UNITED STATES CELLULAR CORP
Form 10-K/A
April 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**62-1147325**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

8410 West Bryn Mawr, Suite 700, Chicago, Illinois 60631

(Address of principal executive offices) (Zip code)

Registrant s Telephone Number: **(773) 399-8900**

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

Title of each class	**Name of each exchange on which registered**
Common Shares, $1 par value	American Stock Exchange
8.75% Senior Notes Due 2032	New York Stock Exchange
7.5% Senior Notes Due 2034	New York Stock Exchange

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

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 o No ý

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation 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 amendment to this Form 10-K. o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

As of June 30, 2004, the aggregate market value of registrant s Common Shares held by nonaffiliates was approximately $579.4 million (based upon the closing price of the Common Shares on June 30, 2004, of $38.55, as reported by the American Stock Exchange). For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of the voting power of U.S. Cellular is an affiliate.

The number of shares outstanding of each of the registrant s classes of common stock, as of January 31, 2005, is 53,347,391 Common Shares, $1 par value, and 33,005,877 Series A Common Shares, $1 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant s 2004 Annual Report to Shareholders and of the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2005 Annual Meeting of Shareholders held on May 3, 2005, described in the cross reference sheet and table of contents attached hereto are incorporated by reference into Parts II and III of this report.

Explanatory Note

United States Cellular Corporation (U.S. Cellular) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2004, which was originally filed with the Securities and Exchange Commission (SEC) on March 11, 2005 (Original Form 10-K), to amend Item 1 Business, Item 2 Properties, Item 6 Selected Financial Data, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Item 8 Financial Statements and Supplementary Data, Item 9A Controls and Procedures, and Item 15 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, on November 9, 2005, U.S. Cellular and its audit committee concluded that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therein.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred and, correct the timing or the reversal of certain tax liabilities and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, U.S. Cellular has adjusted previously reported USF contributions expense to reflect the estimated liability incurred during the period.

Customer contract termination fees   In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, U.S. Cellular made adjustments to properly reflect revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts   U.S. Cellular has entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, U.S. Cellular made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and to recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates   From time to time, U.S. Cellular s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, U.S. Cellular has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party   Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method   Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize investment income in the appropriate period based on the entities actual net income (loss) reported for such periods.

Consolidated statements of cash flows   In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Other items   In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

In connection with the restatement, U.S. Cellular concluded that certain material weaknesses existed in its internal control over financial reporting. See Part II Item 9A Controls and Procedures.

For the convenience of the reader, this Form 10-K/A sets forth the Original Form 10-K, as amended hereby, in its entirety. However, this Form 10-K/A amends and restates only Items 1, 2, 6, 7, 8, 9A and 15 of the Original Form 10-K, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying financial statements, and no other information in the Original Form 10-K is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-K, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-K/A represented management s views as of the date of filing of the Original Form 10-K for the year ended December 31, 2004 on March 11, 2005. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by U.S. Cellular s principal executive officer and principal financial officer are being filed with this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2. In addition, Exhibits 23.1 and 23.2 have been amended to contain currently-dated consents of independent registered public accounting firms.

CROSS REFERENCE SHEET

AND

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(1) Parenthetical references are to information incorporated by reference from Exhibit 13 to this document, which includes portions of the registrant s Annual Report to Shareholders for the year ended December 31, 2004 (Annual Report) and from the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2005 Annual Meeting of Shareholders held on May 3, 2005 (Proxy Statement).

(2) Annual Report section entitled United States Cellular Stock and Dividend Information and Consolidated Quarterly Information (Unaudited).

(3) Annual Report section entitled Selected Consolidated Financial Data.

(4) Annual Report section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5) Annual Report section entitled Market Risk.

(6) Annual Report sections entitled Consolidated Statements of Operations, Consolidated Statements of Cash Flows, Consolidated Balance Sheets, Consolidated Statements of Common Shareholders Equity, Notes to Consolidated Financial Statements, Consolidated Quarterly Information (Unaudited), Management s Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.

(7) Proxy Statement sections entitled Election of Directors, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.

(8) Proxy Statement section entitled Executive Compensation, except for the information specified in Item 402(a)(8) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

(9) Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Securities Authorized for Issuance under Equity Compensation Plans.

(10) Proxy Statement section entitled Certain Relationships and Related Transactions.

(11) Proxy Statement section entitled Fees Paid to Principal Accountants.

United States Cellular Corporation

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PART I

Item 1. Business

United States Cellular Corporation (U.S. Cellular) provides wireless telephone service to 4,945,000 customers through the operations of 175 majority-owned (consolidated) wireless licenses throughout the United States. Since 1985, when it began providing wireless service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover six market areas in 27 states as of December 31, 2004. Through a 2003 exchange transaction, U.S. Cellular has rights to wireless licenses covering territories in two additional states and has the rights to commence service in those licensed areas in the future. The wireless licenses that U.S. Cellular currently includes in its consolidated operations cover a total population of more than one million in each market area, including its Midwest/Southwest market area, which covers a total population of more than 31 million, and one other market area which covers a total population of more than five million.

U.S. Cellular s ownership interests in wireless licenses include interests in licenses covering 150 cellular metropolitan statistical areas (as designated by the U.S. Office of Management and Budget and used by the Federal Communications Commission (FCC) in designating metropolitan cellular market areas) or rural service areas (as used by the FCC in designating non-metropolitan statistical area cellular market areas) (cellular licenses) and 49 personal communications service basic trading areas (used by the FCC in dividing the United States into personal communications service market areas for licenses in Blocks C through F). Of those interests, U.S. Cellular owns controlling interests in 126 cellular licenses and each of the 49 personal communications service basic trading areas. U.S. Cellular also owns rights to acquire controlling interests in 20 additional personal communications service licenses, primarily through an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless), now a subsidiary of Cingular Wireless LLC (Cingular). In a separate agreement, U.S. Cellular agreed to purchase a controlling interest in one license from Cingular which will be completed during the first half of 2005.

At December 31, 2004, U.S. Cellular is a limited partner in Carroll Wireless, L.P. (Carroll Wireless). U.S. Cellular consolidates Carroll Wireless for financial reporting purposes because it is deemed to have a controlling financial interest in Carroll Wireless. Carroll Wireless participated in FCC wireless spectrum Auction 58, in which eligible participants bid on designated personal communication service spectrum licenses. Carroll Wireless did not own any interests in wireless licenses or any other significant assets as of December 31, 2004. As a result of Auction 58, which ended on February 15, 2005, Carroll Wireless was a successful bidder for 17 personal communication service licenses in 11 states for a cost of $129.9 million. See Wireless Systems Development Auction 58 for further discussion of U.S. Cellular and Carroll Wireless obligations pursuant to Auction 58.

U.S. Cellular manages the operations of all but two of the licenses in which it owns a controlling interest; U.S. Cellular has contracted with another wireless operator to manage the operations of the other two licenses. U.S. Cellular includes the operations of each of these two licenses in its consolidated operating revenues and expenses. U.S. Cellular also manages the operations of three additional licenses in which it does not own a controlling interest, through an agreement with the controlling interest holder or holders. U.S. Cellular accounts for its interests in each of these three licenses using the equity method.

The following table summarizes the status of U.S. Cellular s interests in wireless markets at December 31, 2004. Personal communications service markets are designated as PCS.

	Total	Cellular	PCS
Consolidated markets (1)	175	126	49
Consolidated markets to be acquired pursuant to existing agreements (2)	21	1	20
Minority interests accounted for using equity method (3)	19	19	
Minority interests accounted for using cost method (4)	5	5	
Total markets to be owned after completion of pending transactions	220	151	69

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(1) U.S. Cellular owns a controlling interest in each of the 126 cellular markets and 49 personal communications service markets it included in its consolidated markets at December 31, 2004.

(2) U.S. Cellular owns rights to acquire controlling interests in 20 additional personal communications service licenses, through an acquisition agreement with AT&T Wireless which was closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire the licenses. In a separate agreement, U.S. Cellular agreed to purchase a controlling interest in one cellular license from Cingular.

(3) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the equity method. U.S. Cellular s investments in these licenses are included in investment in unconsolidated entities in its Balance Sheet and its proportionate share of the net income of these licenses is included in investment income in its Statement of Operations.

(4) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the cost method. U.S. Cellular s investments in these licenses are included in investment in unconsolidated entities in its Balance Sheet.

Some of the territory covered by the personal communications service licenses U.S. Cellular operates overlaps with territory covered by the cellular licenses it operates. For the purpose of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. Only non-overlapping, incremental population counts are added to the reported amount of total population in the case of an acquisition of a licensed area that overlaps a previously owned licensed area. The incremental population counts that are added in such event are referred to throughout this Form 10-K/A as incremental population measurements. Amounts reported in this Form 10-K/A as total market population do not duplicate any population counts in the case of any overlapping licensed areas U.S. Cellular owns.

U.S. Cellular owns interests in consolidated wireless licenses which cover a total population of 44.4 million as of December 31, 2004. U.S. Cellular also owns investment interests in wireless licenses which represent 1.7 million population equivalents as of that date. Population equivalents represent the population of a wireless licensed area, based on 2003 Claritas estimates, multiplied by the percentage interest that U.S. Cellular owns in an entity licensed to operate such wireless license.

U.S. Cellular believes that it is the seventh largest wireless company in the United States at December 31, 2004, based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular s business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. In recent years, U.S. Cellular s focus has broadened to include exchanges and divestitures of consolidated and investment interests which are considered less essential to its operating strategy.

Wireless systems in U.S. Cellular s consolidated markets served 4,945,000 customers at December 31, 2004, and contained 4,856 cell sites. The average penetration rate in U.S. Cellular s consolidated markets, as calculated by dividing the number of U.S. Cellular customers by the total population in such markets, was 11.14% at December 31, 2004, and the number of customers who discontinued service (the churn rate) in these markets averaged 1.66% per month for the twelve months ended December 31, 2004.

U.S. Cellular was incorporated in Delaware in 1983. U.S. Cellular s executive offices are located at 8410 West Bryn Mawr, Chicago, Illinois 60631. Its telephone number is 773-399-8900. The Common Shares of U.S. Cellular are listed on the American Stock Exchange under the symbol USM. U.S. Cellular s 8.75% Senior Notes are listed on the New York Stock Exchange under the symbol UZG. U.S. Cellular s 7.5% Senior Notes are listed on the New York Stock Exchange under the symbol UZV. U.S. Cellular is a majority-owned subsidiary of Telephone and Data Systems, Inc. (AMEX symbol TDS). TDS owns 82.0% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controls 95.9% of the combined voting power of both classes of common stock.

Available Information

U.S. Cellular s website is *http://www.uscellular.com*. Investors may access, free of charge, through the About Us / Investor Relations portion of the website, U.S. Cellular s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC).

Possible U.S. Cellular Transaction

On February 18, 2005, TDS disclosed that the TDS Board of Directors unanimously approved the distribution of TDS Special Common Shares in the form of a stock dividend, subject to TDS shareholder approval of an increase in the authorized number of TDS Special Common Shares and certain other conditions.

TDS also disclosed that, following such action at some time in the future, TDS may possibly offer to issue TDS Special Common Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS (a Possible U.S. Cellular Transaction). TDS currently owns approximately 82% of the shares of common stock of U.S. Cellular. TDS disclosed that a Possible U.S. Cellular Transaction would cause U.S. Cellular to become a wholly owned subsidiary of TDS. TDS has set no time frame for a Possible U.S. Cellular Transaction and there are no assurances that a transaction will occur.

See the proxy statement of TDS filed with the SEC relating to the Special Common Share proposal for additional information relating to the foregoing.

Wireless Telephone Operations

The Wireless Telephone Industry. Wireless telephone technology provides high-quality, high-capacity communications services to hand-held portable and in-vehicle wireless telephones. Wireless telephone systems are designed for maximum mobility of the customer. Access is provided through system interconnections to local, regional, national and world-wide telecommunications networks. Wireless telephone systems also offer a full range of services, similar to those offered by conventional (landline) telephone services. Data transmission capabilities offered by wireless telephone systems may be at slower speeds than those offered by landline telephone or other data service providers.

Wireless telephone systems divide each service area into smaller geographic areas or cells. Each cell is served by radio transmitters and receivers which operate on discrete radio frequencies licensed by the FCC. All of the cells in a system are connected to a computer-controlled mobile telephone switching office. Each mobile telephone switching office is connected to the landline telephone network and potentially other mobile telephone switching offices. Each conversation on a wireless phone involves a transmission over a specific set of radio frequencies from the wireless phone to a transmitter/receiver at a cell site. The transmission is forwarded from the cell site to the mobile telephone switching office and from there may be forwarded to the landline telephone network or to another wireless phone to complete the call. As the wireless telephone moves from one cell to another, the mobile telephone switching office determines radio signal strength and transfers (hands off) the call from one cell to the next. This hand-off is not noticeable to either party on the phone call.

The FCC currently grants two licenses to provide cellular telephone service in each cellular licensed area. Multiple licenses have been granted in each personal communications service licensed area, and these licensed areas overlap with cellular licensed areas. As a result, personal communications service license holders can and do compete with cellular license holders for customers. In addition, specialized mobile radio systems operators such as Nextel are providing wireless services similar to those offered by U.S. Cellular. Competition for customers also includes competing communications technologies, such as:

- conventional landline telephone,
- mobile satellite communications systems,
- radio paging,
- mobile virtual network operators, and
- Voice Over Internet Protocol.

Personal communications service licensees have initiated service in nearly all areas of the United States, including substantially all of U.S. Cellular s licensed areas, and U.S. Cellular expects other wireless operators to continue deployment in all of U.S. Cellular s operating regions in the future. Additionally, technologies such as enhanced specialized mobile radio are competitive with wireless service in substantially all of U.S. Cellular s markets.

The services available to wireless customers and the sources of revenue available to wireless system operators are similar to those provided by landline telephone companies. Customers may be charged a separate fee for system access, airtime, long-distance calls and ancillary services. Wireless system operators also provide service to customers of other operators wireless systems while the customers are temporarily located within the operators service areas.

Customers using service away from their home system are called roamers. Roaming is available because technical standards require that analog wireless telephones be compatible in all market areas in the United States. Additionally, because U.S. Cellular has deployed digital radio technologies in substantially all of its service areas, its customers with digital, dual-mode (both analog and digital capabilities) or tri-mode (analog plus digital capabilities at both the cellular and personal communications service radio frequencies) wireless telephones can roam in other companies service areas which have a compatible digital technology in place. Likewise, U.S. Cellular can provide roaming service to other companies customers who have compatible digital wireless telephones. In all cases, the system that provides the service to roamers will generate usage revenue, at rates that have been negotiated between the serving carrier and the customer s carrier.

There have been a number of technical developments in the wireless industry since its inception. Currently, while substantially all companies mobile telephone switching offices process information digitally, on certain cellular systems the radio transmission uses analog technology. All personal communications service systems utilize digital radio transmission. Several years ago, certain digital transmission techniques were approved for implementation by the wireless industry in the United States. Time Division Multiple Access (TDMA) technology was selected as one industry standard by the wireless industry and has been deployed by many wireless operators, including U.S. Cellular s operations in a substantial portion of its markets. Another digital technology, Code Division Multiple Access (CDMA), was also deployed by U.S. Cellular in its remaining markets.

In late 2001, U.S. Cellular announced its plans to migrate to a single digital technology, CDMA, for its customers in all of its markets. U.S. Cellular believes that a single digital technology platform represents the best network strategy to foster its future growth. In 2002, U.S. Cellular began its plans to deploy CDMA 1XRTT technology, which improves capacity and allows for higher speed data transmission than basic CDMA, throughout all of its markets, over a three-year period ending in 2004. As of December 31, 2004, U.S. Cellular had deployed CDMA 1XRTT technology in substantially all of its licensed areas, including areas where it had previously deployed TDMA technology, as part of its technology conversion plans. Migration of U.S. Cellular s customers to CDMA handsets in all of its markets is expected to take a few additional years.

U.S. Cellular believes CDMA technology is the best digital radio technology choice for its operations for the following reasons:

TDMA technology may not be supported by manufacturers of future generations of wireless products due to limitations on the services it enables wireless companies to provide.

CDMA technology has a lower long-term cost in relation to the spectrum efficiency it provides compared to similar costs of other technologies.

CDMA technology provides improved coverage at most cell sites compared to other technologies.

CDMA technology provides a more efficient evolution to a wireless network with higher data speeds, which will enable U.S. Cellular to provide enhanced data services.

The main disadvantage of U.S. Cellular s conversion to CDMA technology is that it is generally not used outside of the United States. A third digital technology, Global System for Mobile Communication (GSM), is the standard technology in Europe and most other areas outside the United States. GSM technology, which is used by certain wireless companies in the United States, has certain advantages over CDMA in that GSM phones can be used more widely outside of the United States and GSM has a larger installed worldwide customer base. Also, TDMA technology is used in many parts of the United States and in other countries as well. Since CDMA technology is not compatible with GSM or TDMA technology, U.S. Cellular customers with CDMA-based handsets may not be able to use all of their handset features when traveling through GSM- and TDMA-based networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular s customers may access CDMA service in virtually all areas of the United States.

U.S. Cellular will continue to retain TDMA technology for the next several years in markets in which such technology is in use today. This will enable U.S. Cellular to provide TDMA-based service to its customers who still choose to use TDMA-based handsets and to roamers from other wireless providers who have TDMA-based networks. Also, since the TDMA equipment has analog capabilities embedded, U.S. Cellular will maintain the TDMA network in order to be able to meet the FCC mandate of retaining analog capability through 2008.

U.S. Cellular continually reviews its long-term technology plans. In 2005, U.S. Cellular expects to introduce a limited trial of Evolution Data Optimized (EV-DO) technology. This technology, which increases the speed of data transmissions on the wireless network, is being deployed by certain other wireless companies. A revision to the current EV-DO standard is expected to be commercially available in 2006. U.S. Cellular will evaluate any planned investment in EV-DO technology in light of the revenue opportunities afforded by the deployment of such technology.

U.S. Cellular s Operations. Management anticipates that U.S. Cellular will experience increases in wireless units in service and revenues in 2005 through internal growth and through the launch of new markets as the licenses acquired in 2001, 2002 and 2003 are developed and become integrated into its operations.

Expenses associated with customer and revenue growth may reduce the amount of cash flows from operating activities and operating income during 2005. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular s cash flows from operating activities and operating income to vary from quarter to quarter.

Changes in any of several factors may reduce U.S. Cellular s growth in operating income and net income over the next few years. These factors include but are not limited to:

the growth rate in U.S. Cellular s customer base;

the usage and pricing of wireless services;

the cost of providing wireless services, including the cost of attracting and retaining customers;

the cost to begin or integrate operations of newly acquired licensed areas;

the churn rate;

continued capital expenditures, which are necessary to improve the quality of U.S. Cellular s network and to expand its operations into new markets;

continued competition from other wireless licensees and other telecommunication technologies;

continued consolidation in the wireless industry;

the growth rate in the use of U.S. Cellular s **easy**edge[sm] brand of enhanced data services and products;

continued declines in inbound roaming revenue; and

continuing technological advances which may provide wireless products/services and additional competitive alternatives to wireless service.

U.S. Cellular is building a substantial presence in selected geographic areas throughout the United States where it can efficiently integrate and manage wireless telephone systems. Its wireless interests included six market areas as of December 31, 2004. See U.S. Cellular s Wireless Interests.

Wireless Systems Development

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum. As part of this strategy, U.S. Cellular may from time-to-time be engaged in negotiations relating to the acquisition of companies, strategic properties or wireless spectrum. U.S. Cellular may plan to participate as a bidder, or member of a bidding group, in auctions administered by the FCC. See Auction 58 for a discussion of the auction completed in early 2005. Recently, U.S. Cellular has been disposing of those markets that are not strategic to its long-term success and redeploying capital to more strategically important parts of the business. As part of this strategy, U.S. Cellular may from time-to-time be engaged in negotiations relating to the disposition of other non-strategic properties.

U.S. Cellular may continue to make opportunistic acquisitions or exchanges in markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also seeks to acquire minority interests in licenses where it already owns the majority interest and/or operates the license. There can be no assurance that U.S. Cellular will be able to negotiate additional acquisitions or exchanges on terms acceptable to it or that regulatory approvals, where required, will be received. U.S. Cellular plans to retain minority interests in certain wireless licenses which it believes will earn a favorable return on investment. Other minority interests may be exchanged for interests in licenses which enhance U.S. Cellular s operations or may be sold for cash or other consideration. U.S. Cellular also continues to evaluate the disposition of certain controlling interests in wireless licenses which are not essential to its corporate development strategy.

Auction 58. U.S. Cellular is a limited partner in Carroll Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58 which ended on February 15, 2005. These 17 licensed areas cover portions of 11 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On March 4, 2005, Carroll Wireless increased the amount on deposit with the FCC to approximately $26 million, from $9 million initially deposited, and filed an application with the FCC seeking a grant of the subject licenses. The aggregate amount due to the FCC for the 17 licenses is $129.9 million, net of all bidding credits to which Carroll Wireless is entitled as a designated entity. U.S. Cellular consolidates Carroll Wireless for financial reporting purposes, pursuant to the guidelines of Financial Accounting Standards Board Interpretation No. 46R, as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of March 4, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $26 million. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make capital contributions and advances to Carroll Wireless and/or its general partner of up to $130 million to fund the payments to the FCC and additional working capital.

Sales of Wireless Interests. On December 20, 2004, U.S. Cellular completed the sale of its controlling interest in one personal communications service license to MetroPCS California/Florida, Inc. (MetroPCS) for $8.5 million.

On November 30, 2004, U.S. Cellular completed the sales of two consolidated markets and five minority interests to ALLTEL Communications Inc. (ALLTEL) for $80.2 million in cash, subject to a working capital adjustment. U.S. Cellular recorded a pretax gain of $38.0 million related to this transaction at the time of its completion, representing the excess of the cash received over the net book value of the assets and liabilities sold, subject to a working capital adjustment. The portion of the gain related to the two consolidated markets included in operations of $10.1 million, was recorded in (gain) loss on assets held for sale in the Statement of Operations. The remaining portion of the gains of $27.9 million was recorded in gain (loss) on investments included within investment and other income (expense) on the Statement of Operations.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.5 million in cash, including a working capital adjustment. The U.S. Cellular properties sold included wireless assets and customers in six markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the loss on assets of operations held for sale in the fourth quarter of 2003 and a $0.7 million reduction of the loss in 2004) was recorded as a loss on assets of operations held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction.

Pending Acquisition of Market. On November 30, 2004, U.S. Cellular entered into a definitive agreement with Cingular to acquire a controlling interest in one cellular license. U.S. Cellular anticipates that this transaction will be completed during the first half of 2005.

License Rights Related to Exchange of Markets with AT&T Wireless. Pursuant to a transaction with AT&T Wireless which was completed on August 1, 2003, U.S. Cellular acquired rights to 21 licenses that have not yet been assigned to U.S. Cellular. These licenses, with a recorded value of $42.0 million, are accounted for in license rights on the consolidated Balance Sheet. All asset values related to the properties acquired or pending, including license values, were determined by U.S. Cellular.

Wireless Interests and Operating Market Areas

U.S. Cellular operates its adjacent wireless systems under an organization structure in which it groups its markets into geographic market areas to offer customers large local service areas which primarily utilize U.S. Cellular s network. Customers may make outgoing calls and receive incoming calls within each market area without special roaming arrangements. In addition to benefits to customers, its operating strategy also has provided to U.S. Cellular certain economies in its capital and operating costs. These economies are made possible through the reduction of outbound roaming costs and increased sharing of facilities, personnel and other costs, enabling U.S. Cellular to minimize its per customer cost of service. The extent to which U.S. Cellular benefits from these revenue enhancements and economies of operation is dependent on market conditions, population size of each market area and network engineering considerations.

The following section details U.S. Cellular s wireless interests, including those it owned or had the right to acquire as of December 31, 2004. The table presented therein lists the markets that U.S. Cellular manages or has the right to manage, grouped according to operating market area. The operating market areas represent areas in which U.S. Cellular is currently focusing its development efforts. These market areas have been devised with a long-term goal of allowing delivery of wireless service to areas of economic interest and areas of economic activity.

The table aggregates the total population of the consolidated licenses within each operating market area, regardless of U.S. Cellular s percentage ownership in the licenses included in such operating market areas. Those markets in which U.S. Cellular owns less than 100% of the license show U.S. Cellular s ownership percentage; in all others, U.S. Cellular owns 100% of the license. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular s ownership interest in each such license.

The total population and population equivalents measures are provided to enable comparison of the relative size of each operating market area to U.S. Cellular s consolidated operations and to enable comparison of the relative size of U.S. Cellular s consolidated markets to its investment interests, respectively. The total population of U.S. Cellular s consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems.

U.S. CELLULAR S WIRELESS INTERESTS

The table below sets forth certain information with respect to the interests in wireless markets which U.S. Cellular owned or had the right to acquire pursuant to definitive agreements as of December 31, 2004.

Some of the territory covered by the personal communications service licenses U.S. Cellular owns overlaps with territory covered by the cellular licenses it owns. For the purpose of tracking amounts in the 2003 Total Population column in the table below, when U.S. Cellular acquires or agrees to acquire a licensed area that overlaps a licensed area it already owns, it does not duplicate the total population for any overlapping licensed area. Only non-overlapping, incremental population amounts are added to the amounts in the 2003 Total Population column in the table below, in the case of an acquisition of a licensed area that overlaps a previously owned licensed area.

Market Area/Market	Current or Future Percentage Interest (if less than 100%) (1)		2003 Total Population (2)
Markets Currently Consolidated or Which Are Expected To Be Consolidated			
MIDWEST MARKET AREA:			
Chicago Major Trading Area/Michigan			
Chicago, IL-IN-MI-OH 20MHz B Block MTA # (3) (4)			
Kalamazoo, MI 20MHz A Block # (5)			
Battle Creek, MI 20MHz A Block # (5)			
Jackson, MI 10MHz A Block # (5)			
Total Chicago Major Trading Area/Michigan			13,012,000
Illinois/Indiana			
Indianapolis, IN 10MHz F Block # (5)			
Peoria, IL			
Jo Daviess (IL 1)			
Rockford, IL			
Bloomington-Bedford, IN 10MHz B Block # (5)			
Terre Haute, IN-IL 20MHz B Block #			
Adams (IL 4) *			
Carbondale-Marion, IL 10MHz A Block/10MHz D Block # (5)			
Mercer (IL 3)			
Miami (IN 4) *	85.71	%	
Anderson, IN 10MHz B Block # (5)			
Muncie, IN 10MHz B Block # (5)			
Lafayette, IN 10MHz B Block #			
Columbus, IN 10MHz B Block # (5)			
Warren (IN 5) *	33.33	%	
Mount Vernon-Centralia, IL 10MHz A Block #			
Kokomo-Logansport, IN 10MHz B Block #			
Richmond, IN 10MHz B Block # (5)			
Vincennes-Washington, IN-IL 10MHz B Block # (5)			
Marion, IN 10MHz B Block #			
Alton, IL *			
Rockford, IL 10MHz E Block #			

Peoria, IL 10MHz C Block #					
Peoria, IL 10MHz E Block #					
Springfield, IL 10MHz E Block/10MHz F Block #					
Decatur-Effingham, IL 10MHz E Block/10MHz F Block #					
Bloomington, IL 10MHz E Block/10MHz F Block #					
Champaign-Urbana, IL 10MHz E Block/F Block #					
LaSalle-Peru-Ottawa-Streator, IL 10MHz C Block #					
LaSalle-Peru-Ottawa-Streator, IL 10MHz F Block #					
Danville, IL-IN 15MHz C Block #					
Galesburg, IL 30MHz C Block #					
Jacksonville, IL 10MHz F Block #					
Mattoon, IL 10MHz E Block/10MHz F Block #					
Total Illinois/Indiana				5,224,000	

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Market Area/Market	**Current or Future Percentage Interest (if less than 100%) (1)**		**2003 Total Population (2)**
Markets Currently Consolidated or Which Are Expected To Be Consolidated			
MIDWEST MARKET AREA (continued):			
Wisconsin/Minnesota			
Milwaukee, WI			
Madison, WI	92.50	%	
Columbia (WI 9)			
Appleton, WI			
Wood (WI 7)			
Rochester, MN 10MHz F Block #			
Vernon (WI 8)			
Green Bay, WI			
Racine, WI	95.82	%	
Kenosha, WI	99.32	%	
Janesville-Beloit, WI			
Door (WI 10)			
Sheboygan, WI			
La Crosse, WI	96.51	%	
Trempealeau (WI 6) (3)			
Pierce (WI 5) (3)			
Milwaukee, WI 10MHz D Block #			
Madison, WI 10MHz F Block #			
Total Wisconsin/Minnesota			4,738,000
Nebraska/Iowa/Missouri/South Dakota:			
Des Moines, IA			
Davenport, IA-IL	97.37	%	
Sioux City, IA-NE-SD 10MHz F Block # (5)			
Cedar Rapids, IA	96.43	%	
Humboldt (IA 10)			
Iowa (IA 6)			
Muscatine (IA 4)			
Waterloo-Cedar Falls, IA	93.03	%	
Iowa City, IA			
Hardin (IA 11)			
Jackson (IA 5)			
Kossuth (IA 14)			
Lyon (IA 16)			
Dubuque, IA	97.55	%	
Mitchell (IA 13)			
Audubon (IA 7)			
Union (IA 2)			
Fort Dodge, IA 10MHz D Block # (5)			
Des Moines, IA 10MHz D Block #			
Davenport, IA-IL 10MHz E Block #			
Clinton, IA-IL 10MHz E Block #			
Burlington, IA-IL-MO 10MHz E Block #			
Iowa City, IA 10MHz E Block #			
Ottumwa, IA 10MHz E Block #			

Total Nebraska/Iowa/Missouri/South Dakota				2,737,000	
Nebraska/Iowa/Missouri/Kansas					
Omaha, NE-IA 10 MHz A Block/10MHz E Block #					
Lincoln, NE 10MHz F Block #					
Mills (IA 1)					
Total Nebraska/Iowa/Missouri/Kansas				1,375,000	
TOTAL MIDWEST MARKET AREA				**27,086,000**	
MID-ATLANTIC MARKET AREA:					
Eastern North Carolina/South Carolina					
Harnett (NC 10)					
Rockingham (NC 7)					
Northampton (NC 8)					

Market Area/Market	Current or Future Percentage Interest (if less than 100%) (1)	2003 Total Population (2)
Greenville (NC 14)		
Greene (NC 13)		
Hoke (NC 11)		
Wilmington, NC	98.82%	
Chesterfield (SC 4)		
Chatham (NC 6)		
Sampson (NC 12)		
Jacksonville, NC	97.57%	
Camden (NC 9)		
Total Eastern North Carolina/South Carolina		2,831,000
Markets Currently Consolidated or Which Are Expected To Be Consolidated		
MID-ATLANTIC MARKET AREA (continued):		
Virginia/North Carolina		
Roanoke, VA		
Giles (VA 3)		
Bedford (VA 4)		
Ashe (NC 3)		
Charlottesville, VA	95.37%	
Lynchburg, VA		
Buckingham (VA 7)		
Tazewell (VA 2) (3)		
Bath (VA 5)		
Total Virginia/North Carolina		1,414,000
West Virginia/Maryland/Pennsylvania		
Monongalia (WV 3) *		
Raleigh (WV 7) *		
Grant (WV 4) *		
Hagerstown, MD *		
Tucker (WV 5) *		
Cumberland, MD *		
Bedford (PA 10) * (3)		
Garrett (MD 1) *		
Total West Virginia/Maryland/Pennsylvania		1,161,000
TOTAL MID-ATLANTIC MARKET AREA		**5,406,000**
SOUTHWEST MARKET AREA:		
Texas/Oklahoma/Missouri/Kansas/Arkansas		
Oklahoma City, OK 10MHz F Block #		
Tulsa, OK *		
Wichita, KS 10MHz A Block # (5)		
Fayetteville-Springdale, AR 10MHz A Block # (5)		
Fort Smith, AR-OK 10MHz A Block # (5)		
Seminole (OK 6)		
Garvin (OK 9)		
Joplin, MO *		
Elk (KS 15) *	75.00%	

Wichita Falls, TX *		78.45	%		
Lawton, OK *		78.45	%		
Nowata (OK 4) * (3)					
Lawrence, KS 10MHz E Block # (5)					
Jackson (OK 8) *		78.45	%		
Enid, OK 10MHz C Block #					
Haskell (OK 10)					
Stillwater, OK 10MHz F Block #					
Ponca City, OK 30MHz C Block #					
Hardeman (TX 5) * (3)		78.45	%		
Briscoe (TX 4) * (3)		78.45	%		
Beckham (OK 7) * (3)		78.45	%		
Total Texas/Oklahoma/Missouri/Kansas/Arkansas				5,221,000	
Missouri/Illinois/Kansas/Arkansas					

Market Area/Market	Current or Future Percentage Interest (if less than 100%) (1)		2003 Total Population (2)
St. Louis, MO/IL 10MHz A Block #			
Springfield, MO 20MHz A Block #			
St. Joseph, MO-KS 10MHz E Block #			
Cape Girardeau-Sikeston, MO/IL 10MHz A Block/10MHz D Block # (5)			
Moniteau (MO 11)			
Columbia, MO *			
Poplar Bluff, MO/AR 10MHz A Block # (5)			
Stone (MO 15)			
Jefferson City, MO 10MHz A Block #			
Barton (MO 14) (6)			
Rolla, MO 10MHz A Block #			
Laclede (MO 16)			
Washington (MO 13)			
Callaway (MO 6) *			
Markets Currently Consolidated or Which Are Expected To Be Consolidated			
SOUTHWEST MARKET AREA (continued):			
Missouri/Illinois/Kansas/Arkansas (continued)			
Sedalia, MO 10MHz C Block #			
Schuyler (MO 3)			
Shannon (MO 17)			
Linn (MO 5) (3)			
Columbia, MO 10MHz A Block #			
Harrison (MO 2) (3)			
Total Missouri/Illinois/Kansas/Arkansas			4,914,000
SOUTHWEST MARKET AREA			**10,135,000**
MAINE/NEW HAMPSHIRE/VERMONT MARKET AREA:			
Portland-Brunswick, ME 10MHz A Block #			
Burlington, VT 10MHz D Block #			
Manchester-Nashua, NH	96.66	%	
Carroll (NH 2)			
Coos (NH 1) *			
Kennebec (ME 3)			
Bangor, ME	97.16	%	
Somerset (ME 2)			
Addison (VT 2) * (3)			
Lewiston-Auburn, ME	88.45	%	
Washington (ME 4) *			
Oxford (ME 1)			
Rutland-Bennington, VT 10MHz D Block #			
Lebanon-Claremont, NH-VT 10MHz A Block # (5)			
Burlington, VT 10MHz E Block # (5)			
TOTAL MAINE/NEW HAMPSHIRE/VERMONT MARKET AREA			**2,800,000**
NORTHWEST MARKET AREA:			
Oregon/California/Idaho			
Clark (ID 6)			

Coos (OR 5)					
Crook (OR 6) *					
Del Norte (CA 1)					
Medford, OR *					
Butte (ID 5) (7)					
Mendocino (CA 9)					
Modoc (CA 2)					
Total Oregon/California/Idaho				1,603,000	
Washington/Oregon					
Yakima, WA *		87.81	%		
Richland-Kennewick-Pasco, WA *					
Pacific (WA 6) *					
Umatilla (OR 3) *					
Okanogan (WA 4)					

Market Area/Market	Current or Future Percentage Interest (if less than 100%) (1)	2003 Total Population (2)
Kittitas (WA 5) * (3)	98.24%	
Hood River (OR 2) *		
Skamania (WA 7) *		
Total Washington/Oregon		1,101,000
TOTAL NORTHWEST MARKET AREA		**2,704,000**
EASTERN TENNESSEE/WESTERN NORTH CAROLINA MARKET AREA:		
Knoxville, TN *		
Asheville, NC *		
Henderson (NC 4) * (3)		
Bledsoe (TN 7) * (3)		
Hamblen (TN 4) * (3)		
Cleveland, TN 10MHz C Block #		
Yancey (NC 2) * (3)		
TOTAL EASTERN TENNESSEE/WESTERN NORTH CAROLINA MARKET AREA		**1,532,000**
Other Markets:		
Jefferson (NY 1) *	60.00%	
Franklin (NY 2) *	57.14%	
Total Other Markets		**482,000**
Total Markets Currently Consolidated or Which are Expected to Be Consolidated		**50,145,000**

Market Area/Market	2003 Total Population (2)	Current Percentage Interest (1)	Current and Acquirable Population Equivalents (8)
Investment Markets:			
Los Angeles/Oxnard, CA *	17,182,000	5.50%	945,000
Oklahoma City, OK *	1,074,000	14.60%	157,000
Rochester, MN/Chippewa (MN 7)/Lac Qui Parle (MN 8)/ Pipestone (MN 9)/Le Sueur (MN 10)/ Goodhue (MN 11) *	971,000	15.22%	147,000
Cherokee (NC 1) *	209,000	50.00%	105,000
Others (Fewer than 100,000 population equivalents each)			360,000
Total Population Equivalents in Investment Markets			1,714,000

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* Designates wireline cellular licensed area.

Designates personal communications service licensed area.

(1) Represents U.S. Cellular s ownership percentage in these licensed areas as of December 31, 2004 or as of the completion of any related transactions pending as of December 31, 2004. U.S. Cellular owns 100% of any licensed areas which do not indicate a percentage.

(2) 2003 Total Population represents the total population of the licensed area in which U.S. Cellular owns or has rights to own an interest, based on 2003 Claritas estimates (without duplication of the population counts of any overlapping licensed areas). In personal communications service licensed areas, this amount represents the portion of the personal communications service licensed areas owned that is not already served by a cellular licensed area in which U.S. Cellular owns a controlling interest. The 2003 Total Population of Total Markets Currently Consolidated or which are expected to be consolidated includes rights to acquire licensed areas with a total population of 5,754,000. Excluding the population of these licensed areas to be acquired, U.S. Cellular s total population was 44,391,000 at December 31, 2004.

(3) These markets have been partitioned into more than one licensed area. The 2003 population, percentage ownership and number of population equivalents shown are for the licensed areas within the markets in which U.S. Cellular owns an interest.

(4) This personal communications service licensed area is made up of 18 basic trading areas, as follows: Benton Harbor, MI; Bloomington, IL; Champaign-Urbana, IL; Chicago, IL (excluding Kenosha County, WI); Danville, IL-IN; Decatur-Effingham, IL; Elkhart, IN-MI; Fort Wayne, IN-OH; Galesburg, IL; Jacksonville, IL; Kankakee, IL; LaSalle-Peru-Ottawa-Streator, IL; Mattoon, IL; Michigan City, IN; Peoria, IL; Rockford, IL; South Bend-Mishawaka, IN; and Springfield, IL.

(5) U.S. Cellular acquired the rights to these licensed areas during 2003. Pursuant to an agreement with the seller of these licensed areas, U.S. Cellular has deferred the assignment and development of these licensed areas until up to five years from the closing date of the original transaction.

(6) Pursuant to an agreement entered into during 2004 with Cingular, U.S. Cellular has rights to acquire a controlling interest in this license. The licensed area also includes 10 megahertz of personal communications service spectrum that overlaps a portion of the area covered by the cellular license to be acquired, for a total of 35 megahertz of spectrum in the overlapping area. U.S. Cellular anticipates that the transaction will be completed during the first half of 2005.

(7) This licensed area includes territory and population equivalents of a fill-in area which was annexed from a nearby cellular licensed area.

(8) Current and Acquirable Population Equivalents are derived by multiplying the amount in the 2003 Total Population column by the percentage interest indicated in the Current Percentage Interest column.

System Design and Construction. U.S. Cellular designs and constructs its systems in a manner it believes will permit it to provide high-quality service to substantially all types of wireless telephones which are compatible with its network technology, based on market and engineering studies which relate to specific markets. Such engineering studies are performed by U.S. Cellular personnel or third party engineering firms. U.S. Cellular s switching equipment is digital, which provides high-quality transmissions and is capable of interconnecting in a manner which minimizes costs of operation. Both analog and digital radio transmissions are made between cell sites and the wireless telephones. During 2004, over 95% of this traffic utilized digital radio transmissions. Network reliability is given careful consideration and extensive redundancy is employed in many aspects of U.S. Cellular s network design. Route diversity, ring topology and extensive use of emergency standby power are also utilized to enhance network reliability and minimize service disruption from any particular network failure.

In accordance with its strategy of building and strengthening its operating market areas, U.S. Cellular has selected high-capacity digital wireless switching systems that are capable of serving multiple markets through a single mobile telephone switching office. U.S. Cellular s wireless systems are designed to facilitate the installation of equipment which will permit microwave interconnection between the mobile telephone switching office and the cell site. U.S. Cellular has implemented such microwave interconnection in many of the wireless systems it operates. In other areas, U.S. Cellular s systems rely upon landline telephone connections to link cell sites with the mobile telephone switching office. Although the installation of microwave network interconnection equipment requires a greater initial capital investment, a microwave network enables a system operator to avoid the current and future charges associated with leasing telephone lines from the landline telephone company.

U.S. Cellular has continued to expand its wide area network to accommodate various business functions, including:

order processing,

over the air provisioning,

automatic call delivery,

intersystem handoff,

credit validation,

fraud prevention,

call data record collection,

network management,

long-distance traffic, and

interconnectivity of all of U.S. Cellular s mobile telephone switching offices and cell sites.

In addition, the wide area network accommodates virtually all internal data communications between various U.S. Cellular office and retail locations to process customer activations. The wide area network is deployed in U.S. Cellular s six customer service centers (Customer Care Centers) for all customer service functions using U.S. Cellular s billing and information system. The wide area network will also be deployed in U.S. Cellular s newest Customer Care Center, in Bolingbrook, IL, when it opens in 2005.

Management believes that currently available technologies will allow sufficient capacity on U.S. Cellular s networks to meet anticipated demand for voice services over the next few years. High-speed data and video services may require the acquisition of additional licenses to provide sufficient capacity in markets where U.S. Cellular offers these services.

Costs of System Construction and Financing

Construction of wireless systems is capital-intensive, requiring substantial investment for land and improvements, buildings, towers, mobile telephone switching offices, cell site equipment, microwave equipment, engineering and installation. U.S. Cellular, consistent with FCC control requirements, uses primarily its own personnel to engineer each wireless system it owns and operates, and engages contractors to construct the facilities.

The costs (exclusive of the costs to acquire licenses) to develop the systems in which U.S. Cellular owns a controlling interest have historically been financed primarily through proceeds from debt and equity offerings and, in recent years, with cash generated by operations and proceeds from the sales of wireless interests. U.S. Cellular expects to meet its future funding requirements with cash generated by operations and borrowings under its revolving credit facilities. U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs. In 2005, U.S. Cellular estimates its capital expenditures will total between $570 million and $610 million.

Marketing

U.S. Cellular s marketing plan is focused on acquiring, retaining and growing customer relationships by offering high-quality products and services built around customer needs at fair prices, supported by outstanding customer service. U.S. Cellular increases customer awareness through the use of traditional media such as TV, radio, newspaper and direct mail advertising. U.S. Cellular has achieved its current level of penetration of its markets through a combination of promotional advertising and broad distribution, and has been able to sustain a high customer retention rate based on its high-quality wireless network and outstanding customer service. U.S. Cellular supports a multi-faceted distribution program, including direct sales, agents and retail sales and service centers in the vast majority of its markets, plus the Internet and telesales for customers who wish to contact U.S. Cellular through those channels. U.S. Cellular maintains a low customer churn rate (relative to other wireless carriers) by focusing on customer satisfaction, development of processes that are more customer-friendly, extensive training of frontline sales and support associates and the implementation of retention programs. The marketing plan stresses the value of U.S. Cellular s service offerings and incorporates combinations of rate plans, additional value-added features and services and wireless telephone equipment which are designed to meet the needs of defined customer segments and their usage patterns.

Company-owned and managed locations are designed to market wireless service to the consumer and small business segments in a setting familiar to these types of customers. U.S. Cellular has expanded its e-commerce site to enable customers to purchase a broad range of accessories online, and this site is continually evolving to address customers current needs. U.S. Cellular anticipates that as customers become increasingly comfortable with e-commerce, the Internet will become a more robust marketing channel for sales of rate plans as well as accessories. Traffic on U.S. Cellular s Web site is continually increasing as customers use the site for gathering information, purchasing handsets and accessories, signing up for service and finding the locations of its stores and agents.

U.S. Cellular believes that, while strategy is set at the corporate level, day-to-day tactical operating decisions should be made close to the customer, and accordingly, it manages its operating market areas with a decentralized staff, including sales, marketing, network operations, engineering and finance personnel. U.S. Cellular operates six regional Customer Care Centers whose personnel are responsible for customer service and certain other functions. In 2005, U.S. Cellular plans to open a seventh Customer Care Center in Bolingbrook, IL to meet the needs of its expanding customer base. Direct sales consultants market wireless service to business customers. Retail sales associates work out of over 400 U.S. Cellular-owned retail stores and kiosks and market wireless service primarily to the consumer and small business segments. U.S. Cellular maintains an ongoing training program to improve the effectiveness of sales consultants and retail associates by focusing their efforts on obtaining customers and maximizing the sale of high-use packages. These packages enable customers to buy packages of minutes for a fixed monthly rate.

U.S. Cellular continues to expand its relationships with agents, dealers and non-Company retailers to obtain customers, and at year-end 2004 had contracts with over 800 of these businesses aggregating over 1,800 locations. Agents and dealers are independent business people who obtain customers for U.S. Cellular on a commission basis. U.S. Cellular has provided additional support and training to its exclusive agents to increase customer satisfaction for customers they serve. U.S. Cellular s agents are generally in the business of selling wireless telephones, wireless service packages and other related products. U.S. Cellular s dealers include major appliance dealers, car stereo companies and mass merchants including regional and national companies such as Wal-Mart, Radio Shack, Best Buy and American TV. Additionally, in support of its overall Internet initiatives, U.S. Cellular has recruited agents who provide services exclusively through the Internet. No single agent, dealer or other non-Company retailer accounted for 10% or more of U.S. Cellular s operating revenues during the past three years.

U.S. Cellular uses a variety of direct mail, billboard, radio, television and newspaper advertising to stimulate interest by prospective customers in purchasing U.S. Cellular s wireless service and to establish familiarity with U.S. Cellular s name. U.S. Cellular operates under a unified brand name and logo, U.S. Cellular®, across all its markets, and uses the tag line, We Connect With You ®.

U.S. Cellular s advertising is directed at gaining customers, improving customers awareness of the U.S. Cellular® brand, increasing existing customers usage of U.S. Cellular s services and increasing the public awareness and understanding of the wireless services it offers. U.S. Cellular attempts to select the advertising and promotion media that are most appealing to the targeted groups of potential customers in each local market. U.S. Cellular supplements its advertising with a focused public relations program. This program combines nationally supported activities and unique local activities, events, and sponsorships to enhance public awareness of U.S. Cellular and its brand. These programs are aimed at supporting the communities U.S. Cellular serves. The programs range from loaning phones to public service operations in emergencies, to assisting victims of domestic abuse through U.S. Cellular s Stop Abuse From Existing programs, to supporting safe driving programs.

In 2003, U.S. Cellular secured the naming rights to the home of the Chicago White Sox American League baseball team, which is now called U.S. Cellular Field. Concurrent with the naming rights agreement, U.S. Cellular purchased a media package with rights to place various forms of advertising in and around the facility. These agreements have increased the visibility of U.S. Cellular s brand not only in Chicago but throughout the United States.

U.S. Cellular continues to migrate customers in its cellular licensed areas from analog to digital service plans, and as of year-end 2004 over 95% of the minutes used were on U.S. Cellular s digital network. Additionally, during the second half of 2003, U.S. Cellular began offering its **easy**edge^{sm} brand of enhanced data services in its operating market areas where it has implemented CDMA 1XRTT digital radio technology, supporting that effort using a wide variety of media. As of year-end 2004, **easy**edge^{sm} services were available in all of U.S. Cellular s market areas. The initial results of the **easy**edge^{sm} rollout have been encouraging, as many new customers and existing customers have signed up for data service plans. These enhanced data services include downloading news/weather/sports information/games, ringtones and other consumer services as well as wireless modem capabilities to use with personal computers in some markets. In early 2004, U.S. Cellular began offering camera phone-capable handsets and the related services to its customers as part of its **easy**edge^{sm} suite of products and services, and as of year-end 2004 those services were available in all market areas. U.S. Cellular plans on further expansion of its **easy**edge^{sm} services in 2005 and beyond.

In October 2003, Edge Wireless, LLC (Edge Wireless) filed a complaint against U.S. Cellular in U.S. District Court for the District of Oregon alleging that the **easy**edge^{sm} mark infringes certain of Edge Wireless s marks. In July 2004, the court found that U.S. Cellular s **easy**edge^{sm} mark would not create a likelihood of confusion between the parties marks with respect to all types of advertising except for print advertising. The court ordered that in print materials U.S. Cellular must display the **easy**edge^{sm} mark with a separate and dominant U.S. Cellular house mark and star logo which is featured more prominently than the **easy**edge^{sm} mark. This order applies in areas in which U.S. Cellular competes with Edge Wireless, which include portions of U.S. Cellular s service areas in California, Oregon and Idaho. An appeal of this order by Edge Wireless was settled for nominal consideration and will be dismissed.

The FCC mandated that all wireless carriers had to be capable of facilitating wireless number portability in all areas of the United States beginning on May 24, 2004. See Regulation. In conjunction with this mandate, U.S. Cellular began tailoring certain of its advertising to those customers who may be interested in switching wireless carriers and keeping their current wireless telephone number. To date, U.S. Cellular has been successful in accommodating those customers in all of its market areas who switch to U.S. Cellular service from other carriers and wish to keep their wireless telephone numbers. U.S. Cellular has also been successful in accommodating those customers in all of its market areas who wish to change from U.S. Cellular to another carrier and keep their wireless telephone numbers.

The following table summarizes, by operating market area, the total population, U.S. Cellular s customers and penetration for U.S. Cellular s consolidated markets as of December 31, 2004.

Operating Market Areas	Population (1)	Customers	Penetration
Midwest Market Area	23,242,000	2,476,000	10.65%
Mid-Atlantic Market Area	5,406,000	772,000	14.28%
Southwest Market Area	8,254,000	527,000	6.38%
Maine/New Hampshire/Vermont Market Area	2,771,000	411,000	14.83%
Northwest Market Area	2,704,000	464,000	17.16%
Eastern Tennessee/Western North Carolina Market Area	1,532,000	196,000	12.79%
Other Markets	482,000	99,000	20.54%
	44,391,000	4,945,000	11.14%

(1) Represents 100% of the population of the licensed areas in which U.S. Cellular has a controlling interest, based on 2003 Claritas population estimates. Population in this context includes only the areas covering such markets and is only used for the purposes of calculating market penetration and is not related to population equivalents, as previously defined.

Customers and System Usage

U.S. Cellular provides service to a broad range of customers from a wide spectrum of demographic segments. U.S. Cellular uses a segmentation model to classify businesses and consumers into logical groupings for developing new products and services, direct marketing campaigns, and retention efforts. Business users typically include a large proportion of individuals who work outside of their offices such as people in the construction, real estate, wholesale and retail distribution businesses as well as various professionals. Increasingly, U.S. Cellular is providing wireless service to consumers and to customers who use their wireless telephones for mixed business and personal use as well as for security purposes. A major portion of U.S. Cellular s recent customer and revenue growth is from these users.

On average, the retail customers in U.S. Cellular s consolidated markets used their wireless systems approximately 539 minutes per unit each month and generated retail service revenue of approximately $40 per month during 2004, compared to 422 minutes and $40 per month in 2003. Revenue generated by roamers using U.S. Cellular s systems (inbound roaming), together with local retail, toll and other revenues, brought U.S. Cellular s total average monthly service revenue per customer unit to $47 during 2004. Average monthly service revenue per customer unit decreased 1% during 2004. This result was primarily due to decreases in the average revenue per minute of use from both retail customers and roamers, almost fully offset by an increase in the number of minutes used by both retail customers and roamers. Competitive pressures, continued penetration of the consumer market and U.S. Cellular s increasing use of pricing and other incentive programs to stimulate overall usage resulted in a decrease in average retail service revenue per minute of use in 2004. The decrease in inbound roaming revenue per minute was primarily due to the general downward trend in per minute prices for roaming negotiated between U.S. Cellular and other wireless operators. U.S. Cellular anticipates that average monthly retail service revenue per customer unit will not change significantly in the near future, while total monthly service revenue per customer is expected to decline slightly in the future, primarily due to the decline in inbound roaming revenues. However, this effect is anticipated to be more than offset by increases in U.S. Cellular s customer base; therefore, U.S. Cellular anticipates that total revenues will continue to grow for the next few years.

U.S. Cellular s main sources of revenue are from its own customers and from inbound roaming customers. The interconnectivity of wireless service enables a customer to place or receive a call in a wireless service area away from the customer s home service area. U.S. Cellular has entered into roaming agreements with operators of other wireless systems covering virtually all systems in the United States, Canada and Mexico. Roaming agreements offer customers the opportunity to roam on these systems. These reciprocal agreements automatically pre-register the customers of U.S. Cellular s systems in the other carriers systems. Also, a customer of a participating system roaming (i.e., traveling) in a U.S. Cellular market where this arrangement is in effect is able to make and receive calls on U.S. Cellular s system. The charge for this service is negotiated as part of the roaming agreement between U.S. Cellular and the roaming customer s carrier. U.S. Cellular bills this charge to the customer s home carrier, which then bills the customer. In some instances, based on competitive factors, many carriers, including U.S. Cellular, may charge lower amounts to their customers than the amounts actually charged to the carriers by other wireless carriers for roaming.

Currently, U.S. Cellular s roaming agreements with other carriers only cover voice-related services; however, U.S. Cellular has begun entering into roaming agreements which will cover data-related services such as those offered through its **easy**edge[sm] suite of products and services, and anticipates expanding these roaming agreements to more carriers in the future. U.S. Cellular anticipates that entering into such agreements will provide additional flexibility for its customers and could enhance its inbound roaming revenue in the future.

The following table summarizes certain information about customers and market penetration in U.S. Cellular s consolidated operations.

	Year Ended or At December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Majority-owned and managed markets:					
Wireless markets included in consolidated operations (1)	175	182	178	168	139
Total population of markets in service (000s) (2)	44,391	46,267	41,048	28,632	24,912
Customer Units:					
at beginning of period (3)					