TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-K
June 19, 2007

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware.	**36-2669023**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
30 North LaSalle Street, Chicago, Illinois	**60602 .**
(Address of principal executive offices)	(Zip code)

Registrant s Telephone Number: (312) 630-1900
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares, $.01 par value	American Stock Exchange
Special Common Shares, $.01 par value	American Stock Exchange
7.60% Series A Notes due 2041	New York Stock Exchange
6.625% Senior Notes due 2045	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 o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No x

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 x No o

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. x

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of June 30, 2006, the aggregate market values of the registrant s Common Shares, Series A Common Shares, Special Common Shares and Preferred Shares held by non-affiliates were approximately $1.7 billion, $11.6 million, $1.0 billion and $5.4 million, respectively. For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of the voting power of TDS and U.S. Cellular is an affiliate. The June 30, 2006 closing price of the Common Shares was $41.40 and the Special Common Shares was $38.90, as reported by the American Stock Exchange. Because no market exists for the Series A Common Shares and Preferred Shares, the registrant has assumed for purposes hereof that (i) each Series A Common Share has a market value equal to one Common Share because the Series A Common Shares were initially issued by the registrant in exchange for Common Shares on a one-for-one basis and are convertible on a share-for-share basis into Common Shares, (ii) each nonconvertible Preferred Share has a market value of $100 because each of such shares had a stated value of $100 when issued, and (iii) each convertible Preferred Share has a value equal to the value of the number of Common Shares (at $41.40 per share) and of Special Common Shares (at $38.90 per share) into which it was convertible on June 30, 2006.

The number of shares outstanding of each of the registrant s classes of common stock, as of April 30, 2007, is 51,937,620 Common Shares, $.01 par value, 58,402,073 Special Common Shares, $.01 par value and 6,444,364 Series A Common Shares, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant s 2006 Annual Report to Shareholders, filed as Exhibit 13 hereto, and of the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2007 Annual Meeting of Shareholders filed as Exhibit 99.1 hereto, 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

TDS and its audit committee concluded on April 20, 2007, that TDS would restate its financial statements and financial information for the years ended December 31, 2005 and 2004, including quarterly information for 2006 and 2005, and certain selected financial data for 2003 and 2002. The restatements are being reflected in this Annual Report on Form 10-K for the year ended December 31, 2006. For a description of this restatement, see note 1, Restatement section of Summary of Significant Accounting Policies in the audited consolidated financial statements included in this Annual Report on Form 10-K.

CROSS REFERENCE SHEET
AND
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(1) Parenthetical references are to information incorporated by reference from Exhibit 13 hereto, which includes portions of the registrant s Annual Report to Shareholders for the year ended December 31, 2006 (Annual Report) and from Exhibit 99.1 hereto, which includes certain sections expected to be included in the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2007 Annual Meeting of Shareholders (Proxy Statement).

(2) Annual Report sections entitled TDS Stock and Dividend Information and Market Price per Common Share by Quarter.

(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 Stockholders 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, Corporate Governance, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.

(8) Proxy Statement section entitled Executive and Director Compensation.

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

(10) Proxy Statement sections entitled Corporate Governance, and Certain Relationships and Related Transactions.

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

Telephone and Data Systems, Inc.
30 NORTH LASALLE STREET, CHICAGO, ILLINOIS 60602
TELEPHONE (312) 630-1900

PART I

Item 1. Business

Telephone and Data Systems, Inc. (TDS), is a diversified telecommunications service company with wireless telephone and wireline telephone operations. At December 31, 2006, TDS served approximately 7.0 million customers in 36 states, including 5,815,000 wireless telephone customers and 1,213,500 wireline telephone equivalent access lines. United States Cellular Corporation (U.S. Cellular) provided approximately 80% of TDS s consolidated revenues and approximately 70% of consolidated operating income in 2006. TDS Telecom provided approximately 20% of consolidated revenues and approximately 30% of consolidated operating income in 2006. Suttle Straus provided less than 1% of consolidated revenues and operating income in 2006. TDS s business strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other telecommunications businesses that management believes will utilize TDS expertise in customer focused telecommunications services.

TDS s wireless operations are conducted through U.S. Cellular and its subsidiaries. U.S. Cellular provides wireless telephone service to 5,815,000 customers through the operations of 201 majority-owned (consolidated) wireless licenses throughout the United States. Since 1985, when it began providing cellular 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 26 states as of December 31, 2006. Through a 2003 exchange transaction and Federal Communications Commission (FCC) Auction 58 (as discussed below), 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 contiguous Midwest and Southwest market areas, which cover a total population of more than 38 million, and one other market area which covers a total population of more than nine million.

TDS conducts its wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). At December 31, 2006, TDS Telecom served 1,213,500 equivalent access lines in 30 states through its incumbent local exchange carrier and competitive local exchange carrier telephone companies. An equivalent access line is derived by converting a high capacity data line to an estimated equivalent, in terms of capacity, number of switched access lines. An incumbent local exchange carrier is an independent local telephone company that formerly had the exclusive right and responsibility to provide local transmission and switching services in its designated service territory. TDS Telecom s strategy is to expand by offering additional lines of telecommunications products and services to existing customers and is exploring expansion of its geographic footprint by offering both existing and new products and services to new customers. TDS Telecom may also continue to make opportunistic acquisitions of operating telephone companies and related communications providers. At December 31, 2006, TDS Telecom incumbent local exchange carriers served 757,300 equivalent access lines in 28 states. TDS Telecom also offers services as a competitive local exchange carrier in certain mid-sized cities which are near existing TDS Telecom incumbent local exchange carrier markets. Competitive local exchange carrier is a term that depicts companies that enter the operating areas of incumbent local exchange telephone companies to offer local exchange and other telephone services. At December 31, 2006, TDS Telecom s competitive local exchange carriers served 456,200 equivalent access lines in five states.

TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle Straus.

TDS was incorporated in 1968 and changed its corporate domicile from Iowa to Delaware in 1998. TDS executive offices are located at 30 North LaSalle Street, Chicago, Illinois 60602. Its telephone number is 312-630-1900. The Common Shares of TDS are listed on the American Stock Exchange under the symbol TDS. The Special Common Shares of TDS are listed on the American Stock Exchange under the symbol TDS.S. TDS s 7.60% Series A Notes are listed on the New York Stock Exchange under the symbol TDA. TDS s 6.625% Senior Notes are listed on the New York Stock Exchange under the symbol TDI.

Available Information

TDS s website is *http://www.teldta.com*. Anyone may access, free of charge, through the Investor Relations portion of the website the TDS 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). The public may read and copy any materials TDS files with the SEC at the SEC s Public Reference Room at 100 F. Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of TDS by accessing SEC filings at http://www.sec.gov.

Possible U.S. Cellular Transaction

On a Current Report on Form 8-K dated February 17, 2005, TDS disclosed that it may possibly take action at some time in the future to offer and 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).

On March 5, 2007, TDS announced that it has terminated activity with respect to a Possible U.S. Cellular Transaction.

Although TDS has terminated activity with respect to a Possible U.S. Cellular Transaction at this time, TDS reserves the right to recommence activity with respect to a Possible U.S. Cellular Transaction at any time in the future. TDS may also acquire at any time in the future the Common Shares of U.S. Cellular through open market, private purchases or otherwise, or take other action to acquire some or all of the shares of U.S. Cellular not owned by TDS, although it has no present plans to do so.

U.S. Cellular Operations

TDS s wireless operations are conducted through U.S. Cellular and its subsidiaries. U.S. Cellular provides wireless telephone service to approximately 5,815,000 customers through the operations of 201 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 26 states as of December 31, 2006. Through a 2003 exchange transaction and Federal Communications Commission (FCC) Auction 58 (as discussed below), U.S. Cellular owns, directly and indirectly, 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, and a total population of 55.5 million overall. The contiguous Midwest and Southwest market areas cover a total population of more than 38 million, and the Mid-Atlantic market area covers a total population of more than nine million.

U.S. Cellular s ownership interests in wireless licenses include both consolidated and investment interests in licenses covering 159 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 60 personal communications service basic trading areas (designations used by the FCC in dividing the United States into personal communications service market areas). Of those interests, U.S. Cellular owns controlling interests in 141 cellular licenses and each of the 60 personal communications service basic trading areas. As of December 31, 2006, U.S. Cellular also owned rights to acquire controlling interests in 17 additional personal communications service licenses through an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless), now a subsidiary of Cingular Wireless LLC, which is now a subsidiary of AT&T Inc. (formerly SBC Communications, Inc.).

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 these other two licensees. U.S. Cellular includes the operations of each of these two licenses in its consolidated results of operations. 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 of accounting.

The following table summarizes the status of U.S. Cellular s interests in wireless markets at December 31, 2006. Personal communications service markets are designated as PCS.

	Total	Cellular	PCS
Consolidated markets(1)	201	141	60
Consolidated markets to be acquired pursuant to existing agreements(2)	17		17
Minority interests accounted for using equity method(3)	12	12	
Minority interests accounted for using cost method(4)	5	5	
Total markets to be owned after completion of pending transactions(5)	235	158	77

(1) U.S. Cellular owns a controlling interest in each of the 141 cellular markets and 49 personal communications service PCS markets it included in its consolidated markets at December 31, 2006. The remaining 11 consolidated PCS markets represent 11 licenses acquired through Carroll Wireless, L.P. (Carroll Wireless). U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial statement purposes, pursuant to the guidelines of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities an interpretation of ARB No. 51* (FIN 46(R)), as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses.

(2) U.S. Cellular owns rights to acquire majority interests in 17 additional personal communications service licenses, resulting from an exchange transaction with AT&T Wireless which closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire 21 licenses from AT&T Wireless. Four of the 21 licenses are in markets where U.S. Cellular currently owns personal communications service spectrum and, therefore, are not included in the number of consolidated markets to be acquired. Only the incremental markets are included in the number of consolidated markets to be acquired to avoid duplicate reporting of overlapping markets. The rights to acquire licenses from AT&T Wireless expire on August 1, 2008.

(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 Consolidated Balance Sheets and its proportionate share of the net income of these licenses is included in Equity in earnings of unconsolidated entities in its Consolidated Statements 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 Consolidated Balance Sheets.

(5) Total markets to be owned after completion of pending transactions does not include the 17 licenses for which Barat Wireless was the successful bidder in Auction 66, which ended on September 18, 2006. On April 30, 2007, the FCC granted Barat Wireless applications with respect to the 17 licenses for which it was the winning bidder. See Wireless Systems Development FCC Auctions below for additional information related to Barat Wireless.

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 as incremental population measurements. Amounts reported in this Form 10-K 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 55.5 million as of December 31, 2006. U.S. Cellular also owns investment interests in wireless licenses which represent 1.5 million population equivalents as of that date. Population equivalents represent the population of a wireless licensed area, based on 2005 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 sixth largest wireless operating company in the United States at December 31, 2006, 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. From time to time, U.S. Cellular has divested outright or included in exchanges for other wireless interests certain consolidated and investment interests which are considered less essential to its operating strategy.

Wireless systems in U.S. Cellular s consolidated markets served approximately 5,815,000 customers at December 31, 2006, and contained 5,925 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 10.5% at December 31, 2006, and the number of customers who discontinued service (the churn rate) in these markets averaged 1.8% per month for the twelve months ended December 31, 2006.

Wireless Telephone Operations

The Wireless Telephone Industry. Wireless telephone technology provides high-quality, high-capacity communications services to hand-held portable, in-vehicle and fixed location wireless telephones, using radio spectrum licensed by the FCC. 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 widely offered by conventional (landline) telephone companies. 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 call moves from one cell to another, the mobile telephone switching office monitors radio signal strength and transfers the call from one cell to the next. This transfer is not noticeable to either party on the wireless telephone 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 Sprint Nextel Corporation 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, and
- high-speed wireless technologies, such as Wi-Fi and WiMAX.

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 cellular 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, certain cellular systems utilize analog technology. Under FCC rules now in effect, the requirement to offer analog service will expire in February, 2008, provided that wireless carriers and their vendors can develop digital handsets compatible with certain types of hearing aids. During 2006, U.S. Cellular began providing hearing aid compatible handsets. 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 in a substantial portion of its markets. Another digital technology, Code Division Multiple Access (CDMA), was deployed by U.S. Cellular in its remaining markets.

In 2002 through 2004, U.S. Cellular completed its deployment of CDMA 1XRTT technology, which improves capacity and allows for higher speed data transmission than basic CDMA, throughout all of its markets. Migration of U.S. Cellular s customers who currently use TDMA or analog handsets to CDMA compatible handsets in all of its markets is substantially complete.

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

- TDMA technology will 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 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. 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.

In 2006, U.S. Cellular and others in the wireless industry changed the type of handset identifier used to track specific handset units provided to customers. Similar to a vehicle identification number, each handset now has a 32-bit electronic serial number (ESN) burned into it for purposes of tracking service activation, billing, repair and fraud detection. The current supply of ESNs is dwindling and, over time, the current system will be replaced by a 56-bit mobile equipment identifier (MEID) system. Handset vendors began manufacturing 56-bit MEID handsets in 2006 and are expected to commence shipments of such handsets in 2007.

U.S. Cellular will continue to utilize TDMA technology for the next few 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-based network equipment has analog capabilities embedded, U.S. Cellular will continue to operate its TDMA-based networks in order to meet the FCC mandate of retaining analog capability through February 2008.

U.S. Cellular continually reviews its long-term technology plans. In late 2006, U.S. Cellular introduced 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. U.S. Cellular will continue to further evaluate investment in EV-DO technology in light of the revenue opportunities afforded by the deployment of such technology.

U.S. Cellular s Operations U.S. Cellular anticipates that it will experience increases in customers served and revenues in 2007 primarily through internal growth, including growth from markets acquired or launched in 2004-2006 as these markets are more fully developed and integrated into its operations.

Expenses associated with increases in customers served and revenues will be substantial. The amount of such expenses, in combination with the gain on investments recorded in 2006, may reduce the percentage growth in operating income for 2007 on a year-over-year basis; however, U.S. Cellular anticipates that cash flows from operating activities will increase on a year-over-year basis. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular s operating income, net income and cash flows from operating activities to fluctuate from quarter to quarter.

Changes in any of several factors could impact U.S. Cellular s operating income, net income and cash flows from operating activities, and the growth rates for such measures, 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 develop operations of newly launched operating markets;
- 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 in the use of U.S. Cellular s **easy**edge$_{sm}$ brand and other brands of enhanced data services and products;
- declines in inbound roaming revenues; and

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

U.S. Cellular continues to build a larger 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, 2006. 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 to acquire additional operating markets and 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 participate as a bidder, or member of a bidding group, in auctions for wireless spectrum administered by the FCC. U.S. Cellular also has divested outright or included in exchanges for other wireless interests those markets that are not strategic to its long-term success and has redeployed capital to more strategically important parts of the business. As part of this strategy, U.S. Cellular may be engaged from time-to-time in negotiations relating to the disposition of other non-strategic properties.**

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Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

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.

FCC Auctions. From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. The FCC is required to begin the auction of spectrum in the 700 MHz band no later than January 28, 2008. Although its participation is more likely than not, U.S. Cellular has not made a final determination as to whether it will participate in the auction. U.S. Cellular has participated in certain prior FCC auctions, as discussed below.

Auction 66. A wholly-owned subsidiary of U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66, which concluded on September 18, 2006. At the conclusion of the auction, Barat Wireless was the high bidder with respect to 17 licenses and bid $127.1 million, net of its designated entity discount. Barat Wireless was qualified to receive a 25% discount available to very small businesses , which were defined as having annual gross revenues of less than $15 million. On April 30, 2007, the FCC granted Barat Wireless applications with respect to the 17 licenses for which it was the winning bidder.

Barat Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2006, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of $127.2 million to provide funding of Barat Wireless participation in Auction 66; this amount is included in Licenses on the Consolidated Balance Sheet as of December 31, 2006. U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, for financial statement purposes, pursuant to the guidelines of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Barat Wireless expected gains or losses. Pending finalization of Barat Wireless permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

Auction 58. A wholly-owned subsidiary of U.S. Cellular is a limited partner in Carroll Wireless, L.P. (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 closed licenses , -or spectrum that was available only to companies included in the FCC definition of entrepreneurs, which are small businesses that have a limited amount of assets and revenues. In addition, Carroll Wireless bid on open licenses that were not subject to this restriction. With respect to these licenses, however, Carroll Wireless was qualified to receive a 25% discount available to very small businesses which were defined as having average annual gross revenues of less than $15 million. 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 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla, Washington license was already licensed to another party and should not have been included in Auction 58. Accordingly, in March 2006, Carroll Wireless received a full refund of the $228,000 previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2006, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of $129.9 million; of this amount, $129.7 million is included in Licenses on the Consolidated Balance Sheet as of December 31, 2006. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial statement purposes, pursuant to the guidelines of FIN 46R, as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of up to $1.4 million, of which $0.1 million of funding has been provided to date, for Carroll Wireless and Carroll PCS.

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Sales and Exchanges of Wireless Interests. In 2006, U.S. Cellular purchased the remaining interest in one wireless market in which it already owned a controlling interest for approximately $19.0 million in cash, subject to a working capital adjustment.

Prior to October 3, 2006, U.S. Cellular owned approximately 14% of Midwest Wireless Communications, L.L.C., which interest was convertible into an interest of approximately 11% in Midwest Wireless Holdings, L.L.C., a privately-held wireless telecommunications company that controlled Midwest Wireless Communications. On November 18, 2005, ALLTEL Corporation (ALLTEL) announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for $1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the holders of Midwest Wireless Holdings. These conditions were satisfied with the closing of this agreement on October 3, 2006. As a result of the sale, U.S. Cellular became entitled to receive approximately $106.0 million in cash in consideration with respect to its interest in Midwest Wireless Communications. Of this amount, $95.1 million was received on October 6, 2006; the remaining balance was held in escrow to secure true-up, indemnification and other adjustments and, subject to such adjustments, will be distributed in installments over a period of four to fifteen months following the closing. In the fourth quarter of 2006, U.S. Cellular recorded a gain of $70.4 million related to the sale of its interest in Midwest Wireless Communications. The gain recognized during the fourth quarter of 2006 includes $4.3 million received during the first four months of 2007 from the aforementioned escrow. In addition, U.S. Cellular owns 49% of an entity which, prior to October 3, 2006, owned approximately 2.9% of Midwest Wireless Holdings; U.S. Cellular accounts for that entity by the equity method. In the fourth quarter of 2006, U.S. Cellular recorded Equity in earnings of unconsolidated entities of $6.3 million and received a cash distribution of $6.5 million related to its ownership interest in that entity; such income and cash distribution were due primarily to the sale of the entity s interest in Midwest Wireless Holdings to ALLTEL.

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 Licenses on the Consolidated Balance Sheets. The rights to acquire licenses from AT&T Wireless expire on August 1, 2008. 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 the benefits it provides to customers, U.S. Cellular s operating strategy also has provided 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 reduce 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, 2006. The table presented therein lists the markets that U.S. Cellular includes in its consolidated operations, grouped according to operating market area. The operating market areas represent geographic 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. The table also lists the markets in which U.S. Cellular owns an investment interest.

For consolidated markets, the table aggregates the total population within each operating market area, regardless of U.S. Cellular s percentage ownership, or expected percentage ownership pursuant to definitive agreements, in the licenses included in such operating market areas. Those markets in which U.S. Cellular owns or has the rights to own less than 100% of the license show U.S. Cellular s ownership percentage or expected ownership percentage; in all others, U.S. Cellular owns or has the rights to own 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.

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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, 2006. Total markets owned or that U.S. Cellular had the right to acquire pursuant to definitive agreements does not include the 17 licenses for which Barat Wireless was the successful bidder in Auction 66, which ended on September 18, 2006. On April 30, 2007, the FCC granted Barat Wireless applications with respect to the 17 licenses for which it was the winning bidder.

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 2005 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.

Market Area/Market	Current or Future Percentage Interest(1)		2005 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)			
			13,119,000
Wisconsin/Minnesota			
Minneapolis-St. Paul, MN-WI 10 MHz C Block # (6)	90.00	%	
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	96.08		
Kenosha, WI	99.32		
Janesville-Beloit, WI			
Door (WI 10)			
Sheboygan, WI			
La Crosse, WI	97.21		
Trempealeau (WI 6) (3)			
Pierce (WI 5) (3)			
Madison, WI 10MHz F Block #			
Milwaukee, WI 10MHz D Block #			
Milwaukee, WI 10MHz F Block # (6) (7)	90.00		
			8,253,000
Illinois/Indiana			
Indianapolis, IN 10MHz F Block # (5)			
Peoria, IL			
Rockford, IL			
Jo Daviess (IL 1)			
Bloomington-Bedford, IN 10MHz B Block # (5)			
Terre Haute, IN-IL 20MHz B Block #			
Carbondale-Marion, IL 10MHz A Block/10MHz D Block # (5)			
Adams (IL 4) *			

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Mercer (IL 3)	
Miami (IN 4) * (8)	85.71
Muncie, IN 10MHz B Block # (5)	

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Market Area/Market	Current or Future Percentage Interest(1)	2005 Total Population(2)
Anderson, 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 *		
Bloomington, IL 10MHz E Block/10MHz F Block # (7)		
Bloomington-Bedford, IN 10MHz C Block # (6) (7)	90.00	
Champaign-Urbana, IL 10MHz E Block/F Block # (7)		
Columbus, IN 10MHz C Block # (6) (7)	90.00	
Danville, IL-IN 15MHz C Block # (7)		
Decatur-Effingham, IL 10MHz E Block/10MHz F Block # (7)		
Galesburg, IL 30MHz C Block # (7)		
Indianapolis, IN 10MHz C Block # (6) (7)	90.00	
Jacksonville, IL 10MHz F Block # (7)		
Lafayette, IN 10MHz C Block # (6) (7)	90.00	
LaSalle-Peru-Ottawa-Streator, IL 10MHz C Block/10 MHz F Block # (7)		
Marion, IN 10MHz F Block # (6) (7)	90.00	
Mattoon, IL 10MHz E Block/10MHz F Block # (7)		
Peoria, IL 10MHz C Block/10 MHz E Block # (7)		
Rockford, IL 10MHz E Block # (7)		
Springfield, IL 10MHz E Block/10MHz F Block # (7)		
		5,262,000
Iowa/Illinois/Nebraska/South Dakota		
Des Moines, IA		
Davenport, IA-IL		
Sioux City, IA-NE-SD 10MHz F Block # (5)		
Cedar Rapids, IA	96.76	
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)		
Burlington, IA-IL-MO 10MHz E Block #		
Clinton, IA-IL 10MHz E Block #		
Davenport, IA-IL 10MHz E Block #		
Des Moines, IA 10MHz D Block #		
Iowa City, IA 10MHz E Block #		
Ottumwa, IA 10MHz E Block #		

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

	2,743,000
Nebraska/Iowa	
Omaha, NE-IA 10 MHz A Block #	
Lincoln, NE 10MHz F Block #	
Boone (NE 5)	

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Market Area/Market	Current or Future Percentage Interest(1)	2005 Total Population(2)
Knox (NE 3)		
Keith (NE 6)		
Hall (NE 7)		
Cass (NE 10)		
Adams (NE 9)		
Mills (IA 1)		
Chase (NE 8)		
Grant (NE 4)		
Cherry (NE 2)		
Omaha, NE-IA 10MHz E Block # (5) (7)		
		1,839,000
TOTAL MIDWEST MARKET AREA		31,216,000
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)		
Reno (KS 14)		
Joplin, MO *		
Elk (KS 15) * (8)	75.00	
Wichita Falls, TX *	78.45	
Ellsworth (KS 8)		
Marshall (KS 4)		
Barton (MO 14)		
Franklin (KS 10)		
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 #		
Morris (KS 9)		
Jewell (KS 3)		
Ponca City, OK 30MHz C Block #		
Hardeman (TX 5) * (3)	78.45	
Briscoe (TX 4) * (3)	78.45	
Beckham (OK 7) * (3)	78.45	
Oklahoma City, OK 10MHz C Block # (6) (7)	90.00	
		5,924,000
Missouri/Illinois/Kansas/Arkansas		
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 *		

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Poplar Bluff, MO-AR 10MHz A Block # (5)
Stone (MO 15)
Laclede (MO 16)
Rolla, MO 10MHz A Block #
Washington (MO 13)
Callaway (MO 6) *

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Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Market Area/Market	Current or Future Percentage Interest(1)	2005 Total Population(2)
Sedalia, MO 10MHz C Block #		
Schuyler (MO 3)		
Shannon (MO 17)		
Linn (MO 5) (3)		
Jefferson City, MO 10MHz A Block #		
Columbia, MO 10MHz A Block #		
Harrison (MO 2) (3)		
West Plains, MO-AR 10MHz C Block # (6)	90.00	
		4,850,000
TOTAL SOUTHWEST MARKET AREA		10,774,000
MID-ATLANTIC MARKET AREA:		
Eastern North Carolina/South Carolina		
Charlotte-Gastonia, NC-SC 10 MHz C Block # (6)	90.00	
Harnett (NC 10)		
Hickory-Lenoir-Morganton, NC 10 MHz C Block # (6)	90.00	
Rockingham (NC 7)		
Northampton (NC 8)		
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)		
		5,345,000
Virginia/North Carolina		
Greensboro, NC 10 MHz C Block # (6)	90.00	
Roanoke, VA		
Giles (VA 3)		
Bedford (VA 4)		
Ashe (NC 3)		
Charlottesville, VA	95.37	
Lynchburg, VA		
Staunton-Waynesboro, VA 15 MHz C Block # (6)	90.00	
Danville, VA-NC 10 MHz F Block # (6)	90.00	
Buckingham (VA 7)		
Tazewell (VA 2) (3)		
Bath (VA 5)		
		2,866,000
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) *		

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

	1,180,000
TOTAL MID-ATLANTIC MARKET AREA	9,391,000
MAINE/NEW HAMPSHIRE/VERMONT MARKET AREA:	
Portland-Brunswick, ME 10MHz A Block #	
Burlington, VT 10MHz D Block #	

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Market Area/Market	Current or Future Percentage Interest(1)	2005 Total Population(2)
Manchester-Nashua, NH	96.66	
Carroll (NH 2)		
Coos (NH 1) *		
Kennebec (ME 3)		
Bangor, ME	97.57	
Somerset (ME 2)		
Addison (VT 2) * (3)		
Lewiston-Auburn, ME	88.45	
Oxford (ME 1)		
Washington (ME 4) *		
Rutland-Bennington, VT 10MHz D Block #		
Lebanon-Claremont, NH-VT 10MHz A Block # (5)		
Burlington, VT 10MHz E Block # (5) (7)		
Portland-Brunswick, ME 10MHz C Block # (6) (7)	90.00	
TOTAL MAINE/NEW HAMPSHIRE/ VERMONT MARKET AREA		2,839,000
NORTHWEST MARKET AREA:		
Oregon/California		
Coos (OR 5)		
Crook (OR 6) *		
Del Norte (CA 1)		
Medford, OR *		
Mendocino (CA 9)		
Modoc (CA 2)		
		1,133,000
Washington/Oregon		
Yakima, WA *	87.81	
Richland-Kennewick-Pasco, WA *		
Pacific (WA 6) *		
Umatilla (OR 3) *		
Okanogan (WA 4)		
Kittitas (WA 5) * (3)	98.24	
Hood River (OR 2) *		
Skamania (WA 7) *		
		1,123,000
TOTAL NORTHWEST MARKET AREA		2,256,000
EASTERN TENNESSEE/WESTERN NORTH CAROLINA MARKET AREA:		
Knoxville, TN *		
Asheville, NC *		
Asheville-Hendersonville, NC 10MHz C Block # (6)	90.00	
Henderson (NC 4) * (3)		
Bledsoe (TN 7) * (3)		
Hamblen (TN 4) * (3)		
Macon (TN 3) *		
Cleveland, TN 10MHz C Block #		
Yancey (NC 2) * (3)		
TOTAL EASTERN TENNESSEE/WESTERN NORTH CAROLINA MARKET AREA		2,134,000
Other Markets:		
Jefferson (NY 1) *	60.00	

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Franklin (NY 2) *	57.14	
Total Other Markets		487,000
Total Consolidated Markets		59,097,000

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Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

Market Area/Market	2005 Total Population(2)	Current Percentage Interest(1)	Current and Acquirable Population Equivalents(9)
Investment Markets:			
Los Angeles/Oxnard, CA *	17,663,000	5.50 %	971,000
Oklahoma City, OK *	1,102,000	14.60	161,000
Cherokee (NC 1) *	208,000	50.00	104,000
Others (Fewer than 100,000 population equivalents each)			303,000
Total Population Equivalents in Investment Markets			1,539,000

* 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, 2006 or as of the completion of any related transactions pending as of December 31, 2006. U.S. Cellular owns or has the rights to own 100% of any licensed areas which do not indicate a percentage. The licensed areas included under the caption Markets Currently Consolidated or Which Are Expected to Be Consolidated represent those markets which are currently included in U.S. Cellular s consolidated operating results, or are expected to be included in U.S. Cellular s operating results when acquired. U.S. Cellular and its consolidated subsidiaries own rights to acquire controlling financial interests in certain licensed areas as a result of an exchange transaction with AT&T Wireless that was completed on August 1, 2003. See Wireless Systems Development for further information regarding these rights.

(2) 2005 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 2005 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 2005 Total Population of those licensed areas included in Markets Currently Consolidated or Which Are Expected to Be Consolidated (as defined in Note 1 above) includes rights to acquire licensed areas with a total population of 3,554,000. Excluding the population of these licensed areas to be acquired, the total population of U.S. Cellular s licensed areas was 55,543,000 at December 31, 2006.

(3) These markets have been partitioned into more than one licensed area. The 2005 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.

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

(6) These licensed areas are held by Carroll Wireless. See discussion in Wireless Systems Development Auction 58 above.

(7) These licensed areas represent personal communications service spectrum that overlaps similar personal communications service spectrum U.S. Cellular currently owns. As a result, neither these markets nor their respective total population amounts are included in the total markets and total population amounts discussed throughout this Form 10-K.

(8) The percentage ownership shown for these markets is for U.S. Cellular and its subsidiaries. The remaining ownership interests in these markets are held by TDS.

(9) Current and Acquirable Population Equivalents are derived by multiplying the amount in the 2005 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 2006, over 99% 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.

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

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 reduce the current and future charges associated with leasing telephone lines from the landline telephone company.

Additionally, U.S. Cellular has developed and continues to expand a wide area data 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 all of U.S. Cellular s customer service centers (Customer Care Centers) for all customer service functions using U.S. Cellular s billing and information system.

U.S. Cellular believes that currently available technologies and appropriate capital additions will allow sufficient capacity on its 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 or spectrum 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. Consistent with FCC control requirements, U.S. Cellular 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 most of its future funding requirements with cash generated by operations and, on a temporary basis, borrowings under its revolving credit facility. U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs. U.S. Cellular estimates its capital expenditures in 2007 will total between $600 million and $615 million.

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in orde

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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, and nontraditional media such as the Internet and sponsorships. U.S. Cellular has achieved its current level of penetration of its markets through a combination of a strong brand, 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 retail sales and service centers, independent agents and direct sales, 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 several 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 s e-commerce site enables customers to activate service and purchase a broad range of accessories online, and this site is continually evolving to address customers current needs. Traffic on U.S. Cellular s Web site is increasing as customers use the site for gathering information, purchasing handsets and accessories, signing up for service, exploring **easy**edgeSM applications and finding the locations of its stores and agents.

Direct sales consultants market wireless service to mid- and large-size business customers. Retail sales associates work out of over 390 U.S. Cellular-operated 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 appropriate packages for the customer s expected usage and value-added services that meet customer needs.

U.S. Cellular has relationships with agents, dealers and non-Company retailers to obtain customers, and at year-end 2006 had contracts with these businesses aggregating over 1,700 locations. Agents and dealers are independent business entities 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 and RadioShack. 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 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 currently operates five regional Customer Care Centers whose personnel are responsible for customer service and certain other functions, and two national financial services centers, whose personnel perform credit and other customer care functions.

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.

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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. Through events held at U.S. Cellular® Field such as the 2003 Major League Baseball All-Star Game and 2005 Major League Baseball playoffs and World Series, 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 2006 over 99% of the minutes used were on U.S. Cellular s digital network. Additionally, as of year-end 2006, U.S. Cellular was offering its **easy**edgesm brand of enhanced data services in all of its operating market areas, supporting that effort using a wide variety of media. 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 2005, U.S. Cellular began offering SpeedTalksm, its walkie-talkie service, and BlackBerry® handsets and the related services to its customers in all market areas. U.S. Cellular plans on further expansion of its **easy**edgesm and other enhanced services in 2007 and beyond. In November 2006, U.S. Cellular began trialing enhanced multimedia services including Digital Radio, Mobile TV and 3D Gaming over its EV-DO network in Milwaukee, Wisconsin.

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, 2006.

Operating Market Areas	Population (1)	Customers	Penetration	
Midwest Market Area	29,361,000	2,890,000	9.8	%
Southwest Market Area	9,104,000	754,000	8.3	%
Mid-Atlantic Market Area	9,391,000	933,000	9.9	%
Maine/New Hampshire/Vermont Market Area	2,810,000	481,000	17.1	%
Northwest Market Area	2,256,000	407,000	18.0	%
Eastern Tennessee/Western North Carolina Market Area	2,134,000	219,000	10.3	%
Other Markets	487,000	131,000	26.9	%
	55,543,000	5,815,000	10.5	%

(1) Represents 100% of the population of the licensed areas in which U.S. Cellular has a controlling interest, based on 2005 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. U.S. Cellular focuses on both consumer and business customers, with increasing focus on the small-to-mid-size business customers in vertical industries such as construction, retail, professional services and real estate. These industries are primarily served through U.S. Cellular s retail and direct sales channels.

On average, the retail customers in U.S. Cellular s consolidated markets used their wireless systems approximately 704 minutes per month and generated retail service revenue of $41.44 per month during 2006, compared to 625 minutes and $39.76 per month in 2005. Additional revenues generated by roamers using U.S. Cellular s systems (inbound roaming) plus other service revenues, brought U.S. Cellular s total average monthly service revenue per customer to $47.23 during 2006, an increase of 4.4% from $45.24 in 2005. In 2006, U.S. Cellular revamped its rate plans, bundling the most valuable features and introducing more attractive Family Plans and Small Business Plans. These new plans together with increased sales of enhanced services contributed to the increase in average retail service revenue per customer in 2006. U.S. Cellular anticipates that total service revenues will continue to grow for the foreseeable future and that both average monthly retail service revenue per customer and average monthly total service revenue per customer will increase slightly in the future.

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U.S. Cellular s main sources of revenues are from its own customers and from inbound roaming customers. The interconnectivity of wireless service enables a customer who is in a wireless service area other than the customer s home service area (a roamer) to place or receive a call in that service area. U.S. Cellular has entered into roaming agreements with operators of other wireless systems covering virtually all systems with TDMA and CDMA technology 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 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.

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

	Year Ended or At December 31,									
	2006		**2005**		**2004**		**2003**		**2002**	
Majority-owned and managed markets:										
Wireless markets included in consolidated operations (1)	201		189		175		182		178	
Total population of markets included in consolidated operations (000s) (2)	55,543		45,244		44,391		46,267		41,048	
Customers:										
at beginning of period (3)	5,482,000		4,945,000		4,409,000		4,103,000		3,461,000	
net acquired (divested) during period (4)	23,000		60,000		(91,000	)	(141,000	)	332,000	
additions during period (3)	1,535,000		1,540,000		1,557,000		1,357,000		1,244,000	
disconnects during period (3)	(1,225,000	)	(1,063,000	)	(930,000	)	(910,000	)	(934,000	)
at end of period (3)	5,815,000		5,482,000		4,945,000		4,409,000		4,103,000	
Market penetration at end of period (5)	10.5	%	12.1	%	11.1	%	9.5	%	10.0	%

	Year Ended or At December 31,				
(Dollars in thousands)	**2006**	**2005**	**2004**	**2003**	**2002**
Consolidated revenues	$ 3,473,155	$ 3,030,765	$ 2,806,418	$ 2,577,810	$ 2,196,142
Depreciation expense	516,637	465,097	454,654	376,931	313,215
Amortization and accretion expense	58,475	45,390	47,910	57,564	39,161
Operating income	289,896	231,197	162,583	106,532	275,217
Capital expenditures	579,785	576,525	636,097	630,864	732,376
Business segment assets	$ 5,680,616	$ 5,416,233	$ 5,171,213	$ 4,963,839	$ 4,802,297

(1) Represents the number of licensed areas in which U.S. Cellular owned a controlling financial interest at the end of each year. The results of operations of these licensed areas are included in U.S. Cellular s Consolidated Statements of Operations.

(2) The decline in Total Population in 2004 reflects the divestitures of markets to AT&T Wireless and ALLTEL.

(3) Represents the number of wireless customers served by U.S. Cellular in the licensed areas referred to in footnote (1). The revenues earned from services to such customers are included in the Consolidated Statements of Operations.

(4) Represents the net number of wireless customers added to or subtracted from U.S. Cellular s customer base during the period due to acquisitions and divestitures of wireless licenses.

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(5) Calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets in service as estimated by Claritas.

Products and Services

Wireless Telephones and Installation. U.S. Cellular offers a wide range of digital wireless telephones for use by its customers. U.S. Cellular s retail and agent locations no longer offer analog handsets, but its network continues to facilitate analog traffic and its customer service and repair centers continue to provide service to users of analog handsets. U.S. Cellular s digital service offerings include additional features such as caller ID, short messaging services and data transmission, including camera features, downloading and wireless modem capabilities. A majority of new customers are selecting dual-mode or tri-mode wireless telephones to fully utilize these features. Certain dual-mode or tri-mode wireless telephones can be used on both analog and digital networks but, increasingly, such telephones are being manufactured with digital capability only. These dual-mode or tri-mode types of wireless telephones and associated features appeal to newer segments of the customer population, especially a younger demographic group which has become a fast-growing portion of the wireless user population. Dual-mode and tri-mode wireless telephones also enable customers to enjoy virtually seamless roaming in the United States, Canada and Mexico, regardless of their travel patterns. U.S. Cellular emphasizes these types of wireless telephones in its marketing efforts.

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U.S. Cellular negotiates volume discounts with its wireless telephone suppliers. U.S. Cellular significantly increased its purchasing power in 2002 by implementing a distribution system that enables it to efficiently sell and distribute handsets to its agents, and has expanded its sales of handsets to agents since that time. U.S. Cellular frequently discounts wireless telephones sold to new and current customers and provides upgraded handsets to current customers to meet competition, stimulate sales or retain customers by reducing the cost of becoming or remaining a wireless customer. In most instances, where permitted by law, customers are generally required to sign a new service contract or extend their current service contract with U.S. Cellular at the time the handset sale takes place. U.S. Cellular also works with wireless equipment manufacturers in promoting specific equipment in its local advertising.

U.S. Cellular has established service facilities in many of its local markets to ensure quality service and repair of the wireless telephones it sells. These facilities allow U.S. Cellular to improve its handset repair service by promptly assisting customers who experience equipment problems. Additionally, U.S. Cellular employs a repair facility in Tulsa, Oklahoma, to handle more complex service and repair issues.

Wireless Services. U.S. Cellular s customers are able to choose from a variety of packaged voice and data pricing plans which are designed to fit different usage patterns and customer needs. The ability to help a customer find the right pricing plan is central to U.S. Cellular s brand positioning. U.S. Cellular generally offers wide area and national consumer plans that can be tailored to a customer s needs by the addition of features or feature packages. Many consumer plans enable small work groups or families to share the plan minutes, enabling the customer to get more value for their money. Business rate plans are offered to companies to meet their unique needs. Most U.S. Cellular national rate plans price all calls, regardless of where they are made or received, as local calls with no long distance or roaming charges. Additionally, U.S. Cellular offers a hybrid prepaid service plan, TalkTracker®, which includes packages of minutes for a monthly fee.

U.S. Cellular s customer bills typically show separate charges for custom usage features, airtime in excess of the packaged amount (such packages may include roaming and toll usage), roaming and toll calls and data usage. Custom usage features provided by U.S. Cellular include wide-area call delivery, call forwarding, voice mail, call waiting, three-way calling and no-answer transfer.

Regulation

Regulatory Environment. U.S. Cellular s operations are subject to FCC and state regulation. The wireless telephone licenses U.S. Cellular holds are granted by the FCC for the use of radio frequencies in the 800 megahertz band (cellular licenses), and in the 1900 megahertz band (personal communications service licenses), and are an important component of the overall value of U.S. Cellular s assets. The construction, operation and transfer of wireless systems in the United States are regulated to varying degrees by the FCC pursuant to the Communications Act of 1934 (Communications Act). In 1996, Congress enacted the Telecommunications Act of 1996 (Telecommunications Act), which amended the Communications Act. The Telecommunications Act mandated significant changes in telecommunications rules and policies to promote competition, ensure the availability of telecommunications services to all parts of the United States and streamline regulation of the telecommunications industry to remove regulatory burdens, as competition develops. The FCC has promulgated regulations governing construction and operation of wireless systems, licensing (including renewal of licenses) and technical standards for the provision of wireless telephone service under the Communications Act, and is implementing the legislative objectives of the Telecommunications Act, as discussed below.

Licensing Wireless Service. For cellular telephone licensing purposes, the FCC has divided the United States into separate geographic markets (metropolitan statistical areas and rural service areas). In each market, the allocated cellular frequencies are divided into two equal blocks.

Since January 1, 2002, an entity which controls one cellular system in a metropolitan statistical area has been able to control the competing cellular system in that metropolitan statistical area. The FCC determined that wireless competition in metropolitan statistical areas among cellular, personal communications service and certain specialized mobile radio carriers, such as Sprint Nextel, which interconnect with the public switched telephone network, was sufficient to permit relaxation of the former prohibition on metropolitan statistical area cross-ownership.

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Effective February 14, 2005, the FCC also repealed the rule which prohibited any entity which controlled a cellular system in a rural service area from owning an interest in another cellular system in the same rural service area. Acquisition of both cellular licenses in the same rural service area are now evaluated on a case by case basis.

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The FCC originally allocated a total of 140 megahertz for broadband personal communications service, 20 megahertz to unlicensed operations and 120 megahertz to licensed operations, consisting of two 30 megahertz blocks in each of 51 major trading areas and one 30 megahertz block and three 10 megahertz blocks in each of 493 basic trading areas. Certain of the 30 megahertz basic trading area frequency blocks were split into 10 and 15 megahertz segments when the original licensees, unable to pay their installment payments in full to the FCC, returned part of their assigned spectrum to the FCC and it was subsequently reauctioned. Also ten megahertz of the 20 megahertz unlicensed block was redesignated for licensed advanced wireless service uses. Subject to some conditions, the FCC also permits licensees to split their licenses and assign a portion, on either a geographic or frequency basis, or both, to a third party.

The FCC also has allocated 90 MHz of Advanced Wireless Service spectrum (AWS-1) licensed as a 20 MHz Block in each of 734 metropolitan statistical and rural service areas, a 20 MHz Block and a 10 MHz Block in each of 176 designated Economic Areas and a 20 MHz Block and two 10 MHz Blocks in each of the 12 Regional Economic Area Groupings. These licenses were auctioned in 2006 by the FCC in Auction 66. The FCC also has allocated 10 megahertz of AWS spectrum under a nationwide license which license was granted to Nextel Communications, Inc. in 2005.

Prior to January 1, 2003, no entity was allowed to have a controlling interest in more than 55 megahertz of cellular, personal communications service, or covered specialized mobile radio spectrum in a given major trading area or basic trading area. Cellular systems have 25 megahertz of spectrum, and personal communications service systems typically may have 10, 15, or 30 megahertz of spectrum. As of January 1, 2003, this spectrum cap has been eliminated, and the FCC now determines whether acquisition of wireless licenses is in the public interest on a case-by-case basis under criteria which are being developed on a case-by-case basis.

The completion of acquisitions involving the transfer of control of a wireless system requires prior FCC approval. Acquisitions of minority interests generally do not require FCC approval. Whenever FCC approval is required, any interested party may file a petition to dismiss or deny the application for approval of the proposed transfer. See Other Recent FCC Developments below for additional wireless service licensing actions.

Licensing Facilities. The FCC must be notified each time an additional cell site for a cellular system is constructed which enlarges the service area of a given cellular market. The height and power of base stations in wireless systems are regulated by FCC rules, as are the types of signals emitted by these stations. The FCC also imposes a requirement that all wireless licensees register and obtain FCC registration numbers for all of their antenna towers which require prior Federal Aviation Administration (FAA) clearance. All new towers must be registered at the time of construction. All wireless towers of less than 10 meters in height, building-mounted antennas and wireless telephones must comply with radio frequency radiation guidelines. The FCC also regulates tower construction in accordance with its regulations, which carry out its responsibilities under the National Environmental Policy Act and Historic Preservation Act. In October, 2004, the FCC adopted a Nationwide Programmatic Agreement which exempts certain new towers from historic preservation review, but imposes additional notification and approval requirements on carriers with respect to state historic preservation officers and Native American tribes with an interest in the tower s location. In addition to regulation by the FCC, wireless systems are subject to certain FAA regulations with respect to the siting, construction, painting and lighting of wireless transmitter towers and antennas as well as local zoning requirements. U.S. Cellular believes that its facilities are in compliance with these requirements.

Licensing Commercial Mobile Radio Service. Pursuant to 1993 amendments to the Communications Act, cellular, personal communications and advanced wireless services are classified as commercial mobile radio service, in that they are services offered to the public for a fee and are interconnected to the public switched telephone network. The FCC has determined that it will not require such carriers to comply with a number of statutory provisions otherwise applicable to common carriers, such as the filing of tariffs.

All commercial mobile radio service wireless licensees must satisfy specified coverage requirements. Cellular licensees were required, during the five years following the initial grant of the respective license, to construct their systems to provide service (at a specified signal strength) to the territory encompassed by their service area. Failure to provide such coverage resulted in reduction of the relevant license area by the FCC. All 30 megahertz block personal communications service licensees must construct facilities that provide coverage to one-third of the population of the service area within five years of the initial license grants and to two-thirds of the population within ten years. All other licensees and certain 10 and 15 megahertz block licensees must construct facilities that provide coverage to one-fourth of the population of the licensed area or

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make a showing of substantial service in their license area within five years of the original license grants. Licensees that fail to meet the coverage requirements may be subject to forfeiture of the license.

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In a rulemaking proceeding concluded in July of 2004, the FCC amended its rules to add a substantial service option alternative for 30 megahertz block personal communications service licensees to the service specific construction benchmarks already available to these licensees. These rules, which took effect on February 14, 2005, give carriers greater flexibility to provide service based on the needs of individual customers and their own unique business plans.

Cellular and personal communications service licenses are granted for ten-year periods. AWS-1 spectrum licenses granted before December 31, 2009 have a fifteen-year term. The FCC has established standards for conducting comparative renewal proceedings between a cellular licensee seeking renewal of its license and challengers filing competing applications. The FCC has (i) established criteria for comparing the renewal applicant to challengers, including the standards under which a renewal expectancy will be granted to the applicant seeking license renewal; (ii) established basic qualifications standards for challengers; and (iii) provided procedures for preventing possible abuses in the comparative renewal process. The FCC has concluded that it will award a renewal expectancy if the licensee has (i) provided substantial performance, which is defined as sound, favorable and substantially above a level of mediocre service just minimally justifying renewal; and (ii) complied with FCC rules, policies and the Communications Act. A majority of geographically licensed services, including personal communications services licensees also are afforded a similar renewal expectancy. If renewal expectancy is awarded to an existing licensee, its license is renewed and competing applications are not considered. All of U.S. Cellular s licenses which it applied to have renewed between 1995 and 2006 have been renewed.

All of U.S. Cellular s approximately 1,100 FCC licenses for the microwave radio stations it used to link its cell sites with each other and with its mobile telephone switching offices were required to be renewed in 2001. All of those licenses were renewed for ten-year terms. All newly obtained microwave licenses receive ten-year terms as well. Over the next few years, due to the licensing of new satellite and other services in the relevant frequency bands, it is likely that certain of U.S. Cellular s remaining microwave facilities will need to be shifted to other frequencies. It is anticipated that those changes will be made without affecting service to customers and that the cost of such changes will not be significant.

U.S. Cellular conducts and plans to conduct its operations in accordance with all relevant FCC rules and regulations and anticipates being able to qualify for renewal expectancy in its upcoming renewal filings. Accordingly, U.S. Cellular believes that current regulations will have no significant effect on the renewal of its licenses. However, changes in the regulation of wireless operators or their activities and of other mobile service providers could have a material adverse effect on U.S. Cellular s operations.

E-911. There are certain ongoing regulatory proceedings before the FCC which are of particular importance to the wireless industry. In one proceeding, the FCC has imposed enhanced wireless 911, or E-911, regulations on wireless carriers. The rules require wireless carriers to provide increasingly detailed information about the location of E-911 callers in two phases. The obligation of a wireless carrier to provide this information is triggered by a qualifying request from state or local public safety agencies that handle 911 calls in the markets served by the wireless carrier. In phase one, which has been required since April 1998, wireless carriers are required to identify the location of the cell site from which a wireless call has been made and the E-911 caller s phone number. U.S. Cellular has provided this information on a timely basis in compliance with the FCC s rules in most but not all of its markets.

In phase two, which has been required since October 2001, wireless carriers were required to have the capability to provide an E-911 caller s specific location information within six months of receiving a qualifying request for such capability from a state or local public safety agency that handles 911 calls. In July 2002, the FCC released an order that delayed until March 1, 2003, the deadline by which certain medium-sized wireless carriers, including U.S. Cellular, were required to provide phase two information to qualifying state or local public safety agencies. U.S. Cellular is in compliance with the revised phase two E-911 requirements in most of its markets. However, there is no guarantee that U.S. Cellular will not be subject to sanctions, including monetary forfeitures, for failure to comply with the FCC s phase one or phase two E-911 requirements in all of its markets.

In addition, by an order issued in 2002, the FCC s E-911 rules required that 100 percent of all new digital handsets sold or otherwise activated by wireless carriers, including U.S. Cellular, be Global Positioning System-capable by May 30, 2004. The FCC s E-911 rules also required that 95 percent of all handsets in use on U.S. Cellular s network be GPS-capable by December 31, 2005; in December 2005, U.S. Cellular filed a request for a limited waiver of the FCC s 95 percent requirement. Since filing its initial waiver request, U.S. Cellular voluntarily submitted two different supplements to the waiver request that reported its progress toward meeting the 95 percent requirement. The most recent supplement reported that, as of September 30, 2006, U.S. Cellular s overall GPS-capable handset penetration was 94.48 percent.

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On January 5, 2007, the FCC released orders denying the 95 percent GPS-capable handset penetration waivers of nine wireless carriers, including U.S. Cellular (FCC Order). The FCC Order denying U.S. Cellular s handset penetration waiver imposed periodic reporting obligations on U.S. Cellular with respect to its (i) progress towards achieving the 95 percent penetration requirement, and (ii) receipt and disposition of phase two E-911 requests from local public safety agencies. The FCC Order also referred this matter to the FCC s Enforcement Bureau for possible further action, which could include the assessment of monetary forfeitures. On January 19, 2007, as required by the FCC Order, U.S. Cellular filed a certification with the FCC confirming that its overall GPS-capable handset penetration exceeded 95 percent some time during the fourth quarter of 2006. In addition, on February 5, 2007, U.S. Cellular submitted a Petition for Reconsideration of the FCC Order. However, there is no guarantee that U.S. Cellular will not be subject to sanctions, including monetary forfeitures, for failure to comply with the FCC s E-911 handset penetration rule.

Communications Assistance to Law Enforcement Act. Under a 1994 federal law, the Communications Assistance to Law Enforcement Act (CALEA), all telecommunications carriers, including U.S. Cellular and other wireless licensees, have been required to implement certain equipment changes necessary to assist law enforcement authorities in achieving an enhanced ability to conduct electronic surveillance of those suspected of criminal activity. U.S. Cellular is now substantially in compliance with the requirements of such act. In May 2006, the FCC issued an order reaffirming the applicability of CALEA s packet data requirements to wireless carriers and applying all its CALEA requirements to Voice Over Internet Protocol (VOIP) and broadband Internet access providers. The deadline for wireless carriers compliance with the packet data requirements as well as for VOIP and facilities-based broadband compliance with CALEA is May 14, 2007. U.S. Cellular is making its best efforts to comply with this deadline but its ability to do so may be affected by availability of CALEA-compliant equipment and uncertain FCC interpretations of the relevant rules.

Pending Proceedings Reciprocal Compensation. Since 1996, FCC rules generally have required symmetrical and reciprocal compensation, that is, payment at the same rate, for interconnecting wireless and local exchange facilities. Asymmetrical rates can be set if carrier costs justify such rates. In the absence of an order by a state public utilities commission establishing carrier interconnection costs, rates can be set in accordance with FCC default proxy rates or carriers may agree not to compensate each other, a so called bill and keep arrangement. The states have jurisdiction over such interconnection proceedings. In February 2005, the FCC adopted an order finding that state wireless termination tariffs, which certain local wireline carriers had sought to impose in the absence of interconnection agreements with wireless carriers, were unlawful. The order applied prospectively and required the negotiation of interconnection agreements to set rates. It also clarified that wireline carriers may request such agreements from wireless carriers, as well as vice versa, which had not been clear under the rules.

The FCC currently is considering changes to the entire system of intercarrier compensation, of which wireless-wireline interconnection is a part. It is not possible to predict with certainty the results of that proceeding but it is likely that the FCC will require increased emphasis on cost-based charges and, thus, that there would be fewer rate based subsidies for local exchange carriers, including those contained in interstate access charges, which wireless carriers also must pay on calls to wireline carriers deemed to be interstate under the FCC s rules. Such a result would be favorable to wireless carriers.

Pending Proceedings Automatic Roaming. In November, 2005, comments were filed concerning whether the FCC should adopt a rule requiring wireless carriers to allow other wireless carriers customers to roam on their systems automatically, that is, by prior agreement between carriers. It is argued that, without this protection, smaller and regional carriers will be at a competitive disadvantage relative to the national carriers. An FCC decision is expected in 2007.

Pending Proceedings Truth in Billing. On March 18, 2005, the FCC released an Order and Notice of Proposed Rulemaking (NPRM) which adopted rules to regulate the wording of wireless carrier bills but did not adopt the more extensive rules requested by the National Association of State Utility Consumer Advocates (NASUCA). The order also preempted state regulation of wireless billing. The NPRM, upon which the FCC has not acted, will impose additional requirements on wireless billing. The order became effective on August 25, 2005, and has been the subject of an appeal by NASUCA and other parties. In July 2006, the U.S. Court of Appeals for the Eighth Circuit reversed the FCC and set aside its order in a decision later upheld by that court on reconsideration. It is likely that the FCC will

seek Supreme Court review. If the Supreme Court does not grant review or it upholds the Eighth Circuit, overlapping and conflicting state regulation of wireless bills will be permitted, a result unfavorable to wireless carriers.

Pending Proceedings Early Termination Fees. On May 18, 2005, the FCC issued two public notices seeking comment on whether wireless early termination fees are to be considered a rate under Section 332 of the Act and, thus, exempt from state regulation and/or state consumer class action or other lawsuits. FCC action is expected in 2007, and it would be in the interest of wireless carriers for the FCC to rule that such fees are, in fact, a wireless rate.

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Pending Proceedings Customer Proprietary Network Information (CPNI). FCC rules require all carriers to safeguard the CPNI of their customers and prevent its disclosure to any person not authorized by the customer to possess such information. CPNI is information relating to a customer s telephone usage, such as numbers called and numbers from which calls were received. Wireless carriers may themselves use CPNI to market additional wireless services to customers without their prior consent but must obtain such consent to market non-wireless services. The CPNI issue has become prominent recently in light of disclosures of unauthorized persons coming into possession, through fraudulent means, of the customer telephone records of certain wireless carriers and then selling such information. The FCC and United States Congress are now considering additional regulatory and legislative action to safeguard CPNI. In December 2006, the U.S. Congress enacted legislation making pretexting, that is, fraudulently obtaining CPNI without customer consent, a federal crime, punishable by up to 10 years imprisonment. On April 2, 2007, the FCC released new rules creating safeguards for CPNI, which will take effect six months following their publication in the Federal Register. U.S. Cellular has had procedures in place to protect customer CPNI from unauthorized disclosure in the past, but has updated those procedures to ensure compliance with all relevant CPNI requirements.

Pending Proceedings Migratory Birds. For some years, conservation groups have sought FCC action concerning the alleged harm done by FCC licensed towers to migratory birds. The FCC has not acted on these requests. On April 12, 2006, the FCC denied a request from those groups that it require the preparation of retroactive environmental assessments for thousands of towers previously constructed in the Gulf Coast region. In November 2006, the FCC released a Notice of Proposed Rulemaking seeking comments and reply comments, due in April and May of 2007, regarding possible new rules to prevent harm to birds from FCC-licensed towers. Efforts are underway to arrive at compromise rules. However, action by the FCC to restrict tower construction owing to concern over migratory birds would be unfavorable to U.S. Cellular and other wireless carriers.

Pending Proceedings Universal Service. The Telecommunications Act establishes principles and a process for implementing a modified universal service policy. This policy seeks nationwide, affordable service and access to advanced telecommunications and information services. It calls for reasonably comparable urban and rural rates and services. The Telecommunications Act also requires universal service to schools, libraries and rural health facilities at discounted rates. Wireless carriers must provide such discounted rates to such organizations in accordance with federal regulations. The FCC has implemented the mandate of the Telecommunications Act to create a universal service support mechanism to ensure that all Americans have access to telecommunications services. The Telecommunications Act requires all interstate telecommunications providers, including wireless service providers, to make an equitable and non-discriminatory contribution to support the cost of providing universal service, unless their contribution would be *de minimis*. At present, the provision of landline and wireless telephone service in high cost areas is subsidized by support from the universal service fund, to which, as noted above, all carriers with interstate and international revenues must contribute. Such payments, which were based on a percentage of the total billed revenue of carriers for a given previous period of time, began in 1998.

Since February 2003, such payments have been based on estimates of future revenues. Previously, these payments were based on historical revenues. Carriers are free to pass such charges on to their customers. Wireless carriers are also eligible to receive universal service support payments in certain circumstances if they provide specified services in high cost areas. U.S. Cellular has sought designation as an eligible telecommunications carrier qualified to receive universal service support in certain states, has been designated as such a carrier in the states of Washington, Iowa, Wisconsin, Oregon, Oklahoma, Maine, and Kansas and has received payments for services provided to high cost areas within those states.

In 2006, U.S. Cellular paid over $80 million in contributions into the fund and received $71.0 million in high cost support payments for its service to high cost areas in the states referred to above. On May 1, 2007, a Federal-State Joint Board considering universal service issues recommended to the FCC that it impose an interim, emergency cap on the total amount of high cost support that competitive eligible telecommunications carriers may receive for each state. The cap would be based on the support such carriers were receiving at the end of 2006 in a given state. If a state was not receiving any support for competitive eligible telecommunications carriers at the end of 2006, it could not receive any support during the time the cap was in place. The Joint Board also recommended that the cap last for eighteen months while the FCC considered other measures for reforming high cost universal service support mechanisms and stated that it would make further policy

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recommendations to the FCC within six months. The FCC has sought public comment on the interim cap proposal and on the additional recommendations the Joint Board is considering. If adopted by the FCC, the cap would be detrimental to U.S. Cellular and other wireless carriers receiving high cost universal service support as it would diminish the amount of support they would have been otherwise eligible to receive had the cap not been imposed.

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Pending Proceedings Spectrum. In January 2000, pursuant to a congressional directive, the FCC adopted service rules for licensing the commercial use of 30 megahertz of spectrum in the 747-762 megahertz and 777-792 megahertz spectrum bands. Subsequently, the FCC adopted service rules for the 688-746 megahertz band, portions of which were auctioned in 2002 and 2003. Those rules provided that a majority of the spectrum in these bands would be auctioned in large regional service areas, although there were portions available which cover individual metropolitan statistical area and rural service area markets. The FCC has conducted two auctions for such metropolitan statistical area and rural service area licensed spectrum and certain other portions of the 688-746 megahertz spectrum which ended in September 2002 and June 2003, respectively. An additional auction to license the remaining unauctioned 700 megahertz spectrum could commence in the third quarter of 2007.

In April of 2006, Cyren Call Communications Corporation (Cyren Call) requested the FCC to initiate proceedings to reallocate 30 MHz of commercial 700 MHz spectrum proposed to be auctioned in 2007 to be used for a single, nationwide, broadband network with the authorization issued to a single licensee known as the Public Safety Broadband Trust (Trust). The Trust would be required to lease capacity on this 700 MHz spectrum to commercial operators who will fund network infrastructure deployment in exchange for the opportunity to serve commercial subscribers on the substantial amounts of network capacity not being used by public safety. In November of 2006, the FCC dismissed the Cyren Call Petition stating that the relief requested by Cyren Call is contrary to the terms of DTV Transition legislation adopted in February of 2006. Cyren Call has continued to mount regulatory and legislative challenges to this FCC dismissal.

In August of 2006, the FCC solicited public comment on changes in service area sizes and band plans in preparation for its upcoming 700 MHz spectrum auction. It also proposed modifications to the technical, performance, renewal and E911/Hearing Aid compatibility requirements which could apply to licenses in the 700 MHz and other CMRS bands. The FCC also proposed rules changes potentially applicable in CMRS bands relating to partition/disaggregation, spectrum leasing and competitive bidding rules to promote spectrum aggregation and new entry, to encourage new and expanded service in rural areas and to create new incentives for expanded services in Native American Tribal areas.

In September of 2006, the FCC initiated proceedings to consider changes in its service and technical rules for the 700 MHz band that may provide greater flexibility to incumbent commercial licensees in previously auctioned portions of such band. In December of 2006, it also commenced proceedings possibly to assign 12 megahertz of public safety spectrum in such band on a nationwide basis to a single national public safety broadband licensee which licensee will be permitted to provide preemptible access to such assigned spectrum to commercial service providers on a secondary basis, through leases or in the form of public/private partnerships.

Other Recent FCC Developments. In October of 2006, the FCC confirmed that it intended to expand competition in the broadband sector by opening up underutilized television broadcast spectrum for new low power fixed and personal/portable uses. The FCC left open important issues to be addressed in rulemaking proceedings such as how low power devices might be used on TV channels without causing harmful interference to broadcast incumbents and whether such low power uses should be provided on an unlicensed or a licensed basis.

Telecommunications Act General. The primary purpose and effect of the Telecommunications Act is to open all telecommunications markets to competition. The Telecommunications Act makes most direct or indirect state and local barriers to competition unlawful. It directs the FCC to preempt all inconsistent state and local laws and regulations, after notice and comment proceedings. It also enables electric and other utilities to engage in telecommunications service through qualifying subsidiaries.

Only narrow powers over wireless carriers are left to state and local authorities. Each state retains the power to impose competitively neutral requirements that are consistent with the Telecommunications Act s universal service provisions and necessary for universal services, public safety and welfare, continued service quality and consumer rights. While a state may not impose requirements that effectively function as barriers to entry, it retains limited authority to regulate certain competitive practices in rural telephone company service areas.

In May 2003, the FCC adopted new spectrum leasing policies which permit licensees of cellular, personal communications service, and specialized mobile radio spectrum, among other bands, to lease to third parties any amount of spectrum in any geographic area encompassed by their licenses, and for any period of time not extending beyond the current term of the license. The FCC has also adopted streamlined processing rules for applications for assignment and transfer of control of telecommunications carrier licenses. These new rules and policies were expanded and clarified by the FCC in July of 2004 to permit spectrum leasing in additional wireless services, to streamline processing of spectrum leasing applications as well as traditional license transfers and assignments and to establish new categories of spectrum leasing arrangements.

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State and Local Regulation. U.S. Cellular is also subject to state and local regulation in some instances. In 1981, the FCC preempted the states from exercising jurisdiction in the areas of licensing, technical standards and market structure. In 1993, Congress preempted states from regulating the entry of wireless systems into service and the rates charged by wireless systems to customers. The siting and construction of wireless facilities, including transmitter towers, antennas and equipment shelters are still subject to state or local zoning and land use regulations. However, in 1996, Congress amended the Communications Act to provide that states could not discriminate against wireless carriers in tower zoning proceedings and had to decide on zoning requests with reasonable speed. In addition, states may still regulate other terms and conditions of wireless service.

In 2000, the FCC ruled that the preemption provisions of the Communications Act do not preclude the states from acting under state tort, contract, and consumer protection laws to regulate the practices of commercial mobile radio service carriers, even if such activities might have an incidental effect on wireless rates. This ruling has led to more state regulation of commercial mobile radio service carriers, particularly from the standpoint of consumer protection. U.S. Cellular intends to vigorously defend its activities in this regard.

The FCC is required to forbear from applying any statutory or regulatory provision that is not necessary to keep telecommunications rates and terms reasonable or to protect consumers. A state may not apply a statutory or regulatory provision that the FCC decides to forbear from applying. In addition, the FCC must review its telecommunications regulations every two years and change any that are no longer necessary. Further, the FCC is empowered under certain circumstances to preempt state regulatory authorities if a state is obstructing the Communications Act s basic purposes.

U.S. Cellular and its subsidiaries have been and intend to remain active participants in proceedings before the FCC and state regulatory authorities. Proceedings with respect to the foregoing policy issues before the FCC and state regulatory authorities could have a significant impact on the competitive market structure among wireless providers and the relationships between wireless providers and other carriers. U.S. Cellular is unable to predict the scope, pace or financial impact of policy changes which could be adopted in these proceedings.

Radio Frequency Emissions. The FCC has adopted rules specifying standards and the methods to be used in evaluating radio frequency emissions from radio equipment, including network equipment and handsets used in connection with commercial mobile radio service. These rules were upheld on appeal by the U.S. Court of Appeals for the Second Circuit. The U.S. Supreme Court declined to review the Second Circuit s ruling. U.S. Cellular s network facilities and the handsets it sells to customers comply with these standards.

On December 7, 2004, the United States Court of Appeals for the District of Columbia upheld in EMR Network v. FCC, the FCC s current requirements regarding radio frequency emissions and held that the FCC was not obliged to commence inquiry into the non-thermal effects of radio frequency emissions. The court also evaluated the studies relied upon by the plaintiffs and concluded they were insufficient. The FCC however, is considering changes in its rules regarding human exposure to radio frequency magnetic fields in a separate proceeding.

Media reports have suggested that radio frequency emissions from handsets, wireless data devices and cell sites may raise various health concerns, including cancer or tumors, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Although some studies have suggested that radio frequency emissions may cause certain biological effects, most of the expert reviews conducted to date have concluded that the evidence does not support a finding of adverse health effects but that further research is appropriate. Research and studies are ongoing.

These concerns over radio frequency emissions may discourage the use of handsets and wireless data devices and may result in significant restrictions on the location and operation of cell sites, all of which could have a material adverse effect on U.S. Cellular s results of operations. Several class action and single-plaintiff lawsuits have been filed against several other wireless service operators and several wireless phone manufacturers, asserting product liability, breach of warranty and other claims relating to radio frequency transmissions to and from handsets and wireless data devices. The lawsuits seek substantial monetary damages as well as injunctive relief.

One important case in which the plaintiff alleged that his brain tumor had been caused by his wireless telephone use, Newman v. Verizon et al., was dismissed in the U.S. District Court in Maryland in October 2002. The U.S. Court of Appeals for the Fourth Circuit affirmed the dismissal in October 2003, upholding the lower court s decision that plaintiff had failed to produce admissible scientific evidence that mobile phone use causes brain cancer.

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Several other cases alleging injury are pending as are class action cases alleging that wireless telephones increase the risk of adverse health effects unless they are used with headsets. In March 2005, the U.S. Court of Appeals for the Fourth Circuit reversed a lower court s decision in the case of Pinney v. Nokia, et al., which had dismissed five class action lawsuits alleging that the wireless industry had endangered consumers by selling mobile phones without headsets. The court found that the federal court did not have jurisdiction over the claims in four of the cases and held that the state law claims were not pre-empted by federal law in the fifth case. In October, 2005, the U.S. Supreme Court declined to review the Fourth Circuit decision.

Subsequently, four of the cases were remanded to state courts in New York, Pennsylvania, Maryland and Georgia where they were filed. Thereafter, plaintiffs amended their complaints in two of the cases to add new defendants and those defendants removed the cases to federal court under the provisions of the newly enacted Class Action Reform Act. Plaintiffs have voluntarily dismissed all but one of the putative class action cases. That case has been transferred from the federal district court in Philadelphia to the federal district court in Maryland where motions to dismiss are pending. Also following the Fourth Circuit s decision in Pinney, the FCC was granted leave to participate as amicus curiae in a case alleging a brain injury from use of a wireless phone and has filed a brief indicating the agency s disagreement with the preemption aspect of that decision.

There can be no assurance that the outcome of these or other lawsuits will not have a material adverse effect on the wireless industry, including U.S. Cellular. U.S. Cellular carries insurance with respect to such matters, but there is no assurance that such insurance would be sufficient, will continue to be available or will not be cost-prohibitive in the future.

Competition

U.S. Cellular competes directly with several wireless communication service providers in each of its markets. In general, there are between three and five competitors in each wireless market, excluding numerous mobile virtual network operators (which are types of resellers which purchase blocks of mobile telephone numbers from an operational system and then resell them to the public). U.S. Cellular generally competes against each of the near-nationwide wireless companies: Verizon Wireless, Sprint Nextel, AT&T and T-Mobile USA Inc. However, not all of these competitors operate in each market where U.S. Cellular does business. These competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than U.S. Cellular.

The use of national advertising and promotional programs by the near-national wireless operators may be a source of additional competitive and pricing pressures in all U.S. Cellular markets, even if those operators may not provide service in a particular market. U.S. Cellular provides wireless services comparable to the national competitors, but the other wireless companies operate in a wider geographic area and are able to offer no- or low-cost roaming and long-distance calling packages over a wider area on their own networks than U.S. Cellular can offer on its network. If U.S. Cellular offers the same calling area as one of these competitors, U.S. Cellular will incur roaming charges for calls made in portions of the calling area which are not part of its network, thereby increasing its cost of operations.

In the Midwest, U.S. Cellular s largest contiguous service area, U.S. Cellular can offer larger regional service packages without incurring significant roaming charges than it is able to offer in other parts of its network. U.S. Cellular also employs a customer satisfaction strategy throughout its markets which it believes has contributed to a relatively low churn rate and has had a positive impact on its cost to acquire and serve customers.

Some of U.S. Cellular s competitors bundle other services, such as landline telephone service, internet access and television service with their wireless communications services, which U.S. Cellular either does not have the ability to offer or has chosen not to offer.

In addition, U.S. Cellular competes against both larger and smaller regional wireless companies in certain areas, including ALLTEL (which acquired Western Wireless Corporation in 2005 and Midwest Wireless Holdings in 2006), Rural Cellular Corporation, and resellers of wireless services. Since each of these competitors operates on systems using spectrum licensed by the FCC and has comparable technology and facilities, competition for customers among these systems in each market is principally on the basis of quality of service, price, size of area covered, services offered and responsiveness of customer service. ALLTEL s acquisition of these two companies has likely increased this competitor s access to financial, technical, marketing, sales, purchasing and distribution resources.

Since U.S. Cellular s competitors do not disclose their subscriber counts in specific regional service areas, market share for the competitors in each regional market cannot be precisely determined.

The FCC s rules require all operational wireless systems to provide, on a nondiscriminatory basis, wireless service to resellers. Certain of these resellers, mobile virtual network operators such as Virgin Mobile and Qwest Corporation, have grown substantial customer bases through the leveraging of existing brand names and have proven to be competitive with U.S. Cellular in certain of its operating markets. Others, such as Disney Corporation, use or plan to use their brand recognition and access to content to compete in the wireless arena. Most of these mobile virtual network operators utilize the near-nationwide wireless companies networks and roaming agreements to provide their service.

Although less directly a substitute for other wireless services, wireless data services, such as WiFi and related WiMAX and paging services, may be adequate for those who do not need wide-area roaming or full two-way voice services. Technological advances or regulatory changes in the future may make available other alternatives to wireless service, thereby creating additional sources of competition.

Continuing technological advances in the communications field make it difficult to predict the extent of additional future competition for wireless systems. For example, the FCC has allocated radio channels to mobile satellite systems in which transmissions from mobile units to satellites would augment or replace transmissions to cell sites. Such systems are designed primarily to serve the communications needs of remote locations, and mobile satellite systems could provide viable competition for land-based wireless systems in such areas. Some initial deployments have been made and service is now being provided in certain areas. It is also possible that the FCC may in the future assign additional frequencies to wireless telephone service or enhanced specialized mobile radio service to provide for more competitors in each market.

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TDS Telecom Operations

Overview

TDS s wireline telephone operations are conducted through TDS Telecom and its subsidiaries. TDS Telecom is a wholly owned subsidiary of TDS. TDS Telecom s corporate headquarters are located in Madison, Wisconsin. TDS Telecom is a holding company that, through its affiliates, provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service, data services, and Internet access, to rural and suburban communities. TDS Telecom has 111 telephone company subsidiaries that are incumbent local exchange carriers. An incumbent local exchange carrier is an independent local telephone company that formerly had the exclusive right and responsibility to provide local transmission and switching services in its designated service territory. TDS Telecom served approximately 757,300 equivalent access lines in 28 states through its incumbent local exchange carrier subsidiaries at December 31, 2006.

TDS Telecom subsidiaries also provide telecommunications services as a competitive local exchange carrier in Illinois, Michigan, Minnesota (including Minneapolis/St. Paul), and Wisconsin (including Madison and Milwaukee) under the TDS Metrocom brand name. Competitive local exchange carrier is a term describing companies that enter the operating areas of incumbent local exchange carriers to offer local exchange and other telephone services. TDS Telecom served approximately 456,200 equivalent access lines through its competitive local exchange carrier subsidiaries at December 31, 2006, an increase from 448,600 at December 31, 2005.

The table below sets forth, as of December 31, 2006, the ten largest states of TDS Telecom s operations based on the number of equivalent access lines and the total number of equivalent access lines operated by all of the telephone subsidiaries of TDS Telecom.

State	Number of Equivalent Access Lines at December 31, 2006	% of Total	
Wisconsin	391,200	32.2	%
Michigan	152,500	12.6	%
Minnesota	118,900	9.8	%
Tennessee	116,500	9.6	%
Georgia	61,400	5.1	%
New Hampshire	41,600	3.4	%
Indiana	37,800	3.1	%
Illinois	32,300	2.7	%
Alabama	29,200	2.4	%
Maine	28,700	2.4	%
Total for 10 Largest States	1,010,100	83.3	%
Other States	203,400	16.7	%
Total	1,213,500	100.0	%

Each TDS Telecom incumbent local exchange carrier provides consumers and businesses with landline local telephone service through its switching and intra-city network. Long distance or toll service is provided through connections with long distance carriers which purchase network access from the TDS Telecom incumbent local exchange carriers and by TDS Telecom s own long distance unit that resells long distance service in its incumbent local exchange carrier markets. The long distance unit served 340,000 long distance access lines at December 31, 2006, and 321,500 at December 31, 2005.

Future growth in telephone operations is expected to be derived from providing service to new or presently underserved customers, expanding service in the areas currently served by TDS Telecom, upgrading existing customers to higher grades of service and increasing penetration of services. Additionally, growth may be derived from new services made possible by advances in technology, and the acquisition or development of additional incumbent local exchange carrier and competitive local exchange carrier operations.

TDS Telecom is committed to offering its customers a full complement of wired telecommunications services and bundles of those services in customer friendly packages to provide a single source for its customers telecommunication needs. TDS Telecom intends to provide its customers with expanded communications products and services covering their local, long distance, Internet and data needs.

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The following table summarizes certain information regarding TDS Telecom s incumbent local exchange carrier (ILEC) and competitive local exchange carrier (CLEC) telephone and Internet operations:

	Year Ended or At December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
ILEC Equivalent Access Lines (1)	757,300	735,300	730,400	722,200	711,200
% Residential	75.7 %	75.4 %	74.8 %	74.6 %	74.9 %
% Business (nonresidential)	24.3 %	24.6 %	25.2 %	25.4 %	25.1 %
CLEC Equivalent Access Lines (1)	456,200	448,600	426,800	364,800	291,400
% Residential	33.9 %	36.0 %	38.1 %	37.2 %	41.5 %
% Business (nonresidential)	66.1 %	64.0 %	61.9 %	62.8 %	58.5 %
Dial-up Internet Customers:					
ILEC	77,100	90,700	101,300	112,900	117,600
CLEC	10,200	14,200	18,200	22,200	24,700
Digital Subscriber Line Customers:					
ILEC	105,100	65,500	41,900	23,600	9,100
CLEC	42,100	36,400	29,000	20,100	11,800
ILEC Long Distance Customers (2)	340,000	321,500	295,000	230,500	197,500
Consolidated:					
Total revenues	$ 875,918	$ 904,085	$ 880,145	$ 862,988	$ 801,530
Depreciation and amortization expense	159,612	165,616	170,014	163,399	159,291
Operating income	128,856	160,725	37,070	151,287	105,408
Construction expenditures	130,434	124,610	138,247	139,218	168,405
Business segment assets	$ 1,848,003	$ 1,864,835	$ 1,961,331	$ 2,076,948	$

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