TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-K/A
February 23, 2007

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K/A

**Amendment No. 1**

**(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, 2005**

**OR**

.. **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, 2005, 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 $1.4 billion, $11.3 million, $1.2 billion and $5.3 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, 2005 closing price of the Common Shares was $40.81 and the Special Common Shares was $38.34, 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 $40.81 per share) and of Special Common Shares (at $38.34 per share) into which it was convertible on June 30, 2005.

The number of shares outstanding of each of the registrant s classes of common stock, as of May 31, 2006, is 51,431,735 Common Shares, $.01 par value, 57,782,076 Special Common Shares, $.01 par value and 6,446,079 Series A Common Shares, $.01 par value.

**DOCUMENTS INCORPORATED BY REFERENCE**

Those sections or portions of the registrant s 2005 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 2006 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**

Telephone and Data Systems, Inc. ( TDS ) is filing this Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended December 31, 2005 ( Form 10-K/A ), which was originally filed with the Securities and Exchange Commission ( SEC ) on July 28, 2006 ( Original Form 10-K ), to amend Item 1 Business, Item 2 Properties, Item 6 Selected Financial Data, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ), Item 7A Quantitative and Qualitative Disclosures About Market Risk, Item 8 Financial Statements and Supplementary Data, Item 9A Controls and Procedures, and Item 15 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, TDS and its audit committee concluded on November 6, 2006, that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- Forward contracts and related derivative instruments - In reviewing the accounting and disclosure of its prepaid forward contracts, TDS concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. TDS did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2004, 2003 and 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders equity, to the statement of operations.

- Expense reclassifications - Certain prior period amounts, primarily labor, maintenance, rent and utilities expenses at the competitive local exchange carriers ( CLEC ), previously reported in selling, general and administrative expense have been corrected to properly reflect the classification of the expenses in cost of service and products in the current period. Certain expenses, primarily universal service costs, at both the incumbent local exchange carriers ( ILEC ) and the CLEC previously reported in cost of service and products have been adjusted to properly reflect the classification of the expenses in selling, general and administrative expense. These adjustments did not have an effect on operating income or net income.

- Establishment of an Asset Retirement Obligation ( ARO ) - Upon initial implementation of Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations ( SFAS No. 143 ) in 2003, TDS Telecom s ILEC operations concluded that it was not necessary to record an ARO asset and corresponding regulatory liability of equal amount. TDS Telecom's ILECs have their rates regulated by the respective state public utility commissions and the Federal Communications Commission ( FCC ), and therefore, reflect the effects of the rate-making actions of these regulatory bodies in their financial statements. In 2002, the FCC notified carriers by Order that it would not be adopting SFAS No. 143 since the FCC concluded that SFAS No. 143 conflicted with the FCC's current accounting rules that require ILECs to accrue for asset retirement obligations through prescribed depreciation rates. Upon adoption of SFAS No. 143, and pursuant to the FCC's order and the provisions of SFAS No. 71 Accounting for the Effects of Certain Types of Regulation, ( SFAS No.71 ) the ILECs reclassified their existing remediation liabilities, previously recorded in accumulated depreciation, to an ARO liability and a separate regulatory liability. Upon further review, TDS has concluded that upon adoption of SFAS No. 143, and in accordance with SFAS No. 71, it should have recognized an ARO asset and a corresponding ARO liability, rather than establish the ARO liability through a reclassification of its existing remediation liabilities. The adjustment did not affect previously reported revenues, operating income or net income (loss).

- Contracts with maintenance and support services U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.

- Classification of Asset Retirement Obligation on the Statement of Cash Flows The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations ( ARO ) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset.

- Income taxes In the restatement, TDS adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.

TDS determined that the state deferred tax liabilities attributable to marketable equity securities, as presented in prior periods, should have been lower to reflect carryover of a higher stock basis than the federal basis for certain states that have not adopted the federal consolidated return regulations. TDS also identified a valuation allowance related to state net operating loss carry forwards for which deferred tax liabilities related to marketable equity securities provide positive evidence supporting reductions to previously established valuation allowances.

- Property, plant and equipment U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.

- Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts, including corrections to purchase price accounting for certain acquisitions prior to 2003. These individual adjustments were not material.

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

For the convenience of the reader, this Form 10-K/A sets forth the Original Form 10-K, as amended hereby, in its entirety. However, this Form 10-K/A amends and restates only Items 1, 2, 6, 7, 7A, 8, 9A and 15 of the Original Form 10-K, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying consolidated financial statements, and no other information in the Original Form 10-K is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-K, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-K/A represented management s views as of the date of filing of the Original Form 10-K for the year ended December 31, 2005 on July 28, 2006. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise.

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

**CROSS REFERENCE SHEET**

**AND**

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(1) Parenthetical references are to information incorporated by reference from Exhibit 13 hereto, which includes portions of the registrant s Annual Report to Shareholders for the year ended December 31, 2005 ( Annual Report ) and from Exhibit 99.1 hereto, which includes portions of the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2006 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, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.

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

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

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

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

**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, 2005, TDS served approximately 6.7 million customers in 36 states, including 5,482,000 wireless telephone customers and 1,183,900 wireline telephone equivalent access lines. United States Cellular Corporation ( U.S. Cellular ) provided 77% of TDS s consolidated revenues and 60% of consolidated operating income in 2005. TDS Telecom provided 23% of consolidated revenues and 40% of consolidated operating income in 2005. Suttle Straus provided less than 1% of consolidated revenues and operating income in 2005. 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 5,482,000 customers through the operations of 189 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, 2005. 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 32 million, and one other market area which covers a total population of more than five million.

TDS conducts its wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation ( TDS Telecom ). At December 31, 2005, TDS Telecom served 1,183,900 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, 2005, TDS Telecom incumbent local exchange carriers served 735,300 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, 2005, TDS Telecom s competitive local exchange carriers served 448,600 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 ).

**Possible U.S. Cellular Transaction**

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

On April 11, 2005, shareholders of TDS approved the increase in the authorized number of TDS Special Common Shares. As a result, and following the satisfaction of other conditions, the distribution of TDS Special Common Shares became effective on May 13, 2005 to shareholders of record on April 29, 2005. In the distribution, one TDS Special Common Share was distributed in the form of a stock dividend with respect to each TDS Common Share and TDS Series A Common Share issued on April 29, 2005.

TDS also disclosed that, following such action at some time in the future, TDS may possibly offer to issue TDS Special Common Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS (a Possible U.S. Cellular Transaction ). TDS currently owns approximately 81.3% of the shares of common stock of U.S. Cellular. TDS disclosed that a Possible U.S. Cellular Transaction would cause U.S. Cellular to become a wholly owned subsidiary of TDS. TDS has set no time frame for a Possible U.S. Cellular Transaction and there are no assurances that a transaction will occur.

See the proxy statement of TDS, dated March 14, 2005, filed with the SEC relating to the Special Common Share proposal for additional information relating to the foregoing.

**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 5,482,000 customers through the operations of 189 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, 2005. 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 area, including its contiguous Midwest and Southwest market areas, which cover a total population of more than 32 million, and one other market area which covers a total population of more than five million.

U.S. Cellular s ownership interests in wireless licenses include both consolidated and investment interests in licenses covering 164 cellular metropolitan statistical areas (as designated by the U.S. Office of Management and Budget and used by the Federal Communications Commission ( FCC ) in designating metropolitan cellular market areas) or rural service areas (as used by the FCC in designating non-metropolitan statistical area cellular market areas) ( cellular licenses ) and 49 personal communications service basic trading areas (used by the FCC in dividing the United States into personal communications service market areas for licenses in Blocks C through F). Of those interests, U.S. Cellular owns controlling interests in 140 cellular licenses and each of the 49 personal communications service basic trading areas. As of December 31, 2005, U.S. Cellular also owned, directly and indirectly, rights to acquire controlling interests in 28 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 ( Cingular ), and from Auction 58 (as discussed below).

At December 31, 2005, U.S. Cellular was a limited partner in Carroll Wireless, L.P. ( Carroll Wireless ). U.S. Cellular consolidates Carroll Wireless for financial reporting purposes because it is deemed to have a controlling financial interest in Carroll Wireless. Carroll Wireless participated in FCC wireless spectrum Auction 58, in which eligible participants bid on designated personal communication service spectrum licenses. Carroll Wireless did not own any interests in wireless licenses or any other significant assets as of December 31, 2005. As a result of Auction 58, which ended February 15, 2005, Carroll Wireless was a successful bidder for 17 personal communication service licenses in 12 states for a cost of $129.9 million.

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 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 amount previously paid to the FCC with respect to the Walla Walla license. See Wireless Systems Development Auction 58 for further discussion of U.S. Cellular and Carroll Wireless s obligations pursuant to Auction 58.

U.S. Cellular manages the operations of all but two of the licenses in which it owns a controlling interest; U.S. Cellular has contracted with another wireless operator to manage the operations of these other two licenses. 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, 2005. Personal communications service markets are designated as PCS.

| | Total | Cellular | PCS |
|---|---|---|---|
| Consolidated markets (1) | 189 | 140 | 49 |
| Consolidated markets to be acquired pursuant to existing agreements (2) | 28 | | 28 |
| Minority interests accounted for using equity method (3) | 19 | 19 | |
| Minority interests accounted for using cost method (4) | 5 | 5 | |
| Total markets to be owned after completion of pending transactions | 241 | 164 | 77 |

(1) U.S. Cellular owns a controlling interest in each of the 140 cellular markets and 49 personal communications service markets it included in its consolidated markets at December 31, 2005.

(2) U.S. Cellular owns rights to acquire controlling interests in 28 additional personal communications service licenses, through an acquisition agreement with AT&T Wireless which was closed in August 2003 and as a result of Auction 58. 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 are therefore 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.

On January 6, 2006, through Auction 58, 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. Of the 16 licenses which were granted to Carroll Wireless, five are in markets in which U.S. Cellular currently owns personal communications service spectrum; the other 11 markets represent markets which are incremental to U.S. Cellular s currently owned or acquirable markets.

(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 investment income 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.

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

U.S. Cellular owns interests in consolidated wireless licenses which cover a total population of 45.2 million as of December 31, 2005. U.S. Cellular also owns investment interests in wireless licenses which represent 1.7 million population equivalents as of that date. Population equivalents represent the population of a wireless licensed area, based on 2004 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, 2005, 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. U.S. Cellular has also 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 5,482,000 customers at December 31, 2005, and contained 5,428 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 12.12% at December 31, 2005, and the number of customers who discontinued service (the churn rate ) in these markets averaged 1.70% per month for the twelve months ended December 31, 2005.

**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 moves from one cell to another, the mobile telephone switching office monitors radio signal strength and transfers ( hands off ) the call from one cell to the next. This hand-off is not noticeable to either party on the phone call.

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

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

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

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

Customers using service away from their home system are called roamers. Roaming is available because technical standards require that analog wireless telephones be compatible in all 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, on certain cellular systems the radio transmission uses analog technology. Under FCC rules now in effect, the requirement of offering analog service will expire in February, 2008, provided wireless carriers and their vendors can develop digital handsets compatible with certain types of hearing aids. All personal communications service systems utilize digital radio transmission. Several years ago, certain digital transmission techniques were approved for implementation by the wireless industry in the United States. Time Division Multiple Access ( TDMA ) technology was selected as one industry standard by the wireless industry and has been deployed by many wireless operators, including U.S. Cellular s operations in a substantial portion of its markets. Another digital technology, Code Division Multiple Access ( CDMA ), was also deployed by U.S. Cellular in its remaining markets.

In 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 completed.

6

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 U.S. Cellular s conversion to CDMA technology is that it is generally not used outside of the United States. A third digital technology, Global System for Mobile Communication ( GSM ), is the standard technology in Europe and most other areas outside the United States. GSM technology, which is used by certain wireless companies in the United States, has certain advantages over CDMA in that GSM phones can be used more widely outside of the United States and GSM has a larger installed worldwide customer base. 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 will change the type of handset identifier used to track specific handset units provided to customers. Similar to a vehicle identification number, each handset 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 the current system will be replaced by a 56-bit mobile equipment identifier (MEID) system sometime in 2006.

U.S. Cellular will continue to retain 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 equipment has analog capabilities embedded, U.S. Cellular will maintain the TDMA network in order to be able to meet the FCC mandate of retaining analog capability through February 2008.

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

*U.S. Cellular s Operations.* Management anticipates that U.S. Cellular will experience increases in wireless units in service and revenues in 2006 through internal growth, including growth from markets launched in 2004 and 2005 as these markets are more fully developed and integrated into its operations.

Expenses associated with customer and revenue growth will be substantial. The amount of such expenses, in combination with the gain on sales of assets recorded in 2005, may reduce the percentage growth in the amount of operating income during 2006 while the percentage growth in cash flows from operating activities is expected to increase. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular s cash flows from operating activities and operating income to vary from quarter to quarter.

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

- the growth rate in U.S. Cellular s customer base;
- the usage and pricing of wireless services;
- the cost of providing wireless services, including the cost of attracting and retaining customers;
- the cost to 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 rate in the use of U.S. Cellular s **easy**edge℠ brand of enhanced data services and products;
- continued declines in inbound roaming revenue; 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, 2005. 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 administered by the FCC, including the FCC auction designated as Auction 66, which is**

**scheduled to begin in August 2006. See Auction 58 for a discussion of the auction completed in early 2005. U.S. Cellular has also 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 from time-to-time be engaged in negotiations relating to the disposition of other non-strategic properties.**

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.

*Auction 66.* U.S. Cellular is a limited partner in Barat Wireless, L.P. ( Barat Wireless ), an entity which may participate in the auction of wireless spectrum designated by the FCC as Auction 66, which is scheduled to begin in August 2006. Barat Wireless intends to qualify as a designated entity and be eligible for discounts with respect to spectrum purchased in Auction 66.

Barat Wireless is in the process of developing its long-term business and financing plans. As of July 14, 2006, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of $79.9 million to provide initial funding of Barat Wireless participation in Auction 66. U.S. Cellular will consolidate Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, for financial reporting purposes, pursuant to the guidelines of FASB Interpretation No. 46R ( 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.



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

*Auction 58.* U.S. Cellular is a limited partner in Carroll Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. These 17 licensed areas cover portions of 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, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of $129.9 million to fund the amount deposited with the FCC; this amount is included in Licenses on the Consolidated Balance Sheet as of December 31, 2005. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial reporting 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.

*Sales and Exchanges of Wireless Interests.* On December 19, 2005, U.S. Cellular completed an exchange of certain wireless interests and operations pursuant to an agreement with ALLTEL Communications, Inc. Under the agreement, U.S. Cellular acquired fifteen Rural Service Area ( RSA ) markets in Kansas and Nebraska in exchange for two RSA markets in Idaho and $58.1 million in cash, including a preliminary working capital adjustment. U.S. Cellular recorded a pre-tax gain of $44.7 million on the exchange. The gain represented the excess of the fair value of the assets acquired and liabilities assumed over the sum of cash and net carrying value of assets and liabilities delivered in the exchange.

In addition, in 2005 U.S. Cellular purchased a controlling interest in one wireless property and certain minority interests in wireless markets in which it already owned a controlling interest for $6.9 million in cash.

*Pending Wireless Matter.* U.S. Cellular owns approximately 14% of Midwest Wireless Communications, LLC, which holds FCC licenses and operates certain wireless markets in southern Minnesota. U.S. Cellular accounts for this interest using the equity method. This interest is convertible into an interest of approximately 11% in Midwest Wireless Holdings, LLC, a privately-held wireless telecommunications company that controls Midwest Wireless Communications. Midwest Wireless Holdings, through other subsidiaries, also holds FCC licenses and operates certain wireless markets in northern and eastern Iowa and western Wisconsin.

On November 18, 2005, 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 members of Midwest Wireless Holdings. U.S. Cellular received a letter dated December 15, 2005, from Midwest Wireless Holdings purporting to constitute notice pursuant to certain tag-along rights and drag-along rights under certain agreements relating to U.S. Cellular s interest in Midwest Wireless Communications.

**By letter dated December 30, 2005, Midwest Wireless Holdings was advised on behalf of U.S. Cellular that U.S. Cellular was entitled to exercise certain rights of first refusal with respect to Midwest Wireless Holdings interest in Midwest Wireless Communications and demanded that Midwest Wireless Holdings take all steps to afford U.S. Cellular its rights of first refusal. On January 12, 2006, U.S. Cellular filed a lawsuit against Midwest Wireless Holdings and Midwest Wireless Communications seeking, among other things, to enforce such rights. On January 25, 2006, Midwest Wireless Holdings and Midwest Wireless Communications filed an answer denying U.S. Cellular s claims, alleging counterclaims of breach of contract and tortious interference with contractual relations and asking for declaratory relief and unspecified damages and costs. A trial on the merits of U.S. Cellular s claim to be entitled to first refusal rights was held from May 10-12, 2006. On June 7, 2006, the court denied U.S. Cellular s right of first refusal. As a result of the court s ruling**

**the counterclaims have been rendered moot.**

**On January 31, 2006, U.S. Cellular also filed a petition to deny the FCC license transfer of control applications filed by ALLTEL and Midwest Wireless Holdings seeking FCC consent to their transaction. That petition is pending.**



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

**Although U.S. Cellular will not be afforded its rights of first refusal as a result of the foregoing court decision, U.S. Cellular will be entitled to receive approximately $102.7 million in cash in consideration with respect to its interest in Midwest Wireless Communications upon the closing of the acquisition of Midwest Wireless Holdings by ALLTEL. This closing is subject to FCC approval, antitrust review under the Hart Scott Rodino Act and other conditions.**

**In addition, U.S. Cellular owns 49% of an entity, accounted for under the equity method, which owns approximately 2.9% of Midwest Wireless Holdings. If the transaction with ALLTEL occurs, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately $11.4 million in cash.**

**The net aggregate carrying value of U.S. Cellular s investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately $24.9 million at December 31, 2005.**

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

**Wireless Interests and Operating Market Areas**

U.S. Cellular operates its adjacent wireless systems under an organization structure in which it groups its markets into geographic market areas to offer customers large local service areas which primarily utilize U.S. Cellular s network. Customers may make outgoing calls and receive incoming calls within each market area without special roaming arrangements. In addition to benefits to customers, its operating strategy also has provided to U.S. Cellular certain economies in its capital and operating costs. These economies are made possible through the reduction of outbound roaming costs and increased sharing of facilities, personnel and other costs, enabling U.S. Cellular to 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, 2005. 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.

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 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.

**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, 2005.

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 2004 Total Population column in the table below, when U.S. Cellular acquires or agrees to acquire a licensed area that overlaps a licensed area it already owns, it does not duplicate the total population for any overlapping licensed area. Only non-overlapping, incremental population amounts are added to the amounts in the 2004 Total Population column in the table below, in the case of an acquisition of a licensed area that overlaps a previously owned licensed area.

| Market Area/Market | Current or Future Percentage Interest (1) | 2004 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) | | |
| | | 13,065,000 |
| **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 | |
| | | 8,207,000 |
| **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) * | | |
| Mercer (IL 3) | | |

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

| | |
|---|---|
| Miami (IN 4) * (8) | 85.71 |
| Muncie, IN 10MHz B Block # (5) | |
| Anderson, IN 10MHz B Block # (5) | |

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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) | 2004 Total Population (2) |
|---|---|---|
| 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) | | |
| | | 5,230,000 |
| | | |
| **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 # | | |
| | | 2,736,000 |

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

| |
|---|
| **Nebraska/Iowa** |
| Omaha, NE-IA 10 MHz A Block # |
| Lincoln, NE 10MHz F Block # |
| Boone (NE 5) |
| Knox (NE 3) |

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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) | 2004 Total Population (2) |
|---|---|---|
| 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) | | |
| | | 1,832,000 |
| **TOTAL MIDWEST MARKET AREA** | | 31,070,000 |
| | | |
| **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 | |
| | | 5,891,000 |
| | | |
| **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 * | | |
| Poplar Bluff, MO-AR 10MHz A Block # (5) | | |

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

Stone (MO 15)
Laclede (MO 16)
Rolla, MO 10MHz A Block #
Washington (MO 13)
Callaway (MO 6) *
Sedalia, MO 10MHz C Block #
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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) | 2004 Total Population (2) |
|---|---|---|
| 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 | |
| | | 4,828,000 |
| **TOTAL SOUTHWEST MARKET AREA** | | 10,719,000 |
| | | |
| **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) | | |
| | | 5,297,000 |
| | | |
| **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) | | |
| | | 2,858,000 |
| | | |
| **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) * | | |
| | | 1,170,000 |

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

| | | |
|---|---|---|
| **TOTAL MID-ATLANTIC MARKET AREA** | | 9,325,000 |
| | | |
| **MAINE/NEW HAMPSHIRE/VERMONT MARKET AREA:** | | |
| Portland-Brunswick, ME 10MHz A Block # | | |
| Burlington, VT 10MHz D Block # | | |
| Manchester-Nashua, NH | 96.66 | |



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| Market Area/Market | Current or Future Percentage Interest (1) | 2004 Total Population (2) |
|---|---|---|
| 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** | | 2,819,000 |
| | | |
| **NORTHWEST MARKET AREA:** | | |
| **Oregon/California** | | |
| Coos (OR 5) | | |
| Crook (OR 6) * | | |
| Del Norte (CA 1) | | |
| Medford, OR * | | |
| Mendocino (CA 9) | | |
| Modoc (CA 2) | | |
| | | 1,120,000 |
| | | |
| **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) * | | |
| | | 1,112,000 |
| **TOTAL NORTHWEST MARKET AREA** | | 2,232,000 |
| | | |
| **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) | | |
| Cleveland, TN 10MHz C Block # | | |
| Yancey (NC 2) * (3) | | |
| **TOTAL EASTERN TENNESSEE/WESTERN NORTH CAROLINA MARKET AREA** | | 1,741,000 |
| | | |
| **Other Markets:** | | |
| Jefferson (NY 1) * | 60.00 | |
| Franklin (NY 2) * | 57.14 | |
| **Total Other Markets** | | 474,000 |
| Total Consolidated Markets | | 58,380,000 |

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| Market Area/Market | 2004 Total Population (2) | Current Percentage Interest (1) | Current and Acquirable Population Equivalents (9) |
|---|---|---|---|
| **Investment Markets:** | | | |
| Los Angeles/Oxnard, CA * | 17,455,000 | 5.50 % | 960,000 |
| Oklahoma City, OK * | 1,093,000 | 14.60 | 160,000 |
| Rochester, MN/Chippewa (MN 7)/Lac Qui Parle (MN 8)/ Pipestone (MN 9)/Le Sueur (MN 10)/ Goodhue (MN 11) * (10) | 965,000 | | 147,000 |
| Cherokee (NC 1) * | 206,000 | 50.00 | 103,000 |
| Others (Fewer than 100,000 population equivalents each) | | | 363,000 |
| Total Population Equivalents in Investment Markets | | | 1,733,000 |

* 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, 2005 or as of the completion of any related transactions pending as of December 31, 2005. U.S. Cellular owns or has 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 as well as through FCC Auction 58. See Wireless Systems Development for further information regarding these rights.

(2) 2004 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 2004 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 2004 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 13,136,000. Excluding the population of these licensed areas to be acquired, U.S. Cellular s total population was 45,244,000 at December 31, 2005. As of January 6, 2006, U.S. Cellular, through its ownership of Carroll Wireless, had acquired licensed areas that represented 7,594,000 of the 13,136,000 total population remaining to be acquired as of December 31, 2005.

(3) These markets have been partitioned into more than one licensed area. The 2004 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.

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

(6) These licensed areas represent those for which Carroll Wireless was a successful bidder in Auction 58 which ended on February 15, 2005. 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 license was already licensed to another party and should not have been included in Auction 58.

(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 2004 Total Population column by the percentage interest indicated in the Current Percentage Interest column.



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(10) U.S. Cellular owns approximately 14% of Midwest Wireless Communications, LLC, which holds FCC licenses in these licensed areas. This interest is convertible into an interest of approximately 11% in Midwest Wireless Holdings, LLC, a privately-held wireless telecommunications company that controls Midwest Wireless Communications. Midwest Wireless Holdings, through other subsidiaries, also holds FCC licenses and operates certain wireless markets in northern and eastern Iowa and western Wisconsin. In addition, U.S. Cellular owns 49% of an entity which owns approximately 2.9% of Midwest Wireless Holdings. The Current and Acquirable Population Equivalents shown represent an aggregation of the population equivalents U.S. Cellular owns, directly and indirectly, through its interests in Midwest Wireless Communications and Midwest Wireless Holdings. U.S. Cellular s ownership interests in these licensed areas may be sold pursuant to an agreement between the controlling interest holder in the entity in which U.S. Cellular owns its interests and another third party. See Wireless Systems Development Pending of Wireless Matter.

*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 2005, 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.

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

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- long-distance traffic and
- interconnectivity of all of U.S. Cellular s mobile telephone switching offices and cell sites.

In addition, the wide area network accommodates virtually all internal data communications between various U.S. Cellular office and retail locations to process customer activations. The wide area network is deployed in U.S. Cellular s customer service centers ( Customer Care Centers ) for all customer service functions using U.S. Cellular s billing and information system.

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



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**Costs of System Construction and Financing**

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

The costs (exclusive of the costs to acquire licenses) to develop the systems in which U.S. Cellular owns a controlling interest have historically been financed primarily through proceeds from debt and equity offerings and, in recent years, with cash generated by operations and proceeds from the sales of wireless interests. U.S. Cellular expects to meet most of its future funding requirements with cash generated by operations and, on a temporary basis, borrowings under its revolving credit facilities. U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs. In 2006, U.S. Cellular estimates its capital expenditures will total between $580 million and $610 million.

**Marketing**

U.S. Cellular s marketing plan is focused on acquiring, retaining and growing customer relationships by offering high-quality products and services built around customer needs at fair prices, supported by outstanding customer service. U.S. Cellular increases customer awareness through the use of traditional media such as TV, radio, newspaper and direct mail advertising, 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 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, 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 370 U.S. Cellular-owned retail stores and kiosks and market wireless service primarily to the consumer and small business segments. U.S. Cellular maintains an ongoing training program to improve the effectiveness of sales consultants and retail associates by focusing their efforts on obtaining customers and maximizing the sale of high-use packages and value-added services that meet customer needs. These high-use packages enable customers to buy packages of minutes for a fixed monthly rate.

U.S. Cellular has relationships with agents, dealers and non-Company retailers to obtain customers, and at year-end 2005 had contracts with over 760 of these businesses aggregating over 1,600 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 Radio Shack. 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 also has a reseller customer which purchases blocks of lines and minutes and resells them to its customers. U.S. Cellular includes all of these reseller phone lines, which numbered 555,000 at December 31, 2005, in its reported customer base.



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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, plus a national financial services center, whose personnel also perform customer care functions. In May 2005, U.S. Cellular opened a Customer Care Center in Bolingbrook, IL to meet the needs of its expanding customer base in the Midwest. In November 2005, U.S. Cellular closed its Customer Care Center facility in Medford, Oregon, which employed approximately 170 associates.

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

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

In 2003, U.S. Cellular secured the naming rights to the home of the Chicago White Sox American League baseball team, which is now called U.S. Cellular Field. Concurrent with the naming rights agreement, U.S. Cellular purchased a media package with rights to place various forms of advertising in and around the facility. 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 2005 over 99% of the minutes used were on U.S. Cellular s digital network. Additionally, as of year-end 2005, 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 2006 and beyond.

The following table summarizes, by operating market area, the total population, U.S. Cellular s customer units and penetration for U.S. Cellular s consolidated markets as of December 31, 2005.

| Operating Market Areas | | **Population (1)** | | **Customers** | | **Penetration** | |
|---|---|---|---|---|---|---|---|
| Midwest Market Area | | 23,773,000 | | 2,736,000 | | 11.51 | % |
| Southwest Market Area | | 9,049,000 | | 708,000 | | 7.82 | % |
| Mid-Atlantic Market Area | | 5,409,000 | | 874,000 | | 16.16 | % |
| Maine/New Hampshire/Vermont Market Area | | 2,790,000 | | 457,000 | | 16.38 | % |
| Northwest Market Area | | 2,232,000 | | 390,000 | | 17.47 | % |
| Eastern Tennessee/Western North Carolina Market Area | | 1,517,000 | | 201,000 | | 13.25 | % |
| Other Markets | | 474,000 | | 116,000 | | 24.47 | % |
| | | 45,244,000 | | 5,482,000 | | 12.12 | % |

(1) Represents 100% of the population of the licensed areas in which U.S. Cellular has a controlling interest, based on 2004 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.



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**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 625 minutes per unit each month and generated retail service revenue of approximately $40 per month during 2005, compared to 539 minutes and $40 per month in 2004. Additional revenue 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 unit to $45 during 2005. Average monthly service revenue per customer unit decreased less than 3% during 2005. This result was primarily due to the effects of decreases in the average revenue per minute of use from both retail customers and roamers, mostly offset by the effects of increases in the number of minutes used by both retail customers and roamers and the increase in revenues from customers use of **easy**edgeSM and other enhanced services. Competitive pressures, an increase in multiple-user pricing plans, continued penetration of the consumer market and U.S. Cellular s increasing use of pricing and other incentive programs to stimulate overall usage resulted in a decrease in average retail service revenue per minute of use in 2005. The decrease in inbound roaming revenue per minute was primarily due to the general downward trend in per minute prices for roaming negotiated between U.S. Cellular and other wireless operators. U.S. Cellular anticipates that both average monthly retail service revenue per customer and total monthly service revenue per customer will increase slightly in the future. U.S. Cellular anticipates that total revenues will continue to grow for the foreseeable future.

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

In 2005, U.S. Cellular expanded its roaming agreements with other carriers, which previouslyonly covered voice-related services; to also cover data-related services such as those offered through its **easy**edgesm suite of products and services, and anticipates expanding these types of roaming agreements to more carriers in the future. U.S. Cellular anticipates that entering into such agreements will provide additional flexibility for its customers and could enhance its future inbound roaming revenue stream.

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

| | Year Ended or At December 31, | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| Majority-owned and managed markets: | | | | | |
| Wireless markets included in consolidated operations (1) | 189 | 175 | 182 | 178 | 168 |
| Total population of markets in service (000s) (2) | 45,244 | 44,391 | 46,267 | 41,048 | 28,632 |
| Customers: | | | | | |
| at beginning of period (3) | 4,945,000 | 4,409,000 | 4,103,000 | 3,461,000 | 3,061,000 |
| net acquired (divested) during period (4) | 60,000 | (91,000) | (141,000) | 332,000 | 46,000 |
| additions during period (3) | 1,540,000 | 1,557,000 | 1,357,000 | 1,244,000 | 1,095,000 |
| disconnects during period (3) | (1,063,000) | (930,000) | (910,000) | (934,000) | (741,000) |
| at end of period (3) | 5,482,000 | 4,945,000 | 4,409,000 | 4,103,000 | 3,461,000 |

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| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Market penetration at end of period (5) | | 12.12 | % | 11.14 | % | 9.53 | % | 10.00 | % | 12.09 | % |



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| (Dollars in thousands) | Year Ended or At December 31, 2005 (As Restated) | 2004 (As Restated) | 2003 (As Restated) | 2002 (As Restated) | 2001 (As Restated) |
|---|---|---|---|---|---|
| Consolidated revenues | $ 3,030,765 | $ 2,806,418 | $ 2,577,810 | $ 2,196,142 | $ 1,894,403 |
| Depreciation expense | 465,097 | 454,654 | 376,931 | 313,215 | 237,180 |
| Amortization and accretion expense | 45,390 | 47,910 | 57,564 | 39,161 | 63,883 |
| Operating income | 231,197 | 162,583 | 106,532 | 275,217 | 316,102 |
| Capital expenditures | 576,525 | 636,097 | 630,864 | 732,376 | 503,399 |
| Business segment assets | $ 5,416,233 | $ 5,171,213 | $ 4,963,839 | $ 4,802,297 | $ 3,795,392 |

(1) Represents the number of licensed areas in which U.S. Cellular owned a controlling financial interest at the end of each respective period. The revenues and expenses of these licensed areas are included in U.S. Cellular s consolidated revenues and expenses for each period.

(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 revenue generated by such wireless customers is included in Operating revenues 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.

(5) Computed 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 (2000-2004) for the years 2001-2005, respectively.

**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 carry 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, which can be used on analog and digital networks, to fully utilize these features. These 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.

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 to meet competition, stimulate sales or retain customers by reducing the cost of becoming a wireless customer or providing upgraded handsets to current customers. 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.

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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 technology and the right pricing plan is central to U.S. Cellular s brand positioning. U.S. Cellular generally offers local- 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. U.S. Cellular s 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 service plan, TalkTracker®, which includes packages of minutes for a monthly fee. In 2005, U.S. Cellular discontinued certain types of prepaid service plans.

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.



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**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.

In September 2004, 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. That rule took effect on February 14, 2005.

The FCC has also allocated a total of 140 megahertz for broadband personal communications service, 20 megahertz to unlicensed operations and 120 megahertz to licensed operations, originally 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. 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.

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 also Other Recent FCC Actions below for additional wireless service licensing actions.



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*Licensing Facilities.* The FCC must be notified each time an additional cell site is constructed which enlarges the service area of a given cellular market. The FCC s rules also generally require persons or entities holding wireless construction permits or licenses to coordinate their proposed frequency usage with neighboring wireless licensees in order to avoid electrical interference between adjacent systems. The coordination process has become more complex as neighboring systems have begun to employ differing digital technologies. 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 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 Indian tribes with an interest in the tower s location. In addition to regulation by the FCC, wireless systems are subject to certain Federal Aviation Administration ( FAA ) regulations with respect to the siting, construction, painting and lighting of wireless transmitter towers and antennas as well as local zoning requirements.

Beginning in 1996, the FCC also imposed a requirement that all wireless licensees register and obtain FCC registration numbers for all of their antenna towers which require prior FAA clearance. All new towers must be registered at the time of construction and existing towers were required to be registered by May 1998 on a staggered state-by-state basis. U.S. Cellular believes that it is in compliance with the FCC s tower registration requirements.

Beginning in October 1997, wireless systems, which previously were excluded from having to evaluate their facilities to ensure their compliance with federal radio frequency radiation requirements, were made subject to those requirements. As a result, all wireless towers of less than 10 meters in height, building-mounted antennas and wireless telephones must comply with radio frequency radiation guidelines. Since October 1997, all new wireless facilities have had to be in compliance when they are brought into service. Since September 1, 2000, all existing facilities have had to be brought into compliance. U.S. Cellular believes that its facilities are in compliance with these requirements. The FCC is currently considering changes to its rules to subject more proposed towers to environmental evaluation.

*Licensing Commercial Mobile Radio Service.* Pursuant to 1993 amendments to the Communications Act, cellular and personal communications 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 forebear from requiring 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 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.

In a rulemaking proceeding concluded in July of 2004, the FCC amended its rules to add a substantial service option for 30 megahertz block personal communications service licensees alternative to the service specific construction benchmarks already available to these licensees. These rules, which took effect on February 14, 2005, will 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. 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 are also afforded a similar renewal expectancy. If renewal expectancy

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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 2005 have been renewed.



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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 have 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.

*Recent Events - 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.

The FCC s E-911 rules also required that 100 percent of all new digital handsets sold or otherwise activated by wireless carriers, including U.S. Cellular, be Global Positioning System-compliant by December 31, 2002. The FCC s E911 rules also required that 95 percent of all handsets in use on U.S. Cellular s network be GPS-compliant by December 31, 2005; in December 2005, U.S. Cellular filed a request for a limited waiver of the FCC s 95 percent requirement. The FCC has not acted on U.S. Cellular s request. Accordingly, 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 rules.

*Recent Events Wireless Number Portability.* The FCC has adopted wireless number portability rules requiring wireless carriers to allow a customer to retain, subject to certain geographical limitations, their existing telephone number when switching from one telecommunications carrier to another. These rules became effective for all U.S. Cellular markets on or before May 24, 2004. Now that wireless number portability has been implemented, FCC rules require that wireless providers and local exchange carriers, subject to certain exceptions, provide number portability in compliance with FCC performance criteria, upon request from another carrier.

U.S. Cellular has been successful in facilitating number portability requests in a timely manner. The implementation of wireless number portability has not had a material effect on U.S. Cellular s results of operations to date. However, U.S. Cellular is unable to predict the impact that the implementation of number portability will have in the future. The implementation of wireless number portability may increase churn rates or customer retention costs for U.S. Cellular and other wireless companies, as the ability of customers to retain their wireless telephone numbers removes a significant barrier for customers who wish to change wireless carriers. However, to the extent U.S. Cellular loses customers, the effect may be offset to the extent it is able to obtain additional new customers who wish to change their service from other wireless carriers as a result of wireless number portability. The future volume of any porting requests, and the processing costs related thereto, may increase U.S. Cellular s operating costs in the future.

*Recent Events Number Pooling.* Cellular and broadband personal communications service providers also had to be capable, by November 2002, of receiving from the numbering authorities telephone numbers in blocks of 1,000, rather than 10,000, as has been the case previously. This action was intended to conserve telephone numbers and extend the life of the current numbering system.

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U.S. Cellular is now in compliance with the FCC s thousands block number pooling requirements and the FCC s current number portability requirements. Both requirements are complex and have required extensive capital investment. U.S. Cellular completed the investments needed to meet these requirements as of December 31, 2004.



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*Recent Events Reciprocal Compensation.* Since 1996, FCC rules have generally 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 is also now 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 is likely that the FCC will require increased emphasis on cost-based charges and thus 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.

*Recent Events Hearing Aid Compatibility.* In September, 2005, FCC rules requiring that digital wireless handsets be compatible with certain types of hearing aids became applicable to U.S. Cellular. U.S. Cellular is compliant with those requirements and expects to comply with future hearing aid requirements.

*Recent Events 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 2006.

*Recent Events 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 is now the subject of courts appeal by NASUCA and other parties. Any reversal of the FCC action by the courts would be adverse to wireless carriers.

*Recent Events 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 2006, and it would be in the interest of wireless carriers for the FCC to rule that such fees are in fact a wireless rate.

*Recent Events Outage Reporting.* The FCC has adopted rules, which took effect in January, 2005, which require wireless carriers to report system outages affecting more than 30,000 customers for more than 30 minutes. Previously wireless carriers had not been subject to such requirements. U.S. Cellular is in compliance with the new requirements.

*Recent Events Public Safety Frequency Interference.* Cellular licensees and public safety entities operate on neighboring frequencies in the 800 megahertz band. The FCC has adopted new rules which require cellular telephone licensees to notify potentially affected public safety agencies which request such notice of the construction of new cell sites or modification of existing cell sites prior to the time such cell sites are placed in operation. Also, as part of those rules, the FCC has adopted a new technical standard for determining when wireless systems are causing unacceptable interference to public safety licensees and new procedures for resolving interference complaints. U.S. Cellular has instituted procedures to comply with these new rules.

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*Recent Events 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. 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.



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*Recent Events 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. However, the FCC also at that time stated it would adopt a Notice of Proposed Rulemaking later in 2006 dealing with migratory bird issues. Moreover, a petition for writ of mandamus asking court action to compel the FCC to act on migratory bird issues is pending in the Court of Appeals, which heard oral arguments concerning it on April 6, 2006. Any 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.

*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.

*Telecommunications Act 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 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 and Maine and has received payments for services provided to high cost areas within those states.

*Communications Assistance to Law Enforcement Act.* Under a 1994 federal law, the Communications Assistance to Law Enforcement Act, 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. However, issues exist as to the applicability of such act to transmissions of packet data and other information services. U.S. Cellular will attempt to comply with the act s information service requirements as they are clarified and become applicable. In August, 2004, the FCC released a Notice of Proposed Rulemaking which proposed new requirements with respect to packet data under this statute. It is expected that the FCC will adopt new regulations in 2006.

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*Other Recent FCC Actions.* The FCC adopted an order in January 2003, pursuant to which the mobile satellite service will permit its licensees to offer terrestrial wireless service in competition with commercial mobile radio service carriers, provided the mobile satellite service licensees also offer satellite telephone satellite network service, which will involve building their proposed satellite networks. Assuming the mobile satellite service licensees do build their satellite networks and thus obtain ancillary terrestrial authority, the increased competition could be unfavorable to existing commercial mobile radio service carriers.



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Since the adoption of that Order, the FCC has granted ancillary terrestrial authority to two companies. In November 2004 the FCC granted authority to a mobile satellite system licensee, Mobile Satellite Ventures Subsidiary LLC ( MSV ), to operate Ancillary Terrestrial Component ( ATC ) facilities providing voice and data communication for users. MSV has recently entered into a contract to acquire the satellite portion of its combined satellite-ATC operations, so the commencement of its ATC deployment probably will not occur for several years. In January 2006, the FCC granted another mobile satellite operator, Globalstar LLC, authority to operate ATC facilities. Globalstar LLC has existing satellite operations so its ATC deployment may occur sooner than the commencement of MSV s ATC operations.

In January 2000, the FCC took an action which may have an impact on both cellular and personal communications service licensees. 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. The majority of the spectrum in these bands is being auctioned in large regional service areas, although there is a portion available which covers individual metropolitan statistical area and rural service area markets. The FCC has conducted two auctions for the 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. Additional auctions to license the 688-792 megahertz spectrum could commence in January 2008.

The FCC adopted service rules in October 2003 to provide for use of 90 megahertz of spectrum, 1710-1755 and 2110-2155 megahertz, for Advanced Wireless Services. This spectrum is intended to enable high-speed data services as well as full-motion video and other services. This spectrum is expected to be auctioned starting in August 2006. The FCC also designated 30 megahertz of spectrum in the 1910-1920, 1990-2000, 2020-2025, and 2175-2180 megahertz bands for Advanced Wireless Services. The 1910-1915 and 1990-1995 megahertz bands, commonly referred to as the G Block will be licensed to Nextel on a nationwide basis in exchange for relinquishing spectrum holdings in other bands. Other portions of this spectrum could be auctioned as early as the end of 2006.

In June 2002, the FCC created a Spectrum Policy Task Force and commenced proceedings to review and make recommendations on broad categories of possible spectrum policy change. The allocation of additional spectrum for unlicensed services, which has been strongly promoted by various manufacturers for Wi-Fi and fixed wireless services, has emerged from that review process as a potentially significant shift in FCC spectrum policy affecting wireless competition between carriers who paid for spectrum and those who plan to implement networks using unlicensed free spectrum. The FCC commenced proceedings in December 2002 to allocate additional spectrum in the television broadcast bands as well as the 3650-3700 megahertz band for unlicensed services which remain pending. In November 2003 the FCC approved a significant expansion of the spectrum available for unlicensed uses by permitting Wi-Fi and fixed wireless services in the 5.4-5.7 gigahertz band. In addition, the FCC has pending proceedings to expand unlicensed spectrum and non-exclusive sharing of licensed spectrum which could also be used for Wi-Fi-type and/or fixed wireless operations.

The FCC adopted in May 2003 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.

The FCC also adopted in June of 2004 new service rules for multipoint distribution service, microwave multipoint distribution service and instructional television fixed service spectrum in the 2150-2162 megahertz and 2495-2690 megahertz bands which will foster uses of this spectrum for advanced wireless services, including commercial mobile services. This spectrum could create opportunities for new or expanded competition with existing commercial mobile radio service operators.



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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 is however 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., whichhad 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 the 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 two of the putative class action cases. Also following the Fourth Circuits decision in Pinney, the FCC was granted leave to participate as amicus curiae in a case alleging a brain injury 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, Cingular (which acquired AT&T Wireless) 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, it 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 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 and internet access, 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 Rural Cellular Corporation, and against 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 Western Wireless has likely increased this competitor s access to financial, technical, marketing, sales, purchasing and distribution resources, although the two companies did not generally have overlapping territories.

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 and its ESPN brand, 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 which, through its affiliates, provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service, 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 735,300 equivalent access lines in 28 states through its incumbent local exchange carrier subsidiaries at December 31, 2005. 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. TDS Telecom also provides telecommunications services as a competitive local exchange carrier through its subsidiary, TDS Metrocom.

The table below sets forth, as of December 31, 2005, 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, 2005 | | % of Total | |
|---|---|---|---|---|---|
| Wisconsin | | 384,313 | | 32.4 | % |
| Michigan | | 139,564 | | 11.8 | % |
| Minnesota | | 119,190 | | 10.1 | % |
| Tennessee | | 114,830 | | 9.7 | % |
| Georgia | | 58,148 | | 4.9 | % |
| New Hampshire | | 39,717 | | 3.3 | % |
| Indiana | | 36,184 | | 3.1 | % |
| Illinois | | 31,455 | | 2.7 | % |
| Alabama | | 28,600 | | 2.4 | % |
| Maine | | 28,495 | | 2.4 | % |
| Total for 10 Largest States | | 980,496 | | 82.8 | % |
| Other States | | 203,404 | | 17.2 | % |
| Total | | 1,183,900 | | 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 321,500 long distance access lines at December 31, 2005, and 295,000 at December 31, 2004.

TDS Telecom affiliates also provide telecommunications services as a competitive local exchange carrier in Illinois, Michigan, Minnesota (including Minneapolis/St. Paul), North Dakota and Wisconsin (including Madison and Milwaukee) under the TDS Metrocom brand name. Competitive local exchange carrier is a term that depicts companies that enter the operating areas of incumbent local exchange carriers to offer local exchange and other telephone services. TDS Telecom served approximately 448,600 equivalent access lines through its competitive local exchange carrier subsidiaries at December 31, 2005, an increase from 426,800 at December 31, 2004.

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.

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

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.

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, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | | 2004 | | 2003 | | 2002 | | 2001 | |
| | | (As Restated) | | (As Restated) | | (As Restated) | | (As Restated) | | (As Restated) | |
| | | (Dollars in thousands) | | | | | | | | | |
| ILEC Equivalent Access Lines (1) | | 735,300 | | 730,400 | | 722,200 | | 711,200 | | 678,300 | |
| % Residential | | 75.4 | % | 74.8 | % | 74.6 | % | 74.9 | % | 74.8 | % |
| % Business (nonresidential) | | 24.6 | % | 25.2 | % | 25.4 | % | 25.1 | % | 25.2 | % |
| CLEC Equivalent Access Lines (1) | | 448,600 | | 426,800 | | 364,800 | | 291,400 | | 192,100 | |
| Dial-up Internet Customers: | | | | | | | | | | | |
| ILEC | &nb | | | | | | | | | | |

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