMA network. The acquisition of Nextel has given us access to cell site communications towers erected for use in connection with the Nextel iDEN network, which in many cases will enable us to co-locate CDMA cell site equipment on these towers, instead of requiring us to erect new towers or co-locate the equipment on towers owned by third parties, which we expect will reduce our costs. Similarly, we will also be able to co-locate iDEN cell site equipment on the CDMA communications towers.

iDEN Network

We provide our Nextel post-paid and Boost Mobile prepaid wireless services over our iDEN network. Our iDEN network is an all-digital packet data network based on iDEN wireless technology provided by Motorola, Inc. We, together with Nextel Partners, are the only national wireless service provider in the U.S. that utilizes iDEN technology, and, generally, the iDEN handsets that we currently offer are not enabled to roam onto wireless networks that do not utilize iDEN technology. We, together with Nextel Partners, operate iDEN networks that serve 297 of the top 300 U.S. markets where about 270 million people live or work. Nextel Partners provides digital wireless communications services under the Nextel brand name in mid-sized and tertiary U.S. markets, and has the right to operate in 98 of the top 300 metropolitan statistical areas in the United States ranked by population. As discussed above, we will acquire Nextel Partners when the required regulatory approvals are obtained.

We have roaming or interoperability agreements with iDEN-based wireless service providers that operate in Latin America and Canada. We have entered into interoperability agreements with NII Holdings, Inc., which provides for coordination of customer identification and validation necessary to facilitate roaming between our domestic markets and NII Holdings' Latin American markets. We also have roaming agreements in effect with TELUS Mobility, Inc. in Canadian market areas where it offers iDEN-based services. With the i930 iDEN handset, subscribers can roam in areas of over 100 countries. In addition, any iDEN subscriber can remove the subscriber identity module cards found in each iDEN handset and place them in certain Motorola handsets that utilize global system for mobile communication, or GSM, technology, the network technology utilized by many wireless providers throughout Europe and other parts of the world.

Although the iDEN technology offers a number of advantages over other technology platforms, including the ability to offer our walkie-talkie features, unlike other wireless technologies, it is a proprietary technology that relies solely on our and Motorola's efforts for further research, and product development and innovation. We rely on Motorola to provide us with technology improvements designed to expand our iDEN-based wireless voice capacity and improve our services. Motorola provides all of the iDEN infrastructure equipment used in the iDEN network, and substantially all iDEN handset devices, under agreements that set the prices we must pay to purchase and license this equipment, as well as a structure to develop new features and make long-term improvements to our network. Motorola also provides integration services in connection with the deployment of iDEN network elements. We have also agreed to warranty and maintenance programs and specified indemnity arrangements with Motorola. Motorola is and is expected to continue to be our sole source supplier of iDEN infrastructure and iDEN handsets, except BlackBerry® devices, which are manufactured by Research In Motion, or RIM. See "Item 1A. — Risk Factors — If Motorola is unable or unwilling to provide us with equipment and

handsets in support of our Nextel branded services, as well as anticipated handset and infrastructure improvements for those services, our operations will be adversely affected.”

Competition

We believe that the market for wireless services has been and will continue to be characterized by intense competition on the basis of price, the types of services offered and quality of service. We compete with a number of wireless carriers, including three other national wireless companies: Cingular Wireless, Verizon Wireless and T-Mobile. We also compete with regional providers of mobile wireless services, such as Alltel Corporation. Competition will increase to the extent that new firms enter the market as additional radio spectrum is made available for commercial wireless services. We also expect competition to increase as a result of other technologies and services that are developed and introduced in the future, including potentially those using unlicensed spectrum, including wireless fidelity, or WiFi. The continued addition of MVNOs also contributes to increased competition.

Although pricing is an important factor in potential customers’ purchase decisions, we believe that our targeted customers are also likely to base their purchase decisions on quality of service and the availability of differentiated features and services that make it easier for them to get things done quickly and efficiently. We believe we compete based on our differentiated service offerings and products, including our PowerVision applications and push-to-talk walkie-talkie feature. Several of our competitors have introduced high-speed data, imaging, entertainment and location-based services and walkie-talkie-type features that are designed to compete with our differentiated products and services. Other competitors have announced plans to introduce similar services. If our competitors are able to provide applications and features that are comparable to ours, any competitive advantage from the differentiation of our services from those of our competitors would be reduced. To the extent that the competitive environment requires us to decrease prices or increase service and product offerings, our revenue could decline or our costs could increase. Competition in pricing and service and product offerings also may adversely impact customer retention. See “Item 1A. — Risk Factors — We face intense competition that may reduce our market share and harm our financial performance.”

Long Distance

Through our Long Distance segment, we provide a broad suite of wireline voice and data communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. As one of the nation’s largest providers of long distance services, we operate all-digital long distance and Tier 1 IP networks.

The financial performance for our Long Distance segment for 2005, 2004 and 2003 is summarized as follows:

	Year Ended December 31,		
	2005	2004	2003
		<i>(in millions)</i>	
Net operating revenues	\$ 6,834	\$ 7,327	\$ 8,005
Operating income (loss) ⁽¹⁾	512	(3,589)	(1,442)

(1) See “Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Segmental Results of Operations — Long Distance” for more information regarding the financial performance of the Long Distance Segment.

Strategy

In order to maintain market share in an increasingly competitive long distance communications environment, our Long Distance segment focuses on expanding its presence in the data communications markets by utilizing our principal strategic assets: our high-capacity national fiber-optic network, our Tier 1 IP network, our base of

business and residential customers, our established national brand and offerings available from our other operating entities.

Products and Services

Through our Long Distance segment, we provide a broad suite of wireline voice and data communications services, including domestic and international voice and data communications using various protocols such as next generation MPLS technologies, as well as IP, ATM, frame relay and managed network services. We also provide services to cable companies that resell our long distance service and/or use our back office systems and network assets in support of their telephone service provided over cable facilities. Although we continue to provide voice services to consumers, we no longer actively market those services. In 2004, we sold our Dial IP business, a data service that was focused largely on the consumer market.

Competition

Our Long Distance segment competes with AT&T, Verizon, Level 3, other major local incumbent operating companies, cable operators and other telecommunications providers in all segments of the long distance communications market. Some competitors are targeting the high-end data market and are offering deeply discounted rates in exchange for high-volume traffic as they attempt to fill their networks. In addition, we face increasing competition from other wireless and IP-based service providers. Many carriers are competing in the residential and small business markets by offering bundled packages of both local and long distance services. Competition in long distance is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability. Our ability to compete successfully will depend on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and pricing strategies. See "Item 1A. — Risk Factors — We face intense competition that may reduce our market share and harm our financial performance."

Local

Our Local segment primarily provides regulated incumbent local phone services in local service territories in 18 states. At December 31, 2005, we provided these services to approximately 7.4 million access lines, with our largest presence in Florida, North Carolina, Nevada and Ohio. Through this segment, we provide local voice, long distance and data services, including DSL, to customers located within our local service territories, access by consumers and other carriers to the local network, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. We also provide wireless and video services to customers in our local service territories through agency relationships. Our wholesale telecommunications product distribution business, known as Sprint North Supply Company, or North Supply, also is part of the Local segment. We plan to spin-off the Local segment to our shareholders on a tax-free basis in the second quarter 2006.

The financial performance for our Local segment for 2005, 2004 and 2003 is summarized as follows:

	Year Ended December 31,		
	2005	2004	2003
		(in millions)	
Net operating revenues	\$ 6,527	\$ 6,421	\$ 6,486
Operating income ⁽¹⁾	1,758	1,736	1,820

- (1) See "Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Segmental Results of Operations - Local" for more information regarding the financial performance of the Local segment.

Strategy

The strategy of our Local segment is to sell a bundled package of products and services to meet the needs of our consumer and business and wholesale customers within our local service territories. To enable us to meet these needs, we offer a wide array of products and services that we bundle in a variety of packages.

Products and Services

We offer customers a wide array of voice, data and other services. Our voice services include local calling services to consumers and business customers within our local service territories, generally for a fixed monthly charge, and a variety of enhanced calling features, such as call forwarding, caller identification, voicemail and call waiting, for which we generally charge an additional monthly fee.

We also offer switched access services to long distance carriers, wireless carriers and competitive local exchange carriers, known as CLECs, to enable them to connect their networks to customer locations. As required by regulations of the Federal Communications Commission, or FCC, we offer CLECs the use of unbundled network facilities and the ability to co-locate some of their equipment in our central offices.

We offer high-speed Internet access, primarily using a DSL service delivery platform. We also offer large businesses, long distance carriers, wireless carriers and CLECs dedicated circuits to connect their sites or networks to our network, their customers' locations or other network facilities.

We offer customers within our local service territories long distance voice, data and wireless services using the networks and facilities of our Wireless and Long Distance segments. We also offer video services through a sales agency relationship with EchoStar Communications Corporation. In addition, we sell service communications equipment that resides at a business customer's location for management of voice and data networks and applications. We also procure, configure and distribute equipment, materials and supplies to many communication service providers.

Sales and Marketing

We locally manage our service offerings in an effort to serve the needs of each customer, and have sales representatives with local market knowledge relevant to the service territories in which we operate. We operate approximately 20 retail stores and two wholesale call centers, located mainly in our local service territories. We also have automated many of our customer service functions, including Internet e-commerce systems, so that our customers can receive answers to many frequently asked questions regarding their communications services without speaking to a customer service representative.

Local Network

The network utilized by our Local segment consists of host and remote central office digital switches and digital loop carriers interconnected with copper, microwave and fiber facilities. Our equipment typically operates on the most current software in generally available release. The outside plant infrastructure connecting the customer with the core network also consists of a mix of copper and fiber optic cables.

Competition

There is widespread competition among wireline communications services providers. The traditional dividing lines between local, long distance, wireless, video and Internet services are becoming increasingly blurred. We face competition from alternative communication systems constructed by facilities-based CLECs. We also face increasing competition from cable operators providing high-speed Internet services, which can be used as a platform to support voice services utilizing voice over IP technology, or VoIP. Furthermore, wireless communications services increasingly constitute a significant source of competition, as some customers have

chosen to forgo use of traditional wireline phone service and instead rely solely on wireless services. We expect competition to intensify as a result of the entrance of new competitors and the rapid deployment of new technologies, products and services. See "Item 1A. — Risk Factors — We face intense competition that may reduce our market share and harm our financial performance."

Legislative and Regulatory Developments

Overview

Communications services are regulated both at the federal level by the FCC and at the state level by public utilities commissions, or PUCs. In general, incumbent local exchange carriers, or ILECs, such as Embarq, are subject to the most extensive regulation. Regulation covers not only rates and service terms, but also the terms on which ILECs provide connections and network elements to CLECs. Long distance providers, such as us with respect to our Long Distance segment, are subject to less regulation, but still must comply with various statutory requirements and regulations. The Communications Act of 1934, or Communications Act, preempts states from regulating the rates of commercial mobile radio service, or CMRS, providers, such as us with respect to our Wireless segment, but CMRS providers are subject to various licensing and technical requirements imposed by the FCC, including provisions related to the acquisition, assignment or transfer of radio licenses. The FCC also imposes mandates on CMRS providers, such as those that require CMRS providers to transmit the telephone number and certain location information of someone calling 911 to the appropriate 911 dispatch center, and to allow customers to retain existing telephone numbers when switching from one communications carrier to another. Although the Communications Act preempts state regulation of CMRS rates and entry of CMRS providers, CMRS providers are subject to state authority over terms and conditions of service, such as certain billing practices and other consumer-related matters.

The following summary of the regulatory environment in which our business operates does not describe all present and proposed federal, state and local legislation and regulations affecting the communications industry. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proceedings that could change the manner in which our industry operates. We cannot predict the outcome of any of these matters or their potential impact on our business. See "Item 1A. Risk Factors – Government regulation could adversely affect our prospects and results of operations; the FCC and state regulatory commissions may adopt new regulations or take other actions that could adversely affect our business prospects or results of operations." Regulation in the communications industry is subject to rapid changes, any of which could have an adverse effect on us in the future. The following discussion describes some of the major communications-related regulations that affect us, but numerous other substantive areas of regulation not discussed here may also influence our business.

Wireline Operations

Competitive Local Service

The Telecommunications Act of 1996, or Telecom Act, the first comprehensive update of the Communications Act, was designed to promote competition, and it eliminated legal and regulatory barriers to entry into local and long distance communications markets. It also required ILECs to allow resale of specified local services at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to unbundled network elements, or UNEs, and allow co-location of interconnection equipment by competitors. The rules implementing the Telecom Act remain subject to legal challenges. Thus, the scope of future local competition remains uncertain. These local competition rules impact us because we provide communications services as an ILEC to approximately 4% of the access lines in the United States, which represents the substantial part of the operations of our Local segment.

In March 2005, the FCC implemented an order that terminated the obligation of ILECs to offer a platform of UNEs to CLECs after a one-year transition period. The order, which has been challenged, has led our Long Distance segment to discontinue its use of the unbundled element platforms. ILECs generally have benefited

from this order. Competitors in the service territories of our Local segment generally have not made extensive use of their unbundled element platforms.

During 2005, we entered into agreements with major cable television companies to provide communications and back-office services to enable the cable companies to provide competitive local and long distance telephony services in a VoIP format to their end-user customers. Certain ILECs have taken steps that have impeded our ability to provide services to the cable companies in an efficient manner.

Access Charge Reform and Universal Service Requirements

Intercarrier compensation includes interstate and intrastate switched access charges that ILECs, including our Local segment, are entitled to receive from long distance carriers, including our Long Distance segment, for origination and termination of long distance calls, and reciprocal compensation that interconnected local carriers pay to each other for terminating interconnected local wireline and wireless calls. In addition, ILECs, including our Local segment, receive special access charges for providing dedicated facilities to other carriers and businesses. On average, intrastate switched access rates, which are currently regulated by PUCs, are substantially higher than interstate switched access charges, which are regulated by the FCC, and in turn interstate switched access charges are substantially higher than reciprocal compensation. Special access services are a significant cost for our Wireless and Long Distance segments.

In 2001, the FCC began a proceeding to determine whether access charges, as well as reciprocal compensation for local interconnected calls, should be replaced. Proposals include a "bill-and-keep" system (under which intercarrier compensation would be eliminated and all carriers would recover their costs solely from end-user customers), a unified intercarrier compensation system, in which the same rates would apply to all forms of intercarrier compensation (i.e., interstate and intrastate switched access and reciprocal compensation), and phased reductions in intercarrier compensation charges to a low, uniform level, except in certain rural areas over three years. This proceeding remains pending with the FCC, and it is difficult to predict the changes that might result or their timing and impact.

In January 2005, the FCC initiated a proceeding to examine the appropriate regulatory framework for the rates charged for special access services provided by ILECs to long distance, wireless and other carriers. These services typically connect large business customers to long distance carriers' networks and are used by wireless carriers to connect their switches to their cell sites. The FCC is considering reforms to modify or eliminate special access pricing flexibility, and additional reforms to the price cap rules affecting special access pricing. This proceeding could affect the amount our Local segment charges for special access and the amount our Long Distance and Wireless segments pay for the special access services they use.

In addition to the intercarrier compensation regime, many communications carriers receive revenues from the universal service funds, or USF, established by the FCC and many states. The federal USF program provides funding for services provided in high-cost areas, for reduced-rate services to low-income consumers, and for discounted communications and Internet services for schools, libraries and rural health care facilities. These programs impact all three of our business segments because the USF is funded largely from assessments on communications carriers, who must make contributions into the fund. We are a net payor into the federal USF, although we do receive some funding for both our Local and Wireless segments. The FCC is considering changing the way it distributes this support to carriers, and its actions could adversely affect our eligibility to receive support or reduce the amount of support we currently receive. In particular, FCC actions could make it more difficult for our Wireless segment, currently receiving support in 19 states as an Eligible Telecommunications Carrier, or ETC, to qualify for and to receive support. Further restrictions on our ETC status at the federal and state levels could result in the rescission of our ETC status.

Our contributions to the federal USF are based on an FCC-prescribed percentage of our interstate and international end-user revenues from telecommunications services, including from our Wireless and wireline

segments. The FCC is considering changing the interstate revenue-based assessment in whole or in part with an assessment based on telephone numbers or connections to the public network.

Voice over Internet Protocol

With the increasing availability of VoIP services, the FCC has and continues to consider the regulatory status of various forms of VoIP. In 2004, the FCC issued an order finding that one form of VoIP, involving a specific form of computer-to-computer services for which no charge is assessed and conventional telephone numbers are not used, is an unregulated "information service," rather than a telecommunications service, and preempted state regulation of this service. The FCC also ruled that long distance offerings in which calls begin and end on the ordinary public switched telephone network, but are transmitted in part through the use of IP, are "telecommunications services," thereby rendering the services subject to all the regulatory obligations imposed on ordinary long distance services, including payment of access charges and contributions to universal service funds. In addition, the FCC preempted states from exercising entry and related economic regulation of VoIP services that do not use conventional phone numbers and that originate through the use of broadband connections and specialized customer premises equipment. However, this ruling, which has been appealed in the courts, did not address specifically whether this form of VoIP is an "information service" or a "telecommunications service," or what regulatory obligations, such as intercarrier compensation and USF contributions, should apply. These issues surrounding how retail VoIP offerings should be regulated (if at all), including whether they should pay access charges and/or contribute to the federal USF, remain pending. The FCC requires certain VoIP providers to offer enhanced 911, or E911, emergency calling capabilities to their subscribers.

High-speed Internet Access Services

Following a June 2005 U.S. Supreme Court decision affirming the FCC's classification of cable modem Internet access service as an "information service" and declining to impose mandatory common carrier regulation on cable providers, the FCC issued an order in September 2005 declaring the high-speed Internet access services, which are provided by ILECs, including our Local segment, are "information services" rather than "telecommunications services." As a result, over time ILECs will be relieved of the obligations to provide the underlying broadband transmission to other Internet service providers. A decision on whether all high-speed Internet access services, regardless of the technology used, are subject to various FCC consumer protection regulations is pending, and the imposition of any such obligations could result in significant costs to us.

Wireless Operations

The FCC regulates the licensing, construction, operation, acquisition and sale of our business and wireless spectrum holdings. FCC requirements impose operating and other restrictions on our business that increase our costs. The FCC does not currently regulate rates for services offered by CMRS providers, and states are legally preempted from regulating such rates and entry into any market. The Communications Act and FCC rules also require the FCC's prior approval of the assignment or transfer of control of an FCC license, although the FCC's rules permit spectrum lease arrangements for a range of wireless radio service licenses, including our licenses, with FCC oversight. Approval from the Federal Trade Commission and the Department of Justice, as well as state or local regulatory authorities, also may be required if we sell or acquire spectrum interests. The FCC sets rules, regulations and policies to, among other things:

- grant licenses in the 800 megahertz, or MHz, band, 900 MHz band, 1.9 gigahertz, or GHz, PCS band, and 2.5 GHz Broadband Radio Service, or BRS, and Educational Broadband Service, or EBS, bands, and license renewals,
- rule on assignments and transfers of control of FCC licenses, and leases covering our use of FCC licenses held by other persons and organizations,
- govern the interconnection of our iDEN and CDMA networks with other wireless and wireline carriers,

- establish access and universal service funding provisions,
- impose fines and forfeitures for violations of FCC rules,
- regulate the technical standards governing wireless services, and
- impose other obligations that it determines to be in the public interest.

We hold several kinds of licenses to deploy our services: 1.9 GHz PCS licenses utilized in our CDMA network, and 800 MHz and 900 MHz licenses utilized in our iDEN network. We also hold 2.1 GHz BRS licenses, 2.5 GHz BRS licenses, and we lease use of others' 2.5 GHz BRS and EBS licenses, for our first generation fixed wireless Internet access service. We also hold and lease 2.5 GHz, 1.9 GHz and other FCC licenses that we currently do not utilize in our networks or operations.

1.9 GHz PCS License Conditions

All PCS licenses are granted for ten-year terms. For purposes of issuing PCS licenses, the FCC utilizes major trading areas, or MTA, and basic trading areas, or BTA, with several BTAs making up each MTA. Licenses may be revoked if the FCC's construction requirements are not met. We have met these requirements in all of our MTA and BTA markets.

If applicable buildout conditions are met, these licenses may be renewed for additional ten-year terms. Renewal applications are not subject to auctions. If a renewal application is challenged, the FCC grants a preference commonly referred to as a license renewal expectancy to the applicant if it can demonstrate it has provided "substantial service" during the past license term and has substantially complied with applicable FCC rules and policies and the Communications Act. The licenses for the 10 MHz of spectrum in the 1.9 GHz band that we received as part of the FCC's Report and Order, described below, have 10-year terms and are not subject to specific buildout conditions, but are subject to renewal requirements that are similar to those for our PCS licenses.

800 MHz and 900 MHz License Conditions

We hold licenses to deploy our iDEN services in the 800 MHz and 900 MHz bands. Because spectrum in the 800 MHz and 900 MHz bands was originally licensed in small groups of channels, we hold thousands of these licenses, which together allow us to provide coverage across much of the continental United States. Our 800 MHz and 900 MHz licenses are subject to requirements that we meet population coverage benchmarks tied to the initial license grant dates. To date, we have met all of the construction milestones applicable to these licenses, except in the case of licenses that are not material to our business. Our 800 MHz and 900 MHz licenses have 10-year terms, at the end of which each license is subject to renewal requirements that are similar to those for our 1.9 GHz licenses.

BRS-EBS License Conditions

We hold and lease FCC BRS and EBS licenses. We currently use this spectrum to provide fixed wireless Internet access services to homes and small businesses using "first generation" line-of-sight technology. This service operates across the country in 14 markets with approximately 18,000 subscribers. We operate our network and a third party provides customer care. We intend to provide Wireless Interactive Multimedia Services, or WIMS, using this spectrum along with other services, such as fixed point-to-point communications. In 2004, the FCC ordered the 2496-2690 MHz band, or the 2.5 GHz band, reconfigured into upper and lower-band segments for low-power operations, and a mid-band segment for high-power operations. Pending final FCC rules, no actual reconfiguration "transition" to the new band plan has begun, but planning for this work has commenced, and we expect field transition work will begin in 2006 and continue for several years. The FCC also affirmed its prohibition of commercial ownership on approximately 62% of the total 2.5 GHz spectrum band, which is held

primarily by educational and non-profit institutions; however, these institutions are authorized to lease up to 95% of their licensed spectrum to commercial operators, such as us, subject to certain restrictions. In addition, the FCC adopted a band plan that requires the relocation of licensed BRS operations from the 2150-2162 MHz band, or the 2.1 GHz band, into the 2.5 GHz band. The FCC has sought comment on how to ensure that 2.1 GHz incumbents, such as us, receive reimbursement for their relocation costs. We and other parties intend to transition the 2.5 GHz band to its new configuration market-by-market in a process that may require several years to complete nationally. When the transition is completed, we believe that the 2.5 GHz band will be more suitable for fourth generation "4G" technology that will enable fixed, portable and mobile WIMS services.

The FCC conditioned its approval of the Sprint-Nextel merger on two deployment milestones in the 2.5 GHz spectrum. Within four years following the August 8, 2005 effective date of the merger order, we must offer service in the 2.5 GHz band to a population of no less than 15 million people. This deployment must include areas within a minimum of nine of the nation's most populous 100 BTAs and at least one BTA less populous than the nation's 200th most populous BTA. In these ten BTAs, the deployment must cover at least one-third of each BTA's population. In addition, within six years from the effective date of the merger order, we must offer service in the 2.5 GHz band to at least 15 million more people in areas within a minimum of nine additional BTAs in the 100 most populous BTAs, and at least one additional BTA less populous than the nation's 200th most populous BTA. In these additional ten BTAs, the deployment must also cover at least one-third of each BTA's population.

800 MHz Band Spectrum Reconfiguration

In recent years, a number of public safety communications systems operating on high-site systems in the 800 MHz block of spectrum have experienced interference that is believed to be a result of the low-site operations of CMRS providers operating on adjacent frequencies in the same geographic area.

In 2001, we filed a proposal with the FCC that would result in a more efficient use of spectrum through the reconfiguration of spectrum licenses and spectrum allocations in the 700, 800 and 900 MHz bands and, thereby, resolve many of these interference problems. In 2004, following a rulemaking to consider proposals to solve the public safety interference issue, the FCC adopted a Report and Order that included new rules regarding interference in the 800 MHz band and a comprehensive plan to reconfigure the 800 MHz band. In February 2005, we accepted the Report and Order, which was necessary before the order became effective, because the Report and Order required us to undertake a number of obligations and accept modifications to our FCC licenses.

The Report and Order provides for the exchange of a portion of our FCC spectrum licenses, which the FCC is implementing through modifications to these licenses. Specifically, the Report and Order modified a number of FCC licenses in the 800 MHz band, including many of our licenses, and implemented rules to reconfigure spectrum in the 800 MHz band in a 36-month phased transition process. It also obligated us to surrender all of our holdings in the 700 MHz spectrum band and certain portions of our holdings in the 800 MHz spectrum band, and to fund the cost incurred by public safety systems and other incumbent licensees to reconfigure the 800 MHz spectrum band. Under the Report and Order, we received licenses for 10 MHz of nationwide spectrum in the 1.9 GHz band, but we are required to relocate and reimburse the incumbent licensees in this band for their costs of relocation to another band designated by the FCC.

The Report and Order requires us to complete the first phase of reconfiguration of the 800 MHz band in certain of our markets, including many of our larger markets, within an 18-month period. Completion of the reconfiguration process in any particular market involves reaching agreement and coordinating numerous processes with the incumbent licensees in that market, as well as vendors and contractors that will be performing much of the reconfiguration.

We are permitted to continue to use the spectrum in the 800 MHz band that was surrendered under the Report and Order during the reconfiguration process. However, as part of the reconfiguration process in most markets,

we will cease use of a portion of the 800 MHz spectrum that we currently use before we are able to commence use of replacement 800 MHz spectrum in that market. To mitigate the temporary loss of the use of this spectrum, in many markets we will need to construct additional transmitter and receiver sites for use by our iDEN network or acquire additional spectrum in the 800 MHz or 900 MHz bands. In markets where we are unable to construct additional sites or acquire additional spectrum, the decrease in capacity may adversely affect the performance of our iDEN network, require us to curtail subscriber additions on the iDEN network in that market until the capacity limitation can be corrected, or both. Degradation in iDEN network performance in any market could result in increased subscriber churn in that market, the effect of which could be exacerbated if we are forced to curtail iDEN subscriber additions in that market. The reconfiguration process contemplated by the Report and Order may adversely affect our business and operations, which could adversely affect our future growth and operating results.

The Report and Order requires us to make a payment to the United States Department of the Treasury at the conclusion of the band reconfiguration process to the extent that the value of the 1.9 GHz spectrum we received exceeds the total of the value of licenses for spectrum positions in the 700 MHz and 800 MHz bands that we surrendered under the decision, plus the actual costs that we incur to retune incumbents and our own facilities under the Report and Order. The FCC determined under the Report and Order that, for purposes of calculating that payment amount, the value of this 1.9 GHz spectrum is about \$4,860 million and the aggregate value of the 700 MHz spectrum and the 800 MHz spectrum surrendered, net of 800 MHz spectrum received as part of the exchange, is about \$2,059 million, which, because of the potential payment to the U.S. Treasury, results in minimum cash expenditures of about \$2.8 billion by us under the Report and Order. The FCC has designated an independent Transition Administrator to monitor, facilitate and review the expenditures of the 800 MHz and 1.9 GHz band reconfigurations. A precise methodology for evaluating and confirming our internal costs has not yet been established by the Transition Administrator. Because the Transition Administrator may not agree that all of the costs we submit as external and internal costs are appropriate or are subject to credit, we may incur certain costs as part of the reconfiguration process for which we will not receive credit against the potential payment to the U.S. Treasury. In addition, we are obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed \$2.8 billion. As of December 31, 2005 we had incurred, on a cash basis, approximately \$338 million of costs under the Report and Order. Pursuant to the terms of the Report and Order, we have established an irrevocable letter of credit in the amount of \$2.5 billion to provide assurance that funds will be available to pay the relocation costs of the incumbent users of the 800 MHz spectrum.

New Spectrum Opportunities and Spectrum Auctions

Several FCC proceedings and initiatives are underway that may affect the availability of spectrum used or useful in the provision of commercial wireless services, which may allow new competitors to enter the wireless market. We cannot predict when or whether the FCC will conduct any spectrum auctions or if it will release additional spectrum that might be useful to the wireless industry or us in the future.

Other FCC Requirements

911 Services

Pursuant to FCC rules, CMRS providers, including us, are required to provide E911 services in a two-tiered manner. Phase I requires wireless carriers to transmit to a requesting public safety answering point, or PSAP, both (a) the 911 caller's telephone number and (b) the location of the cell site from which the call is being made. Phase II requires the transmission of more accurate location information using latitude and longitude. Implementation of Phase I or Phase II E911 service must be completed within six months of a PSAP request for service in its area, or longer, based on the agreement between the individual PSAP and carrier.

We have deployed the necessary platforms and infrastructure to support Phase I and Phase II E911 service throughout our network. Actual availability of Phase I or Phase II E911 services in any particular market is dependent upon receipt of a request for service and completion of necessary upgrades by local governments,

local exchange carriers and third party database providers. These upgrades are not within our control and we cannot unilaterally deploy E911 services. With respect to our iDEN and CDMA network services, the more accurate information delivered in Phase II can only be determined if the customer is using a handset with global positioning satellite, or GPS, capability.

Because our Phase II E911 services can be accessed only with GPS capable handsets, the FCC has required that a certain percentage of new handset activations be GPS capable, and that 95% of our total subscriber base use GPS capable handsets by December 31, 2005. All new handset activations are currently GPS capable. However, we were unable to meet the December 31, 2005 deadline to convert our existing subscriber base to GPS enabled devices. We have filed a request for a waiver that seeks additional time to comply, on which the FCC has not yet ruled. Failure to comply with the FCC's rules may result in FCC sanctions.

The costs we may incur in an effort to accelerate our customers' transition to GPS capable handsets to meet these requirements could be significant, and will be dependent on a number of factors, including the number of new subscribers added to our network who purchase GPS capable handsets, the number of existing subscribers who upgrade from non-GPS capable handsets to GPS capable handsets, the rate of our customer churn and the cost of GPS capable handsets.

Truth in Billing and Consumer Protection

The FCC's Truth in Billing rules generally require CMRS licensees, such as us, to provide full and fair disclosure of all charges on their wireless bills, including brief, clear, and non-misleading plain language descriptions of the services provided. In response to a petition from the National Association of State Utility Consumer Advocates, the FCC found that state regulation of CMRS rates, including line items on consumer bills, is preempted by federal statute. However, many states continue to attempt to impose various regulations on the billing practices of wireless carriers, and the FCC is continuing to look at issues of consumer protection and the appropriate state and federal roles. If states gain such authority, or there are other changes in the Truth in Billing rules, our billing and customer service costs could increase.

CALEA Requirements

The Communications Assistance for Law Enforcement Act, or CALEA, requires telecommunications carriers, including us, to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. In September 2005, the FCC extended CALEA obligations to facilities-based broadband Internet access providers and to interconnected VoIP providers, whether wireline or wireless. The FCC has pending a range of issues involving CALEA, including CALEA compliance extensions and exemptions, cost recovery issues, identification of future services and entities subject to CALEA, and enforcement matters. We build our networks to industry standards, and those standards include the ability for law enforcement to conduct authorized surveillance. Like other CMRS carriers, we have sought an extension of CALEA deadlines for packet-mode data services and this request remains pending. If the extension requests are not granted, we could be subject to fines if we are unable to comply with a surveillance request from a law enforcement agency.

Homeland Security

Homeland security issues are receiving attention at the FCC, from the states and in Congress. The FCC chairman has announced plans for a new FCC bureau devoted to this area. We expect that several initiatives, including the delivery of emergency alerts over wireless devices, and increased scrutiny of wireless carriers' networks in the aftermath of last year's natural disasters, could lead to new regulatory requirements regarding disaster preparedness, network reliability, and communications among first responders. We are unable to predict the impact of these initiatives on our business.

Privacy-Related regulations

We comply with FCC-mandated rules that limit how carriers may use customer proprietary network information, or CPNI, for marketing purposes, and specify what carriers must do to safeguard CPNI held by third parties. It has recently been reported that the call detail records of both wireline and wireless telephone customers are available from certain Internet-based vendors. Both Congress and state legislatures are considering legislation to criminalize the sale of call detail records and to further restrict the manner in which carriers make such information available. The FCC is investigating these practices and is examining whether existing regulations with respect to CPNI require revision or expansion, which could result in additional costs to us, including administrative or operational burdens on our customer care, sales, marketing and IT systems.

Tower Siting

Wireless systems must comply with various federal, state and local regulations that govern the siting, lighting and construction of transmitter towers and antennas, including regulation promulgated by the FCC and Federal Aviation Administration, or FAA. FCC rules subject certain cell site locations to environmental and historic preservation statutory requirements. To the extent governmental agencies impose additional requirements on the tower siting process, the time and cost to construct cell towers could be negatively impacted.

Environmental Compliance

We have identified seven sites, not currently owned or operated by us, that formerly contained manufactured gas plants that may have been owned or operated by entities acquired by our subsidiary, Centel Corporation, before we acquired it. We and the current land owner of the site in Columbus, Nebraska are working with the Environmental Protection Agency, or EPA, pursuant to an administrative consent order. Amounts expended pursuant to the order are not expected to be material. We are negotiating with the EPA as to whether clean up is required at two additional sites. In addition, Centel has entered into agreements with another potentially responsible party to share costs in connection with four of the sites, including two of those where the EPA is involved. We are working to assess the scope and nature of these sites and our potential responsibility. Other environmental compliance and remediation expenditures result mainly from the operation of standby power generators for our telecommunications equipment. These expenditures arise in connection with standards compliance, permits or occasional remediation, which are usually related to generators, batteries or fuel storage. Although we cannot assess with certainty the impact of any future compliance and remediation obligations, we do not believe that future environmental compliance and remediation expenditures will have a material adverse effect on our financial condition or results of operations.

Patents, Trademarks and Licenses

We own numerous patents, patent applications, service marks and trademarks in the United States and other countries. We have a program to file applications for trademarks, service marks and patents where we believe this protection is appropriate. "Sprint," "PowerVision," "Sprint PCS," "Nextel" and "Boost Mobile" are our registered trademarks. Our services often use the intellectual property of others, such as licensed software, and we often license copyrights, patents and trademarks of others. In total, these licenses and our copyrights, patents, trademarks and service marks are of material importance to the business. Generally, our trademarks, trademark licenses and service marks have no limitation on duration. Our patents and licensed patents have remaining terms generally ranging from one to 19 years.

We occasionally license our intellectual property to others, including licenses to others to use the trademarks "Sprint" and "Nextel."

We have received claims in the past, and may in the future receive claims, that we, or that third parties from whom we license intellectual property, have infringed on the intellectual property of others. These claims can be time-consuming and costly to defend, and divert management resources. If these claims are successful, we could be forced to pay significant damages or stop selling certain products or services, or the third parties from whom

we license intellectual property could be forced to pay significant damages, which could increase the cost of these products and services or force them to stop providing certain products or services to us. We also could enter into licenses with unfavorable terms, including royalty payments, which could adversely affect our business.

Employee Relations

As of December 31, 2005, we had approximately 79,900 active employees, an increase of about 20,000 since December 31, 2004 due primarily to the Sprint-Nextel merger. Approximately 7,000 of these employees were represented by unions. It is anticipated that Embarq will have approximately 20,000 employees at the time of the spin-off.

In 2003 and continuing throughout 2004, we recognized charges from organizational realignment initiatives. The restructuring was a company-wide effort to create a more customer-focused organization. These decisions included work force reductions in each segment and corporate functions.

In 2003, we announced the wind-down of our web hosting services. Restructurings of other Long Distance operations also occurred in the continuing effort to create a more efficient cost structure. These decisions included work force reductions.

Additional information regarding the impacts of these decisions can be found in note 8 of the Notes to the Consolidated Financial Statements appearing at the end of this annual report on Form 10-K.

Management

For information concerning our executive officers, see "Executive Officers of the Registrant" in this document.

Information as to Business Segments

For information regarding our business segments, see "Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and also refer to note 20 of the Notes to the Consolidated Financial Statements appearing at the end of this annual report on Form 10-K.

Item 1A. Risk Factors

Risks Related to the Sprint-Nextel Merger and the Spin-off of Embarq

We may not be able to successfully integrate the businesses of Nextel with ours and realize the anticipated benefits of the merger.

Significant management attention and resources are being devoted to integrating the Nextel wireless network and other wireless technologies with ours, as well as the business practices, operations and support functions of the two companies. The challenges we are facing and/or may face in the future in connection with these integration efforts include the following:

- integrating our CDMA and iDEN wireless networks, which operate on different technology platforms and use different spectrum bands, and developing wireless devices and other products and services that operate seamlessly on both technology platforms;
- developing and deploying next generation wireless technologies;
- combining and simplifying diverse product and service offerings, subscriber plans and sales and marketing approaches;
- preserving subscriber, supplier and other important relationships;

- consolidating and integrating duplicative facilities and operations, including back-office systems;
- addressing differences in business cultures, preserving employee morale and retaining key employees, while maintaining focus on providing consistent, high quality customer service and meeting our operational and financial goals; and
- adequately addressing business integration issues while also planning and preparing for the contemplated spin-off of Embarq.

The process of integrating Nextel's operations with ours could cause interruptions of, or loss of momentum in, our business and financial performance. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of the two companies' operations could have an adverse effect on our business, financial condition or results of operations. We may also incur additional and unforeseen expenses in connection with the integration efforts. There can be no assurance that the expense savings and synergies that we anticipate from the merger will be realized fully or within our expected timeframe.

We also recently acquired five PCS Affiliates (US Unwired, IWO Holdings, Gulf Coast Wireless, Alamosa Holdings and Enterprise Communications), and will acquire Nextel Partners when the required regulatory approvals are obtained. The process of integrating the business practices, operations and support functions of these companies could involve challenges similar to those identified above or add to those challenges by placing a greater strain on our management and employees.

Operational challenges, proposed tax law changes and other uncertainties may make it difficult or less economical to complete the contemplated spin-off of Embarq on terms that are acceptable to us. Failure to complete the spin-off could adversely affect our growth.

There are significant operational and technical challenges that need to be addressed in order to separate the assets and operations of Embarq from the rest of our business in connection with the planned spin-off of Embarq to our shareholders. The spin-off will require the creation of a new publicly traded company with a capital structure appropriate for that company, the creation and staffing of operational and corporate functional groups and the establishment of ongoing commercial arrangements and transition services arrangements between us and Embarq. The spin-off may result in additional and unforeseen expenses, and completion of the spin-off cannot be assured because it is conditioned upon, among other things, receipt of required consents and approvals from various federal and state regulatory agencies, including state PUCs. These consents and approvals, if received, may impose conditions and limitations that could jeopardize or delay completion of the spin-off and could reduce the anticipated benefits of the merger and the spin-off.

The U.S. House of Representatives and the U.S. Senate have separately approved legislation either of which would, if enacted, make certain changes to Section 355 of the Internal Revenue Code of 1986, as amended, or the Code, which governs the tax treatment of the spin-off. These bills, which are currently subject to conference negotiation between members of the House and Senate, contain similar, but not identical provisions. In addition, the U.S. Department of the Treasury has recommended a similar provision regarding spin-offs in its revenue proposals for the fiscal year 2007 budget. After consultation with our tax advisors, we believe that it is unlikely that any of the proposed legislation, as currently drafted, would prevent the contemplated spin-off of Embarq. However, if we are unable to obtain satisfactory opinions from counsel regarding the tax-free qualification of the spin-off, our Board of Directors would consider several options, including electing not to complete the spin-off.

We expect to receive approximately \$6.6 billion in the form of cash and senior notes of Embarq in exchange for the assets contributed to Embarq. We expect to sell the senior notes issued to us and intend to use the proceeds from any such sale and the proceeds paid to us by Embarq to repay various obligations. There can be no assurance of the final amount of indebtedness to be incurred by Embarq or the proceeds to be received by us.

If the contemplated spin-off of Embarq is not completed, we may have slower rates of growth than currently expected because of the industry-wide trends of increased competition and product substitution that are adversely

affecting local communications businesses. Moreover, our strategy of developing our higher growth wireless business may conflict with the strategy and interests of Embarq, particularly as customers are increasingly choosing between wireline and wireless services.

If the spin-off of Embarq does not qualify as a tax-free transaction, tax could be imposed on both our shareholders and us.

We have received a private letter ruling from the Internal Revenue Service, or IRS, that the spin-off of Embarq will qualify for tax-free treatment under Code Sections 355 and 361. In addition, we intend to obtain opinions of counsel from each of Cravath, Swaine & Moore LLP and Paul, Weiss, Rifkind, Wharton & Garrison LLP that the spin-off will so qualify. The IRS ruling relies, and the opinions will rely, on certain representations, assumptions and undertakings, including those relating to the past and future conduct of Embarq's and our business, and neither the IRS ruling nor the opinions would be valid if such representations, assumptions and undertakings were incorrect. Moreover, the IRS private letter ruling does not address all the issues that are relevant to determining whether the distribution will qualify for tax-free treatment. Notwithstanding the IRS private letter ruling and opinions, the IRS could determine that the distribution should be treated as a taxable transaction if it determines that any of the representations, assumptions or undertakings that were included in the request for the private letter ruling are false or have been violated, or if it disagrees with the conclusions in the opinions that are not covered by the IRS private letter ruling. If the distribution fails to qualify for tax-free treatment, it will be treated as a taxable distribution to our shareholders in an amount equal to the fair market value of Embarq's equity securities (i.e., Embarq's common stock issued to our common shareholders) received by them. In addition, we would be required to recognize gain in an amount up to the fair market value of the Embarq equity securities that we distribute on the distribution date plus the fair market value of the senior notes received by us.

Furthermore, subsequent events could cause us to recognize gain on the distribution. For example, even minimal acquisitions of our equity securities or Embarq's equity securities that are deemed to be part of a plan or a series of related transactions that include the distribution and the Sprint-Nextel merger could cause us to recognize gain on the distribution.

We will be subject to restrictions on acquisitions involving our stock and other stock issuances and possibly other corporate opportunities in order to enable the contemplated spin-off of Embarq to qualify for tax-free treatment.

The contemplated spin-off of Embarq cannot qualify for tax-free treatment if 50% or more (by vote or value) of our stock, or the stock of Embarq, is acquired or issued as part of a plan, or series of related transactions, that includes the contemplated spin-off. Because the Nextel merger generally is treated as involving the acquisition of 49.9% of our stock (and the stock of Embarq) for purposes of this analysis, until the completion of the spin-off (and for some period thereafter), we will be subject to restrictions on certain acquisitions using our stock and other issuances of our stock in order to enable the spin-off to qualify for tax-free treatment. At this time, it is not possible to determine how long these restrictions will apply. In addition, it is not possible to determine whether these limitations will have a material impact on us.

We are subject to exclusivity provisions and other restrictions under our arrangements with the remaining independent PCS Affiliates. Continued compliance with those restrictions may limit our ability to achieve synergies and fully integrate the operations of Nextel in the geographic areas served by those PCS Affiliates, and we could incur significant costs to resolve issues related to the merger under these arrangements. The manner in which these restrictions will be addressed is not currently known.

The arrangements with the remaining five independent PCS Affiliates restrict our and their ability to own, operate, build or manage specified wireless communication networks or to sell certain wireless services within specified geographic areas. Several of these PCS Affiliates have commenced litigation against us asserting that actions that we have taken or may take in the future in connection with our integration efforts are inconsistent

with our obligations under our agreements with them, particularly with respect to the restrictions noted above. Continued compliance with those restrictions may limit our ability to achieve synergies and fully integrate the operations of Nextel and Nextel Partners, following its expected acquisition, in the areas served by those PCS Affiliates. We could incur significant costs to resolve these issues.

Risks Related to our Business and Operations

We face intense competition that may reduce our market share and harm our financial performance.

Each of our three operating segments faces intense competition. Our ability to compete effectively depends on, among other things, the factors discussed below.

The blurring of the traditional dividing lines between local, long distance, wireless, video and Internet services contribute to increased competition.

The traditional dividing lines between long distance, local, wireless, cable and Internet services are increasingly becoming blurred. Through mergers, joint ventures and various service expansion strategies, major providers are striving to provide integrated services in many of the markets we serve. This trend is also reflected in changes in the regulatory environment that have encouraged competition and the offering of integrated services.

We expect competition to intensify across all of our business segments as a result of the entrance of new competitors or the expansion of services offered by existing competitors, and the rapid development of new technologies, products, and services. We cannot predict which of many possible future technologies, products, or services will be important to maintain our competitive position or what expenditures we will be required to make in order to develop and provide these technologies, products or services. To the extent we do not keep pace with technological advances or fail to timely respond to changes in the competitive environment affecting our industry, we could lose market share or experience a decline in revenue, cash flows and net income. As a result of the financial strength and benefits of scale enjoyed by some of our competitors, they may be able to offer services at lower prices than we can, thereby adversely affecting our revenues, growth and profitability.

If we are not able to attract and retain customers, our financial performance could be impaired.

Our ability to compete successfully for new customers and to retain our existing customers will depend on:

- our marketing and sales and service delivery activities;
- our ability to anticipate and develop new or enhanced services that are attractive to existing or potential customers; and
- our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced by our competitors, changes in consumer preferences, demographic trends, economic conditions, and discount pricing and other strategies that may be implemented by our competitors.

A key element in the economic success of communications carriers is the ability to retain customers as measured by the rate of subscriber churn. Our ability to retain customers and reduce our rate of churn is affected by a number of factors including, with respect to our wireless business, the actual or perceived quality and coverage of our network and the attractiveness of our service offerings. Our ability to retain customers in our businesses also is affected by competitive pricing pressures and the quality of our customer service. Our efforts to reduce churn may not be successful. A high rate of churn could impair our ability to increase the revenues of, or cause a deterioration in the operating margins of, our wireless operations or our operations as a whole.

As the wireless market matures, we must increasingly seek to attract customers from competitors and face increased credit risk from first time wireless subscribers.

We increasingly must attract a greater proportion of our new customers from our competitors' existing customer bases rather than from first time purchasers of wireless services. The higher market penetration also means that

customers purchasing wireless services for the first time, on average, have a lower credit rating than existing wireless users, which generally results in both a higher churn rate due to involuntary churn and in a higher bad debt expense.

Competition and technological changes in the market for wireless services could negatively affect our average revenue per user, subscriber churn, ability to attract new subscribers, and operating costs, which would adversely affect our revenues, growth and profitability.

We compete with several other wireless service providers in each of the markets in which we provide wireless services. As competition among wireless communications providers has increased, we have created pricing plans that have resulted in declining average revenue per minute of use for voice services, a trend which we expect will continue. Competition in pricing and service and product offerings may also adversely impact customer retention, which would adversely affect our results of operations.

The wireless communications industry is experiencing significant technological change, including improvements in the capacity and quality of digital technology such as the move to third generation, or 3G, wireless technology and the deployment of unlicensed spectrum devices. This causes uncertainty about future subscriber demand for our wireless services and the prices that we will be able to charge for these services. The rapid change in technology may lead to the development of wireless communications technologies or alternative services that exceed our levels of service or that consumers prefer over our services. If we are unable to meet future advances in competing technologies on a timely basis, or at an acceptable cost, we may not be able to compete effectively and could lose customers to our competitors.

Mergers or other combinations involving our competitors and new entrants, including MVNOs, beginning to offer wireless services may also continue to increase competition. These wireless operators may be able to offer subscribers network features or products and services not offered by us, coverage in areas not served by either of our wireless networks or pricing plans that are lower than those offered by us, all of which would negatively affect our average revenue per user, subscriber churn, ability to attract new subscribers, and operating costs.

One of the primary differentiating features of our Nextel-branded service is the two-way walkie-talkie service available on our iDEN network. A number of wireless equipment vendors, including Motorola, which supplies equipment for our Nextel branded service, have begun to offer wireless equipment that is capable of providing walkie-talkie services that are designed to compete with our walkie-talkie services. Several of our competitors have introduced handsets that are capable of providing walkie-talkie services. If these competitors' services are perceived to be or become, or if any such services introduced in the future are, comparable to our Nextel branded walkie-talkie services, a key competitive advantage of our Nextel service would be reduced, which in turn could adversely affect our business.

Failure to improve wireless subscriber service and to continue to enhance the quality and features of our wireless networks and meet capacity requirements of our subscriber growth could impair our financial performance and adversely affect our results of operations.

We must continually make investments and incur costs in order to improve our wireless subscriber service and remain competitive. In connection with our continuing enhancement of the quality of our wireless networks and related services, we must:

- maintain and expand the capacity and coverage of our networks;
- obtain additional spectrum in some or all of our markets, if and when necessary;
- secure sufficient transmitter and receiver sites and obtain zoning and construction approvals or permits at appropriate locations; and

- obtain adequate quantities of system infrastructure equipment and handsets, and related accessories to meet subscriber demand.

Network enhancements may not occur as scheduled or at the cost that we have estimated. Delays or failure to add network capacity, or increased costs of adding capacity, could limit our ability to satisfy our wireless subscribers, resulting in decreased revenues. Even if we continuously upgrade our wireless networks, there can be no assurance that existing subscribers will not prefer features of our competitors and switch wireless providers.

Consolidation and competition in the wholesale market for wireline services could adversely affect our revenues and profitability.

Our Long Distance segment competes with AT&T (formerly known as SBC Communications, which recently acquired AT&T), Verizon Communications (which recently acquired MCI), BellSouth Corporation, Qwest Communications, Level 3 Communications, Inc., and cable operators, as well as a host of smaller competitors, in the provision of wireline services. Some of these companies have built high-capacity, IP-based fiber-optic networks capable of supporting large amounts of voice and data traffic. These companies claim certain cost structure advantages which, among other factors, may allow them to maintain profitability while offering services at a price below that which we can offer profitably. Increased competition and the significant increase in capacity resulting from new technologies and networks may drive already low prices down further. Both AT&T and Verizon, as a result of their recent acquisitions, continue to be our two largest competitors in the domestic long distance communications market. We and other long distance carriers depend heavily on local access facilities obtained from ILECs to serve our long distance customers, and payments to ILECs for these facilities is a significant cost of service for our Long Distance segment. The acquisition of AT&T by SBC and MCI by Verizon could give those carriers' long distance operations cost and operational advantages with respect to these access facilities because those carriers serve significant geographic areas, including many large urban areas, as the incumbent local carrier.

In urban areas where Embarq operates, there is substantial competition from CLECs and cable operators, and competition is increasing in the suburban and rural areas that it serves. Cable companies selling cable modems continue to provide competition for high-speed data services to residential customers in Embarq's service areas and are beginning to offer voice telephone service using their cable facilities in those areas. Competition from wireless services also affects Embarq, as e-mail and wireless services continue to grow as an alternative to the wireline services we offer.

Failure to complete development, testing and deployment of new technology that supports new services could affect our ability to compete in the industry and the technology we use places us at a competitive disadvantage.

We develop, test and deploy various new technologies and support systems intended both to enhance our competitiveness by supporting new services and features and reducing the costs associated with providing those services. Successful development and implementation of technology upgrades depend, in part, on the willingness of third parties to develop new applications in a timely manner. We may not successfully complete the development and rollout of new technology and related features or services in a timely manner, and they may not be widely accepted by our customers or may not be profitable, in which case we could not recover our investment in the technology. Deployment of technology supporting new service offerings may also adversely affect the performance or reliability of our networks with respect to both the new and existing services. Any resulting customer dissatisfaction could affect our ability to retain customers and have an adverse effect on our results of operations and growth prospects.

Our wireless networks provide services utilizing CDMA and iDEN technologies. Wireless subscribers served by these two technologies represent a smaller portion of global wireless subscribers than the subscribers served by wireless networks that utilize GSM technology. As a result, our costs with respect to both CDMA and iDEN network equipment and handsets are generally higher than the comparable costs incurred by our competitors who use GSM technology.

If we are unable to meet our future capital needs relating to investment in our networks and other obligations, it may be necessary for us to curtail, delay or abandon our business growth plans. If we incur significant additional indebtedness to fund our plans, it could cause a decline in our credit rating and could increase our borrowing costs or limit our ability to raise additional capital.

We have substantial indebtedness, and we will require capital to satisfy our debt service requirements and other obligations, such as the obligation to (i) purchase the shares of Nextel Partners common stock that we do not already own, (ii) pay debt that we will assume in connection with the acquisition of Nextel Partners, and (iii) pay debt that we have assumed in connection with the acquisitions of PCS Affiliates. We also will require additional capital to make the capital expenditures necessary to implement our business plans or support future growth of our wireless business. Continued declines in the ability of our Long Distance segment to generate cash from its operations requires us to increase cash generated from our other segments. A decrease in our ability to generate cash from operations, or to obtain funds from other sources, may require us to seek additional financing to expand our businesses and meet our other obligations or divert cash used for capital expenditures, which could detract from operations and limit our ability to increase, or cause a decline in, revenues and net income. In addition, any future acquisitions may be made with additional borrowings. We may not be able to arrange additional financing to fund our requirements on terms acceptable to us. Our ability to arrange additional financing will depend on, among other factors, our financial performance, general economic conditions and prevailing market conditions. Many of these factors are beyond our control. Failure to obtain suitable financing when needed could, among other things, result in the inability to continue to expand our businesses and meet competitive challenges. If we incur significant additional indebtedness, or if we do not continue to generate sufficient cash from our operations, our credit rating could be adversely affected. As a result, our future borrowing costs would likely increase and our access to capital could be adversely affected.

We have entered into outsourcing agreements related to certain business operations. Any difficulties experienced in these arrangements could result in additional expense, loss of customers and revenue, interruption of our services or a delay in the roll-out of new technology.

We have entered into outsourcing agreements for the development and maintenance of certain software systems necessary for the operation of our business. We have also entered into agreements with third parties to provide customer service and related support to our wireless subscribers and outsourced many aspects of our customer care and billing functions to third parties. We also have entered into an agreement whereby a third party has leased or operates a significant number of our communications towers, and we sublease space on these towers. As a result, we must rely on third parties to perform certain of our operations and, in certain circumstances, interface with our customers. If these third parties are unable to perform to our requirements, we would have to pursue alternative strategies to provide these services and that could result in delays, interruptions, additional expenses and loss of customers.

The intellectual property rights utilized by us and our suppliers and service providers may infringe on intellectual property rights owned by others.

Some of our products and services use intellectual property that we own. We also purchase products from suppliers, including handset device suppliers, and outsource services to service providers, including billing and customer care functions, that incorporate or utilize intellectual property. We and some of our suppliers and service providers have received, or may receive in the future, assertions and claims from third parties that the products or software utilized by us or our suppliers and service providers infringe on the patents or other intellectual property rights of these third parties. These claims could require us or an infringing supplier or service provider to cease certain activities or to cease selling the relevant products and services. Such claims and assertions also could subject us to costly litigation and significant liabilities for damages or royalty payments, or require us to cease certain activities or to cease selling certain products and services.

If Motorola is unable or unwilling to provide us with equipment and handsets in support of our Nextel branded services, as well as anticipated handset and infrastructure improvements for those services, our iDEN operations will be adversely affected.

Motorola is our sole source for most of the equipment that supports the iDEN network and for all of the handsets we offer under the Nextel brand except BlackBerry devices. Although our handset supply agreement with Motorola is structured to provide competitively priced handsets, the cost of iDEN handsets is generally higher than handsets that do not incorporate a similar multi-function capability. This difference may make it more difficult or costly for us to offer handsets at prices that are attractive to potential customers. In addition, the higher cost of iDEN handsets requires us to absorb a larger part of the cost of offering handsets to new and existing customers. These increased costs and handset subsidy expenses may reduce our growth and profitability. Also, we must rely on Motorola to develop handsets and equipment capable of supporting the features and services we plan to offer to subscribers of services on our iDEN network, including a dual-mode handset. A decision by Motorola to discontinue manufacturing, supporting or enhancing our iDEN-based infrastructure and handsets would have a material adverse effect on us. In addition, because iDEN technology is not as widely adopted and has fewer subscribers than other wireless technologies and because we expect that over time more of our customers will utilize service offered on our CDMA network, it is less likely that manufacturers other than Motorola will be willing to make the significant financial commitment required to license, develop and manufacture iDEN infrastructure equipment and handsets. Further, our ability to timely and efficiently implement the spectrum reconfiguration plan in connection with the FCC's Report and Order is dependent, in part, on Motorola.

The reconfiguration process contemplated by the FCC's Report and Order may adversely affect our business and operations, which could adversely affect our future growth and operating results.

As part of an ongoing FCC proceeding to eliminate interference with public safety operations in the 800 MHz band, the FCC released the Report and Order, which provides for the exchange of a portion of the FCC licenses used in our iDEN network for other licenses, including 10 MHz of spectrum in the 1.9 GHz band. In order to accomplish the reconfiguration of the 800 MHz spectrum band that is contemplated by the Report and Order, in most cases we will need to cease our use of a portion of the 800 MHz spectrum on our iDEN network in a particular market before we are able to commence use of replacement 800 MHz spectrum in that market. To mitigate the temporary loss of the use of this spectrum, in many markets we will need to construct additional transmitter and receiver sites or acquire additional spectrum in the 800 MHz or 900 MHz bands. This spectrum may not be available to us on acceptable terms. In markets where we are unable to construct additional sites or acquire additional spectrum as needed, the decrease in capacity may adversely affect the performance of our iDEN network, require us to curtail subscriber additions in those markets until the capacity limitation can be corrected, or a combination of the two. Degradation in network performance in any market could result in higher subscriber churn in that market, the effect of which could be exacerbated if we are forced to curtail subscriber additions in that market. A resulting loss of a significant number of subscribers could adversely affect our results of operations. We expect that the reconfiguration process will have at least some adverse impact on the capacity and performance of our iDEN network, particularly in some of our more capacity constrained markets. In addition, the Report and Order gives the FCC the authority to suspend our use of the 1.9 GHz spectrum that we received under the Report and Order if we do not comply with our obligations under the Report and Order.

Government regulation could adversely affect our prospects and results of operations; the FCC and state regulatory commissions may adopt new regulations or take other actions that could adversely affect our business prospects or results of operations.

The FCC and other federal, state and local governmental authorities have jurisdiction over our business and could adopt regulations or take other actions that would adversely affect our business prospects or results of operations.

Wireless Operations. The licensing, construction, operation, sale and interconnection arrangements of wireless telecommunications systems are regulated by the FCC and, depending on the jurisdiction, state and local regulatory agencies. In particular, the FCC imposes significant regulation on licensees of wireless spectrum with respect to:

- how radio spectrum is used by licensees;
- the nature of the services that licensees may offer and how such services may be offered; and
- resolution of issues of interference between spectrum bands.

The Communications Act preempts state and local regulation of market entry by, and the rates charged by, CMRS providers, except that states may exercise authority over such things as certain billing practices and consumer-related issues. The California PUC has imposed rules designed to impose consumer protections. Several other states are considering similar initiatives. These regulations could increase the costs of our wireless operations.

The FCC grants wireless licenses for terms of generally ten years that are subject to renewal and revocation. FCC rules require all wireless licensees to meet certain buildout requirements and substantially comply with applicable FCC rules and policies and the Communications Act of 1934 in order to retain their licenses. Failure to comply with FCC requirements in a given license area could result in revocation of the PCS license for that license area. There is no guarantee that our licenses will be renewed.

The FCC has initiated a number of proceedings to evaluate its rules and policies regarding spectrum licensing and usage. For example, it is considering new concepts that might permit unlicensed users to “share” our licensed spectrum to the extent the FCC believes harmful interference will not occur. These new uses could adversely impact our utilization of our licensed spectrum and our operational costs.

CMRS providers must implement E911 capabilities in accordance with FCC rules. Failure to deploy E911 service consistent with FCC requirements could subject us to significant fines. We were unable to satisfy the requirement that 95% of our subscriber base have Assisted-GPS capable handsets by December 31, 2005. We have filed a request for a waiver with the FCC seeking an extension of the December 31, 2005 handset penetration deadline to December 31, 2007, on which the FCC has not yet ruled.

The FCC, together with the FAA, also regulates tower marking and lighting. In addition, tower construction is affected by federal, state and local statutes addressing zoning, environmental protection and historic preservation. The FCC adopted significant changes to its rules governing historic preservation review of projects, which makes it more difficult and expensive to deploy antenna facilities. The FCC is also considering changes to its rules regarding environmental protection as related to tower construction, which, if adopted, could make it more difficult to deploy facilities.

Wireline Operations. The FCC order released in February 2005 on UNEs has largely eliminated the ability of our Long Distance segment to use the unbundled network element platform to offer competing local services to small business and residential customers in areas outside the Embarq local service areas, and the FCC’s pending re-examination of pricing guidelines for UNEs could limit our future ability to use high-capacity loop and transport UNEs to offer competing local services to medium and large business customers.

The continued regulatory uncertainty regarding VoIP may result in a reduction in access revenues for our Local segment and may adversely affect the competitive position of our Long Distance segment to the extent it makes less use of VoIP than our competitors. While clarification of VoIP’s status as either an “information service” or a “telecommunications service” will provide greater certainty regarding the payment structure for VoIP traffic, the resulting decision could adversely impact access revenues for our Local segment. Adoption by the FCC of

intercarrier compensation reform also may provide more regulatory certainty regarding charges applicable to VoIP traffic, but it could also reduce the revenues of our Local segment unless the plan provides a mechanism to replace those revenues with revenues from other sources.

Depending upon its outcome, the FCC's proceedings regarding regulation of special access rates could affect the rates paid by our Long Distance segment and revenues received by our Local segment for special access services in the future.

Concerns about health risks associated with wireless equipment may reduce the demand for our services.

Portable communications devices have been alleged to pose health risks, including cancer, due to radio frequency emissions from these devices. Purported class actions and other lawsuits have been filed against numerous wireless carriers, including us, seeking not only damages but also remedies that could increase our cost of doing business. We cannot be sure of the outcome of those cases or that our business and financial condition will not be adversely affected by litigation of this nature or public perception about health risks. The actual or perceived risk of mobile communications devices could adversely affect us through a reduction in subscribers, reduced network usage per subscriber or reduced financing available to the mobile communications industry. Further research and studies are ongoing, and we cannot be sure that additional studies will not demonstrate a link between radio frequency emissions and health concerns.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties

We currently lease our corporate headquarters offices in Reston, Virginia. These facilities total about 801,000 square feet and the related operating leases have initial terms expiring in 2009, 2010 and 2014. None of the expiration dates includes potential extensions related to the exercise of renewal options. Our operational headquarters campus is located in Overland Park, Kansas and consists of about 4 million square feet, which is carried on our consolidated balance sheets.

Our gross property, plant and equipment at December 31, 2005 totaled \$55.9 billion, distributed among the business segments as follows:

	<u>2005</u>
	<i>(in billions)</i>
Wireless	\$ 31.2
Long Distance	2.7
Local	19.8
Other	2.2
Total	<u>\$ 55.9</u>

Properties utilized by our Wireless segment consist of base transceiver stations, switching equipment and towers, as well as leased and owned general office facilities and retail stores. We lease space for base station towers and switch sites for our wireless network. At December 31, 2005, we had approximately 51,500 cell sites on air.

In May 2005, we closed a transaction with Global Signal under which Global Signal has exclusive rights to lease or operate approximately 6,560 communication towers owned by us for a negotiated lease term which is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful re-negotiation of the underlying ground leases at the end of their current lease terms. We have committed to sublease space on approximately 6,350 of the towers from Global Signal. We will maintain ownership of the towers and will continue to reflect the towers on our consolidated balance sheet.

Properties utilized by our Long Distance segment generally consist of land, buildings, switching equipment, digital fiber-optic network and other transport facilities. We have been granted easements, rights-of-way and rights-of-occupancy by railroads and other private landowners for our fiber-optic network. MCI (now owned by Verizon) provides network facilities to us that comprise approximately 11% of our Long Distance fiber network under various long-term lease and service agreements. Portions of the MCI-provided network facilities are also shared or utilized by MCI.

Properties utilized by our Local segment mainly consist of land, buildings, metallic cable and wire facilities, fiber-optic cable facilities, switching equipment and other electronics. We have been granted easements, rights-of-way and rights-of-occupancy, mainly by municipalities and private landowners. Most cable facilities are buried, but some metallic and fiber cable is above-ground on telephone poles. We own some of our own telephone poles, but we also contract with other utilities, mainly electric companies, for the right to connect cable and wire to their poles.

As of December 31, 2005, \$628 million of our outstanding debt represented first mortgage debt and other capital lease obligations and is secured by \$14.0 billion of gross property, plant and equipment.

Additional information regarding our commitments related to operating leases can be found in note 15 of the Notes to the Consolidated Financial Statements appearing at the end of this annual report on Form 10-K.

Item 3. Legal Proceedings

In 2005, several PCS Affiliates filed lawsuits in various courts, alleging that our merger with Nextel would result in breaches of exclusivity provisions in their management agreements with our subsidiaries. Suits were brought by UbiquiTel and UbiquiTel Operating Company, iPCS Wireless, Inc., Horizon Personal Communications Inc. and Bright Personal Communications Services LLC, which are both subsidiaries of iPCS Wireless, Enterprise Digital PCS LLC, Enterprise Wireless LLC and Enterprise Communications Partnership, Airgate PCS, Inc. and Northern PCS Services, LLC.

The lawsuits seek, among other things, to enjoin us from engaging in certain post-merger business conduct in the respective service areas of the PCS Affiliates. UbiquiTel, Horizon Personal Communications, Inc. and Bright Personal Communications Services have all entered into forbearance agreements with us governing certain business practices addressed by the litigation until a decision is rendered by the trial court in the lawsuits. We intend to defend all of these lawsuits vigorously.

The lawsuit filed by Enterprise Digital PCS LLC, Enterprise Wireless LLC and Enterprise Communications Partnership was withdrawn following our acquisition of those companies, and the lawsuit filed by Airgate, Inc. was withdrawn following our acquisition of its parent corporation, Alamosa Holdings.

In March 2004, eight purported class action lawsuits relating to the recombination of the tracking stocks were filed against us and our directors by holders of PCS common stock. Seven of the lawsuits were consolidated in the District Court of Johnson County, Kansas. The eighth, pending in New York, was voluntarily stayed. The consolidated lawsuit alleges breach of fiduciary duty in connection with allocations between the wireline operations and the wireless operations before the recombination of the tracking stocks and breach of fiduciary duty in the recombination. The lawsuit seeks to rescind the recombination and monetary damages. In early 2005, the court denied defendants' motion to dismiss the complaint and discovery is proceeding. All defendants have denied plaintiffs' allegations and intend to defend this matter vigorously.

In 2003, certain participants in the Sprint Nextel Retirement Savings Plan and the Sprint Nextel and Centel Retirement Savings Plans for Bargaining Unit Employees filed suit in the U.S. District Court for the District of Kansas against us, the committees that administer the plans, the plan trustee, and various of our current and former directors and officers. The consolidated lawsuit alleges that defendants breached their fiduciary duties to the plans and violated the Employee Retirement Income Security Act of 1974, or ERISA, by making the

company matching contribution in company stock and by including company stock among the thirty investment options offered to plan participants. The lawsuit seeks to recover any decline in the value of our FON common stock and PCS common stock, or together, our tracking stocks, during the class period. A settlement agreement has been filed with the court and is subject to final court approval. The settlement calls for us to make certain changes to the savings plans, to allow for vesting of certain Sprint Nextel stock in the accounts of certain former employees, and to distribute \$4 million in cash to former employees who no longer have accounts in the savings plans. We have insurance coverage for the cash component of the settlement.

In September 2004, the U.S. District Court for the District of Kansas denied a motion to dismiss a shareholder lawsuit alleging that our 2001 and 2002 proxy statements were false and misleading in violation of federal securities laws to the extent they described new employment agreements with certain senior executives without disclosing that, according to the allegations, replacement of those executives was inevitable. These allegations, made in an amended complaint in a lawsuit originally filed in 2003, are asserted against us and certain of our current and former officers and directors, and seek to recover any decline in the value of our tracking stocks during the class period. The parties have stipulated that the case can proceed as a class action. All defendants have denied plaintiffs' allegations and intend to defend this matter vigorously. Allegations in the original complaint, which asserted claims against the same defendants and our former independent auditor, were dismissed by the court in April 2004.

Various other suits, proceedings and claims, including purported class actions, typical for a business enterprise of our size and complexity, are pending against us or our subsidiaries.

Although it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter 2005.

Executive Officers of the Registrant

The following people are serving as our executive officers as of February 28, 2006. These executive officers were elected to serve until their successors have been elected. There is no familiar relationship between any of our executive officers and directors.

<u>Office</u>	<u>Name</u>	<u>Age</u>
Chairman	Timothy M. Donahue ⁽¹⁾	57
Chief Executive Officer and President	Gary D. Forsee ⁽²⁾	55
Chief Operating Officer	Len J. Lauer ⁽³⁾	48
Chief Financial Officer	Paul N. Saleh ⁽⁴⁾	49
General Counsel	Leonard J. Kennedy ⁽⁵⁾	54
Chief Information Officer	Richard LeFave ⁽⁶⁾	54
Chief Network Officer	Kathryn A. Walker ⁽⁷⁾	46
Chief Technology Officer	Barry West ⁽⁸⁾	60
President—Business Solutions	Mark Angelino ⁽⁹⁾	49
President—Consumer Solutions	Timothy E. Kelly ⁽¹⁰⁾	47
Chief Executive Officer, Local Telecommunications Division	Dan Hesse ⁽¹¹⁾	52
Executive Vice President, Transition Integration	Thomas N. Kelly, Jr. ⁽¹²⁾	58
Senior Vice President & Controller	William G. Arendt ⁽¹³⁾	48
Senior Vice President—Human Resources	James G. Kissinger ⁽¹⁴⁾	49
Vice President & Treasurer	Richard S. Lindahl ⁽¹⁵⁾	42

(1) *Mr. Donahue was elected Chairman at the time of the Sprint-Nextel merger in August 2005. He was Chief Executive Officer of Nextel from July 1999 to August 2005.*

- (2) *Mr. Forsee has been our Chief Executive Officer and one of our directors since March 2003. He was our Chairman from May 2003 until August 2005. He served as Vice Chairman—Domestic Operations of BellSouth Corporation from January 2002 to March 2003, President of BellSouth International from 2001 to 2002, during which time he also served as Chairman of Cingular Wireless from 2001 to January 2002, and Executive Vice President and Chief Staff Officer of BellSouth from 1999 to 2001.*
- (3) *Mr. Lauer has been our Chief Operating Officer since September 2003. He also served as President from September 2003 until the Sprint-Nextel merger in August 2005, and as President—Sprint PCS from October 2002 until October 2004. He had served as President—Long Distance (formerly called Global Markets Group) from September 2000 until October 2002.*
- (4) *Mr. Saleh was elected Chief Financial Officer at the time of the Sprint-Nextel merger in August 2005. He served as Executive Vice President and Chief Financial Officer of Nextel from September 2001 to August 2005. From June 1999 to August 2001, he served as Senior Vice President and Chief Financial Officer of Disney International, a subsidiary of The Walt Disney Company.*
- (5) *Mr. Kennedy was elected General Counsel at the time of the Sprint-Nextel merger in August 2005. He served as Senior Vice President and General Counsel of Nextel from January 2001 to August 2005. He was a member of the law firm Dow, Lohnes & Albertson, PLLC, specializing in telecommunications law and regulatory policy, from 1995 until January 2001.*
- (6) *Mr. LeFave was elected Chief Information Officer at the time of the Sprint-Nextel merger in August 2005. He served as Senior Vice President, Chief Information Officer of Nextel from February 1999 to August 2005.*
- (7) *Ms. Walker was elected Chief Network Officer at the time of the Sprint-Nextel merger in August 2005. She served as our Executive Vice President-Network Services from October 2003 to August 2005. She served as Senior Vice President-Network Operations of the Long Distance segment from 2002 to October 2003. She served as a Vice President in the Long Distance segment from 1998 to 2002.*
- (8) *Mr. West was elected Chief Technology Officer at the time of the Sprint-Nextel merger in August 2005. He served as Executive Vice President and Chief Technology Officer of Nextel from March 1996 until August 2005.*
- (9) *Mr. Angelino was elected President, Business Solutions at the time of the Sprint-Nextel merger in August 2005. He served as Senior Vice President at Nextel from September 2001 until August 2005. He served as Vice President, Organizational Transformation at International Business Machines Corporation from April 2001 until September 2001. He served as Vice President, Worldwide Sales-AS400 at IBM from January 1999 until April 2001.*
- (10) *Mr. Kelly was elected President, Consumer Solutions at the time of the Sprint-Nextel merger in August 2005. He served as our President-Sprint Consumer Solutions from October 2004 until August 2005. He served as Senior Vice President—Consumer Solutions Marketing from October 2003 until October 2004. He served as President—Sprint Business from 2002 to October 2003, President—Mass Markets in 2002 and President—National Consumer Organization in 2001. From 1999 to 2001, he served as President of Tickets.com, an Internet-based ticket software and distribution firm.*
- (11) *Mr. Hesse was elected Chief Executive Officer, Local Telecommunications Division in June 2005. From 2000 to June 2004, he served as Chairman, President and Chief Executive Officer of Terabeam Corp., a Seattle-based communications company. From 1997 until March 2000, he served as President and Chief Executive Officer of AT&T Wireless Services.*
- (12) *Mr. Kelly was elected Executive Vice President, Transition Integration in December 2005. He was our Chief Strategy Officer from August 2005 until December 2005. He served as Executive Vice President and Chief Operating Officer at Nextel from February 2003 until August 2005. He served as Executive Vice President and Chief Marketing Officer at Nextel from 1996 until February 2003.*

- (13) *Mr. Arendt was elected Senior Vice President & Controller at the time of the Sprint-Nextel merger in August 2005. He served as Senior Vice President of Nextel from February 2004 until August 2005 and as Controller of Nextel from May 1997 until August 2005. He also served as Vice President of Nextel from May 1997 until February 2004.*
- (14) *Mr. Kissinger was elected Senior Vice President- Human Resources in April 2003. He served as Vice President-HR Operations for Sprint/United Management Company from 1996 until April 2003.*
- (15) *Mr. Lindahl was elected Vice President & Treasurer at the time of the Sprint-Nextel merger in August 2005. He served as Vice President and Treasurer of Nextel from May 2002 until August 2005. He served in various capacities at Nextel, including Assistant Treasurer and Director, Financial Planning & Analysis, from August 1997 until May 2002.*

Part II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Common Stock Data

	2005 Market Price		
	High	Low	End of Period
Common Stock, Series 1⁽¹⁾			
First quarter	\$ 25.16	\$ 21.80	\$ 22.75
Second quarter	25.87	21.57	25.09
Third quarter	27.20	23.10	23.78
Fourth quarter	26.86	22.15	23.36
	2004 Market Price		
	High	Low	End of Period
Common Stock, Series 1⁽¹⁾			
First quarter	\$ 19.51	\$ 15.74	\$ 18.43
Second quarter	19.99	16.83	17.60
Third quarter	20.54	17.10	20.13
Fourth quarter	25.80	19.81	24.85
PCS Common Stock, Series 1			
First quarter	10.70	5.51	9.20
Second quarter ⁽²⁾	9.99	9.16	9.56

(1) *Until August 12, 2005, when it was redesignated in connection with the Sprint-Nextel merger, our common stock, Series 1, was designated as FON common stock, Series 1.*

(2) *On April 23, 2004, we recombined our two tracking stocks. Each share of the PCS common stock, Series 1 tracking stock automatically converted into 0.5 shares of FON common stock, Series 1.*

Number of Shareholders of Record

As of February 28, 2006, we had approximately 65,000 common stock, Series 1 record holders, 12 common stock, Series 2 record holders, and two non-voting common stock record holders. The principal trading market for our common stock, Series 1 is the New York Stock Exchange. The common stock, Series 2 and the non-voting common stock are not publicly traded.

Dividends

We paid a dividend of \$0.025 per share on the common stock, Series 1, the common stock, Series 2, and the non-voting common stock in the third and fourth quarters 2005. The non-voting common stock was issued in the Sprint-Nextel merger in August 2005. We paid a dividend of \$0.125 per share on the common stock, Series 1 in the first two quarters of 2005 and in each of the quarters of 2004 and a dividend of \$0.125 per share on the common stock, Series 2 in the first two quarters of 2005 and in each of the last three quarters of 2004. The common stock, Series 2 was issued at the time of the recombination of the PCS common stock and the FON common stock in April 2004.

Sale of Unregistered Equity Securities

In December 2005, we issued to certain of our directors and current and former executive officers an aggregate of 872 unregistered restricted stock units relating to shares of common stock, Series 1. These restricted stock units

were the result of dividend equivalent rights attached to restricted stock units granted to these directors and officers in 2003. Each restricted stock unit represents the right to one share of common stock, Series 1, once the unit vests. The restricted stock units are scheduled to vest in 2006 and 2007. Delivery of the shares may be delayed under certain circumstances.

Neither these restricted stock units nor the common stock issuable once the units vest were registered under the Securities Act of 1933, or Securities Act. The issuance of the restricted stock units was exempt from registration under the Securities Act in reliance on the exemption provided by Section 4(2) of the Securities Act because the restricted stock units were issued in transactions not involving a public offering.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased⁽¹⁾</u>	<u>Average Price Paid Per Share⁽²⁾</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
October 1 through October 31				
common stock, Series 1	7,674	\$ 22.999	—	—
November 1 through November 30				
common stock, Series 1	12,327	\$ 24.807	—	—
December 1 through December 31				
common stock, Series 1	3,199	\$ 24.185	—	—
Total	23,200	\$ 24.123	—	—

(1) *Acquisitions of equity securities during the fourth quarter 2005 were pursuant to the terms of our equity compensation plans (the Management Incentive Stock Option Plan, the 1997 Long-Term Stock Incentive Program, and the Nextel Incentive Equity Plan) and the terms of the equity-based awards made under those plans. Acquisitions consist of the following: the forfeiture of restricted stock; the surrender of restricted stock to pay required minimum income, Medicare and FICA tax withholding on the vesting of restricted stock; the delivery of previously owned shares owned by the grantee to pay the exercise price of options; and the delivery of previously owned shares owned by the grantee to pay additional income tax withholding on (i) the vesting of restricted stock, (ii) the delivery of shares underlying restricted stock units and deferred shares, and (iii) the exercise of options. Excludes shares used for required minimum tax withholding on the exercise of options and the delivery of shares underlying restricted stock units and deferred shares since only the net shares are issued.*

(2) *Excludes forfeited restricted stock since the purchase price was zero. The purchase price of a share of stock used for the exercise price of options is the market price of the stock on the date of the exercise of the option. The purchase price of a share of stock used for tax withholding is the amount of withholding paid per share used for that purpose, which is the market price of the stock on the date of vesting of the restricted stock, the delivery date of the stock underlying restricted stock units, and the date of the exercise of the option.*

No options may be granted pursuant to the Management Incentive Stock Option Plan after April 18, 2005; no awards may be granted pursuant to the 1997 Long-Term Stock Incentive Program after April 15, 2007; and no awards may be granted pursuant to the Nextel Incentive Equity Plan after July 13, 2015. Options, restricted stock awards and restricted stock unit awards outstanding on those dates may continue to be outstanding after those dates. We cannot estimate how many shares will be acquired in the manner described in footnote (1) to the table above pursuant to the terms of these plans.

Item 6. Selected Financial Data

The 2005 data presented below is not comparable to that of the prior periods as a result of our acquisitions during the year, particularly the acquisition of Nextel, which closed in August 2005. The acquired companies' financial results subsequent to their acquisition dates are included in our consolidated financial statements.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions, except per share amounts)</i>				
Results of Operations					
Net operating revenues	\$ 34,680	\$ 27,428	\$ 26,197	\$ 26,679	\$ 25,562
Depreciation	4,933	4,713	4,972	4,886	4,194
Amortization	1,336	7	1	4	382
Operating income (loss) ⁽¹⁾⁽²⁾	3,826	(303)	1,007	2,096	(910)
Income (loss) from continuing operations ⁽¹⁾⁽²⁾	1,801	(1,012)	(292)	451	(1,599)
Earnings (Loss) per Share and Dividends					
Basic earnings (loss) per common share from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	0.88	(0.71)	(0.21)	0.32	(1.16)
Diluted earnings (loss) per common share from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	0.87	(0.71)	(0.21)	0.32	(1.16)
Dividends per common share ⁽⁵⁾⁽⁶⁾	0.30	Note 7	Note 7	Note 7	Note 7
Financial Position					
Total assets	\$ 102,580	\$ 41,321	\$ 42,675	\$ 45,113	\$ 45,619
Property, plant and equipment, net	31,133	22,628	27,101	28,565	28,786
Intangible assets, net	49,334	7,836	7,815	9,045	9,060
Total debt and capital lease obligations (including equity unit notes)	25,679	17,204	19,160	22,017	22,627
Redeemable preferred stock	247	247	247	256	256
Shareholders' equity	51,937	13,521	13,113	12,108	12,450
Cash Flow Data					
Net cash from operating activities	\$ 10,678	\$ 6,625	\$ 6,535	\$ 6,332	\$ 4,663
Capital expenditures	5,057	3,980	3,797	4,821	8,982

The tables above set forth selected consolidated financial data for the periods or as of the dates indicated and should be read in conjunction with the consolidated financial statements, related notes and other financial information appearing at the end of this annual report on Form 10-K. Highlighted below are certain transactions and factors that may be significant to an understanding of our financial condition and comparability of results of operations.

(1) In 2005, we recorded net charges reducing our operating income by \$844 million and income from continuing operations by \$520 million. These charges related to merger and integration costs, asset impairments, restructurings, and hurricane - related costs.

In 2004, we recorded charges reducing our operating income by \$3.7 billion to an operating loss and reducing income from continuing operations by \$2.3 billion to an overall loss from continuing operations. The charges related primarily to restructurings and a Long Distance network impairment, partially offset by recoveries of fully reserved MCI (now Verizon) receivables.

In 2003, we recorded net charges reducing our operating income by \$1.9 billion and reducing income from continuing operations by \$1.2 billion, resulting in an overall loss from continuing operations. The charges related primarily to restructurings, asset impairments, and executive separation agreements, offset by recoveries of fully reserved MCI (now Verizon) receivables.

In 2002, we recorded charges reducing our operating income by \$402 million and reducing income from continuing operations by \$253 million. The charges related primarily to restructurings, asset impairments and expected loss on WorldCom (now Verizon) receivables.

In 2001, we recorded charges reducing our operating income by \$1.8 billion to an operating loss and increasing the loss from continuing operations by \$1.2 billion. The charges related primarily to restructuring and asset impairments.

- (2) We adopted Statement of Financial Accounting Standards, or SFAS, No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. Accordingly, amortization of goodwill, spectrum licenses and trademarks ceased as of that date because they are indefinite life intangibles.*
- (3) As the effects of including the incremental shares associated with options, restricted stock units and employees stock purchase plan shares are antidilutive, both basic loss per share and diluted loss per share reflect the same calculation for the years ended December 31, 2004, 2003, and 2001.*
- (4) All per share amounts have been restated, for all periods before 2004, to reflect the recombination of our common stock and PCS common stock as of the earliest period presented at an identical conversion ratio (0.50 shares of our common stock for each share of PCS common stock). The conversion ratio was also applied to dilutive PCS securities (mainly stock options, employees stock purchase plan shares, convertible preferred stock, and restricted stock units) to determine diluted weighted average shares on a consolidated basis.*
- (5) In the first and second quarter 2005, a dividend of \$0.125 per share was paid. In the third and fourth quarter 2005, the dividend was \$0.025 per share.*
- (6) Before the recombination of our two tracking stocks, shares of PCS common stock did not receive dividends. For each of the four years ended December 31, 2004 and prior, shares of our common stock (before the conversion of shares of PCS common stock) received dividends of \$0.50 per share. In the first quarter 2004, shares of our common stock (before the conversion of shares of PCS common stock) received a dividend of \$0.125 per share. In the second, third and fourth quarter 2004, shares of our common stock, which included shares resulting from the conversion of shares of PCS common stock, received quarterly dividends of \$0.125 per share.*

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

We include certain estimates, projections and other forward-looking statements in this annual report and in our quarterly and current reports, and in other publicly available material. Statements regarding expectations, including performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements.

These statements reflect management's judgments based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, management has made assumptions regarding, among other things, customer and network usage, customer growth and retention, pricing, operating costs, the timing of various events and the economic environment.

Future performance cannot be assured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause actual results to differ include:

- the uncertainties related to the benefits of the Sprint-Nextel merger, including anticipated synergies and cost savings and the timing thereof;
- the uncertainties related to, and the impact of, the contemplated spin-off of Embarq;
- the effects of vigorous competition and the overall demand for our service offerings in the markets in which we operate and the impact of new, emerging and competing technologies on our business;
- the costs and business risks associated with providing new services and entering new markets;
- the impact of potential adverse change in the ratings afforded our debt securities by ratings agencies;
- the ability of our Wireless segment to continue to grow and improve profitability;
- the ability of our Local and Long Distance segments to achieve expected revenues;
- the effects of mergers and consolidations in the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry;
- the uncertainties related to our investments in networks, systems and other businesses;
- the uncertainties related to the implementation of our business strategies;
- unexpected results of litigation filed against us;
- a significant adverse change in Motorola's ability or willingness to provide handsets and related equipment and software applications or to develop new technologies or features for our iDEN network;
- the impact of adverse network performance, including any performance issues resulting from the reconfiguration of the 800 MHz band of our iDEN network contemplated by the Report and Order;
- the costs of compliance with regulatory mandates, particularly requirements related to the FCC's Report and Order and deployment of E911 services on the iDEN network;
- equipment failure, natural disasters, terrorist acts, or other breaches of network or information technology security;

- inability of third parties to perform to our requirements under agreements related to business operations;
- one or more of the markets in which we compete being impacted by changes in political or other factors such as monetary policy, legal and regulatory changes or other external factors over which we have no control; and
- other risks referenced in this annual report on Form 10-K and from time to time in other filings of ours with the SEC including in Part I, Item 1A, "Risk Factors."

The words "estimate," "project," "forecast," "intend," "expect," "believe," "target," "providing guidance" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. We are not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report, including unforeseen events.

Overview

We are a global communications company offering a comprehensive suite of wireless and wireline communications products and services that are designed to meet the needs of our targeted customer groups: individuals and business and government customers. Although our operations are divided into three lines of business, wireless, long distance and local, we have organized our sales and distribution efforts to focus on the needs of two distinct customer types – individuals, and businesses and government agencies, which enable us to create customer-focused communications solutions that can incorporate any of our wireless and wireline services. We are one of the three largest wireless companies in the United States based on the number of wireless subscribers. We own extensive wireless networks and a global long distance, Tier 1 Internet backbone. We also provide regulated local exchange telephone services to approximately 7.4 million access lines in our local service territories in 18 states.

Nextel Merger and Contemplated Local Spin-off

On August 12, 2005, a subsidiary of our company merged with Nextel. In connection with the Nextel merger, we changed our name to Sprint Nextel Corporation. The aggregate consideration paid for the merger was approximately \$37.8 billion. At the time that we announced the merger with Nextel, we also announced that we intend to spin-off our local communications business to our shareholders on a tax-free basis. The business being spun-off, which is the business reported as the Local segment in our financial statements, will be known as Embarq Corporation, and we refer to this business as Embarq. To mitigate the risk that the stock we issued in the Sprint-Nextel merger would preclude the tax-free treatment of the spin-off of Embarq, and to ensure that Sprint was treated as the acquiring entity for accounting purposes, the merger agreement provided for an allocation of cash and shares of our common stock, determined as of the date of the merger, that would result in the original Sprint shareholders maintaining at least 50.1% of the outstanding voting power upon closing of the merger. Pursuant to this allocation, Nextel common shareholders received \$969 million in cash and 1.452 billion shares of our voting and non-voting common stock in the aggregate, or \$0.84629198 and 1.26750218 shares of our stock in exchange for each then outstanding share of Nextel stock. It is anticipated that the common stock of Embarq will trade on the NYSE and that the spin-off will be completed in the second quarter 2006.

We merged with Nextel to secure a number of potential strategic and financial benefits including, but not limited to, the following:

- the combination of extensive network and spectrum assets, which enables us to offer consumers, businesses and government agencies a wide array of broadband wireless and integrated communications services;

- the combination of Nextel's strength in business and government wireless services with our position in consumer wireless and data services, including services supported by our global IP network, which enables us to serve a broader customer base;
- the size and scale of the combined company, which is comparable to that of our two largest competitors, is expected to enable more operating efficiencies than either company could achieve on its own; and
- the ability to position us strategically in the fastest growing areas of the communications industry.

We expect to recognize significant synergies associated with this merger, which include:

- revenue and subscriber synergies primarily arising out of cross-selling opportunities and the accelerated deployment of new features and services;
- reduced capital spending due to the elimination of the need to build a data overlay network as had been planned by Nextel, reduced construction costs, expected volume discounts and benefits of increased purchasing capacity and reduced and consolidated facilities and back-office functions;
- reduced network operating costs primarily arising out of co-location of cell sites, process efficiencies and migration of Nextel backhaul and other telecommunications traffic to our long distance network;
- reduced selling, general and administrative expenses primarily arising out of consolidation of customer care, billing and other IT functions, increased scale and volume discounts and reduced combined sales and marketing costs and general administrative expenses; and
- marketing, sales and fulfillment savings as a result of headcount savings, the rationalization of distribution channels, greater volume discounts on devices and other scale benefits.

We began to realize some synergies in 2005, and expect to realize additional synergies over a number of years. However, we believe that our operating results for at least the next several quarters will be negatively impacted by costs that will be incurred to achieve these synergies. Such costs are generally not expected to be recurring in nature, and will include costs associated with the spin-off of Embarq, costs associated with integrating back office systems, severance costs associated with the termination of the employment of certain employees, and lease and other contract termination costs. In addition, our results will be negatively impacted by significant additional non-cash amortization charges associated primarily with the value of the customer relationships that were acquired in the merger, as well as additional non-cash charges for stock-based compensation associated with the Nextel employees. The ability to achieve these synergies and the timing in which the benefits can be realized will depend in large part on the ability to integrate our networks, business operations, back-office functions and other support systems and infrastructure.

Business

We offer a comprehensive suite of wireless and wireline communications products and services that are designed to meet the needs of our two targeted customer groups: individuals, and businesses and government agencies. We conduct our operations through three segments referred to as: Wireless, Long Distance and Local.

We, together with the PCS Affiliates and Nextel Partners, offer digital and wireless services in all 50 states, Puerto Rico and the U.S. Virgin Islands and provide wireless coverage to a total domestic population of about 277 million. The PCS Affiliates, through commercial arrangements with us, provide wireless services under the Sprint brand name in certain mid-sized and tertiary U.S. markets on wireless networks built and operated at their expense, in most instances using spectrum licensed to, and controlled by, us. Nextel Partners provides digital wireless communications services under the Nextel brand name in certain mid-sized and tertiary U.S. markets on

wireless networks built and operated at its expense. During 2005 and the first quarter 2006, we acquired five PCS Affiliates and we expect to acquire Nextel Partners in the second quarter 2006.

We also are one of the nation's largest providers of long distance services and are one of the largest carriers of Internet traffic. In addition, we provide regulated local exchange telephone services to approximately 7.4 million access lines in our local service territories in 18 states.

We believe the communications industry has been and will continue to be highly competitive on the basis of price, the types of services offered and quality of service. Although competitive pricing is often an important factor in potential customers' purchase decisions, we believe that our targeted customer base of individuals and businesses and government agencies will also base their purchase decisions on quality of service and the availability of differentiated features and services.

We operate in an industry that has been and continues to be subject to consolidation and dynamic change. To maintain our operating margins in an environment of intense competition that could put pressure on customer pricing, we continually seek ways to create or improve capital and operating efficiencies in our business. Consequently, we routinely reassess our business strategies and their implications on our operations and these assessments may continue to impact the future valuation of our long-lived assets. As part of our overall business strategy, we regularly evaluate opportunities to expand and complement our business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on our business, financial condition, liquidity and/or results of operations.

The FCC regulates the licensing, operation, acquisition and sale of the licensed spectrum that is essential to our business. The FCC and state PUCs also regulate the provision of telecommunications services. Future changes in regulations or legislation related to spectrum licensing or other matters related to our business could impose significant additional costs on us either in the form of direct out-of-pocket costs or additional compliance obligations.

Statements contained in this annual report relating to business strategies, operating plans, planned expenditures, expected capital requirements and other forward-looking statements regarding our business generally do not take into account the contemplated spin-off of Embarq.

Management Overview

Wireless

Through our Wireless segment, we, together with the remaining PCS Affiliates and Nextel Partners, offer digital wireless service in all 50 states, Puerto Rico and the U.S. Virgin Islands, and provide wireless coverage in over 300 metropolitan markets, including the 125 largest U.S. metropolitan areas, to more than 277 million people. Including subscribers who purchase services from the PCS Affiliates, Nextel Partners and our MVNOs, we served more than 49.6 million subscribers at the end of 2005. We offer a wide array of wireless mobile telephone and wireless data transmission services on networks that utilize CDMA and iDEN technology. Our strategy is to utilize state-of-the-art technology to provide differentiated wireless services and applications in order to acquire and retain high-quality wireless subscribers. To enable us to offer innovative applications and services, we are deploying high-speed EV-DO technology across our CDMA network. The services supported by this technology, marketed as PowerVision, give consumer and business subscribers with EV-DO-enabled devices access to numerous sophisticated data messaging, imaging, entertainment and location-based applications. On our iDEN network, we continue to develop features and services that are designed to meet the needs of business and government customers with a particular focus on services that build upon our unique walkie-talkie features. We also seek to realize operating efficiencies in our business, largely from merger-related synergies, and optimize the performance of our network while minimizing costs.

We offer wireless mobile telephone and data transmission services and features in a variety of pricing plans, including prepaid service plans. Excluding prepaid service plans, we offer these services on a contract basis, typically for one or two year periods, with services billed on a monthly basis according to the applicable pricing plan. We market our prepaid services under the Boost Mobile brand, as a means to directly target the youth and prepaid wireless service markets. We also offer wholesale services to MVNOs, which purchase wireless services from us at wholesale rates and resell the services to their customers under their own brand names. These companies bear the costs of acquisition, billing and customer service. We also recently entered into a joint venture with several cable companies to develop converged next generation products for consumers designed to combine many of cable's core products and interactive features with wireless technology to deliver a broad range of services, including video, wireless voice and data services, high speed Internet and cable phone service.

Our Wireless segment generates revenues from the provision of wireless services, the sale of wireless equipment and the provision of wholesale and other services. The ability of our Wireless segment to generate service revenues is primarily a function of:

- the number of subscribers that we serve, which in turn is a function of our ability to acquire new and retain existing subscribers; and
- the revenue generated by each subscriber, which in turn is a function of the types and amount of services utilized by each subscriber.

The ability of our Wireless segment to generate equipment revenues is primarily a function of the number of new and existing subscribers who purchase handsets and other accessories. The ability of our Wireless segment to generate wholesale revenues is primarily a function of the number and type of MVNOs that resell our wireless service and the number of subscribers to whom they provide service.

We increasingly must attract a greater proportion of our new customers from our competitors' existing customer bases rather than from first time purchasers of wireless services. The higher market penetration also means that customers purchasing wireless services for the first time, on average, have a lower credit rating than existing wireless users, which generally results in both a higher churn rate due to involuntary churn and in a higher bad debt expense.

Although many of the costs relating to the operation of our wireless networks are fixed in the short-term, other costs, such as interconnection fees, fluctuate based on the utilization of the networks. Sales and marketing expenses are largely dependent on the number of subscriber additions and the nature and extent of our marketing and promotional activities. General and administrative expenses consist of corporate overhead costs and other costs to operate the Wireless segment.

In February 2005, Nextel accepted the terms and conditions of the Report and Order of the FCC, which implemented a spectrum reconfiguration plan designed to eliminate interference with public safety operators in the 800 MHz band. Under the terms of the Report and Order, prior to the August 12, 2005 merger date, Nextel surrendered certain spectrum rights and received certain other spectrum rights, and undertook to pay the costs incurred by Nextel and third parties in connection with the reconfiguration plan, which is required to be completed within a 36-month period, subject to certain exceptions particularly with respect to markets that border Mexico and Canada. If, as a result of events within our control, we fail to complete the reconfiguration plan within the 36-month period, we could be subject to actions, which could be material.

Based on the FCC's determination of the values of the spectrum rights received and surrendered by Nextel, the minimum obligation to be incurred under the Report and Order is \$2.8 billion. The Report and Order also provides that qualifying costs we incur as part of the reconfiguration plan, including costs to reconfigure our own infrastructure and spectrum positions, can be used to offset the minimum obligation of \$2.8 billion; however, we are obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed that amount.

In addition, a financial reconciliation is required to be completed in 2008 at the end of the reconfiguration implementation, at which time we are required to make a payment to the U.S. Department of the Treasury to the extent that the value of the spectrum rights received exceeds the total of (i) the value of spectrum rights that are surrendered and (ii) the qualifying costs referred to above.

As required under the terms of the Report and Order, we have delivered a \$2.5 billion letter of credit to provide assurance that funds will be available to pay the relocation costs of the incumbent users of the 800 MHz spectrum. Although the Report and Order provides for periodic reductions in the amount of the letter of credit, no reductions had been made at December 31, 2005.

Long Distance

Through our Long Distance segment, we provide a broad suite of wireline voice and data communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as next generation MPLS technologies, as well as IP, ATM and frame relay, and managed network services. We also provide services to the cable companies that resell our long distance service and/or use our back office systems and network assets in support of their telephone service provided over cable facilities. We are one of the nation's largest providers of long distance services and operate all-digital long distance and Tier 1 IP networks.

For several years, our long distance voice services have experienced an industry-wide trend of lower revenue from lower prices and competition from other wireline and wireless communications companies, as well as cable companies and Internet service providers. In addition to increased emphasis on selling IP services, we are converting existing customers from ATM and frame relay to more advanced IP technologies through a data simplification initiative. Over time, this will result in decreasing revenue from frame relay and ATM service offset by increases in IP and other data revenues.

Local

Our Local segment consists mainly of regulated incumbent local phone companies serving approximately 7.4 million access lines in our local service territories in 18 states. We provide local and long distance voice and data services, including DSL services to customers in these service areas. We also operate a wholesale telecommunications product distribution business.

For several years, we have experienced declines in the number of access lines that we serve in our local service territories, as a result of competition from cable operators, which provide high-speed Internet services that can be used as a platform to support VoIP and wireless providers, as customers completely forego the use of traditional wireline phone service and instead rely solely on wireless service. The strategy of our Local segment to offset the decline in access lines is to sell a bundled package of products and services to meet the needs of our consumers and business and wholesale customers within our local service territories.

Critical Accounting Policies and Estimates

We consider the following accounting policies and estimates to be the most important to our financial position and results of operations, either because of the significance of the financial statement item or because they require the exercise of significant judgment and/or use of significant estimates. While management believes that the estimates used are reasonable, actual results could differ from those estimates.

Revenue Recognition and Allowance for Doubtful Accounts Policies

Operating revenues primarily consist of wireless service revenues, revenues generated from handset and accessory sales and revenues from arrangements with our wholesale operators and PCS Affiliates, as well as long distance and local voice, data and Internet revenues.

Revenues consist of fixed monthly recurring charges, variable usage charges, equipment charges, miscellaneous fees such as activation fees, directory assistance, operator-assisted calling, equipment protection and late payment charges, and certain regulatory fees. We recognize operating revenues as services are rendered or as products are delivered to customers in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition*, and Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. We recognize revenue for access charges and other services charged at fixed amounts ratably over the service period, net of credits and adjustments for service discounts, billing disputes and fraud or unauthorized usage. We recognize excess usage and long distance revenue at contractual rates per minute as minutes are used. As a result of the cutoff times of our multiple billing cycles each month, we are required to estimate the amount of subscriber revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based primarily on rate plans in effect and our historical usage and billing patterns, and represented less than 10% of our accounts receivable balance as of December 31, 2005.

Certain of our bundled-products and services, primarily plans for our Wireless segment, are considered to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values. We classify revenue from sales of handsets as equipment revenue. We recognize revenue from handset sales when title to the handset passes to the dealer or end-user customer.

Wireless offerings include wireless phones and service contracts sold together in our company-operated stores. The activation fee revenue associated with these direct sales channels is recognized at the time the related wireless phone is sold, and is classified as equipment sales. Wireless activation fees earned prior to the 2003 adoption of EITF Issue No. 00-21 are being deferred and amortized over the estimated average life of the end user customer.

Certain activation fees associated with unbundled sales in our wireless segment are deferred and amortized over the estimated average life of the end-user customer. We defer the recognition of certain installation fees related to services provided by our Local segment and recognize the revenue over the estimated average life of the customer.

We establish an allowance for doubtful accounts receivable sufficient to cover probable and reasonably estimable losses. Because of the number of accounts that we have, it is not practical to review the collectibility of each account individually when we determine the amount of our allowance for doubtful accounts each period. Our estimate of the allowance for doubtful accounts considers a number of factors, including collection experience, current economic trends, estimates of forecasted write-offs, aging of the accounts receivable portfolios, industry norms, regulatory decisions, and other factors. If our allowance for doubtful accounts estimate at December 31, 2005 were to change by ten percent, it would represent a change in bad debt expense of \$20 million for the Wireless segment and \$6 million each for the Long Distance and Local segments.

The accounting estimates related to the recognition of revenue and the allowance for doubtful accounts in the results of operations require us to make assumptions about future billing adjustments for disputes with customers, unauthorized usage, future returns on asset sales and future access adjustments for disputes with CLECs and inter-exchange carriers, as well as the future economic viability of our customer base.

Management believes the allowance amounts recorded, in each instance, represents its best estimate of future outcomes, but the actual outcomes could differ from the estimate selected, and the impact that changes in actual performance versus these amounts recorded would have on the accounts receivable reported on the balance sheet and the results reported in the statements of operations could be material to our financial condition.

Valuation and Recoverability of Long-lived Assets

A significant portion of our total assets are long-lived assets, consisting primarily of property, plant and equipment and definite life intangibles. Changes in technology or in our intended use of these assets, as well as changes in economic or industry factors, may cause the estimated period of use or the value of these assets to change.

Long-lived assets consisting of property, plant and equipment represented \$31 billion of our \$103 billion in total assets as of December 31, 2005. We generally calculate depreciation on these assets using the straight-line method based on estimated economic useful lives as follows:

<u>Long-lived Assets</u>	<u>Estimated Useful Life</u>
Buildings and improvements	3 to 31 years
Network equipment and software	3 to 31 years
Non-network internal use software, office equipment and other	3 to 30 years

The accounting estimate related to the establishment of depreciable lives requires us to make assumptions about technology evolution and competitive uses of assets. Our assumptions about technology and its future development require significant judgment because the timing and impacts of technology advances are difficult to predict, and actual experience has varied from previous assumptions and could do so in the future. The impact of changes in these assumptions could be material to our financial position, as well as our results of operations. We continue to assess the estimated useful life of the iDEN network assets following our merger with Nextel and our future plans for this network. Changes in our estimate of the useful life of the iDEN network assets could cause depreciation charges in future periods to change in amounts that could be material.

We perform annual internal studies to confirm the appropriateness of depreciable lives for most categories of property, plant and equipment. These studies utilize models that take into account actual usage, physical wear and tear, replacement history, and assumptions about technology evolution, and in certain instances use actuarially determined probabilities to calculate the remaining life of our asset base.

If our studies had resulted in a depreciable rate that was 5% higher or lower than those used in the preparation of our consolidated financial statements for the year ended December 31, 2005, recorded depreciation expense would have been impacted by approximately \$260 million.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A significant amount of judgment is involved in determining the occurrence of a "triggering event" that requires an evaluation of the recoverability of our long-lived assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of our assets, a loss, if any, is recognized for the difference between the fair value and carrying value of the assets. Impairment analyses, when performed, are based on our current business and technology strategy, our views of growth rates for our business, anticipated future economic and regulatory conditions and expected technological availability.

In 2005, we recorded \$127 million in asset impairment charges primarily related to write-downs of various software applications. In 2004, we determined that business conditions and events impacting our Long Distance operations constituted an indicator of possible impairment requiring an evaluation of the recoverability of the Long Distance long-lived assets, which resulted in a non-cash asset impairment charge of \$3.5 billion, reducing the net carrying value of Long Distance property, plant and equipment by about 60% to \$2.3 billion at September 30, 2004. Additionally, we recognized a non-cash charge of \$21 million in 2004 to adjust the carrying value of our wholesale Dial IP assets to fair value. These impairments represented 54% of Long Distance's property, plant and equipment, net and 13% of the consolidated property, plant and equipment, net at December 31, 2003. In 2003, we recorded \$303 million associated with the termination of our web hosting service and \$349 million associated with the terminated development of a new billing platform and a software development project.