2001 ANNUAL REPORT

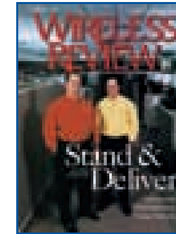
CONNECTING with our customers

United States Cellular Corporation (U.S. Cellular) operates and invests in wireless systems throughout the nation. U.S. Cellular is the nation's eighth largest wireless service provider in terms of customers, serving 3,461,000 customers and employing more than 5,100 people at the end of 2001.

U.S. Cellular owns interests in 176 cellular markets and owns or has the right to acquire interests in 28 personal communication service (PCS) markets. The cellular and PCS interests represent 27.4 million and 3.6 million population equivalents, respectively, as of December 31, 2001. U.S. Cellular operates systems serving 145 cellular markets, has the right to operate systems serving 18 of the PCS markets and has investment interests in the remaining markets. At the end of 2001, 142 markets operated by U.S. Cellular are included in its consolidated financial statements.

U.S. Cellular's Common Shares are traded on the American Stock Exchange under the symbol USM. The Company is an 82.2 percent-owned subsidiary of Telephone and Data Systems, Inc., which is traded on the American Stock Exchange under the symbol TDS.

U.S. CELLULAR: AN AWARD WINNING YEAR



The year 2001 was an extraordinary year of accomplishments for U.S. Cellular, which won numerous awards for service excellence and customer satisfaction.

In June, *Wireless Review*, a highly regarded industry trade magazine, named U.S. Cellular as its 2001 Wireless Titan Award winner for Outstanding Customer Service (see details on page 9).

Financial Highlights

(Dollars in thousands, except per share amounts)	2001	2000	Percent Change
Service Revenues	$1,826,385	$1,653,922	10%
Operating Cash Flow	$ 617,870	$ 558,011	11
Operating Income	$ 317,212	$ 292,313	9
Net Income	$ 173,876	$ 192,907	(10)*
Weighted Average Common and Series A Common Shares (000s)	86,200	86,355	—
Earnings per Common and Series A Common Share	$ 2.02	$ 2.23	(9)*
Total Assets	$3,725,014	$3,467,034	7
Common Shareholders' Equity	$2,335,669	$2,214,571	5
Return on Equity	7.95%	10.44%	(24)*
Cellular Telephone Customers – Majority-owned Markets	3,461,000	3,061,000	13
Number of Majority-owned Markets	142	139	2
Capital Expenditures	$ 487,813	$ 295,308	65

**2000 results include substantial gains*

2001 AWARDS

U.S. Cellular was selected as "the best wireless provider" in surveys conducted by a number of newspapers and magazines in many of the Company's service areas:

Illinois

Readers' Choice Award –
Peoria Star Journal

Executive Choice Award for Best Wireless Carrier –
In Business Rockford Magazine

Wisconsin

Best Wireless Service Provider in Readers' Choice Survey –
Milwaukee Journal Sentinel

Best Wireless Service Provider –
Isthmus, Madison

Best Wireless Phone Dealer –
In Business Magazine, Madison

Best Wireless Service Provider – (8th consecutive year)
Milwaukee Journal Sentinel

Best Wireless Phone Stores – (9th consecutive year)
Milwaukee Journal Sentinel

Iowa

Best Wireless Provider –
Des Moines Business Record

Readers' Choice Award for Best Wireless Service Provider –
Burlington Hawkeye

Best Wireless Provider –
The Daily Democrat, Fort Madison

Best Wireless Service Provider –
Ames Tribune

Missouri

People's Choice Award for Best Cellular Phone Provider –
Hannibal Courier-Post

Oklahoma

Excellence in Customer Service Award –
Tulsa Area Better Business Bureau

Best Wireless Phone Service Provider –
Greater Tulsa Newspapers

Absolute Best of Tulsa –
Urban Tulsa Weekly

Best Wireless Carrier –
Tulsa Family Magazine

The Best of 2001 –
McAlester News Capital & Democrat

New Hampshire

New Hampshire Gold Circle Partnership Award –
Manchester Partners in Education

North Carolina

Best of the Mountains –
Asheville Citizen Times

Texas

Best of the Best Wireless Provider –
Corpus Christi Caller Times

Idaho

Readers' Choice Award for Cellular Service –
Idaho Falls Post Register

Tennessee

Best Cellular/Wireless Phone Service –
Knoxville News Sentinel

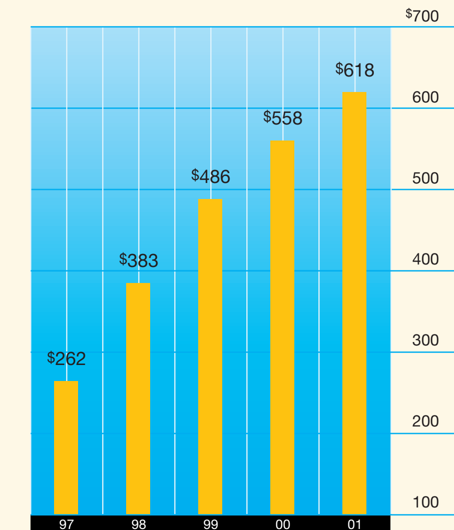
Washington

Downtown Merchant of the Year –
Downtown Merchants Association

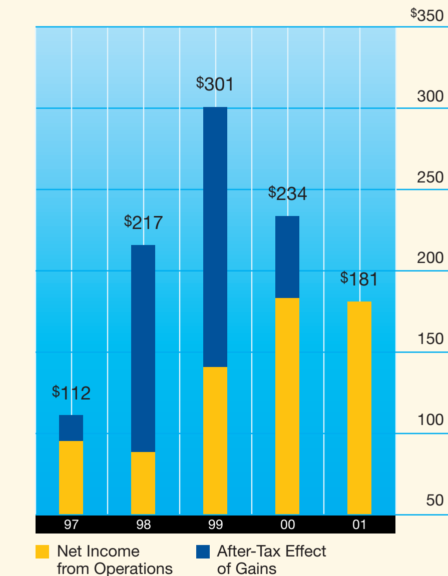
West Virginia

Community Service Award –
Marion County Chamber of Commerce

OPERATING CASH FLOW in millions



NET INCOME in millions



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CHAIRMAN AND PRESIDENT'S MESSAGE

LeRoy T. Carlson, Jr., Chairman, and
John E. "Jack" Rooney, President and Chief Executive Officer

U.S. CELLULAR ACCOMPLISHED MANY OBJECTIVES IN 2001 AS WE CONTINUED TO FOCUS ON OUR CUSTOMERS THROUGH OUR DYNAMIC ORGANIZATION MANAGEMENT PHILOSOPHY. THE EXECUTION OF THIS STRATEGY ENABLES OUR COMPANY TO ACHIEVE EXCELLENT RESULTS. THOUGH THE NATION'S ECONOMY SLOWED OUR GROWTH IN THE SECOND HALF OF THE YEAR, OVERALL RESULTS FOR THE YEAR WERE STRONG.

2001 IN REVIEW

We ended the year with just under 3.5 million customers, a 13 percent increase from twelve months earlier. Aided by a customer churn rate of 1.7 percent, one of the lowest in the wireless industry, our distribution channels added 354,000 net new customers during the year. Service revenues grew 10 percent to over $1.8 billion, as minutes of use on our wireless systems increased 45 percent. The growth in service revenues drove an 11 percent increase in operating cash flow, to $618 million for the year. Net income from operations totaled $181 million, or $2.10 per share.

These financial results, though indicative of a strong company, did not meet our targets for the year. An extremely competitive wireless marketplace has driven revenue per minute of use down throughout the industry, lessening the positive effect on revenues of the increase in minute use. The overall downturn in the economy, especially in retailing, had a significant impact on our business in the second half of 2001. Traffic into our retail and agent locations slowed substantially, even during the holiday shopping season. As a result, despite our low churn rate, we added fewer new customers in 2001 than in 2000.

We anticipate a rebound in the nation's economy in the latter part of 2002, and have set our goals for the year accordingly.

The Company's achievements in 2001 will provide the basis upon which U.S. Cellular's growth is projected in 2002 and beyond. Over the next few pages we will highlight some of our successes during the past year.

NEW VISION, MISSION AND STRATEGY

In keeping with our renewed customer focus, we developed a new vision, mission statement and business strategy in 2001. Our new vision defines customer satisfaction as the brand promise for which U.S. Cellular is known in the wireless marketplace. The new mission reflects our commitment to three equally important stakeholders—customers, shareholders and associates. We plan to achieve our vision and mission through continued profitable growth, attained by focusing on four strategic priorities — increasing customer satisfaction, growing revenues, driving standards of excellence and driving the Dynamic Organization.

Our leaders participated in training sessions throughout 2001 to develop the new leadership style required to execute our strategy and achieve our mission. By mid-2002, all of our management-level associates will be trained to lead in accordance with the principles of the Dynamic Organization. Our call center associates, who are based in six regional locations, receive six weeks of intensive customer service training before they start serving our customers. Our training is geared toward helping each associate function as part of a team, through which he or she can help the Company grow while achieving personal growth and meeting goals.

FOCUS ON CUSTOMER SATISFACTION

Customer satisfaction is the main focus of our business strategy. During the past year, we took several steps toward increasing customer satisfaction, including:

- Introducing a new "high-tech, high-touch" look to our retail stores
- Increasing support for our key distribution channels
- Implementing our Customer Acquisition and Retention System (C.A.R.E.S.) billing and information system in every U.S. Cellular market
- Adding more than 370 new cell sites and investing nearly $490 million in improvements to our wireless network

The Dynamic Organization is committed to ensuring that all customers and potential customers have a positive experience when interacting with U.S. Cellular. To that end, we have used feedback from customers to redesign our retail stores. Our new high-tech, high-touch retail stores guide shoppers through every step of the buying process, making it easier for U.S. Cellular to meet their needs with superior products and services. We made changes in our high-volume agent distribution channel as well. We increased our emphasis on exclusive agents who represent only U.S. Cellular, and are implementing store signage and fixtures in their locations which are similar to those in our retail stores, with an end goal of enhancing brand recognition.

The new mission reflects our commitment to three equally important stakeholders — customers, shareholders and associates.

We implemented several technological advances during 2001 to improve customer service. The rollout of C.A.R.E.S. was completed throughout all of our markets, giving every customer and customer service associate access to this state-of-the-art billing and information tool. C.A.R.E.S. enables users to access customer account information quickly, shortening the response time for answering customer queries. Other improvements enable customers to use the Web and over-the-air programming methods to streamline the activation process, providing customers with an even higher level of satisfaction from the moment they sign up for service.

NETWORK IMPROVEMENTS AND PLANS

In late 2001, we announced our plans to convert all of our wireless systems to Code Division Multiple Access (CDMA) 1XRTT digital technology over the next three years. The conversion of our network to CDMA technology is an important step in achieving U.S. Cellular's mission of profitable growth. Using CDMA technology will enhance our network by adding voice capacity, offering high-speed data products and features and improving coverage. The move to CDMA will create a unified, single-technology network that will enable U.S. Cellular to expand product offerings and simplify our existing rate plan structure. We expect to complete the conversion in 2004, at an approximate cost of $400-$450 million, spread over the three-year period.

During the conversion to CDMA and beyond, we will continue to support other technologies, including analog and Time Division Multiple Access (TDMA), for the benefit of our customers as well as those customers from other companies who roam on our network. Overall, we plan to invest between $620-$640 million on our wireless network in 2002 for new cell sites and expanded digital coverage, including the first steps in our conversion to CDMA technology (which alone account for $80-$95 million).

Our customer commitment will differentiate U.S. Cellular from the competition and continue to drive profitable growth.

During the past year, we continued to roll out new products, such as two-way text messaging and mobile-to-mobile digital calling plans, which increase the utility of our service. Nearly 70 percent of our customers were using digital service as of year-end. These customers have access to additional features such as caller ID and text messaging. Digital service also provides better clarity and enhanced roaming capabilities. Because digital service enhances the wireless product, customers on digital rate plans use their phones more often. This accounts in part for the 45 percent increase in minutes of use on our systems in 2001.

SUMMARY

Despite an uncertain economy, your Company achieved impressive results in 2001 through the collective efforts of our more than 5,100 associates. We also built the framework for future growth. Our vision, mission and strategic direction are clear. The Dynamic Organization principles will continue to drive our commitment to providing the best possible customer satisfaction in 2002 and beyond. Our customer commitment will differentiate U.S. Cellular from the competition and continue to drive profitable growth.

We would like to thank each of our associates for our successes in 2001, and we thank you, our shareholders, for your continued support. We look forward to an exciting and successful year in 2002.

Cordially yours,

John E. Rooney
President and Chief Executive Officer

LeRoy T. Carlson, Jr.
Chairman

CONNECTING WITH OUR CUSTOMERS

CEO Jack Rooney meets with associates to discuss strategic issues at U.S. Cellular's corporate office.

U.S. Cellular is dedicated to giving customers exactly what they need and expect from their wireless service provider.

"We connect with you℠," the Company's new tagline, sends a clear message that U.S. Cellular is firmly committed to its customers and their satisfaction.

"Wireless is not just about technology anymore," noted President and CEO John E. (Jack) Rooney. "It's about connecting with customers and communicating that our Company is dedicated to customer service through knowledgeable, friendly and accessible wireless experts."

Introduced in early 2001 via major consumer and business-to-business advertising campaigns, the tagline now appears with the Company logo on signage, advertising, store displays and printed materials. It's a constant visual reminder that U.S. Cellular is dedicated to giving customers exactly what they need and expect from their wireless service provider.

U.S. CELLULAR'S DYNAMIC ORGANIZATION: A NEW CUSTOMER-FOCUSED VISION, MISSION AND STRATEGY

Connecting with our customers is the essence of the Dynamic Organization, the management philosophy introduced to U.S. Cellular by Jack Rooney. A Dynamic Organization requires a customer-focused vision, mission and business strategy. In early 2001, the executive management team articulated the Company's long-term focus and direction.

The new vision defines customer satisfaction as the product for which U.S. Cellular will be known in the wireless marketplace.

OUR VISION

We will proudly provide the best customer satisfaction. Customers 'Expect it!' We deliver.

The new mission reflects U.S. Cellular's commitment to three equally important stakeholders – customers, shareholders and associates:

OUR MISSION

To provide the highest level of customer satisfaction, which will generate profitable growth for our shareholders and superior rewards for our associates. We will achieve this through a Dynamic Organization based on standards of excellence.

OUR STRATEGY

U.S. Cellular will achieve its vision and mission through continued profitable growth, attained by focusing on four strategic priorities:

STRATEGIC PRIORITIES

- Increase customer satisfaction
- Grow revenues
- Drive standards of excellence
- Drive the Dynamic Organization

The Dynamic Organization continues to be a catalyst for change. A 2001 culture survey of U.S. Cellular associates showed an important shift in associate perceptions — a statistically significant increase in the number of associates who believe that "serving customers is my first priority." Associates also indicated they feel pride in the Company's accomplishments and believe that U.S. Cellular is becoming a stronger competitor in the wireless marketplace.

Building a Dynamic Organization requires a new kind of leadership. This year, U.S. Cellular's senior leadership participated in leadership development workshops to learn the skills they need to lead and coach in a customer-focused, excellence-driven environment. All Company leaders will complete the workshop in early 2002.

OPERATIONS

In 2001, U.S. Cellular introduced new store designs that enable customers to shop for wireless products and service with ease and convenience.

U.S. Cellular expanded its telesales function. Potential customers can call to discuss wireless products and promotions in a simple, convenient manner.

CUSTOMERS EXPECT IT... WE DELIVER

Connecting with our customers means being easily accessible to them – whenever, wherever and however they choose to do business with us. Our goal is to ensure that all customers and potential customers have a positive experience with U.S. Cellular.

People who visit any of our approximately 240 Company stores or 230 U.S. Cellular kiosks located in Wal-Mart stores expect and deserve the best possible service. During 2001, U.S. Cellular introduced its new "high-tech, high-touch" retail stores. We also provided extensive sales training for associates and standardized methods and procedures to refocus our retail organization on serving our customers more effectively.

Some customers may choose to connect with us through U.S. Cellular's 900 agents located throughout our markets of operation. During 2001, we placed more emphasis on exclusive agents who represent only U.S. Cellular, a sales channel that is expected to be a strong growth area for the Company. New merchandising programs, new signage, store fixtures identical to those in our Company-owned stores and the ability to activate customer accounts online are just part of the support and incentives provided to our exclusive agents. Non-exclusive agents and resellers also remain important sources of growth.

The growing number of customers who prefer to connect with U.S. Cellular online has increased due to our redesigned Web site which launched in April 2001. It provides fast and easy access to information on U.S. Cellular, its products and services, and offers the convenience of online wireless shopping. A comprehensive "Browse and Buy" section allows customers to compare and purchase calling plans, view wireless phone and accessory options, and learn about wireless services. A "Store Finder" and a "Customer Help Center" provide quick access to information or customer service support.

The Company's telesales efforts were greatly expanded this year and have become national in scope. Utilizing two call centers, the organization now has both inbound and outbound calling capabilities. Customers may call 1-888-BUY-USCC and are given the convenience of purchasing wireless phones and activating service via the telephone. All telesales orders are shipped within 72 hours to a customer's residence or office.

Ensuring that the right product is in the right location at the right time is the objective of a new merchandise management system, which has been in the planning stages during 2001 and is scheduled for rollout during the first half of 2002. The multi million-dollar retail software system will manage merchandise logistics to supply sales channels with the products needed to give customers what they want, when they want it as well as lower our operation costs.

U.S. CELLULAR INTRODUCES HIGH-TECH, HIGH-TOUCH RETAIL STORES

U.S. Cellular rolled out it's new "high-tech, high-touch" retail stores during 2001. The new stores, designed with feedback from associate and customer advisory panels, increase the ease and convenience of shopping for wireless products and services by guiding customers through every step of the buying process – from selecting the right rate plan to choosing the best phone and wireless accessories. The new stores feature private consulting stations, product information displays, interactive kiosks and live wireless phone demonstration stations, as well as customer service and billing terminals and a play area for children. The retail store remodeling, which will continue into 2002, is intended to improve the way the Company interacts with consumers and increase brand awareness for U.S. Cellular.

U.S. CELLULAR SIGNS WITH CATALYST MARKETING

In September, U.S. Cellular signed an agreement with Catalyst Marketing, Inc., to expand its exclusive agent network throughout the central, eastern and southwestern regions of the United States. This investment in U.S. Cellular's agent sales strategy reflects a continued commitment to this distribution channel.

Under terms of the agreement, U.S. Cellular worked with Catalyst to open authorized agent locations in various U.S. Cellular markets throughout the country during 2001, with more agent locations planned for 2002. The stores, which will reflect U.S. Cellular's new "high-tech, high-touch" retail store branding strategy, will be operated under the name "Premier Locations."

CUSTOMER SERVICE/I.S.

U.S. Cellular opened a new state-of-the-art I.S. facility which houses the C.A.R.E.S. billing and information system as well as the I.S. Data Center.

RESPONSIVE CUSTOMER SERVICE

U.S. Cellular's Customer Care Center associates are a vital connection to our customers. These associates receive six weeks of intensive customer service training before they start serving customers. This year, all customer service coaches, managers, directors and executives also participated in leadership training.

According to our surveys, customers rate getting the information they need or resolving their problem with a single call as extremely important. First call resolution is the goal of U.S. Cellular's customer service organization. Progress is monitored continually through ongoing customer satisfaction surveys.

First call resolution is a measurement now used in determining performance incentives for all front-line associates.

Late in 2001, U.S. Cellular took another step to serve customers more effectively by consolidating its financial services operations into two national centers in Madison, Wis., and Tulsa, Okla. The realignment, to be completed in early 2002, will streamline these operations, which include collection efforts and credit review teams. This change will enable U.S. Cellular to offer the latest in credit and collection technologies.

We are providing enhanced customer service through several new technologies:

- Web activation — the ability of agents and direct sales channels to activate customer accounts online — speeds the activation process and shortens the amount of time customers must wait until their new phones are ready to use.
- In 2001, the implementation of C.A.R.E.S. (Customer Acquisition and Retention System) was completed in every U.S. Cellular market and will provide the operational efficiencies of having all billing operations on a single system.
- Customers want the best possible coverage while roaming. Over-the-air Activation (OTA) allows customer phones to be programmed to provide "intelligent roaming" on pre-determined carriers selected by U.S. Cellular.

OTA is now in place in nearly 75 percent of U.S. Cellular markets. The same technology can also activate service remotely to give customers a faster, easier purchasing experience. OTA trials are now under way in some U.S. Cellular markets to test additional functionality.

A proactive initiative to connect with our customers and continue strengthening our relationships was expanded during 2001 with the creation of a specialized "Pro Call" team. This team conducts outbound calls to make customers feel valuable and build trust. They also make welcome calls to new customers, and talk to existing customers about valuable information such as annual rate plan analysis or information about expanded services.

U.S. CELLULAR OPENS NEW FACILITIES

U.S. Cellular continues to improve customer service by investing in the environment and support systems used by our associates. Two new facilities, both featuring a combination of innovative design and the latest in cutting-edge network and telephone equipment, opened in late 2001.

In October, the Company's new Information Technology Management Facility opened in Bensenville, Ill. The 54,000-square-foot building currently houses more than 250 information services associates including the infrastructure, development, planning, testing and implementation departments, as well as the Company's I.S. Data Center.

A new Mid-Central Customer Care Center in Pewaukee, Wis., opened in November to streamline operations, consolidate services and handle more than 8,000 daily customer service transactions. The 89,400-square-foot facility houses a portion of U.S. Cellular's regional staff, customer service operations, information services data center, business operations office and national roaming support center. Some 300 associates currently work in the facility, which can accommodate up to 550 employees.

U.S. CELLULAR NAMED TITAN WINNER FOR OUTSTANDING CUSTOMER SERVICE

U.S. Cellular's commitment to customer service was recognized in 2001 when the Company was named the 2001 Wireless Titan Award winner for Outstanding Customer Service by *Wireless Review*, a highly regarded industry trade magazine.

Wireless Review cited U.S. Cellular's customer service goals and initiatives put in place to reach these goals as the basis for the honor. The U.S. Cellular goals *Wireless Review* focused on include: rapidly deploying wireless service in the communities U.S. Cellular serves, developing associate training initiatives, increasing consumer awareness of wireless service and reducing the number of customers who switch to another carrier. Specifically noted was U.S. Cellular's 1.7 percent customer defection, or "churn" rate, which ranks well below the industry average.

NETWORK OPERATIONS

Associates in the Network Operations Center in Knoxville, Tenn., use state-of-the-art technology to constantly monitor the quality of our network.

ENHANCING THE NETWORK

U.S. Cellular continues to expand and upgrade its network to give our customers the highest call quality, the broadest possible range of coverage and access to new and enhanced wireless features. Network enhancements also are positioning U.S. Cellular for future growth.

Currently, the Company is deploying an Advanced Intelligent Network. This platform provides a stand-alone home location register that consolidates customer information previously contained in separate switches. The new platform speeds and simplifies the process of migrating customers from one switch to another, helps reduce capacity demand in our switches and provides enhanced security — giving our customers more reliable service. Three switches were migrated to the new platform in 2001, and others will be added in 2002.

Approximately 70 percent of U.S. Cellular's customers use the Company's digital service in order to utilize the expanded features that digital provides. Because of this demand, U.S. Cellular added more than 370 new cell sites across its markets in 2001 to improve coverage and call quality for customers. This brings the total number of cell sites to more than 2,900.

As customer demand for digital service continues to rise, U.S. Cellular is continuing to enhance digital coverage across our network. Under the terms of a four-year, $100 million contract with U.S. Cellular, Lucent Technologies will supply digital wireless systems, engineering and installation services for the existing U.S. Cellular network in Virginia, West Virginia, North Carolina and South Carolina. Two new Lucent systems have been added in Mabscott and Morgantown, W.Va., and similar systems will be installed in Roanoke and Lynchburg, Va., early in 2002.

U.S. Cellular customers will benefit from expanded network capacity and capability and improved service quality and reliability as a result of U.S. Cellular's purchase of a pair of signal transfer points and the upgrade of an existing pair during 2001. The scalable capacity of the platform creates a more efficient network architecture and better positions U.S. Cellular for future growth. Two additional signal transfer points will be added to the network in 2002.

U.S. Cellular continually seeks to provide state-of-the-art technology to our customers. Work continues toward the development and deployment of the next generation of significantly higher capacity service (2.5G and 3G) to respond to the expected demand for wireless data services.

U.S. CELLULAR CHOOSES ADVANCED CDMA TECHNOLOGY

Deployment of a highly advanced digital technology – Code Division Multiple Access, or CDMA 1XRTT – will enable U.S. Cellular to more effectively respond to the changing wireless needs of customers. This major technology decision, announced late in 2001, will enable U.S. Cellular to enhance digital service by adding voice capacity, offering high-speed data products and improving coverage.

CDMA 1XRTT technology will be deployed throughout the Company's entire network beginning in the Midwest/Great Lakes area in 2002. The new technology is expected to be in 40 percent of our current markets by year-end 2002 and 75 percent of markets by year-end 2003. Completion is expected by 2004. The approximate cost of the conversion will be between $400-$450 million spread over the three-year period.

CDMA 1XRTT makes more efficient use of the wireless spectrum and will allow for more economical network growth and expansion. It is expected to almost double today's CDMA capacity by delivering nearly 10 times analog capacity. Additionally, this change will enable the Company to begin providing high-speed data access.

CDMA technology is currently in place in approximately one-third of U.S. Cellular's markets, and the Company's positive, long-term experience with the technology was influential in the decision to deploy the more advanced CDMA platform across the entire network. U.S. Cellular will continue to support Time Division Multiple Access, or TDMA technology, which currently is in place in two-thirds of the Company's markets, for the foreseeable future, both for its own customers and for the substantial roaming traffic received from other TDMA operators.

CDMA 1XRTT makes more efficient use of the wireless spectrum and will allow for more economical network growth and expansion.

MARKETING

Many customers choose U.S. Cellular's prepaid option, TalkTracker®, for its affordability and convenience.

Text messaging gives customers a convenient alternate method of communications.

LISTENING TO OUR CUSTOMERS

Acquiring new customers and retaining existing customers are the keys to profitable growth for U.S. Cellular. Knowing and understanding customers' needs enables us to provide better service by offering the products and services customers tell us they want. U.S. Cellular actively seeks to know our customers through market research and focus groups.

In 2001, we talked to more than 50,000 customers and potential customers from every market in which we operate. We asked their opinions on a wide range of topics including: customer satisfaction issues, billing, network quality, brand awareness, advertising, promotions, loyalty programs, new retail store designs, Web site navigation and order fulfillment, regulatory issues and phone repair satisfaction. Improvements in the way we work with our customers were based on their valuable feedback.

As new products are developed, customer input is also utilized. Some new products our customers requested this year and that we delivered included:

- 1-Way Mobile Messaging, which enables anyone to send text messages through a standard e-mail program through the Internet, or at U.S. Cellular's Web site. 2-Way Mobile Messaging lets U.S. Cellular customers send text messages directly from their wireless phones to other U.S. Cellular Mobile Messaging users who are in the same digital home coverage area.
- A Mobile-to-Mobile digital calling feature, which gives consumers a new money-saving option for calls made between U.S. Cellular digital customers within their local Mobile-to-Mobile coverage area.
- Enhanced TalkTracker® prepaid wireless service with expanded coverage areas, extended time for using prepaid minutes and value-added features including call waiting and three-way calling. It also allows prepaid customers to roam in areas not served by U.S. Cellular.

U.S. Cellular will continue to develop new products to respond to both the general consumer and business markets as well as to select high-value market segments. Among products now under development are a variety of new data products and voice portal services that will enable wireless phone users to obtain voice-delivered information and navigate their voice mail with voice commands.

CREATING CUSTOMER LOYALTY

Retaining existing customers is an important profit strategy for U.S. Cellular. During 2001, we introduced Excellence Rewards, a proactive loyalty program designed for our most valued customers.

Excellence Rewards seeks to build loyalty and increase retention among customers by offering valued rewards — equipment upgrades, accessory discounts, bonus airtime minutes, calling plan flexibility, enhanced customer care and more — with increased rewards over time. The program is focused on customer satisfaction and strives to ensure that customers are happy with their wireless service experience.

U.S. CELLULAR DEBUTS NEW TAGLINE: "We connect with you℠"

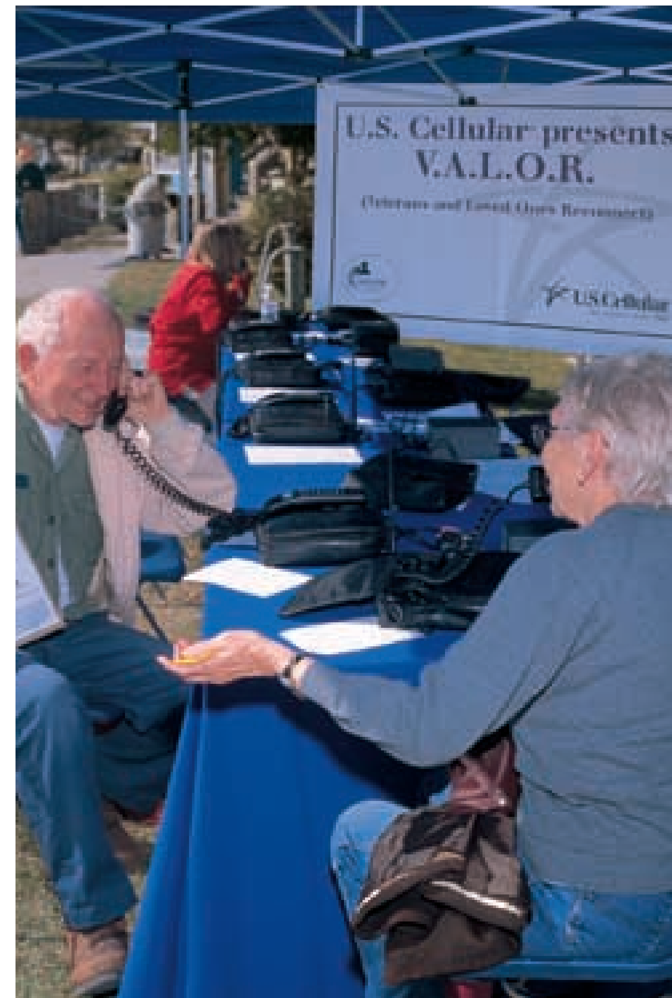
In 2001, U.S. Cellular reaffirmed its commitment to its customers with the introduction of a new tagline, "We connect with you," which was supported by major consumer and business-to-business advertising campaigns. The new tagline and campaign highlight the Company's focus on consistently ensuring that customers receive wireless service and products of value over the life of their relationship with U.S. Cellular.

"We connect with you" is a statement that describes our relationship with our customers and potential customers from every aspect of how they see and interact with the Company. U.S. Cellular strives to give its customers exactly what they expect from a wireless provider — products and services that are not "one size fits all," but rather tailored to meet each customer's specific needs.

The business-to-business advertising campaign developed to support the introduction of the tagline, commits to giving business owners a dedicated personal consultant that listens to their needs. The campaign revolves around seeing things through the eyes of our business customers.

The consumer advertising campaign reminds consumers of the frustration of dealing with the "sell anything at any cost" mentality that one might find with other wireless companies. It revolves around four common problems faced by customers, including getting the right calling plan, finding the right phone, having incorrect bills, and changing their calling plan as their usage habits change. The campaign follows a single customer through his trials and tribulations in dealing with the competition. The ultimate goal for U.S. Cellular is to do away with the frustration and confusion that people often associate with their wireless experience.

The Company took a proactive stand regarding driver distraction with the launch of its nationwide Wireless Road Rules℠ program, which promoted driver safety.



U.S. Cellular's V.A.L.O.R. (Veterans and Loved Ones Reconnect) program helped Veterans call family and friends this year.

ENHANCED MEDIA RELATIONS

U.S. Cellular sought a more active voice in the media in 2001, increasing public awareness of the Company, its products and services, dedication to customer service/satisfaction, and commitment to improving community life. Throughout the year, U.S. Cellular received extraordinary media exposure on topics ranging from trends in the wireless marketplace to customer loyalty and associate satisfaction. Through the Company's media relations efforts, U.S. Cellular spokespersons appeared on national programs, such as CNBC Power Lunch and CNNfn and in the pages of local, national and trade print publications, including *TIME, Chicago Tribune, Chicago Sun Times, RCR, Telephony* and *Wireless Week*.

A STRONG COMMUNITY PARTNER

U.S. Cellular is strongly committed to connecting with the communities we serve. During 2001, the Company and its associates were directly involved in a large number of community initiatives aimed at enhancing the quality of life throughout our markets. Our support included donations of airtime and wireless equipment, monetary contributions and volunteer time in a wide variety of community programs, including:

- V.A.L.O.R.℠ (Veterans and Loved Ones Reconnect℠), a program that honors the courage and loyalty of U.S. veterans by offering former servicemen and women the opportunity to make free wireless phone calls on Veterans Day and Memorial Day.
- H.O.P.E.℠ (Homeless Outreach Phone Effort℠) a grassroots program that provides free local or long distance wireless phone calls to homeless and disadvantaged individuals on Thanksgiving and Christmas. U.S. Cellular partnered with homeless shelters and other organizations to reconnect more than 20,000 homeless individuals with their loved ones.
- A new public service campaign called Mobile Manners℠ launched during Wireless Safety Week in May. The program provides wireless phone users with educational tips on how to use their phone courteously in public settings.
- Wireless Road Rules℠ proactively addresses the issue of driver distraction and provides wireless phone safety education tips in each of U.S. Cellular's markets. The program stresses that safety does, and always should, come first when driving an automobile.

Other U.S. Cellular community relations initiatives addressed assistance for victims of domestic violence and elder abuse, wireless safety education for children, neighborhood crime prevention and disaster relief.

After the September 11 terrorist attacks on New York City and Washington, D.C., U.S. Cellular matched associate contributions dollar-for-dollar, which went to victim relief funds. The Company also set up monetary collection boxes in each of its retail stores nationwide for customers wishing to contribute to the Red Cross relief efforts in New York and Washington, D.C.

MEDIA & COMMUNITY RELATIONS

U.S. Cellular is strongly committed to connecting with the communities we serve. During 2001, the Company and its associates were directly involved in a large number of community initiatives aimed at enhancing the quality of life throughout our markets.

CELLULAR MARKETS OWNED AND MANAGED BY U.S. CELLULAR:

SOUTHWEST/WEST REGION

Washington/Oregon/Idaho
MSAs
Richland-Kennewick-Pasco
Yakima
RSAs
Idaho 5
Idaho 6
Oregon 2
Oregon 3
Washington 4
Washington 5
Washington 6
Washington 7

Oregon/California
MSA
Medford
RSAs
California 1
California 2
California 9
Oregon 5
Oregon 6

Southern Texas
MSAs
Corpus Christi
Laredo
Victoria
RSAs
Texas 18
Texas 19
Texas 20

Texas/Oklahoma/Missouri/Kansas
MSAs
Joplin
Lawton
Tulsa
Wichita Falls
RSAs
Kansas 15
Oklahoma 4
Oklahoma 6
Oklahoma 7
Oklahoma 8
Oklahoma 9
Oklahoma 10
Texas 4
Texas 5

CENTRAL REGION

Wisconsin
MSAs
Appleton-Oshkosh
Green Bay
Janesville-Beloit
Kenosha
La Crosse
Madison
Milwaukee
Racine
Sheboygan
RSAs
Wisconsin 5
Wisconsin 6
Wisconsin 7
Wisconsin 8
Wisconsin 9
Wisconsin 10

Missouri
MSA
Columbia
RSAs
Missouri 2
Missouri 3
Missouri 5
Missouri 6
Missouri 11
Missouri 13
Missouri 15
Missouri 16
Missouri 17

Illinois/Indiana
MSAs
Alton
Peoria
Rockford
RSAs
Illinois 1
Illinois 3
Illinois 4
Indiana 4
Indiana 5

Iowa
MSAs
Cedar Rapids
Davenport
Des Moines
Dubuque
Iowa City
Waterloo-Cedar Falls
RSAs
Iowa 1
Iowa 2
Iowa 3*
Iowa 4
Iowa 5
Iowa 6
Iowa 7
Iowa 9*
Iowa 10
Iowa 11
Iowa 12*
Iowa 13
Iowa 14
Iowa 16

EAST REGION

Florida/Georgia
MSAs
Fort Pierce
Gainesville
Tallahassee
RSAs
Florida 5
Florida 6
Florida 7
Florida 8
Florida 9
Florida 10
Georgia 11
Georgia 14

Eastern Tennessee/Western North Carolina
MSAs
Asheville
Knoxville
RSAs
North Carolina 2
North Carolina 4
Tennessee 4
Tennessee 7

Eastern North Carolina/South Carolina
MSAs
Jacksonville
Wilmington
RSAs
North Carolina 6
North Carolina 7
North Carolina 8
North Carolina 9
North Carolina 10
North Carolina 11
North Carolina 12
North Carolina 13
North Carolina 14
South Carolina 4

Virginia/North Carolina
MSAs
Charlottesville
Lynchburg
Roanoke
RSAs
North Carolina 3
Virginia 2
Virginia 3
Virginia 4
Virginia 5
Virginia 7

West Virginia/Pennsylvania/Maryland/Ohio
MSAs
Cumberland
Hagerstown
RSAs
Maryland 1
Ohio 9*
Pennsylvania 10
West Virginia 3
West Virginia 4
West Virginia 5
West Virginia 7

Maine/New Hampshire/Vermont
MSAs
Bangor
Lewiston-Auburn
Manchester-Nashua
RSAs
Maine 1
Maine 2
Maine 3
Maine 4
New Hampshire 1
New Hampshire 2
Vermont 2

* Minority owned and managed cellular market

PCS MARKETS OWNED BY U.S. CELLULAR:

SOUTHWEST/WEST REGION

Enid, OK#
Ponca City, OK#
Stillwater, OK#

CENTRAL REGION

Bloomington, IL
Burlington, IA-IL-MO
Champaign-Urbana, IL
Clinton, IA-IL
Danville, IL-IN#
Davenport, IA-IL
Decatur-Effingham, IL
Des Moines, IA
Galesburg, IL#
Iowa City, IA
Jacksonville, IL#
LaSalle-Peru Ottawa-Streator, IL#
Madison, WI#
Mattoon, IL
Omaha, NE-IA
Ottumwa, IA
Peoria, IL
Rochester, MN#
Rockford, IL
St. Joseph, MO-KS
Sedalia, MO#
Springfield, IL

EAST REGION

Cleveland, TN#
Daytona Beach, FL#
Salisbury, MD#

Owned through joint ventures in which U.S. Cellular has a noncontrolling interest

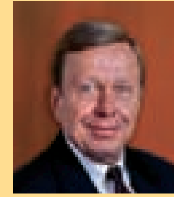
U.S. Cellular Corporation Corporate Headquarters – Chicago, Ill.
States in which U.S. Cellular owns markets
Cellular markets currently owned and managed
PCS markets wholly owned and managed
PCS markets owned through joint ventures

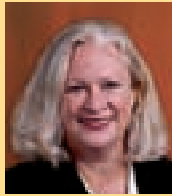
CORPORATE MANAGEMENT GROUP

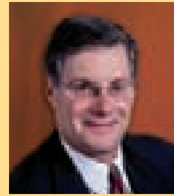
Jay M. Ellison, 49
Executive Vice President – Operations (Chief Operating Officer)

Michael S. Irizarry, 40
Executive Vice President – Engineering (Chief Technology Officer)

Kenneth R. Meyers, 48
Executive Vice President – Finance (Chief Financial Officer) and Treasurer


Don Crockford, 63
Senior Vice President – Human Resources


Linda L. Baker, 41
Vice President – Customer Service


Charles A. Bale, 48
Vice President – Sales Operations

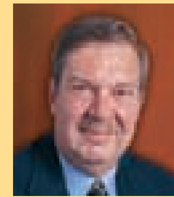
Alan D. Ferber, 35
Vice President – Marketing

Hichem H. Garnaoui, 36
Vice President – National Network Operations

Leon J. Hensen, 54
Vice President – Central Operations

Conrad J. Hunter, 44
Vice President – East Operations

James R. Jenkins, 41
Vice President – External Affairs


Bernard J. Kocanda, 50
Vice President – Business Support Services

Frank A. Marino, 54
Vice President – West/ Southwest Operations

John T. Quille, 51
Vice President – Controller

Thomas S. Weber, 41
Vice President – Financial Services

James D. West, 49
Vice President – Information Services (Chief Information Officer)

BOARD of Directors

(left to right)

J. Samuel Crowley, 51
Director; Private Investor; Retired, Executive Vice President of Operations – CompUSA, Inc.

Barrett A. Toan, 54
Director; President and Chief Executive Officer – Express Scripts, Inc.

Walter C.D. Carlson, 48
Director; Chairman of the Board – Telephone and Data Systems, Inc. and Partner – Sidley Austin Brown & Wood (Attorneys-at-Law)

LeRoy T. Carlson, 85
Director; Chairman Emeritus and Director – Telephone and Data Systems, Inc.

John E. Rooney, 59
President, Chief Executive Officer and Director – U.S. Cellular

LeRoy T. Carlson, Jr., 55
Chairman and Director; President, Chief Executive Officer and Director – Telephone and Data Systems, Inc.

Kenneth R. Meyers, 48
Director; Executive Vice President – Finance (Chief Financial Officer) and Treasurer – U.S. Cellular

Sandra L. Helton, 52
Director; Executive Vice President, Chief Financial Officer and Director – Telephone and Data Systems, Inc.

Paul-Henri Denuit, 67
Director; Director Emeritus of Tractebel S.A.

RESULTS OF OPERATIONS

United States Cellular Corporation (the "Company" - AMEX symbol: USM) owns, operates and invests in cellular markets throughout the United States. The Company is an 82.2%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and footnotes.

The Company owned either majority or minority cellular interests in 176 markets at December 31, 2001, representing 27,420,000 population equivalents ("pops"). The Company included the operations of 142 majority-owned cellular markets, representing 25.3 million pops, in consolidated operations ("consolidated markets") as of December 31, 2001. Minority interests in 28 cellular markets, representing 2.1 million pops, were accounted for using the equity method and were included in investment income at that date. All other cellular interests were accounted for using the cost method. Following is a table of summarized operating data for the Company's consolidated operations. Operating results from the Company's interests in personal communication service ("PCS") markets acquired during 2001 were not material and are not included in the table.

	Year Ended or at December 31,		
	2001	2000	1999
Total market population (in thousands) (1)	25,670	24,912	24,861
Customers	3,461,000	3,061,000	2,602,000
Market penetration	13.48%	12.29%	10.47%
Markets in operation	142	139	139
Total employees	5,150	5,250	4,800
Cell sites in service	2,925	2,501	2,300
Average monthly revenue per customer	$ 46.28	$ 49.21	$ 53.71
Postpay churn rate per month	1.7%	1.8%	1.9%
Marketing cost per gross customer addition	$ 322	$ 330	$ 346

(1) Calculated using Claritas population estimates for 2000, 1999 and 1998, respectively. In 2001, the Company reported year-end market penetration based upon the prior year's population estimates (2000 Claritas). The prior year's population estimates were used for each of the previous quarter-end market penetration calculations during the year. Previously, the Company used the current year's population estimates for reporting year-end market penetration. Had the Company used 2001 Claritas population estimates as the basis for reporting 2001 year end market population, the resulting market penetration would have been 13.12%. Total market population and market penetration amounts for prior years have been restated to conform to current period presentation.

The growth in the Company's operating income in 2001 and 2000, which includes 100% of the revenues and expenses of its consolidated markets plus its corporate office operations, primarily reflects improvements in the Company's overall operations compared to 2000 and 1999. The improvements primarily resulted from growth in the Company's customer base and revenues in each year. Operating revenues, driven by 13% and 18% increases in customers served in 2001 and 2000, respectively, rose $178.2 million, or 10%, in 2001 and $140.2 million, or 9%, in 2000. Operating cash flow (operating income plus depreciation and amortization expense) increased $59.9 million, or 11%, in 2001 and $72.2 million, or 15%, in 2000. Operating income increased $24.9 million, or 9%, in 2001 and $36.5 million, or 14%, in 2000.

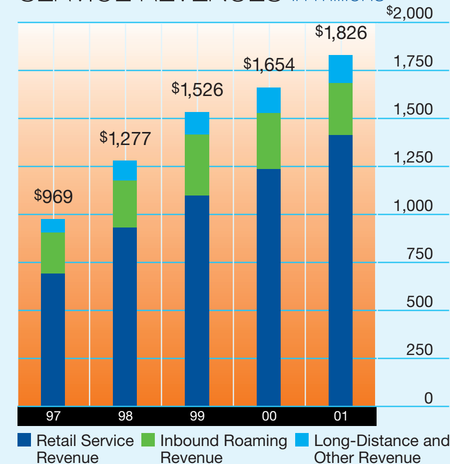
The amounts reported for "operating cash flow" do not represent cash flows from operations as defined by generally accepted accounting principles ("GAAP"). The Company believes that this is a useful measure of its performance but it should not be construed as an alternative to measures of performance determined under GAAP.

Investment and other income decreased $100.6 million in 2001 and $145.6 million in 2000. Net income and diluted earnings per share decreased $19.0 million and $.23, respectively, in 2001 and $107.9 million and $1.06, respectively, in 2000. Excluding the after-tax effects of gains on cellular and other investments and extraordinary losses and the cumulative effect of a change in accounting principle, net income and diluted earnings per share decreased $2.4 million and $.05, respectively, in 2001 and increased $42.7 million and $.53, respectively, in 2000.

In 2001 and 2000, both net income and earnings per share included extraordinary losses. In 2000 and 1999, both net income and earnings per share included gains on cellular and other investments. In 2000, both net income and earnings per share included the cumulative effect of a change in accounting principle. A summary of the after-tax effects of gains and extraordinary losses and the cumulative effect of a change in accounting principle on net income and diluted earnings per share in each period is shown below.

(Dollars in thousands, except per share amounts)	Year Ended December 31, 2001	2000	1999
Income from operations:			
Operations	$ 180,832	$ 183,275	$ 140,579
Gains, net of tax	—	51,163	160,179
	180,832	234,438	300,758
Extraordinary (loss), net of tax	(6,956)	(36,870)	—
Cumulative effect of accounting change	—	(4,661)	—
Net income as reported	$ 173,876	$ 192,907	$ 300,758
Diluted earnings per share from operations:			
Operations	$ 2.07	$ 2.12	$ 1.59
Gains, net of tax	—	.56	1.69
	2.07	2.68	3.28
Extraordinary (loss), net of tax	(.08)	(.41)	—
Cumulative effect of accounting change	—	(.05)	—
Diluted earnings per share as reported	$ 1.99	$ 2.22	$ 3.28

SERVICE REVENUES in millions



Operating Revenues

(Dollars in millions)	Year Ended December 31, 2001	2000	1999
Operating Revenues			
Retail service	$ 1,408.3	$ 1,227.6	$ 1,089.2
Inbound roaming	272.4	292.4	318.7
Long-distance and other	145.7	133.9	117.8
Service Revenues	1,826.4	1,653.9	1,525.7
Equipment sales	68.4	62.7	50.7
Total Operating Revenues	$ 1,894.8	$ 1,716.6	$ 1,576.4

Operating revenues increased $178.2 million, or 10%, in 2001, and $140.2 million, or 9%, in 2000.

Service revenues primarily consist of: (i) charges for access, airtime and value-added services provided to the Company's retail customers ("retail service"); (ii) charges to customers of other systems who use the Company's cellular systems when roaming ("inbound roaming"); (iii) charges for long-distance calls made on the Company's systems. Service revenues increased $172.5 million, or 10%, in 2001, and increased $128.3 million, or 8%, in 2000. The increases in both years were primarily due to the growing number of retail customers. Monthly service revenue per customer averaged $46.28 in 2001, a 6% decrease from 2000, and averaged $49.21 in 2000, an 8% decrease from an average of $53.71 in 1999.

Retail service revenue increased $180.7 million, or 15%, in 2001 and $138.4 million, or 13%, in 2000. Growth in the Company's customer base was the primary reason for the increase in retail service revenue in both years. The number of customers increased 13% to 3,461,000 at December 31, 2001, and increased 18% to 3,061,000 at December 31, 2000. Management anticipates that overall growth in the Company's customer base will continue to slow down in the future, primarily as a result of an increase in the number of competitors in its markets and continued penetration of the consumer market.

Average monthly retail service revenue per customer declined 2% to $35.68 in 2001 from $36.52 in 2000, and declined 5% in 2000 from $38.35 in 1999. Monthly local retail minutes of use per customer averaged 216 in 2001, 157 in 2000 and 115 in 1999. The increases in monthly local retail minutes of use were driven by the Company's focus on designing incentive programs and rate plans to stimulate overall usage. These increases were offset by decreases in average revenue per minute of use in both 2001 and 2000. Management anticipates that the Company's average revenue per minute of use will continue to decline in the future, reflecting increased competition and penetration of the consumer market.

Inbound roaming revenue decreased $20.0 million, or 7%, in 2001 and $26.3 million, or 8%, in 2000. The declines in inbound roaming revenue in both years primarily resulted from the decrease in revenue per roaming minute of use on the Company's systems, partially offset by an increase in roaming minutes used.

In 2001, the increase in inbound roaming minutes of use was in proportion to the growth in the number of customers throughout the wireless industry. In 2000, the increase in minutes of use was affected by certain pricing programs offered by other wireless companies, beginning in the second half of 1999. Wireless customers who sign up for these programs are given price incentives to roam, and many of those customers travel in the Company's markets, thus driving an increase in the Company's inbound roaming minutes of use. The declines in revenue per minute of use in both years are primarily due to the general downward trend in negotiated rates, and these negotiated rates are also affected by the previously mentioned pricing programs offered by other wireless carriers.

Management anticipates that the increase in inbound roaming minutes of use will continue to be proportionate to the growth in the number of customers throughout the wireless industry. However, as new wireless operators begin service in the Company's markets, the Company's roaming partners could switch their business to these new operators, further slowing the growth in inbound roaming minutes of use. Management also anticipates that average inbound roaming revenue per minute of use will continue to decline, reflecting the continued general downward trend in negotiated rates.

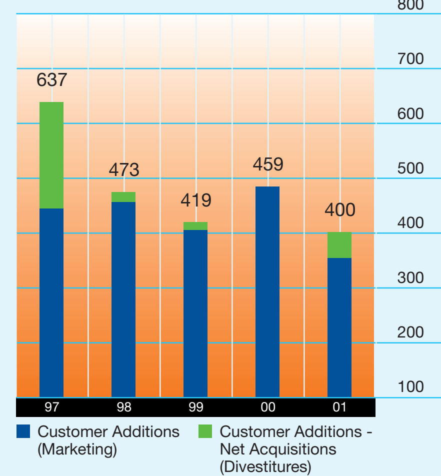
Average monthly inbound roaming revenue per Company customer averaged $6.90 in 2001, $8.70 in 2000 and $11.22 in 1999. The decreases in monthly inbound roaming revenue per Company customer in both years are attributable to decreases in inbound roaming revenue compared to increases in the Company's customer base.

Long-distance and other revenue increased $11.8 million, or 9%, in 2001 and $16.1 million, or 14%, in 2000 as the volume of long-distance calls billed by the Company increased, primarily from inbound roamers using the Company's systems to make long-distance calls. Growth in long-distance revenue in both years was slowed by price reductions primarily related to long-distance charges on roaming minutes of use. These reductions, similar to the price reductions on roaming airtime charges, are a continuation of the industry trend toward reduced per minute prices. Monthly long-distance and other revenue per customer averaged $3.70 in 2001, $3.99 in 2000 and $4.15 in 1999.

Equipment sales revenues increased $5.7 million, or 9%, in 2001 and $12.0 million, or 24%, in 2000. In 2001, the increase primarily reflects the recognition in equipment sales revenues of $5.2 million of previously deferred activation fees. In 2000, the increase in equipment sales revenues reflects a 15% increase in the number of gross customer activations, to 1,154,000 in 2000 from 1,000,000 in 1999, plus an increase in the number of higher priced dual-mode units sold. A majority of the gross customer activations in both years were produced by the Company's direct and retail distribution channels; activations from these channels usually generate sales of cellular telephone units. The higher amount of sales of dual-mode units in 2000 and

2001 compared to 1999 is related to the Company's ongoing conversion of its systems to digital coverage, which enables the Company to offer its customers more features, better clarity and increased roaming capabilities.

NEW CUSTOMER ADDITIONS
in thousands



Operating Expenses

(Dollars in millions)	Year Ended December 31, 2001	2000	1999
Operating Expenses			
System operations	$ 421.1	$ 350.5	$ 368.1
Marketing and selling	297.2	303.7	272.7
Cost of equipment sold	124.0	139.7	124.1
General and administrative	434.6	364.7	325.8
Depreciation	237.4	205.9	184.8
Amortization of intangibles	63.3	59.8	45.1
Operating Expenses	$1,577.6	$1,424.3	$1,320.6

Operating expenses increased $153.3 million, or 11%, in 2001, and $103.7 million, or 8%, in 2000.

System operations expenses increased $70.6 million, or 20%, in 2001 and decreased $17.6 million, or 5%, in 2000. System operations expenses include charges from other telecommunications service providers for the Company's customers' use of their facilities, costs related to local interconnection to the landline network, long-distance charges and outbound roaming expenses. The increase in system operations expenses in 2001 was due to the following factors:

- a 17% increase in the number of cell sites within the Company's systems, to 2,925 in 2001 from 2,501 in 2000, as the Company continues to expand and enhance coverage in its service areas;
- a $6.0 million, or 30%, increase in employee-related expenses, driven by the addition of engineering and technical employees throughout 2001 to maintain the Company's systems and improve service quality; and
- increases in minutes of use both on the Company's systems and by the Company's customers using other systems when roaming.

The ongoing reduction both in the per-minute cost of usage on the Company's systems and in negotiated roaming rates partially offset the above factors.

As a result of the above factors, the components of system operations expenses were affected as follows:

- maintenance, utility and cell site expenses increased $19.6 million, or 24%;
- expenses incurred when the Company's customers used other systems when roaming increased $38.8 million, or 21%; and
- the cost of minutes used on the Company's systems increased $12.2 million, or 16%.

The decrease in system operations expenses in 2000 was primarily the result of a $39.3 million, or 17%, decrease in the costs associated with the Company's customers roaming on other companies' systems ("outbound roaming"). This decrease was due to the ongoing reduction in negotiated roaming rates and related long-distance rates mentioned previously. In 2000, the cost of minutes used on the Company's systems and the cost of maintaining the Company's network increased by $15.2 million, or 25%, and $7.6 million, or 10%, respectively. These increases were driven by an increase in minutes of use on the Company's systems and an increase in the number of cell sites within those systems, respectively.

In total, management expects system operations expenses to increase over the next few years, driven by increases in the number of cell sites within the Company's systems and increases in minutes of use, both on the Company's systems and by the Company's customers on other systems when roaming.

Marketing and selling expenses decreased $6.5 million, or 2%, in 2001, and increased $31.0 million, or 11%, in 2000. Marketing and selling expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent expenses; corporate marketing department salaries and expenses; local advertising; and public relations expenses. The decrease in 2001 was primarily due to a 5% decrease in the number of gross customer activations. The increase in 2000 was primarily due to a 15% increase in the number of gross customer activations.

Marketing cost per gross customer activation, which includes marketing and selling expenses and equipment subsidies, decreased 2% to $322 in 2001 from $330 in 2000, and decreased 5% in 2000 from $346 in 1999. The decreases in cost per gross customer activation in both years were primarily due to reductions in equipment subsidies per gross customer activation.

Cost of equipment sold decreased $15.6 million, or 11%, in 2001, and increased $15.7 million, or 13%, in 2000. The decrease in 2001 reflects the decline in unit sales related to the 5% decrease in gross customer activations. The increase in 2000 reflected the growth in unit sales related to the 15% increase in gross customer activations as well as the impact of selling more higher-cost dual-mode units. The average cost of dual-mode units decreased in both years.

General and administrative expenses increased $69.9 million, or 19%, in 2001 and $39.0 million, or 12%, in 2000. These expenses include the costs of operating the Company's customer care centers and local business offices, the costs of serving and retaining customers and corporate expenses other than the corporate engineering and marketing departments. The increases in both years include the effects of increases in expenses required to serve the growing customer base in the Company's markets and other expenses incurred related to the growth in the Company's business.

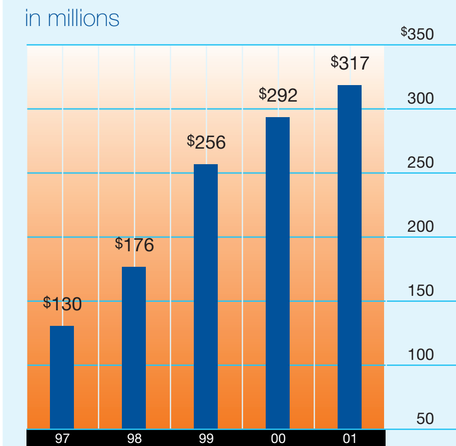
Driven by additional costs incurred in 2001 and 2000 related to its customer care centers, which centralize certain customer service functions, administrative employee-related expenses increased $27.8 million, or 18%, in 2001 and $6.3 million, or 4%, in 2000. The Company also incurred additional costs in both 2001 and 2000 to retain customers and to provide dual-mode phone units to customers who migrated from analog to digital rate plans, and as of December 31, 2001, nearly 70% of the Company's customers were using digital rate plans. Costs related to these customer retention and migration activities increased $9.8 million, or 16%, in 2001 and $27.1 million, or 82%, in 2000. Monthly general and administrative expenses per customer increased 1% to $11.01 in 2001 from $10.85 in 2000, and decreased 5% from $11.47 in 1999. General and administrative expenses represented 24% of service revenues in 2001, 22% in 2000 and 21% in 1999.

Operating cash flow increased $59.9 million, or 11%, to $617.9 million in 2001 and increased $72.2 million, or 15%, to $558.0 million in 2000. The improvements in 2001 and 2000 were primarily due to substantial growth in customers and service revenues. Operating cash flow margins (as a percent of service revenues) were 33.8% in 2001, 33.7% in 2000 and 31.8% in 1999.

Depreciation expense increased $31.4 million, or 15%, in 2001 and $21.1 million, or 11%, in 2000. The increases reflect rising average fixed asset balances, which increased 20% in 2001 and 13% in 2000. Increased fixed asset balances in both 2001 and 2000 resulted from the addition of new cell sites built to improve coverage and capacity in the Company's markets and from upgrades to provide digital service in more of the Company's service areas.

Amortization of intangibles increased $3.5 million, or 6%, in 2001 and $14.6 million, or 32%, in 2000. The increase in 2001 was primarily driven by an 8% increase in average investment in licenses. Amortization of capitalized development costs related to the Company's new billing and information system, totaling approximately $118 million, began October 1, 1999, for a period of seven years. Annual amortization of these costs is approximately $17 million. The recognition of a full year's amortization of these costs in 2000 drove the increase in expense compared to 1999.

OPERATING INCOME
in millions



Operating Income

Operating income totaled $317.2 million in 2001, an increase of $24.9 million, or 9%, from 2000, and totaled $292.3 million in 2000, an increase of $36.5 million, or 14%, from 1999. The operating income margins (as a percent of service revenues) were 17.4% in 2001, 17.7% in 2000 and 16.8% in 1999. The improvements in operating income in 2001 and 2000 reflect increased revenues, driven by growth in the number of customers served by the Company's systems partially offset by the following factors:

- increased system operations expenses, driven by the increase in minutes of use by both the Company's customers and inbound roamers using the Company's systems; and
- increased general and administrative expenses, driven by an increase in the cost to retain and serve customers.

The Company expects each of the above factors to continue to have an effect on operating income and operating margins for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of the Company's operating results, may cause operating income and operating margins to fluctuate over the next several quarters.

The Company expects service revenues to continue to grow during 2002; however, management anticipates that average monthly revenue per customer will continue to decrease, as retail service and inbound roaming revenue per minute of use decline. Additionally, the Company expects expenses to increase during 2002 as it incurs costs associated with customer growth, service and retention and fixed assets added.

Management continues to believe there exists a seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in the fourth quarter due to increased marketing activities and customer growth, which may cause operating income to vary from quarter to

quarter. Additionally, competitors licensed to provide PCS have initiated service in certain of the Company's markets over the past several years. The Company expects PCS operators to continue deployment of PCS throughout all of the Company's clusters during 2002. Management continues to monitor other wireless communications providers' strategies to determine how additional competition is affecting the Company's results. The effects of additional wireless competition have significantly slowed customer growth in certain of the Company's markets. Coupled with the recent downturn in the nation's economy, the effect of increased competition has caused the Company's customer growth in these markets to be slower than expected in 2001. Management anticipates that overall customer growth will continue to be slower in the future, primarily as a result of the increase in the number of competitors in its markets and due to the maturation of the wireless industry.

Investment and Other Income

Investment and other income totaled $21.1 million in 2001, $121.7 million in 2000 and $267.3 million in 1999.

Gain on cellular and other investments totaled $96.1 million in 2000, reflecting the sale of the Company's majority interest in one market and minority interests in two markets, plus $42.5 million in cash received from the settlement of a legal matter.

Gain on cellular and other investments totaled $266.7 million in 1999, primarily resulting from the effect of the AirTouch Communications, Inc. ("ATI") merger with Vodafone Group plc ("VOD") in June 1999. As a result of the merger, the Company received approximately 2.0 million VOD American Depositary Receipts ("ADRs") (now 10.2 million ADRs after a 5-for-1 stock split) plus $36.9 million in cash in exchange for its 4.1 million ATI shares. In 1999, the Company recognized in earnings a gain of $259.5 million on the difference between its historical basis in the ATI shares ($181.1 million) and the merger date value of the VOD ADRs plus the cash received (an aggregate of $440.6 million).

Investment income was $41.9 million in 2001, $43.7 million in 2000 and $30.4 million in 1999. Investment income primarily represents the Company's share of net income from the markets managed by others that are accounted for by the equity method. The aggregate income from these markets decreased in 2001, reducing investment income in 2001; in 2000, the aggregate income from these markets increased, adding to investment income in 2000.

Interest income totaled $10.3 million in 2001, $17.0 million in 2000 and $8.9 million in 1999. The decrease in 2001 and increase in 2000 are primarily due to the respective $9.8 million decrease and $5.7 million increase in interest income on outstanding cash balances.

Interest expense totaled $35.2 million in 2001, $36.6 million in 2000 and $38.1 million in 1999. Interest expense in 2001 is primarily related to Liquid Yield Option Notes ("LYONs") ($9.8 million); the Company's 7.25% Notes (the "Notes") ($18.5 million); and the Company's revolving credit facility with a series of banks ("Revolving Credit Facility") ($5.1 million). Interest expense in 2000 was primarily related to LYONs ($16.0 million), the Notes ($18.5 million) and Revolving Credit Facility ($1.0 million). Interest expense in 1999 was primarily related to LYONs ($17.6 million), the Notes ($18.5 million) and the Revolving Credit Facility ($782,000).

The LYONs are zero coupon convertible debentures which accrete interest at 6% annually, but do not require current cash payments of interest. All accreted interest is added to the outstanding principal balance on June 15 and December 15 of each year.

The Company's $250 million principal amount of Notes are unsecured and become due in August 2007. Interest on the Notes is payable semi-annually on February 15 and August 15 of each year.

The Revolving Credit Facility is a seven-year facility which was established in 1997. Borrowings under this facility accrue interest at the London InterBank Offered Rate ("LIBOR") plus 19.5 basis points (for a rate of 2.1% at December 31, 2001). Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months; any borrowings made under the facility are short-term in nature and automatically renew until they are repaid. The Company pays facility and administrative fees totaling $710,000 per year in addition to interest on any borrowings; these fees are recorded as interest expense. Any borrowings outstanding in August 2004, the termination date of the Revolving Credit Facility, are due and payable at that time along with any accrued interest. As of December 31, 2001, the Company had $264 million of borrowings outstanding under the Revolving Credit Facility, all of which will become due in 2002.

Income Taxes

Income tax expense was $147.3 million in 2001, $172.0 million in 2000 and $215.3 million in 1999. In 2000 and 1999, $44.9 million and $106.6 million of income tax expense, respectively, related to gains on cellular and other investments. The overall effective tax rates were 44% in 2001 and 42% in both 2000 and 1999. In 2000 and 1999, the effective tax rate was affected by gains on cellular and other investments, which have varying tax implications depending upon the structure of the transactions involved.

TDS and the Company are parties to a Tax Allocation Agreement, pursuant to which the Company is included in a consolidated federal income tax return with other members of the TDS consolidated group. For financial reporting purposes, the Company computes federal income taxes as if it was filing a separate return as its own affiliated group and was not included in the TDS group.

Extraordinary Item

Extraordinary item - (loss) on extinguishment of debt, net of tax totaled $(7.0) million, or $(.08) per diluted share, in 2001 and totaled $(36.9) million, or $(.41) per diluted share, in 2000. In 2001, the Company satisfied $58.2 million face value ($25.4 million carrying value) of retired LYONs by paying $32.0 million in cash to the holders. In 2000, the Company repurchased $40.8 million face value ($16.9 million carrying value) of LYONs and satisfied $111.8 million face value ($46.8 million carrying value) of retired LYONs by paying cash to the holders. In total, the Company paid $99.4 million in cash in 2000 to satisfy LYONs repurchases and retirements. The losses in each year resulted from the difference between the repurchase or retirement price, which approximated market value, and the accreted value of the LYONs repurchased or retired. These losses are not deductible for tax purposes.

Cumulative Effect of Accounting Change

Cumulative effect of accounting change, net of tax totaled $(4.7) million in 2000, or $(.05) per diluted share, reflecting the Company's implementation of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The Company defers revenue recognition of certain activation and reconnect fees, and records the related revenue over periods from six to forty-eight months. Prior to implementing SAB No. 101, the Company recorded these fees as operating revenues in the period they were charged to the customer. The cumulative effect represents the aggregate impact of this accounting change for periods prior to 2000.

Net Income

Net income totaled $173.9 million in 2001, $192.9 million in 2000 and $300.8 million in 1999. *Diluted earnings per share* was $1.99 in 2001, $2.22 in 2000 and $3.28 in 1999.

Inflation

Management believes that inflation affects the Company's business to no greater extent than the general economy.

Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" in July 2001. These statements require, among other things, that all future business combinations be accounted for using the purchase method of accounting and prohibit the use of the pooling-of-interest method. For acquisitions completed after July 1, 2001, goodwill will not be amortized. In addition, effective January 1, 2002, previously recorded goodwill and other intangible assets with indefinite lives will no longer be amortized but will be subject to impairment tests.

SFAS No. 142 defines the accounting for intangible assets. The accounting for a recognized intangible asset is based on the useful life to the entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of the intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the entity.

An intangible asset that is not subject to amortization shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

SFAS No. 142 also defines the accounting for goodwill. Goodwill will be tested for impairment annually. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company will adopt SFAS No. 142 on January 1, 2002, and will no longer amortize its investment in licenses nor its goodwill for equity method investments. Investment in licenses and equity method goodwill totaled $1,298.6 million and $34.7 million, respectively, at December 31, 2001, and amortization expense for the year ended December 31, 2001, totaled $36.5 million and $726,000, respectively.

In addition, pursuant to SFAS No. 142, the Company is assessing its recorded balances of investment in licenses for potential impairment. As allowed under the standard, the Company expects to complete its impairment assessment in the first quarter of 2002. Any required impairment charge would be recorded as a cumulative effect of an accounting change as of January 1, 2002. The Company does not currently expect to record an impairment charge upon the completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

SFAS No. 143 "Accounting for Asset Retirement Obligations" was issued in June 2001, and will become effective for the Company beginning January 1, 2003. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Throughout the useful life of the asset, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the asset's useful life. The Company is currently reviewing the requirements of this new standard and has not yet determined the impact, if any, on the Company's financial position or results of operations.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued in October 2001, and

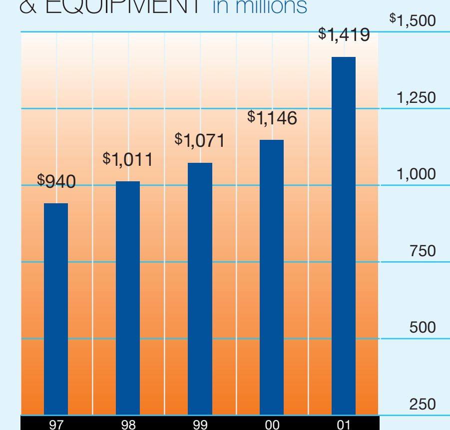
became effective for the Company beginning January 1, 2002. SFAS No. 144 requires entities to measure long-lived assets at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also revises standards for the reporting of discontinued operations. This statement broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The Company is currently reviewing the requirements of this new standard, but does not expect implementation to have a material impact on its financial position or results of operations.

The Financial Accounting Standards Board ("FASB") issued an exposure draft in November 2001, "Rescission of FASB Statements No. 4, 44 and 64 and Technical Corrections." This proposed Statement would rescind Statement 4 and Statement 64, an amendment to Statement 4, thereby eliminating the requirements that gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. The provisions of this Statement related to the rescission of Statement 4 shall be applied as of the beginning of the fiscal year in which this Statement is issued. The FASB expects to issue the final Statement in the first quarter of 2002. When adopted, the Company would no longer report gains and losses on the retirement of long-term debt as an extraordinary item.

FINANCIAL RESOURCES AND LIQUIDITY

The Company operates a capital- and marketing-intensive business. In recent years, the Company has generated operating cash flow and received cash proceeds from divestitures to fund its construction costs and operating expenses. The Company anticipates further increases in cellular units in service, revenues, operating cash flow and fixed asset additions in the future. Operating cash flow may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

Cash flows from operating activities provided $440.3 million in 2001, $521.3 million in 2000 and $333.2 million in 1999. Operating cash flow provided $617.9 million in 2001, $558.0 million in 2000 and $485.8 million in 1999. Cash flows from other operating activities (investment and other income, interest expense, income taxes, changes in working capital and changes in other assets and liabilities) required $177.6 million in 2001, $36.7 million in 2000 and $152.6 million in 1999. Income taxes and interest paid totaled $154.0 million in 2001, $128.2 million in 2000 and $110.5 million in 1999.



Cash flows from investing activities required $671.8 million in 2001, $321.7 million in 2000 and $190.4 million in 1999. Cash required for property, plant and equipment and system development expenditures totaled $503.3 million in 2001, $305.4 million in 2000 and $277.4 million in 1999. In 2001, these expenditures were financed primarily with internally generated cash and borrowings from the Revolving Credit Facility. In 2000 and 1999, these expenditures were financed primarily with internally generated cash and the proceeds from the sales of cellular interests. These expenditures primarily represent the construction of 377, 224 and 225 cell sites in 2001, 2000 and 1999, respectively, as well as other plant additions and costs related to the development of the Company's office systems. In all three years, other plant additions included significant amounts related to the replacement of retired assets and the changeout of analog equipment for digital equipment. Acquisitions required $186.3 million in 2001, $108.7 million in 2000 and $29.8 million in 1999. Notes receivable from third parties totaled $1.2 million in 2001 and $10.0 million in 1999. The Company received net cash proceeds totaling $73.0 million in 2000 and $96.0 million in 1999 related to sales of cellular and other investments. Cash distributions from cellular entities in which the Company has an interest provided $14.8 million in 2001, $20.6 million in 2000 and $24.4 million in 1999.

Cash flows from financing activities provided $136.1 million in 2001, required $273.1 million in 2000 and provided $2.9 million in 1999.

In 2001 and 2000, the Company repurchased 643,100 and 3.5 million of its Common Shares, respectively, for $29.9 million and $223.8 million in cash, respectively. In 2000, an additional $11.0 million of accounts payable was recorded for payments made in January 2001 related to December 2000 Common Share repurchases. The stock repurchases in 2001 and 2000 were made under separate programs authorized by the Company's Board of Directors. In March 2000, May 2000 and October 2000, the Board of Directors authorized separate programs to repurchase up to 1.4 million USM Common Shares per program. All shares authorized to be repurchased under the March 2000 and May 2000 programs were repurchased as of December 31, 2000. A total of 540,766 Common Shares were repurchased under the October 2000 program as of December 31, 2001. An additional 156,734 Common Shares and 630,500 Common Shares were purchased in 2001 and 2000, respectively, pursuant to a previously authorized program to repurchase a limited amount of shares on a quarterly basis, primarily for use in employee benefit plans.

Retirement of debt required $32.0 million of cash in 2001 and $99.4 million of cash in 2000. In 2001, the Company paid cash to satisfy the retirement of $58.2 million face value ($25.4 million carrying value) of LYONs by the holders. Also in 2001, the Company satisfied the retirement of $68.0 million face value ($29.6 million carrying value) of LYONs by reissuing approximately 644,000 treasury shares valued at $42.2 million. In 2000, the Company repurchased $40.8 million face value ($16.9 million carrying value) of LYONs and paid cash to satisfy the retirement of $111.8 million face value ($46.8 million carrying value) of LYONs by the holders. Also in 2000, the Company satisfied the retirement of $149.5 million face value ($62.6 million carrying value) of LYONs by issuing approximately 105,000 new Common Shares and by reissuing approximately 1.3 million treasury shares valued at $87.1 million. In 2001, the Company borrowed $231.5 million and repaid $22.5 million under its revolving credit facility with a group of banks. In 2000, the Company borrowed a total of $61.0 million and repaid $6.0 million under this revolving credit facility.

ACQUISITIONS AND DIVESTITURES

Acquisitions

The Company assesses its cellular holdings on an ongoing basis in order to maximize the benefits derived from clustering its markets. The Company also reviews attractive opportunities for the acquisition of additional wireless spectrum.

In 2001, the Company, on its own behalf and through joint ventures, acquired majority interests in licenses in one cellular market and 26 PCS markets, representing a total population of 6.8 million, for $182.3 million in cash, which excludes $4.1 million of deposits on potential future acquisitions. The interests the Company acquired through joint ventures are 100% owned by the joint ventures, and the Company is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. Of the PCS interests acquired, interests representing a total population of 4.7 million are in 10 megahertz ("MHz") licenses, and the remaining interests are in 15 MHz – 30 MHz licenses.

In 2000, the Company acquired majority interests in two cellular markets and several minority interests in other cellular markets, representing 387,000 pops, for consideration totaling $86.5 million, which excludes $51.1 million of deposits on potential future acquisitions. The consideration consisted of approximately 28,000 USM Common Shares, $57.6 million in cash, forgiveness of notes receivable totaling $10.4 million and payables, primarily other long-term debt, totaling $15.6 million.

In 1999, the Company acquired a majority interest in one cellular market and minority interests in several cellular markets, representing approximately 245,000 pops, for cash totaling $31.5 million.

Divestitures

In 2001, the Company had no material divestitures of cellular interests.

In 2000, the Company divested a majority interest in one cellular market and minority interests in two cellular markets, representing 384,000 pops, for consideration totaling $114.8 million. The consideration consisted of $74.2 million in cash and $40.6 million in receivables. The receivables consisted of $37.3 million of long-term notes receivable and $3.3 million of accounts receivable. The notes receivable have a five-year term and bear interest at 8% per year, with interest payable annually.

In 1999, the Company divested a majority interest in one cellular market and minority interests in three cellular markets, representing approximately 612,000 pops, for $57.3 million in cash and $2.4 million in accounts receivable. The majority interest was divested as part of an exchange transaction which was substantially completed in November 1997; therefore, no gain or loss was recorded on this transaction.

Pending Transactions

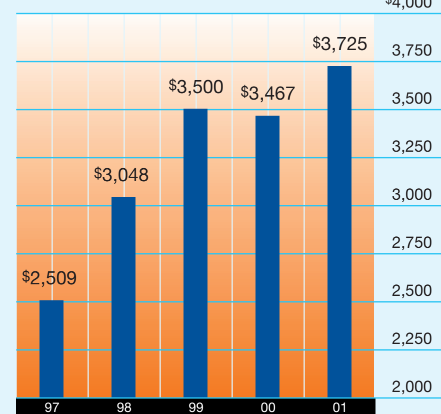
As of December 31, 2001, the Company had entered into agreements, through joint ventures, to acquire interests in PCS licenses in three markets. These interests, all in 10 MHz licenses, represent a total population of 911,000 and will be acquired in exchange for $18 million in cash. Two of the three markets are adjacent to those in which the Company already provides cellular service, and the Company currently owns a PCS license in the third market through a joint venture. The Company expects each of the pending transactions to be completed during the first half of 2002.

The Company is a limited partner in a joint venture that was a successful bidder for 17 licenses in 13 markets in the January 2001 Federal Communications Commission ("FCC") spectrum auction. The cost for the 17 licenses totaled $283.9 million. Although legally the general partner controls the joint venture, the Company has included the joint venture in its consolidated financial statements because the

Company is considered to have controlling financial interest for financial reporting purposes. The joint venture has acquired five of such licenses in four markets for a total of $4.1 million and has deposits with the FCC totaling $56.1 million for the remaining licenses (classified as a current asset at December 31, 2001). Subject to the final outcome of the proceedings discussed below, the joint venture's portion of the funding could possibly aggregate up to an additional $223.7 million to fund the acquisition of the remaining licenses. In addition, the Company has agreed to loan the general partner up to $20 million that could be used by the general partner to fund its investment in the licenses.

With respect to the remaining 12 licenses in nine markets, such licenses had been reauctioned by the FCC after defaults by winning bidders in a prior auction and were made subject by the FCC to the final outcome of certain legal proceedings initiated by the prior winning bidders. Following the reauction, one of the prior winning bidders obtained a court ruling that the FCC's actions were illegal. In an effort to resolve this matter, on November 15, 2001, the joint venture and other bidders in the reauction entered into a settlement agreement with the prior winning bidder and the FCC. However, the settlement agreement terminated due to the failure to satisfy a condition to obtain certain Congressional action by December 31, 2001. The U.S. Supreme Court has agreed to review this matter. In the event the prior winning bidder is successful in this litigation, the joint venture would receive a refund of its deposit of $56.1 million made to the FCC for such 12 licenses. The joint venture's financial requirements would then be limited to the five licenses in four markets that it acquired in 2001. If the FCC is successful in this litigation or the matter is otherwise resolved in a manner that will permit the joint venture to acquire the remaining licenses, the joint venture would be required to pay to the FCC the balance of the auction price for such licenses. The joint venture would then have significant financial requirements to build out such markets. The exact nature of the Company's financial commitment going forward will be determined as the joint venture develops its long-term business and financing plans.

ASSETS in millions



Liquidity and Capital Resources

The following table summarizes the Company's aggregate contractual cash obligations for 2002 and beyond:

	Payments Due Before December 31,					
(Dollars in millions)	2002	2003	2004	2005	2006	After 2006
Contractual Obligations						
Long-term debt:						
6% zero coupon convertible debentures [(a)]	$ —	$ —	$ —	$ —	$ —	$311.0
7.25% unsecured notes	—	—	—	—	—	250.0
Other	—	—	3.0	—	—	10.0
Operating leases	43.6	38.6	35.0	31.8	26.7	123.8
Pending license acquisitions [(b)]	18.0	—	—	—	—	—
Total contractual cash obligations [(c)]	$61.6	$38.6	$38.0	$31.8	$26.7	$694.8

(a) The Board of Directors has authorized management to opportunistically repurchase these securities in private transactions. The Company may also purchase a limited amount of these securities in open-market transactions from time to time. These securities are convertible, at the option of their holders, at any time prior to maturity, redemption or purchase, into USM Common Shares at a conversion rate of 9.475 USM Common Shares per bond. Upon conversion, the Company has the option to deliver to holders either USM Common Shares or cash equal to the market value of the USM Common Shares into which the bonds are convertible. The maturity date of these securities is June 2015.

(b) See "Acquisitions and Divestitures - Pending Transactions" for a discussion of potential additional license acquisition obligations the Company may have pending the resolution of certain litigation.

(c) In October 2000, the Company's Board of Directors authorized the repurchase of an additional 1.4 million USM Common Shares. Through December 31, 2001, the Company had repurchased 551,000 shares under this program. Additionally, the Company may repurchase a limited amount of additional shares on a quarterly basis, primarily for use in employee benefit plans. The Company has no obligation to repurchase any shares under any programs authorized by the Board of Directors.

Anticipated capital expenditures requirements for 2002 primarily reflect the Company's plans for construction, system expansion and the execution of its plans to migrate to a single digital equipment platform. The Company's construction and system expansion budget for 2002 is $620 million to $640 million. These expenditures will primarily address the following needs:

- Expand and enhance the Company's coverage in its service areas;
- Addition of digital service capabilities to its systems, including the initial steps toward migration to a single digital equipment platform;
- Satisfy certain regulatory requirements for specific services such as enhanced 911 and wireless number portability; and
- Enhance the Company's office systems.

The Company's conversion to a single digital equipment platform is expected to be completed by 2004, at an approximate cost of $400 million to $450 million, spread over the next three years. The estimated capital expenditures in 2002 include $80 million to $95 million related to this conversion.

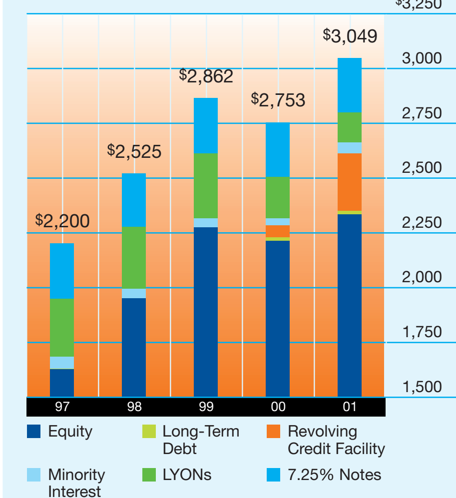
The Company is generating substantial cash from its operations and anticipates financing all of the 2002 obligations listed above with internally generated cash and with borrowings under the Company's Revolving Credit Facility as the timing of such expenditures warrants. The Company had $28.9 million of cash and cash equivalents at December 31, 2001.

As of December 31, 2001, $236 million of the $500 million under the Company's Revolving Credit Facility was unused and remained available to meet any short-term borrowing requirements. This line of credit provides for borrowing at LIBOR plus a contractual spread, based on the Company's credit rating, which was 19.5 basis points as of December 31, 2001. The Company's interest cost related to this line of credit would increase if its credit rating goes down, which would increase its cost of financing, but such line of credit would not cease to be available solely as a result of a decline in its credit rating. However, the continued availability of this revolving line of credit requires the Company to comply with certain negative and affirmative covenants, maintain certain financial ratios and to represent certain matters at the time of each borrowing. At December 31, 2001, the Company was in compliance with all covenants and other requirements set forth in the Revolving Credit Facility.

Management continues to believe there exists a seasonality in both service revenues and operating expenses, which may cause cash flows from operations to vary from quarter to quarter. However, these fluctuations are not considered to be large enough to cause the Company to look beyond its short-term financing sources to meet its cash needs during 2002. Management believes that the Company's cash flows from operations and sources of external financing, including the above-referenced Revolving Credit Facility, provide substantial financial flexibility for the Company to meet both its short- and long-term needs. The Company also currently has access to public and private capital markets to help meet its long-term financing needs. The Company anticipates issuing debt and equity securities only when capital requirements (including acquisitions), financial market conditions and other factors warrant. However, the availability of financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, some of which may not be in the Company's control. If at any time financing is not available on terms acceptable to the Company, it might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. The Company does not believe that any circumstances that could materially adversely affect its liquidity or capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur or that they will not occur rapidly. Economic downturns, changes in financial markets or other factors could rapidly change the availability of the Company's liquidity and capital resources.

At December 31, 2001, the Company is in compliance with all covenants and other requirements set forth in long-term debt indentures. The Company does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, a downgrade in the Company's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future.

CAPITALIZATION in millions



Market Risk

The Company is subject to market rate risks due to fluctuations in interest rates and equity markets. All of the Company's existing long-term debt is in the form of fixed-rate notes with original maturities ranging from five to 20 years. Accordingly, fluctuations in interest rates can lead to fluctuations in the fair value of such instruments. The Company has not entered into financial derivatives to reduce its exposure to interest rate risks.

The Company had total debt repayment obligations as of December 31, 2001 and 2000 of $573.9 million and $700.2 million, respectively, which are all due in 2004 or later. The weighted average interest rates on this debt during 2001 and 2000 were 4.54% and 6.50%, respectively, and the fair value of the debt at year-end was $414.1 million and $678.1 million, respectively.

The Company maintains a portfolio of available-for-sale marketable equity securities, which resulted from acquisitions and the sale of non-strategic investments. The market value of these investments, principally VOD ADRs, amounted to $272.4 million at December 31, 2001. A hypothetical 10% decrease in the share prices of these investments would result in a $27.2 million decline in the market value of the investments. As of December 31, 2001, the Company had recorded an unrealized loss, net of tax, of $79.0 million in Other comprehensive income. Management does not consider the unrealized loss to be "other than temporary." Management continues to review the valuation of the investments on a periodic basis. If management determines in the future that the unrealized loss is other than temporary, the loss will be recognized and recorded in the income statement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect the most significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company holds a substantial amount of marketable securities that are publicly traded and can have volatile share prices. The marketable securities are adjusted to market value each period with the change in value of the securities reported as Other comprehensive income, net of income taxes, which is included in the stockholders' equity section of the balance sheet. If management determined that any decline in value of the marketable securities was "other than temporary," the unrealized loss included in Other comprehensive income would be recognized and recorded as a loss in the income statement. Factors that management reviews in determining an other than temporary decline include whether there has been a significant change in the financial condition, operational structure or near-term prospects of the issuer; how long the security has been below historical cost; and whether the Company has the ability to retain its investment in the issuer's securities to allow the market value to return to historical cost levels.

The Company has substantial investments in long-lived assets, including substantial amounts of intangible assets, primarily investments in licenses, as a result of acquisitions of interests in wireless licenses. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluates the asset for possible impairment based on an estimate of related undiscounted cash flows over the remaining asset life. If any impairment is identified, a loss is recognized for the difference between the fair value of the asset (less cost to sell) and the carrying value of the asset.

The Company will adopt SFAS No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002, and will no longer amortize investment in licenses and goodwill for equity method investments. In connection with SFAS No. 142, the Company is assessing its recorded balances of investment in licenses for potential impairment. The Company expects to complete its impairment assessment in the first quarter of 2002. Any required impairment charge would be recorded as a cumulative effect of an accounting change as of January 1, 2002. The Company does not currently expect to record an impairment charge upon the completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If it were determined that the Company would be able to realize the deferred tax asset in excess of its net recorded amount, an adjustment to deferred tax assets would increase income. Likewise, if it were determined that the Company would not be able to realize the net deferred tax asset amount, an adjustment to deferred tax assets would reduce income.

RELATED PARTY TRANSACTIONS

The Company is billed for all services it receives from TDS, pursuant to the terms of various agreements between the Company and TDS. The majority of these billings are included in the Company's general and administrative expenses. Some of these agreements were established at a time prior to the Company's initial public offering when TDS owned more than 90% of the Company's outstanding capital stock and may not reflect terms that would be obtainable from an unrelated third party through arms-length negotiations. The principal arrangements that affect the Company's operations are described below. Management believes the method TDS uses to allocate common expenses is reasonable and that all expenses and costs applicable to the Company are reflected in the Company's financial statements on a basis which is representative of what they would have been if the Company operated on a stand-alone basis.

Under an agreement between the Company and TDS, TDS makes available to the Company services relating to operations, marketing, human resources, accounting, customer services, customer billing, finance and general administration, among others. Unless otherwise provided by written agreement, services provided by TDS or any of its subsidiaries are charged and paid for in conformity with the customary practices of TDS for charging TDS's non-telephone company subsidiaries. Payments by the Company to TDS for such services totaled $49.7 million in 2001, $44.6 million in 2000 and $42.7 million in 1999. In addition, under the agreement, the Company purchases materials and equipment from TDS and its subsidiaries. These purchases are made on the same basis as any materials and equipment purchased by a TDS affiliate from another TDS affiliate. Purchases of materials and equipment by the Company from TDS affiliates totaled $6.0 million in 2001, $4.6 million in 2000 and $4.9 million in 1999.

Pursuant to an insurance cost sharing agreement, the Company and its officers, directors and employees are afforded coverage under certain insurance policies purchased by TDS. A portion of the premiums payable under each such policy is allocated by TDS to the Company on such reasonable basis as TDS may select from time to time. The Company believes that the amounts payable by it under the insurance cost sharing agreement are generally more favorable than the premiums that would be paid if it were to obtain coverage under separate policies.

Under an employee benefit plans agreement, employees of the Company participate in the TDS tax-deferred savings plan. The Company reimburses TDS for the costs associated with such participation. In addition, the Company reimburses TDS for certain costs incurred by TDS in connection with the issuance of stock under the TDS employee stock purchase plans to the Company's employees.

TDS files Federal income tax returns and pays Federal income taxes for all members of the TDS consolidated group, including the Company and its subsidiaries. The Company and its subsidiaries pay TDS for Federal and certain state income taxes based on the amount they would pay if they were filing a separate return as their own affiliated group and were not included in the TDS group. These payments are based on the average tax rate (excluding the effect of tax credits) of the TDS affiliated group. Payments by the Company to TDS for Federal and state income taxes totaled $116.5 million in 2001, $97.3 million in 2000 and $82.4 million in 1999.

From time to time the Company deposits excess cash with TDS for investment under TDS's cash management program pursuant to the terms of a cash management agreement. Such deposits are available to the Company on demand and bear interest each month at the 30-day commercial paper rate reported in The Wall Street Journal on the last business day of the preceding month plus 1/4%, or such higher rate as TDS may in its discretion offer on such demand deposits. The Company may elect to place funds for a longer period than on demand in which event, if such funds are placed with TDS, they will bear interest at the commercial paper rate for investments of similar maturity plus 1/4%, or at such higher rate as TDS may in its discretion offer on such investments. Interest income from such deposits totaled $1.5 million in 2001, $11.3 million in 2000 and $5.6 million in 1999.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report to Shareholders contain statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects," and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following risks:

- *Increases in the level of competition in the markets in which the Company operates could adversely affect the Company's revenues or increase its costs to compete.*
- *Advances or changes in telecommunications technology could render certain technologies used by the Company obsolete.*
- *Changes in the telecommunications regulatory environment could adversely affect the Company's financial condition or results of operations.*
- *Changes in the supply or demand of the market for wireless licenses, increased competition, adverse developments in the Company's business or the wireless industry and/or other factors could result in an impairment of the value of the Company's investment in licenses and/or goodwill, which may require the Company to write down the value of such assets.*
- *Continued depressed market values, continued declines thereof or other events evidencing an impairment in the value of the Company's investments in available-for-sale marketable equity securities that are other than temporary may require the Company to write down the value of such securities.*
- *Settlements, judgments, restraints on its current manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on the Company's financial condition, results of operations or ability to do business.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties and or licenses could have an adverse effect on the Company's financial condition or results of operations.*
- *Changes in growth in the number of wireless customers, average revenue per unit, penetration rates, churn rates, roaming rates and the mix of products and services offered in wireless markets could have an adverse effect on the Company's wireless business operations.*
- *Changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to the Company, which could require the Company to reduce its construction, development and acquisition programs.*
- *Changes in general economic and business conditions, both nationally and in the regions in which the Company operates, could have an adverse effect on the Company's business.*

The Company undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)	Year Ended December 31, 2001	2000	1999
Operating Revenues			
Service	$1,826,385	$1,653,922	$1,525,660
Equipment sales	68,445	62,718	50,769
Total Operating Revenues	1,894,830	1,716,640	1,576,429
Operating Expenses			
System operations	421,114	350,507	368,070
Marketing and selling	297,239	303,721	272,729
Cost of equipment sold	124,028	139,654	124,058
General and administrative	434,579	364,747	325,758
Depreciation	237,346	205,916	184,830
Amortization of licenses and deferred charges	63,312	59,782	45,142
Total Operating Expenses	1,577,618	1,424,327	1,320,587
Operating Income	317,212	292,313	255,842
Investment and Other Income			
Investment income	41,934	43,727	30,374
Amortization of licenses related to investments	(726)	(1,365)	(1,186)
Interest income	10,300	17,049	8,893
Other income, net	4,737	2,844	590
Gain on cellular and other investments	—	96,075	266,744
Interest (expense)	(35,164)	(36,608)	(38,099)
Total Investment and Other Income	21,081	121,722	267,316
Income Before Income Taxes and Minority Interest	338,293	414,035	523,158
Income tax expense	147,315	171,968	215,252
Income Before Minority Interest	190,978	242,067	307,906
Minority share of income	(10,146)	(7,629)	(7,148)
Income Before Extraordinary Item and Cumulative Effect of Accounting Change	180,832	234,438	300,758
Extraordinary item – loss on extinguishment of debt, net of tax	(6,956)	(36,870)	—
Cumulative effect of accounting change, net of tax	—	(4,661)	—
Net Income	$ 173,876	$ 192,907	$ 300,758
Basic Weighted Average Shares Outstanding (000s)	86,200	86,355	87,478
Basic Earnings per Share			
Income Before Extraordinary Item and Cumulative Effect of Accounting Change	$ 2.10	$ 2.71	$ 3.44
Extraordinary Item	(0.08)	(0.43)	—
Cumulative Effect of Accounting Change	—	(0.05)	—
Net Income	$ 2.02	$ 2.23	$ 3.44
Diluted Weighted Average Shares Outstanding (000s)	89,977	90,874	94,879
Diluted Earnings per Share			
Income Before Extraordinary Item and Cumulative Effect of Accounting Change	$ 2.07	$ 2.68	$ 3.28
Extraordinary Item	(0.08)	(0.41)	—
Cumulative Effect of Accounting Change	—	(0.05)	—
Net Income	$ 1.99	$ 2.22	$ 3.28

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 2001	2000	1999
Cash Flows from Operating Activities			
Net income	$ 173,876	$ 192,907	$ 300,758
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	300,658	265,698	229,972
Deferred income tax provision	41,961	23,612	134,130
Investment income	(41,934)	(43,727)	(30,374)
Minority share of income	10,146	7,629	7,148
Extraordinary item	6,956	36,870	—
Cumulative effect of accounting change	—	4,661	—
Gain on cellular and other investments	—	(96,075)	(266,744)
Other noncash expense	13,378	26,519	18,017
Proceeds from litigation settlement	—	42,457	—
Change in accounts receivable	(26,464)	(22,462)	(38,970)
Change in inventory	(7,198)	(19,053)	(13,303)
Change in accounts payable	(12,910)	54,200	(14,711)
Change in accrued taxes	(22,663)	30,378	(5,896)
Change in customer deposits and deferred revenues	(302)	12,876	9,067
Change in other assets and liabilities	4,844	4,840	4,083
	440,348	521,330	333,177
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(487,813)	(295,308)	(248,722)
System development costs	(15,521)	(10,109)	(28,728)
Acquisitions, excluding cash acquired	(186,269)	(108,669)	(29,841)
Proceeds from cellular and other investments	—	72,973	95,988
Distributions from unconsolidated entities	14,813	20,582	24,427
Investments in and advances (to)/from unconsolidated entities	(46)	(4,187)	5,497
Change in notes receivable	(1,239)	—	(10,000)
Change in temporary investments and marketable non-equity securities	—	357	236
Other investing activities	4,250	2,693	738
	(671,825)	(321,668)	(190,405)
Cash Flows from Financing Activities			
Repayment of debt	(31,963)	(99,356)	(267)
Repurchase of common shares	(40,862)	(223,847)	—
Borrowings from Revolving Credit Facility	231,500	61,000	—
Repayment of Revolving Credit Facility	(22,500)	(6,000)	—
Common Shares issued	4,103	4,033	9,290
Capital (distributions) to minority partners	(4,141)	(8,886)	(6,095)
	136,137	(273,056)	2,928
Net (Decrease) Increase in Cash and Cash Equivalents	(95,340)	(73,394)	145,700
Cash and Cash Equivalents –			
Beginning of period	124,281	197,675	51,975
End of period	$ 28,941	$ 124,281	$ 197,675

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Balance Sheets – Assets

(Dollars in thousands)	December 31, 2001	2000
Current Assets		
Cash and cash equivalents		
General funds	$ 28,941	$ 69,956
Affiliated cash equivalents	—	54,325
	28,941	124,281
Accounts receivable		
Customers, less allowance of $9,799 and $9,678, respectively	149,920	142,783
Roaming	78,572	62,928
Other	18,883	13,312
Inventory	55,996	48,798
Prepaid expenses	9,442	10,796
Deposit receivable from Federal Communications Commission	56,060	—
Other current assets	6,141	6,465
	403,955	409,363
Investments		
Licenses, net of accumulated amortization of $255,691 and $218,333, respectively	1,298,623	1,224,430
Marketable equity securities	272,390	377,900
Investments in unconsolidated entities, net of accumulated amortization of $4,882 and $5,027, respectively	159,454	137,474
Notes and interest receivable – long-term	49,220	42,323
	1,779,687	1,782,127
Property, Plant and Equipment		
In service and under construction	2,253,016	1,801,377
Less accumulated depreciation	833,675	655,754
	1,419,341	1,145,623
Deferred Charges		
System development costs, net of accumulated amortization of $60,128 and $43,427, respectively	108,464	119,724
Other, net of accumulated amortization of $10,587 and $9,108 respectively	13,567	10,197
	122,031	129,921
Total Assets	$3,725,014	$3,467,034

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Balance Sheets – Liabilities and Shareholders' Equity

(Dollars in thousands)	December 31, 2001	2000
Current Liabilities		
Revolving Credit Facility	$ 264,000	$ 55,000
Accounts payable		
Affiliates	4,018	9,124
Other	192,742	203,223
Customer deposits and deferred revenues	58,000	53,855
Accrued interest	7,857	7,449
Accrued taxes	8,362	32,529
Accrued compensation	22,185	19,550
Other current liabilities	19,974	17,597
	577,138	398,327
Long-term Debt		
6% zero coupon convertible debentures	140,156	185,817
7.25% unsecured notes	250,000	250,000
Other	13,000	13,000
	403,156	448,817
Deferred Liabilities and Credits		
Net deferred income tax liability	354,153	357,775
Other	8,466	12,611
	362,619	370,386
Minority Interest	46,432	34,933
Common Shareholders' Equity		
Common Shares, par value $1 per share; authorized 140,000,000 shares; issued and outstanding 55,046,268 shares	55,046	55,046
Series A Common Shares, par value $1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares	33,006	33,006
Additional paid-in capital	1,307,584	1,321,193
Treasury Shares, at cost, 2,001,560 and 2,176,294 shares, respectively	(122,010)	(145,542)
Accumulated other comprehensive (loss)	(78,997)	(16,296)
Retained earnings	1,141,040	967,164
	2,335,669	2,214,571
Total Liabilities and Shareholders' Equity	$3,725,014	$3,467,034

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Common Shareholders' Equity

(Dollars in thousands)	Common Shares	Series A Common Shares	Additional Paid-In Capital	Treasury Shares	Comprehensive Income	Accumulated Other Comprehensive (Loss) Income	Retained Earnings
Balance, December 31, 1998	$ 54,365	$ 33,006	$1,319,895	$ —		$ 69,465	$ 473,499
Add (Deduct)							
Employee benefit plans	298	—	9,337	—		—	—
Conversion of 6% zero coupon convertible debentures	50	—	2,046	—		—	—
Capital stock expense	—	—	(4)	—		—	—
Net income	—	—	—	—	$ 300,758	—	300,758
Other comprehensive income:							
Net unrealized gain on marketable equity securities	—	—	—	—	11,926	11,926	—
Comprehensive income	—	—	—	—	$ 312,684	—	—
Balance, December 31, 1999	54,713	33,006	1,331,274	—		81,391	774,257
Add (Deduct)							
Acquisition of cellular interests	27	—	2,805	—		—	—
Employee benefit plans	201	—	11,648	2,220		—	—
Conversion and repurchase of 6% zero coupon convertible debentures	105	—	(24,624)	87,078		—	—
Capital stock expense	—	—	90	—		—	—
Repurchase Common Shares	—	—	—	(234,840)		—	—
Net income	—	—	—	—	$ 192,907	—	192,907
Other comprehensive income:							
Net unrealized (loss) on marketable equity securities	—	—	—	—	(97,687)	(97,687)	—
Comprehensive income	—	—	—	—	$ 95,220	—	—
Balance, December 31, 2000	55,046	33,006	1,321,193	(145,542)		(16,296)	967,164
Add (Deduct)							
Employee benefit plans	—	—	(1,051)	11,202		—	—
Conversion and repurchase of 6% zero coupon convertible debentures	—	—	(12,558)	42,200		—	—
Repurchase Common Shares	—	—	—	(29,870)		—	—
Net income	—	—	—	—	$ 173,876	—	173,876
Other comprehensive income:							
Net unrealized (loss) on marketable equity securities	—	—	—	—	(62,701)	(62,701)	—
Comprehensive income	—	—	—	—	$ 111,175	—	—
Balance, December 31, 2001	$ 55,046	$ 33,006	$1,307,584	$ (122,010)		$ (78,997)	$1,141,040

The accompanying notes to consolidated financial statements are in integral part of these statements.

Note 1 Summary of Significant Accounting Policies

United States Cellular Corporation (the "Company" or "U.S. Cellular"), a Delaware Corporation, is currently an 82.2%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

Nature of Operations

U.S. Cellular owns, manages and invests in wireless systems throughout the United States and, according to internal calculations, the Company believes that it is the nation's eighth largest wireless telephone company in terms of customers. The Company owned interests in 176 cellular markets, representing approximately 27.4 million population equivalents ("pops"), as of December 31, 2001. U.S. Cellular's 142 majority-owned markets, primarily mid-sized and rural markets, served 3,461,000 customers in 25 states as of December 31, 2001. U.S. Cellular's Midwest Regional Market Cluster, which includes markets in Iowa, Wisconsin, Illinois, Indiana and Missouri, served 1,512,000 customers at December 31, 2001, representing approximately 44% of U.S. Cellular's total customers served as of that date.

Principles of Consolidation

The accounting policies of U.S. Cellular conform to generally accepted accounting principles. The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries, and general partnerships in which U.S. Cellular has a majority partnership interest. All material intercompany accounts and transactions have been eliminated. U.S. Cellular includes in its consolidated financial statements the accounts of certain limited partnerships in which it owns a noncontrolling, limited partner interest. Based on the amount of its residual equity in these limited partnerships, U.S. Cellular is considered to have the controlling financial interest for financial reporting purposes.

U.S. Cellular includes as investments the value of the consideration given and all direct and incremental costs relating to acquisitions accounted for as purchases. All costs relating to unsuccessful negotiations for acquisitions are charged to expense.

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

Certain amounts reported in prior years have been reclassified to conform to current period presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and those short-term, highly-liquid investments with original maturities of three months or less. The carrying amounts of Cash and cash equivalents approximate their fair value due to the short-term nature of these investments.

Outstanding checks totaled $31.1 and $26.2 million at December 31, 2001 and 2000, respectively, and are classified as Accounts payable in the Consolidated Balance Sheets. Sufficient funds were available to fund these outstanding checks when presented for payment.

Marketable Equity Securities

Marketable equity securities are classified as available-for-sale, and are stated at fair market value. Net unrealized holding gains and losses are included in Accumulated other comprehensive income. Realized gains and losses are determined on the basis of specific identification.

As of December 31, 2001, the net unrealized holding loss, net of tax, aggregated $79.0 million. Management does not consider the unrealized loss to be "other than temporary." Management continues to review the valuation of the investments on a periodic basis. If management determines an unrealized loss is other than temporary, the loss is recognized and recorded in the income statement.

Investment in Unconsolidated Entities

Investments in unconsolidated entities consists of investments where U.S. Cellular holds a less than 50% ownership interest and where a quoted share price is not available. U.S. Cellular follows the equity method of accounting, which recognizes U.S. Cellular's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where U.S. Cellular's ownership interest equals or exceeds 20% for corporations and 3% for partnerships. Equity method investments aggregated $147.8 million and $123.4 million at December 31, 2001 and 2000, respectively. Income and losses from these entities are reflected in the Consolidated Statements of Operations on a pretax basis as Investment income. At December 31, 2001, the cumulative share of income from minority investments accounted for under the equity method was $277.3 million, of which $106.3 million was undistributed. The cost method of accounting is followed for certain minority interests where U.S. Cellular's ownership interest is less than 20% for corporations and 3% for partnerships. Cost method investments aggregated $11.6 million and $14.1 million at December 31, 2001 and 2000, respectively.

Accounts Receivable

Accounts receivable consists of amounts owed by customers for both service provided and equipment sales, by other wireless carriers whose customers have used U.S. Cellular's wireless systems, and by partners for capital distributions.

Inventory

Inventory is stated at the lower of cost or market with cost determined using a standard costing basis.

NOTES

to Consolidated Financial Statements

Deposit Receivable from Federal Communications Commission

The Company is a limited partner and has the controlling financial interest in a limited partnership that was a successful bidder for 17 licenses in 13 markets in the January 2001 Federal Communications Commission ("FCC") spectrum auction. The limited partnership has acquired five of such licenses in four markets for a total of $4.1 million and has deposits with the FCC totaling $56.1 million for the remaining 12 licenses.

Subject to the final outcome of certain legal proceedings, the limited partnership may be forced to relinquish its rights to the remaining 12 licenses. At that time, the limited partnership would receive a refund of its $56.1 million deposit from the FCC for such licenses. As of December 31, 2001, the limited partnership's management considered this to be the most likely outcome, and that the deposit would be refunded during 2002.

Notes and Interest Receivable – Long-Term

Notes receivable – long-term primarily consists of loans to Kington Management Corporation. The balances were $44.2 million and $37.3 million at December 31, 2001 and 2000, respectively. The terms of the notes range in length from five to fifteen years and bear interest at rates ranging from 6% to 11% per year. The weighted average life of the notes is 9.9 years and the weighted average interest rate is 7.9%. The carrying amount reported in the balance sheet for Notes and interest receivable – long-term approximates the fair value.

Deferred Charges

Costs of developing new information systems are capitalized and amortized over a five- or seven-year period, starting when each new system is placed in service.

Other deferred charges primarily represent legal and other charges incurred relating to the preparation of the agreements related to the Company's various borrowing instruments, and are amortized over the respective financing periods of each instrument (seven to twenty years).

Revenue Recognition

Revenues from operations primarily consist of charges for access, airtime, roaming and value added services provided for the Company's retail customers; charges to customers of other systems who use the Company's wireless systems when roaming; charges for long-distance calls made on the Company's systems; and end user equipment and accessory sales. Revenues are recognized as services are rendered. Certain activation and reconnection fees are recognized over average customer service periods. Unbilled revenues, resulting from wireless service provided from the billing cycle date to the end of each month and from other wireless carriers' customers using U.S. Cellular's wireless systems for the last half of each month, are estimated and recorded. Equipment and accessory sales are recognized upon delivery to the customer and reflect charges to customers for equipment purchased.

Effective January 1, 2000, the Company changed its method of accounting for certain activation fees charged to its customers when initiating service through its retail and direct channels and reconnect fees charged to its customers when resuming service after suspension. This accounting change is in compliance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Based upon this guidance, the Company recognizes these fees as revenue ratably over the average customer service periods (ranging from six to forty-eight months). Prior to implementing SAB No. 101, the Company recorded these fees as operating revenues in the period they were charged to the customer. The Company does not defer any of the related direct incremental customer acquisition costs; these costs are charged to expense as incurred. In 2000, the Company recorded a one-time, non-cash earnings reduction of $4.7 million ($.05 per basic or diluted share), net of taxes of $3.2 million and minority interest of $550,000 to reflect the cumulative effect of the accounting change on periods prior to 2000.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs totaled $66.0 million, $69.0 million and $64.4 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Income Taxes

U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. TDS and U.S. Cellular are parties to a Tax Allocation Agreement (the "Agreement"). The Agreement provides that U.S. Cellular and its subsidiaries be included with the TDS affiliated group in a consolidated federal income tax return and in state income or franchise tax returns in certain situations. U.S. Cellular and its subsidiaries calculate their income and credits as if they comprised a separate affiliated group. Under the Agreement, U.S. Cellular remits its applicable income tax payments to TDS.

Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Both deferred tax assets and liabilities are measured using the current enacted tax rates. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Computation of Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Potentially dilutive securities included in diluted earnings per share represent incremental shares issuable upon exercise of outstanding stock options and conversion of debentures.

Asset Impairment

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluates the asset for possible impairment based on an estimate of related undiscounted cash flows over the remaining asset life. If an impairment is identified, a loss is recognized for the difference between the fair value of the asset (less cost to sell) and the carrying value of the asset.

Pension Plan

The Company participates in a qualified noncontributory defined contribution pension plan sponsored by TDS. It provides pension benefits for the employees of U.S. Cellular and its subsidiaries. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $3.4 million, $3.6 million and $3.6 million in 2001, 2000 and 1999, respectively.

Extraordinary Item

During 2001, U.S. Cellular retired a total of $58.2 million face value ($25.4 million carrying value) of its Liquid Yield Option Notes ("LYONs") for $32.0 million in cash. During 2000, $152.6 million face value ($63.6 million carrying value) of LYONs were retired for $99.4 million in cash. These retirements resulted in an extraordinary loss of $7.0 million, $.08 per basic or $.08 per diluted share in 2001 and $36.9 million, $.43 per basic or $.41 per diluted share in 2000. There were no income tax benefits due to the conversion feature associated with these LYONs.

Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" in July 2001. These statements require, among other things, that all future business combinations be accounted for using the purchase method of accounting and prohibits the use of the pooling-of-interest method. For acquisitions completed after July 1, 2001, goodwill will not be amortized. In addition, effective January 1, 2002, previously recorded goodwill and other intangible assets with indefinite lives will no longer be amortized but will be subject to impairment tests.

SFAS No. 142 defines the accounting for intangible assets. The accounting for a recognized intangible asset is based on the useful life to the entity. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. The useful life of the intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the entity.

An intangible asset that is not subject to amortization shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount of that excess.

SFAS No. 142 also defines the accounting for goodwill. Goodwill will be tested for impairment annually. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company will adopt SFAS No. 142 on January 1, 2002, and will no longer amortize cellular license costs and goodwill for equity method investments. Cellular license costs and equity method goodwill totaled $1,298.6 million and $39.6 million, respectively, at December 31, 2001, and amortization for the year ended December 31, 2001, totaled $36.5 million and $726,000, respectively.

In addition, pursuant to SFAS No. 142, the Company is assessing its recorded balances for Cellular license costs for potential impairment. As allowed under the standard, the Company expects to complete its impairment assessment in the first quarter of 2002. Any required impairment charge would be recorded as a cumulative effect of change in accounting as of January 1, 2002. The Company does not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is complete a material impairment change will not be recorded.

SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued in June 2001, and will become effective for the Company beginning January 1, 2003. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The Company is currently reviewing the requirements of this new standard and has not yet determined the impact, if any, on the Company's financial position or results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued in October 2001, and became effective for the Company January 1, 2002. SFAS No. 144 requires entities to measure long-lived assets at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also revises standards for the reporting of discontinued operations. This statement broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The Company is currently reviewing the requirements of this new standard, but does not expect implementation to have a material impact on its financial position or results of operations.

The Financial Accounting Standards Board ("FASB") issued an exposure draft on November 15, 2001, "Rescission of FASB Statements No. 4, 44 and 64 and Technical Corrections." This proposed Statement would rescind Statement 4 and Statement 64, an amendment of Statement 4, thereby eliminating the requirements that gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. The provisions of this Statement related to the rescission of Statement 4 shall be applied as of the beginning of the fiscal year in which this Statement is issued. The FASB expects to issue the final Statement in the first quarter of 2002. When adopted, the Company would no longer report gains and losses on the retirement of long-term debt as an extraordinary item.

Note 2 Income Taxes

Income tax provisions charged to net income are summarized as follows:

(Dollars in thousands)	Year Ended December 31, 2001	2000	1999
Federal income taxes			
Current	$ 88,345	$132,093	$ 67,116
Deferred	36,974	20,208	112,463
State income taxes			
Current	17,009	16,263	14,006
Deferred	4,987	3,404	21,667
Total income tax expense	$147,315	$171,968	$215,252

The statutory federal income tax rate is reconciled to the Company's effective income tax rate as follows:

	Year Ended December 31, 2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	3.1	4.5
Amortization of license acquisition costs	1.1	.7	.6
Effects of minority share of income excluded from consolidated federal income tax return	(0.9)	(0.6)	(0.3)
Sale of cellular interests	.2	2.2	—
Resolution of prior period tax issues	3.8	1.0	1.0
Other	.1	.1	.3
Effective income tax rate	43.5%	41.5%	41.1%

U.S. Cellular had current deferred tax assets totaling $1.1 million and $3.0 million at December 31, 2001 and 2000, respectively, resulting primarily from the allowance for customer receivables.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities are as follows:

(Dollars in thousands)	December 31, 2001	2000
Deferred Tax Asset		
Taxes on acquisitions	$ 34,143	$ 34,143
Partnership investments	11,100	27,356
Net operating loss carryforward	17,139	14,335
	62,382	75,834
Less valuation allowance	12,875	12,015
Total Deferred Tax Asset	49,507	63,819
Deferred Tax Liability		
Marketable equity securities	93,226	138,891
Property, plant and equipment	121,300	101,734
Licenses	116,095	115,770
Equity investments	63,650	63,650
Other	9,389	1,549
Total Deferred Tax Liability	403,660	421,594
Net Deferred Income Tax Liability	$ 354,153	$ 357,775

The Company and certain subsidiaries had $136.3 million of state net operating loss ("NOL") carryforward (generating an $11.7 million deferred tax asset) at December 31, 2001. The NOL carryforward, available to offset future taxable income, is primarily from the individual subsidiaries which generated the loss and expires between 2002 and 2021. A valuation allowance has been provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

U.S. Cellular has certain subsidiaries which are not included in the federal consolidated income tax return, but file separate tax returns. These subsidiaries had a federal NOL carryforward (generating a $5.4 million deferred tax asset) available to offset future taxable income aggregating approximately $15.9 million at December 31, 2001 which expires between 2003 and 2021.

The financial reporting basis of the marketable equity securities was greater than the tax basis at the date of acquisition, generating $93.2 million of deferred tax liability.

Note 3 Earnings Per Share

The amounts used in computing Earnings per Common and Series A Common Shares and the effect on income and the weighted average number of Common and Series A Common Shares of dilutive potential common stock are as follows:

(Dollars and shares in thousands)	Year Ended December 31, 2001	2000	1999
Income used in Basic Earnings per Share	$ 180,832	$ 234,438	$ 300,758
Extraordinary item	(6,956)	(36,870)	—
Cumulative effect of accounting change	—	(4,661)	—
	$ 173,876	$ 192,907	$ 300,758
Income used in Basic Earnings per Share	$ 180,832	$ 234,438	$ 300,758
Interest expense eliminated as a result of the pro forma conversion of Convertible Debentures, net of tax	5,507	9,096	10,053
Income used in Diluted Earnings per Share	186,339	243,534	310,811
Extraordinary item	(6,956)	(36,870)	—
Cumulative effect of accounting change	—	(4,661)	—
	$ 179,383	$ 202,003	$ 310,811
Weighted Average Number of Common Shares used in Basic Earnings per Share	86,200	86,355	87,478
Effect of Dilutive Securities:			
Stock options and stock appreciation rights	233	377	347
Conversion of convertible debentures	3,544	4,142	7,054
Weighted Average Number of Common Shares used in Diluted Earnings per Share	89,977	90,874	94,879

	Year Ended December 31, 2001	2000	1999
Basic Earnings per Share			
Continuing Operations			
Excluding Gains	$ 2.10	$ 2.12	$ 1.61
Gains	—	.59	1.83
	2.10	2.71	3.44
Extraordinary item-loss on extinguishment of debt	(.08)	(.43)	—
Cumulative effect of accounting change	—	(.05)	—
	$ 2.02	$ 2.23	$ 3.44
Diluted Earnings per Share			
Continuing Operations			
Excluding Gains	$ 2.07	$ 2.12	$ 1.59
Gains	—	.56	1.69
	2.07	2.68	3.28
Extraordinary item-loss on extinguishment of debt	(.08)	(.41)	—
Cumulative effect of accounting change	—	(.05)	—
	$ 1.99	$ 2.22	$ 3.28

Note 4 Investment in Licenses

A schedule of cellular license cost activity follows:

	Year Ended December 31, 2001	2000	1999
Balance, beginning of year	$1,224,430	$1,169,276	$1,213,601
Additions	165,678	92,772	22,567
Amortization	(36,490)	(33,840)	(33,934)
Sales	—	(9,234)	(41,274)
Deposit receivable from FCC	(56,060)	—	—
Other changes	1,065	5,456	8,316
Balance, end of year	$1,298,623	$1,224,430	$1,169,276

Investment in licenses consists of the costs incurred in acquiring FCC licenses to provide wireless service. These costs include amounts paid to license applicants and owners of interests in wireless entities that own licenses and all direct and incremental costs relating to acquiring the licenses. These costs are capitalized and amortized through charges to expense over 40 years upon commencement of operations. Costs applicable to unsuccessful license applications are charged to expense. Beginning January 1, 2002, upon implementation of SFAS No. 142, the Company expects to cease the amortization of license costs.

Note 5 Marketable Equity Securities

Information regarding the Company's marketable equity securities is summarized as follows:

(Dollars in thousands)	December 31, 2001	2000
Vodafone AirTouch plc 10,245,370 American Depository Receipts ("ADRs")	$ 263,102	$ 366,913
Rural Cellular Corporation 370,882 Common Shares	8,252	10,987
Other	1,036	—
Aggregate Fair Value	272,390	377,900
Historical Cost	405,061	405,061
Gross Unrealized Holding (Losses)	(132,671)	(27,161)
Tax Effect	(53,674)	(10,865)
Net Unrealized Holding (Losses)	$ (78,997)	$ (16,296)

Note 6 Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless entities in which U.S. Cellular holds a minority interest. These investments are accounted for using either the equity or cost method, as shown in the following table:

(Dollars in thousands)	December 31, 2001	2000
Equity method investments:		
Capital contributions, loans and advances	$ 16,937	$ 20,943
Goodwill, net of amortization	24,563	25,124
Cumulative share of income	277,342	235,460
Cumulative share of distributions	(171,031)	(158,132)
	147,811	123,395
Cost method investments:		
Capital contributions, net of partnership distributions	1,513	2,837
Goodwill, net of amortization	10,130	11,242
	11,643	14,079
Total investments in unconsolidated entities	$ 159,454	$ 137,474

As of December 31, 2001, U.S. Cellular followed the equity method of accounting for minority interests in 28 markets where the Company's ownership interest is 3% or greater. This method recognizes, on a current basis, U.S. Cellular's proportionate share of the income and losses accruing to it under the terms of the respective partnership and shareholder agreements. Income and losses from the entities are reflected in the Consolidated Statements of Income on a pretax basis as Investment income. Investment income totaled $41.9 million, $43.7 million and $30.4 million in 2001, 2000 and 1999, respectively. As of December 31, 2001, U.S. Cellular followed the cost method of accounting for its investments in six markets where the Company's ownership interest is less than 3%.

Investments in unconsolidated entities include goodwill. In 2001 and 2000, goodwill related to investments for which the Company follows the equity method of accounting was being amortized over 40 years. The Company will adopt SFAS No. 142 on January 1, 2002, and will no longer amortize its goodwill related to equity method investments. Amortization expense amounted to $726,000, $1.4 million and $1.2 million in 2001, 2000 and 1999, respectively.

The Company's most significant investments in unconsolidated entities consist of the following:

December 31,	Percentage Ownership 2001	2000
Cellular investments		
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership	8.0%	8.0%
Midwest Wireless Communications, LLC	15.7%	15.7%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

Based primarily on data furnished to the Company by third parties, the following summarizes the unaudited combined assets, liabilities and equity, and the unaudited combined results of operations of the wireless entities in which U.S. Cellular's investments are accounted for by the equity method:

(Unaudited, dollars in thousands)	December 31, 2001	2000
Assets		
Current	$ 248,467	$ 274,695
Due from affiliates	371,133	7,238
Property and other	1,380,293	1,148,569
	$1,999,893	$1,430,502
Liabilities and Equity		
Current liabilities	$ 206,940	$ 239,098
Due to affiliates	23,637	10,214
Deferred credits	118,773	3,740
Long-term debt	24,631	813
Partners' capital and shareholders' equity	1,625,912	1,176,637
	$1,999,893	$1,430,502

(Unaudited, dollars in thousands)	Year Ended December 31, 2001	2000	1999
Results of Operations			
Revenues	$2,085,900	$1,769,203	$1,557,943
Operating expenses	1,490,310	1,254,864	1,222,491
Operating income	595,590	514,339	335,452
Other (expense), net	(7,362)	(16,692)	(6,589)
Net income	$ 588,228	$ 497,647	$ 328,863

Note 7 Property, Plant and Equipment

Property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes and payroll-related expenses. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The provision for depreciation as a percentage of depreciable property, plant and equipment was 12.3%, 12.6% and 12.9% in 2001, 2000 and 1999, respectively.

The Company records renewals and betterments of units of property as additions to plant in service. The original cost of depreciable property and related accumulated depreciation of depreciable property retired is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

Property, plant and equipment in service and under construction consists of:

(Dollars in thousands)	December 31, 2001	2000
Cell site-related equipment (4-25 yrs)	$1,274,315	$1,041,670
Land, buildings and leasehold improvements (0-20 yrs)	370,732	305,617
Switching-related equipment (3-8 yrs)	251,706	201,202
Office furniture and equipment (3-5 yrs)	132,305	114,399
Other operating equipment (10 yrs)	86,796	71,159
Work in process	137,162	67,330
	$2,253,016	$1,801,377

Note 8 Supplemental Cash Flow Disclosures

U.S. Cellular acquired certain cellular licenses and other cellular interests during 2001, 2000 and 1999. In conjunction with these acquisitions, the following assets were acquired, liabilities assumed and Common Shares issued:

(Dollars in thousands)	Year Ended December 31, 2001	2000	1999
Property, plant and equipment, net	$ 13,443	$ —	$ 3,444
Wireless licenses	165,678	17,711	22,567
Increase (Decrease) in investment in unconsolidated entities	1,701	63,054	(546)
Decrease in note receivable	—	(10,000)	—
Long-term debt	—	(13,000)	—
Accounts receivable	—	—	1,762
Accounts payable	—	—	(637)
Other assets and liabilities, excluding cash acquired	5,447	2,637	3,251
Common Shares issued and issuable	—	(2,833)	—
Decrease in cash due to acquisitions	$ 186,269	$ 57,569	$ 29,841

Following are supplemental cash flow disclosures regarding interest and income taxes paid and certain noncash transactions:

(Dollars in thousands)	Year Ended December 31, 2001	2000	1999
Interest paid	$ 24,592	$ 19,440	$ 20,150
Income taxes paid	129,430	108,800	90,307
Noncash interest expense	10,176	16,448	17,132
Net change to equity for conversion of LYONs	$ 29,642	$ 62,560	$ 2,096

Note 9 Acquisitions and Divestitures

As part of its development strategy in 2001 and 2000, U.S. Cellular acquired wireless interests for cash, promissory notes and U.S. Cellular Common Shares. U.S. Cellular also divested wireless interests for cash.

Completed Acquisitions

During 2001, U.S. Cellular, on its own behalf and through joint ventures, acquired majority interests in licenses in one cellular market and 26 PCS markets, representing a total population of 6.8 million, for $182.3 million in cash. The interests the Company acquired through joint ventures are 100% owned by the joint ventures, and the Company is considered to have the controlling financial interest in these joint ventures for financial reporting purposes.

During 2000, U.S. Cellular completed the acquisition of majority interests in two cellular markets and several minority interests in other cellular markets, representing approximately 387,000 pops, for consideration totaling $86.5 million as shown in the following table:

(Dollars in millions)	
Consideration	
Increase in Long-term Debt, Accounts Payable	$ 15.6
Repayment of Note Receivable	10.4
Common Shares Issued	2.9
Cash	57.6
Total	$ 86.5

Of the $15.6 million increase in long-term debt/accounts payable, $13.0 million is reported on the balance sheet as Long-term debt – other. This debt has a term of ten years and bears interest at 9% per year, with interest payable annually. The carrying value and estimated fair value of the Company's Long-term debt – other were $13.0 million and $14.3 million at December 31, 2001, and were $13.0 million and $14.1 million at December 31, 2000. The fair values were estimated using discounted cash flow analysis.

Completed Divestitures

The gains recorded in 2000 and 1999 reflect the sales and other transactions related to non-strategic cellular and certain other investments. In 2000, U.S. Cellular sold its majority interest in one market and minority interests in two other markets. In 1999, U.S. Cellular recognized a $259.5 million gain as a result of the AirTouch Communications Inc. ("AirTouch") merger with Vodafone Group plc and from the divestitures of minority interests in three cellular markets. U.S. Cellular recognized a gain on the difference between the historical basis of its investment in AirTouch common shares and the value of the Vodafone AirTouch plc ("VOD") ADRs plus cash received from the merger. In addition to the VOD ADRs received in 1999, these transactions generated net cash proceeds of $73.0 million and $96.0 million in 2000 and 1999, respectively.

Pending Acquisitions

As of December 31, 2001, U.S. Cellular had entered into agreements, through joint ventures, to acquire interests in PCS licenses in three markets. These interests represent a total population of 911,000 and will be acquired in exchange for $18 million in cash. Two of the three markets are adjacent to those in which the Company already provides cellular service, and the Company currently owns a PCS license in the third market through a joint venture. The Company expects each of the pending transactions to be completed during the first half of 2002.

Note 10 Revolving Credit Facility

U.S. Cellular has a $500 million revolving credit facility with a group of banks ("Revolving Credit Facility"). At December 31, 2001, $236 million was unused.

The terms of the Revolving Credit Facility provide for borrowings with interest at the London InterBank Offered Rate ("LIBOR") plus a margin percentage based on the Company's credit rating. At December 31, 2001, the margin percentage was 19.5 basis points (for a rate of 2.1%). Interest and principal are due the last day of the borrowing period, as selected by U.S. Cellular, of either seven days or one, two, three or six months. U.S. Cellular pays facility and administration fees at an aggregate annual rate of 0.142% of the total $500 million facility. These payments totaled $698,000, $710,000 and $710,000 for the years ended December 31, 2001, 2000 and 1999, respectively. The Revolving Credit Facility expires in August 2004.

Note 11 6% Zero Coupon Convertible Debentures

The Company sold $745 million principal amount at maturity of zero coupon 6% yield to maturity convertible debt due in 2015. This 20-year fixed rate debt, in the form of Liquid Yield Option Notes ("LYONs"), is subordinated to all other liabilities of the Company legally or effectively.

Each LYON is convertible at the option of the holder at any time at a conversion rate of 9.475 U.S. Cellular Common Shares per $1,000 of LYONs. Upon conversion, U.S. Cellular may elect to deliver its Common Shares or cash equal to the market value of the Common Shares. In 2001, conversions of LYONs totaled $126.2 million face value ($55.1 million carrying value). The Company paid $32.0 million in cash and issued 644,000 Common Shares to satisfy these conversions. In 2000, conversions and repurchases of LYONs totaled $302.0 million face value ($126.2 million carrying value). The Company paid $99.4 million cash and issued 1.4 million Common Shares to satisfy these conversions and repurchases.

U.S. Cellular may redeem the LYONs for cash at the issue price plus accrued original issue discount through the date of redemption. Holders have the right to exercise their conversion option prior to the redemption date. The shares converted for cash in 2001 and 2000 resulted in an extraordinary loss. See Note 1 for a description of the transactions that resulted in an extraordinary loss.

The carrying value and estimated fair value of U.S. Cellular's 6% zero coupon convertible debentures were $140.2 million and $143.3 million at December 31, 2001 and $185.8 million and $418.4 million at December 31, 2000, respectively. The fair values were estimated using discounted cash flow analysis.

Note 12 7.25% Unsecured Notes

During 1997, the Company sold $250 million principal amount of 7.25% notes ("Notes"), priced to yield 7.33% to maturity. The Notes were sold under the Company's $400 million shelf registration. The Notes are unsecured and become due on August 15, 2007. Interest on the Notes is payable on February 15 and August 15 of each year. The Notes will be redeemable, in whole or in part, at the option of the Company at any time on or after August 15, 2004, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued interest thereon, if any, to the date of redemption.

The carrying value and estimated fair value of the Company's 7.25% unsecured notes were $250.0 million and $256.6 million at December 31, 2001 and $250.0 million and $245.6 million at December 31, 2000, respectively. The fair values were estimated using discounted cash flow analysis.

Note 13 Common Shareholders' Equity

Common Stock

Employee Benefit Plans. The following table summarizes Common Shares issued, including reissued Treasury Shares, for the employee benefit plans described as follows:

	Year Ended December 31, 2001	2000	1999
Tax-Deferred Savings Plan	106,899	36,702	49,770
Employee stock options, stock appreciation rights and awards	449,634	180,464	241,693
Employee Stock Purchase Plan	22,155	19,874	6,997
	578,688	237,040	298,460

Tax-Deferred Savings Plan

U.S. Cellular has reserved 94,752 Common Shares for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions in U.S. Cellular Common Shares, TDS Common Shares, or seven nonaffiliated funds.

Stock-based Compensation Plans

U.S. Cellular accounts for stock options, stock appreciation rights ("SARs") and employee stock purchase plans under Accounting Principles Board ("APB") Opinion No. 25. No compensation costs have been recognized for the stock option and employee stock purchase plans. Compensation expense for SARs, measured on the difference between the SAR prices and the year-end market price of the Common Shares, aggregated $(141,000) (a reduction of expense) and $1.0 million in 2000 and 1999, respectively. Had compensation cost for all plans been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per Common Share would have been reduced to the following pro forma amounts:

(Dollars in thousands, except per share amounts)	Year Ended December 31, 2001	2000	1999
Net Income:			
As Reported	$ 173,876	$ 192,907	$ 300,758
Pro Forma	172,130	191,925	298,941
Basic Earnings Per Common Share:			
As Reported	2.02	2.23	3.44
Pro Forma	2.00	2.22	3.42
Diluted Earnings Per Common Share:			
As Reported	1.99	2.22	3.28
Pro Forma	$ 1.95	$ 2.21	$ 3.26

A summary of the status of the Company's stock option plans at December 31, 2001, 2000 and 1999 and changes during the years then ended is presented in the table and narrative as follows:

	Weighted Number of Shares	Weighted Average Option Price	Weighted Average Fair Values
Stock Options			
Outstanding December 31, 1998 (317,611 exercisable)	782,652	$ 22.21	
Granted	291,004	$ 32.64	$ 23.45
Exercised	(378,871)	$ 21.87	
Canceled	(22,171)	$ 25.23	
Outstanding December 31, 1999 (106,104 exercisable)	672,614	$ 24.79	
Granted	214,056	$ 44.71	$ 32.80
Exercised	(232,987)	$ 16.98	
Canceled	(51,287)	$ 22.77	
Outstanding December 31, 2000 (127,012 exercisable)	602,396	$ 35.15	
Granted	564,102	$ 48.51	$ 33.65
Exercised	(88,331)	$ 22.25	
Canceled	(59,345)	$ 37.86	
Outstanding December 31, 2001 (199,875 exercisable)	1,018,822	$ 43.76	

U.S. Cellular has established Stock Option plans that provide for the grant of stock options to officers and employees and has reserved 1,232,051 Common Shares for options granted and to be granted to key employees. The options under the 1998 plan are exercisable from the date of vesting through May 14, 2002 to November 8, 2011, or 30 days following the date of the employee's termination of employment, if earlier. Under the 1998 Stock Option Plan, 168,209 stock options were exercisable at December 31, 2001, have exercise prices between $24.48 and $73.31 with a weighted average exercise price of $39.98 per share, and a weighted average remaining contractual life of 6.3 years. The remaining 695,539 options, which are not exercisable, have exercise prices between $25.25 and $73.31 with a weighted average exercise price of $54.43 and a weighted average remaining contractual life of 8.9 years. These stock option amounts do not include amounts related to restricted stock awards. At December 31, 2001, 31,666 of these options were exercisable and 123,408 were not exercisable. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2001 and 2000, respectively: risk-free interest rates of 5.0% and 5.1%; expected dividend yields of zero for both years; expected lives of 8.2 years and 7.6 years; and expected volatility of 31.7% and 34.5%.

Stock Appreciation Rights allow the grantee to receive an amount in Common Shares or cash, or a combination thereof, equivalent to the difference between the exercise price and the fair market value of the Common Shares on the exercise date. At December 31, 2001 and 2000, there were no SARs outstanding. During 1999, 3,800 Common Share SARs were exercised. During 2000, 9,600 Series A Common Share SARs were exercised. There were no SARs granted in 2001, 2000 or 1999.

Employee Stock Purchase Plan

U.S. Cellular had 60,825 Common Shares reserved under the 1999 Employee Stock Purchase Plan ("1999 ESPP"). The 1999 ESPP became effective July 1, 1999, and provides for eligible employees of the Company and its subsidiaries to purchase a limited number of USM Common Shares on a quarterly basis. The per share cost to each participant is at 85% of the market value of the Common Shares as of the end of the corresponding quarter.

Series A Common Shares

Series A Common Shares are convertible on a share-for-share basis into Common Shares. In matters other than the election of directors, each Series A Common Share is entitled to ten votes per share, compared to one vote for each Common Share. The Series A Common Shares are entitled to elect 75% of the directors (rounded down), and the Common Shares elect 25% of the directors (rounded up). As of December 31, 2001, all of U.S. Cellular's outstanding Series A Common Shares were held by TDS.

Common Share Repurchase Program

In 2000, the Company authorized the repurchase of up to 4.2 million USM Common Shares through three separate 1.4 million share programs. The Company may use repurchased shares to fund acquisitions and for other corporate purposes.

In 2001, the Company paid $29.9 million to repurchase 643,100 of its Common Shares. The Company reissued 818,000 Common Shares to satisfy retirements of convertible debt securities and pursuant to certain employee benefit plans.

In 2000, the Company paid $234.8 million to repurchase 3.5 million of its Common Shares. The Company reissued 1.3 million Common Shares, primarily to satisfy retirements of convertible debt securities.

Accumulated Other Comprehensive (Loss)

The cumulative balance of unrealized (losses) gains on securities and related income tax effects included in accumulated other comprehensive (loss) are as follows:

(Dollars in thousands)	Year Ended December 31, 2001	2000
Balance, beginning of period	$ (16,296)	$ 81,391
Other Comprehensive (Loss)-		
Unrealized (losses) on securities	(105,510)	(162,811)
Income tax effect	42,809	65,124
Net unrealized (losses) on securities	(62,701)	(97,687)
Balance, end of period	$ (78,997)	$ (16,296)

Note 14 Related Parties

U.S. Cellular is billed for all services it receives from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and on allocations of common expenses. Such allocations are based on the relationship of U.S. Cellular's assets, employees, investment in plant and expenses to the total assets, employees, investment in plant and expenses of TDS. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular are reflected in the accompanying financial statements on a basis which is representative of what they would have been if U.S. Cellular operated on a stand-alone basis. Billings to U.S. Cellular from TDS totaled $55.7 million, $49.1 million and $47.5 million in 2001, 2000 and 1999, respectively.

U.S. Cellular has a Cash Management Agreement with TDS under which U.S. Cellular may from time to time deposit its excess cash with TDS for investment under TDS's cash management program. Deposits made under the agreement are available to U.S. Cellular on demand and bear interest each month at the 30-day Commercial Paper Rate as reported in The Wall Street Journal, plus 1/4%, or such higher rate as TDS may at its discretion offer on such deposits. Interest income from such deposits was $1.5 million, $11.3 million and $5.6 million in 2001, 2000 and 1999, respectively.

Note 15 Commitments and Contingencies

Construction and Expansion

The Company's anticipated capital expenditures requirements for 2002 primarily reflect its plans for construction, system expansion and the execution of its plans to migrate to a single digital equipment platform. The Company's construction and system expansion budget for 2002 is $620 million to $640 million. These expenditures will primarily address the following needs: expand and enhance the Company's coverage in its service areas; add digital service capabilities to its systems, including the initial steps toward migration to a single digital equipment platform; satisfy certain regulatory requirements for specific services such as enhanced 911 and wireless number portability; and enhance the Company's office systems.

From time to time U.S. Cellular may acquire attractive markets to maximize its clustering strategy. See Note 9 – Acquisitions and Divestitures for a discussion of pending acquisitions and divestitures.

Lease Commitments

U.S. Cellular and certain of its majority-owned partnerships and subsidiaries lease certain office and cell site locations under operating leases. Future minimum rental payments required under operating leases that have noncancelable lease terms in excess of one year as of December 31, 2001 are as follows:

(Dollars in thousands)	Minimum Future Rentals
2002	$ 43,620
2003	38,579
2004	34,997
2005	31,766
2006	26,707
Thereafter	$ 123,829

Rent expense totaled $35.4 million, $32.8 million and $27.8 million in 2001, 2000 and 1999, respectively.

Legal Proceedings

The Company is involved in legal proceedings before the Federal Communications Commission and various state and federal courts from time to time. Management does not believe that any of such proceedings should have a material adverse impact on the financial position, results of operations or cash flows of the Company.

Other Commitments

U.S. Cellular is a limited partner in a joint venture that was a successful bidder for 17 licenses in 13 markets in the January 2001 FCC spectrum auction. The cost for the 17 licenses totaled $283.9 million. Although legally the general partner controls the joint venture, the Company has included the joint venture in its consolidated financial statements because the Company is considered to have controlling financial interest for financial reporting purposes. The joint venture has acquired five of such licenses in four markets for a total of $4.1 million and has deposits with the FCC totaling $56.1 million for the remaining licenses (classified as a current asset at December 31, 2001). Subject to the final outcome of the proceedings discussed below, the joint venture's portion of the funding could possibly aggregate up to an additional $223.7 million to fund the acquisition of the remaining licenses. In addition, the Company has agreed to loan the general partner up to $20 million that could be used by the general partner to fund its investment in the licenses.

With respect to the remaining 12 licenses in nine markets, such licenses had been reauctioned by the FCC after defaults by winning bidders in a prior auction and were made subject by the FCC to the final outcome of certain legal proceedings initiated by the prior winning bidders. Following the reauction, one of the prior winning bidders obtained a court ruling that the FCC's actions were illegal. In an effort to resolve this matter, on November 15, 2001, the joint venture and other bidders in the reauction entered into a settlement agreement with the prior winning bidder and the FCC. However, the settlement agreement terminated due to the failure to satisfy a condition to obtain certain Congressional action by December 31, 2001. The U.S. Supreme Court has agreed to review this matter. In the event the prior winning bidder is successful in this litigation, the joint venture would receive a refund of its deposit of $56.1 million made to the FCC for such 12 licenses. The joint venture's financial requirements would then be limited to the five licenses in four markets that it acquired in 2001. If the FCC is successful in this litigation or the matter is otherwise resolved in a manner that will permit the joint venture to acquire the remaining licenses, the joint venture would be required to pay the FCC the balance of the auction price for such licenses. The joint venture would then have significant financial requirements to build out such markets. The exact nature of the Company's financial commitment going forward will be determined as the joint venture develops its long-term business and financing plans.

REPORT
of Independent Public Accountants

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS
OF UNITED STATES CELLULAR CORPORATION:

We have audited the accompanying consolidated balance sheets of United States Cellular Corporation (a Delaware corporation and an 82.2%-owned subsidiary of Telephone and Data Systems, Inc.) and Subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States Cellular Corporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 of Notes to Consolidated Financial Statements, effective January 1, 2000, the Company changed certain of its accounting principles for revenue recognition as a result of the adoption of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements."

Chicago, Illinois
January 25, 2002

Consolidated QUARTERLY
Income Information (Unaudited)

(Dollars in thousands, except per share amounts)	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
2001				
Revenues	$ 439,769	$ 475,289	$ 501,024	$ 478,748
Operating Income	58,483	93,626	92,677	72,426
Net Income	30,388	57,369	53,127	32,992
From Operations	$ 30,388	$ 57,369	$ 53,127	$ 32,992
Weighted Average Common and Series A Common Shares (000s)	85,989	86,311	86,394	86,106
Basic Earnings Per Common and Series A Common Share	$ .35	$ .66	$ .61	$ .38
Diluted Earnings Per Common and Series A Common Share	.35	.65	.60	.38
From Operations	.39	.67	.62	.38
From Extraordinary Item	$ (.04)	$ (.02)	$ (.02)	$ —
2000				
Revenues	$ 394,157	$ 432,995	$ 451,441	$ 438,047
Operating Income	60,649	93,945	92,546	45,173
Gain on Cellular and Other Investments	17,851	—	78,224	—
Net Income	42,179	50,079	70,574	30,075
From Operations	30,897	50,079	31,507	30,075
From Gains	$ 11,282	$ —	$ 39,067	$ —
Weighted Average Common and Series A Common Shares (000s)	87,599	86,277	85,685	85,861
Basic Earnings Per Common and Series A Common Share	$ .48	$ .58	$ .82	$ .35
Diluted Earnings Per Common and Series A Common Share	.47	.56	.80	.35
From Operations	.40	.63	.63	.44
From Gains	.12	—	.43	—
From Extraordinary Item	—	(.07)	(.26)	(.09)
From Cumulative Effect of Accounting Change	$ (.05)	$ —	$ —	$ —

Net Income for 2000 included significant gains from cellular and other investments. The table above summarizes the effect of the gains on Net Income and Diluted Earnings per Common and Series A Common Share.

The Company's management believes U.S. Cellular's operating results reflect seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in the fourth quarter due to increased marketing activities and customer growth. This seasonality may cause operating cash flow and operating income to vary from quarter to quarter.

Eleven-Year Statistical Summary

(Dollars in thousands, except per share and per customer amounts)	2001	2000	1999	1996	1991
	Year Ended or at December 31,				
Market and Customer Statistics					
Markets owned or acquirable	176	176	180	207	177
Population equivalents owned or acquirable [(1)]	27,420,000	27,377,000	27,276,000	26,749,000	20,150,000
Majority-owned and managed markets	142	139	139	131	67
Cellular units in service	3,461,000	3,061,000	2,602,000	1,073,000	97,000
Total market population	25,670,000	24,912,000	24,861,000	21,504,000	11,481,000
Market penetration	13.48%	12.29%	10.47%	4.99%	0.84%
Net customer additions – marketing	354,000	483,000	404,000	365,000	34,000
Postpay churn rate per month	1.7%	1.8%	1.9%	1.9%	2.2%
Average monthly service revenue per customer	$ 46	$ 49	$ 54	$ 73	$ 97
Average monthly local minutes of use per customer	216	157	115	107	130
Marketing cost per net customer addition	997	788	856	566	710
Marketing cost per gross customer addition	$ 322	$ 330	$ 346	$ 367	$ 446
Operating Statistics					
System operations expense					
Per customer per month	$ 11	$ 10	$ 13	$ 21	$ 30
As a percent of service revenues	23.1%	21.2%	24.1%	28.5%	31.3%
Cell sites in service	2,925	2,501	2,300	1,328	186
Capital expenditures and system development costs	$ 503,334	$ 305,417	$ 277,450	$ 219,370	$ 56,430
General and administrative expense					
Per customer per month	$ 11	$ 11	$ 11	$ 16	$ 38
As a percent of service revenues	23.8%	22.1%	21.3%	21.3%	38.9%
Number of employees	5,145	5,250	4,800	3,800	875
Operating cash flow	$ 617,870	$ 558,011	$ 485,814	$ 196,205	$ 2,438
Operating cash flow as a percent of service revenues	33.8%	33.7%	31.8%	25.7%	2.7%
Operating income (loss)	$ 317,212	$ 292,313	$ 255,842	$ 87,366	$ (16,831)
Operating income (loss) as a percent of service revenues	17.4%	17.7%	16.8%	11.5%	(18.9%)
Balance Sheet Information					
Property, plant and equipment	$ 2,253,016	$ 1,801,377	$ 1,579,278	$ 846,005	$ 127,453
Investment in licenses	1,554,314	1,442,763	1,344,251	1,154,868	404,232
Total assets	3,725,014	3,467,034	3,500,095	2,085,899	616,786
Total debt outstanding	403,156	448,817	546,322	353,761	196,877
Common Shares outstanding	55,046	55,046	54,713	53,117	21,046
Series A Common Shares outstanding	33,006	33,006	33,006	33,006	26,506
Common shareholders' equity	$ 2,335,669	$ 2,214,571	$ 2,274,641	$ 1,476,202	$ 360,749
Return on equity	8.0%	10.4%	14.2%	9.3%	(10.3%)
Common equity per share	$ 26.53	$ 25.15	$ 25.93	$ 17.14	$ 7.59
Price/earnings ratio [(2)]	21.9	28.4	63.5	39.3	(32.6)

The above summary provides information regarding the Company's most recent three years as well as the information required to calculate five- and ten-year compound rates of growth.

(1) Based on 2001 Claritas Estimates
(2) Based on Diluted Earnings per Share from Operations

Eleven-Year Summary of Earnings

(Dollars in thousands, except per share amounts)	2001	2000	1999	1996	1991
	Year Ended December 31,				
Operating Revenues					
Service	$1,826,385	$1,653,922	$1,525,660	$ 762,289	$ 89,064
Equipment sales	68,445	62,718	50,769	17,387	7,500
Total Operating Revenues	1,894,830	1,716,640	1,576,429	779,676	96,564
Operating Expenses					
System operations	421,114	350,507	368,070	216,976	27,833
Marketing and selling	297,239	303,721	272,729	130,310	18,053
Cost of equipment sold	124,028	139,654	124,058	74,023	13,575
General and administrative	434,579	364,747	325,758	162,162	34,665
Depreciation	237,346	205,916	184,830	74,631	8,814
Amortization of intangibles	63,312	59,782	45,142	34,208	10,455
Total Operating Expenses	1,577,618	1,424,327	1,320,587	692,310	113,395
Operating Income (Loss)	317,212	292,313	255,842	87,366	(16,831)
Investment and Other Income					
Investment income	41,934	43,727	30,374	51,518	8,008
Amortization of licenses related to investments	(726)	(1,365)	(1,186)	(1,391)	(1,137)
Interest income	10,300	17,049	8,893	10,093	3,158
Other income (expense), net	4,737	2,844	590	(1,881)	(224)
Gain on cellular and other investments	—	96,075	266,744	132,718	557
Interest (expense) – other	(35,146)	(36,608)	(38,099)	(23,111)	(1,852)
Interest (expense) – affiliate	(18)	—	—	—	(14,569)
Total Investment and Other Income (Expense)	21,081	121,722	267,316	167,946	(6,059)
Income (Loss) Before Income Taxes and Minority Interest	338,293	414,035	523,158	255,312	(22,890)
Income tax expense	147,315	171,968	215,252	111,640	16
Income (Loss) Before Minority Interest	190,978	242,067	307,906	143,672	(22,906)
Minority share of income	(10,146)	(7,629)	(7,148)	(13,743)	(1,467)
Income (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Change	180,832	234,438	300,758	129,929	(24,373)
Extraordinary item – loss on debt extinguishment	(6,956)	(36,870)	—	—	—
Cumulative Effect of Accounting Change	—	(4,661)	—	—	(10,269)
Net Income (Loss)	$ 173,876	$ 192,907	$ 300,758	$ 129,929	$ (34,642)
Basic Weighted Average Common and Series A Common Shares (000s)	86,200	86,355	87,478	85,797	38,715
Basic Earnings Per Common and Series A Common Share	$ 2.02	$ 2.23	$ 3.44	$ 1.51	$ (.89)
Diluted Earnings Per Common and Series A Common Share	$ 1.99	$ 2.22	$ 3.28	$ 1.48	$ (.89)
Diluted Earnings Per Common and Series A Common Share from Operations	$ 2.07	$ 2.12	$ 1.59	$ .71	$ (.64)

The above summary provides information regarding the Company's most recent three years as well as the information required to calculate five- and ten-year compound rates of growth.

Selected Consolidated Financial Data

(Dollars in thousands, except per share amounts)	2001	2000	1999	1998	1997
	Year Ended or at December 31,				
Operating Data					
Service Revenues	$1,826,385	$1,653,922	$1,525,660	$1,276,522	$ 969,149
Operating Income	317,212	292,313	255,842	176,075	129,543
Investment income, net of related amortization expense	41,208	42,362	29,188	41,412	75,037
Gain on sale of cellular and other investments	—	96,075	266,744	215,154	30,318
Income Before Income Taxes	338,293	414,035	523,158	394,152	207,785
Net Income	$ 173,876	$ 192,907	$ 300,758	$ 216,947	$ 111,539
Weighted Average Common and Series A Common Shares (000s)	86,200	86,355	87,478	87,323	86,346
Basic Earnings Per Common and Series A Common Share	$ 2.02	$ 2.23	$ 3.44	$ 2.48	$ 1.29
Diluted Earnings Per Common and Series A Common Share	$ 1.99	$ 2.22	$ 3.28	$ 2.39	$ 1.29
Pretax Profit on Service Revenues	18.5%	25.0%	34.3%	30.9%	21.4%
Operating Cash Flow Interest Coverage	24.7x	27.7x	23.2x	16.2x	18.5x
Pretax Interest Coverage Before Gains	10.3x	8.3x	7.5x	5.3x	6.6x
Effective Income Tax Rate	43.5%	41.5%	41.1%	43.4%	40.4%
Balance Sheet Data					
Working Capital	$ (173,183)	$ 11,036	$ 221,804	$ (15,468)	$ (28,872)
Property, Plant and Equipment, net	1,419,341	1,145,623	1,071,005	1,010,843	940,253
Investments –					
Licenses, net of accumulated amortization	1,298,623	1,224,430	1,156,175	1,200,653	1,079,080
Marketable equity securities	272,390	377,900	540,711	300,754	—
Unconsolidated entities, net of accumulated amortization	159,454	137,474	124,573	136,391	200,654
Total Assets	3,725,014	3,467,034	3,500,095	3,047,636	2,508,916
6% Zero Coupon Convertible Debentures	140,156	185,817	296,322	281,487	265,330
7.25% Unsecured Notes	250,000	250,000	250,000	250,000	250,000
Other Long-Term Financing	13,000	13,000	—	—	—
Common Shareholders' Equity	$2,335,669	$2,214,571	$2,274,641	$1,950,230	$1,629,320
Current Ratio	.70	1.03	1.98	.94	.86
Return on Equity	8.0%	10.4%	14.2%	12.1%	7.2%

United States Cellular Stock and Dividend Information

The Company's Common Shares are listed on the American Stock Exchange under the symbol "USM" and in the newspapers as "US Cellu." As of February 28, 2002, the Company's Common Shares were held by 484 record owners. All of the Series A Common Shares were held by TDS. No public trading market exists for the Series A Common Shares. The Series A Common Shares are convertible on a share-for-share basis into Common Shares.

The high and low sales prices of the Common Shares as reported by the American Stock Exchange were as follows:

Calendar Period	2001 Common Shares High	2001 Common Shares Low	2000 Common Shares High	2000 Common Shares Low
First Quarter	$ 68.57	$ 54.40	$104.00	$52.94
Second Quarter	67.65	55.35	72.50	56.00
Third Quarter	60.10	47.60	78.00	60.75
Fourth Quarter	49.15	40.70	70.87	50.34

The Company has not paid any cash dividends and currently intends to retain all earnings for use in the Company's business.

Investor Relations

Our Annual Report, Form 10-K, Prospectuses and News Releases are available to our investors, security analysts and other members of the investment community. These reports are provided, without charge, upon request to our Corporate Office. Our Corporate Office can also help with questions regarding lost, stolen or destroyed certificates, consolidation of accounts, transferring of shares and name or address changes. All inquiries should be directed to:

United States Cellular Corporation
Gerry Mundt, Accounting Manager – External Reporting
8410 West Bryn Mawr, Suite 700
Chicago, Illinois 60631

773/399-8900 • 773/399-8936 (fax)

General inquiries by our investors, securities analysts and other members of the investment community should be directed to:

United States Cellular Corporation
Kenneth R. Meyers, Executive Vice President – Finance
(Chief Financial Officer) and Treasurer
8410 West Bryn Mawr, Suite 700
Chicago, Illinois 60631

773/399-8900 • 773/399-8936 (fax)

Annual Meeting

USM's Annual Meeting of Shareholders will be held on May 16, 2002 at 10:00 a.m. in Chicago, Illinois.

www.uscellular.com

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