

ANNUAL REPORT 1998

# OPPORTUNITY CALLING

CONNECTING WITH THE RURAL MARKET

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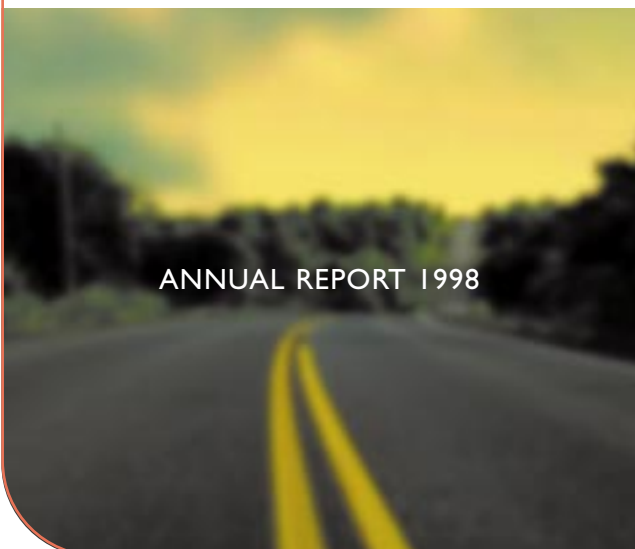
CONNECTING WITH THE RURAL MARKET

Providing communications services to rural communities can be a rewarding endeavor... if you connect with the marketplace. To do that you must understand that connecting with the rural marketplace is more than towers and lines and phones. It is having an appreciation for the unusual circumstances as well as the everyday requirements of the rural cellular customer. It means connecting with the safety concerns of the family traveling rural roads, and the financial concerns of farmers, loggers, tourism businesses and manufacturing companies located in rural areas.

Rural Cellular Corporation (RCC) heard opportunity calling in 1990. It successfully connected in the rural market because it also heard the needs and desires of that special market. From the very beginning, when 40 independent telephone companies merged their interests to become RCC, the company was part of the rural communities it committed to serve.

Demonstrating that high-tech did not belong solely to the urban market, RCC brought the appropriate technology to bear on the problems of rural communication. At the same time, it continues to listen to the needs of its customers and service areas, to be responsive to social needs, and to apply expert business judgment and strategy to its operations.

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## FINANCIAL HIGHLIGHTS

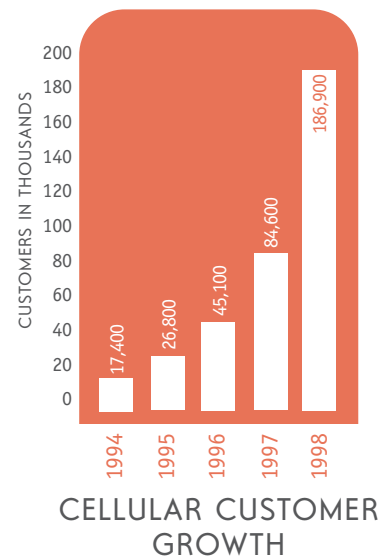
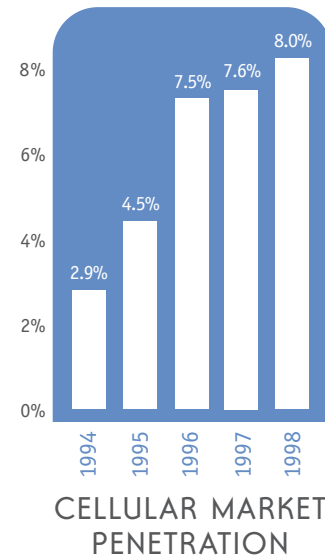
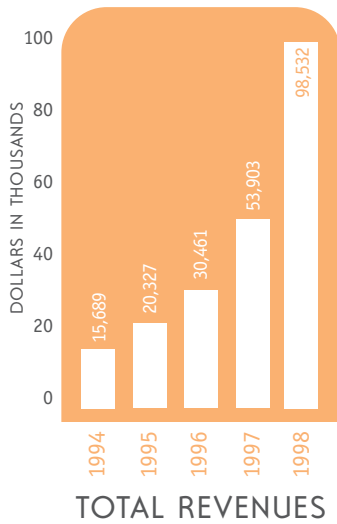
For the years ended December 31:  
(In thousands, except per share data)

	1998	1997	1996	1995	1994
Total revenues	\$ 98,532	\$ 53,903	\$ 30,461	\$ 20,327	\$ 15,689
Operating income	\$ 7,999	\$ 1,835	\$ 3,240	\$ 2,490	\$ 1,186
Net income (loss) applicable to common shares	\$(15,714)	\$ (1,266)	\$ 3,477	\$ 790	\$ 610
Net income (loss) per share	\$ (1.76)	\$ (.14)	\$ .41	\$ .13	\$ .11
EBITDA*	\$ 34,532	\$ 14,293	\$ 8,779	\$ 5,739	\$ 3,612
Weighted average shares outstanding	8,916	8,853	8,509	5,983	5,522

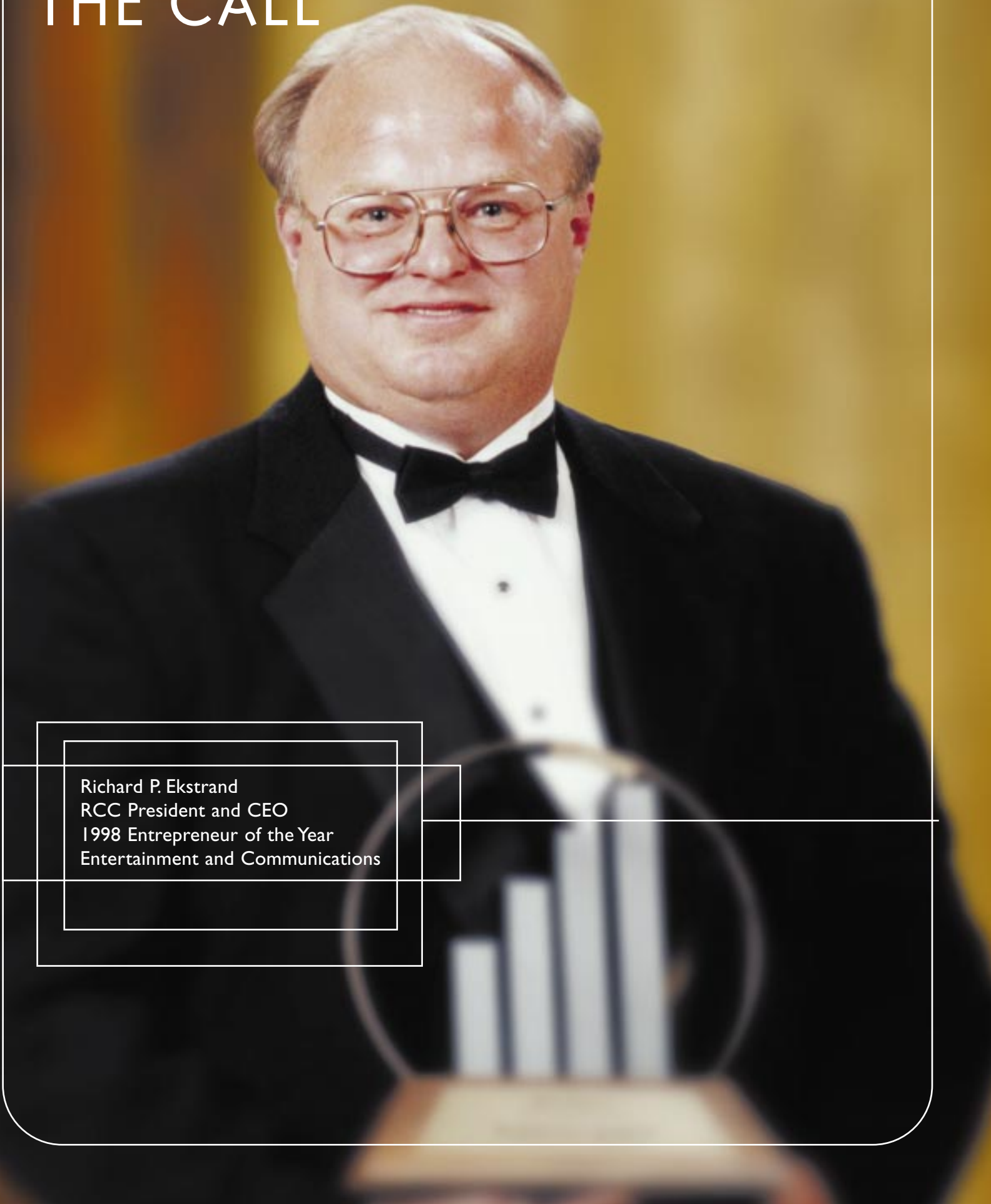
\* Earnings before interest, taxes, depreciation and amortization

Cellular operating data:  
(Excluding Wireless Alliance and RCC Paging, Inc.)

	1998	1997	1996	1995	1994
Customers	186,900	84,600	45,100	26,800	17,400
Market penetration	8.0 %	7.6 %	7.5 %	4.5 %	2.9 %
Retention	98.5 %	98.4 %	98.7 %	99.0 %	99.2 %
Average monthly revenue per customer	\$ 52	\$ 55	\$ 66	\$ 69	\$ 84
Acquisition costs per customer	\$ 362	\$ 403	\$ 307	\$ 395	\$ 448



# AN ENTREPRENEUR HEARS THE CALL



Richard P. Ekstrand  
RCC President and CEO  
1998 Entrepreneur of the Year  
Entertainment and Communications

*It was another in a series of successful years for Rural Cellular Corporation. Among other achievements, we nearly doubled the size of the company in terms of revenue, doubled the company in numbers of employees, doubled the number of customers served during the operating year, and once again expanded our footprint. It's gratifying to see that the management strategy of decentralization — which includes the creation of four business units and the concept of territory managers to provide assistance, support and encouragement for our agents and distribution team — continues to prove itself in New England as well as in the Midwest.*

In 1998 our business once again grew at record levels. Population served (POPs) now exceeds 3 million, which is 50% greater than last year. Our retention level remains well above the industry average, and from a successful base of core competencies, we are moving into sophisticated services such as personal communications service (PCS). RCC's financial performance, measured by both revenue growth and EBITDA (earnings before interest, taxes, depreciation and amortization, a standard performance measurement in the wireless industry) is solid. In fact, we think surpassing \$98.5 million in revenue and 200,000 customers are significant milestones.

The growth and structuring for the future did have its cost. The company again showed a net loss for the year. However, the loss was expected, and is consistent with the overall strategy of growth and future earnings.

## Operating Results

Consolidated operating results include RCC Cellular (cellular operations in Minnesota, Maine, Vermont, New Hampshire, Massachusetts and New York, as well as paging operations in Minnesota and Maine, and long distance service in Vermont) and Wireless Alliance, LLC, a joint venture 51%-owned by RCC and 49%-owned by an affiliate of Aerial Communications, Inc.

For fiscal 1998, consolidated revenues totaled \$98,532,000, up 83% from the prior year. Consolidated EBITDA for the year increased 142% to \$34,532,000, from \$14,293,000 in fiscal 1997. The consolidated net loss for the year, after deducting preferred stock dividends of \$9,090,000, came to \$15,714,000, or \$1.76 per share, as compared to a net loss of \$1,266,000, or \$.14 per share in the prior year.

Revenues for RCC Cellular increased 84% in 1998, to \$87,720,000. This reflected the impact of the Atlantic Cellular Company, L.P. and Western Maine Cellular, Inc. acquisitions in the third quarter, of solid customer growth in all regions, and of strong levels of high-margin roaming revenues. RCC Cellular showed EBITDA of \$39,357,000, up 98% from 1997. At the end of fiscal 1998, the company had a total customer base of 214,700 customers, up 93% percent from the year before. Much of that increase came from the addition of Atlantic Cellular's customers, but every region showed strong growth.

Revenues for Wireless Alliance totaled \$12,369,000, an increase of 69% from 1997. Due to start-up and related expenses, Wireless Alliance posted an operating loss of \$7,868,000, compared to \$6,225,000 for the prior year.

The acquisitions of Atlantic Cellular Company, L.P. and Western Maine Cellular, Inc. were financed by the sale of \$125 million of 10-year, 9<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes and \$125 million of 11<sup>3</sup>/<sub>8</sub>% Exchangeable Preferred Stock..

## Structuring for the Future

It is important to note that our loss didn't just happen. It is part of a growth strategy in which we are utilizing debt leverage for company growth. We knew we would experience a few years of losses while returning to our profitable position of 1994–96. It is likely that 1999 will also show a loss, but we're confident that the strategy is taking us in the right direction.

In line with that strategy, we are very pleased with the addition, on July 1st, of the Atlantic Cellular Company, L.P., headquartered in Colchester, Vermont, a suburb of Burlington, and the August 1st addition of Western Maine Cellular, Inc. These acquisitions complement the May 1997 acquisition of Unicel in Maine. Western Maine is an RSA located between Atlantic and Unicel, giving us a contiguous footprint, which is more cost efficient to service and maintain, and offers such customer benefits as wider coverage and fewer roaming charges.

Rural Cellular Corporation also purchased RGI Group, Inc., known as Glacial Lakes Cellular 2000®, which operates under the name Cellular 2000®. The agreement was signed in October 1998 and the acquisition completed on February 1, 1999. Glacial provides cellular service to northeastern South Dakota (RSA 4), which includes eight counties and is adjacent to RCC's existing cellular operation in northern and central Minnesota. Glacial brought an additional 69,000 POPs and more than 6,800 customers to RCC, and provides additional geography to the Midwest footprint.

Our decentralized management approach is proving very effective. With our acquisitions we were able to create four business units with outstanding industry executives in charge: Maine, headed by Rick O'Connor, Vice President of Operations; Atlantic, headed by Tom McLaughlin, Vice President of Operations; Wireless Alliance, where Mike Brown, Vice President of Operations, leads the team; and Midwest, with Bob Moore as Vice President of Operations.

Further, we rolled out the territory manager program in Atlantic this past year, and have seen nice growth with the program in Maine. The results are excellent, and I want to thank the team of people who devote their time and energy to executing the strategy. They are the reason we have success stories.

In addition to our business unit managers, there have been several other significant promotions and appointments. The addition of Dr. Fredric "Fritz" Hibbler as Vice President and Chief Information Officer and Ann Newhall as Senior Vice President, General Counsel, are noteworthy. Wesley Schultz was promoted to Senior Vice President of Finance and Administration. The appointment of David Del Zoppo, Vice President and Controller, and Karen Henrikson, Vice President of Human Resources, rounded out our executive team in a way that we have not done before.

Our external growth strategies include acquisitions of companies with operating characteristics and demographics similar to what we have now.

I have personally been seeking to identify the values that need to be consistent within our company, and for which we look in potential acquisitions, in order to preserve our approach to business. These are values like purpose, the objectives of the stakeholders, and the ways management stimulates growth and manages the dynamics of change. Balancing the preservation of our core systems while expanding the company is a significant challenge.

## Relationships and Our Future

A key element of our internal value system is our stakeholder relationships. We are grateful to our shareholders for their confidence in us and we will continue to look for ways to enhance their investment in our company over time.

Our thanks goes to every RCC employee, without whom our strategies would be empty and meaningless. They, truly, make it happen, as do our suppliers, whose expertise, assistance and services help make RCC successful.

We are concerned about our customers, and promise we will never neglect their needs and always seek to increase their benefits of doing business with us.

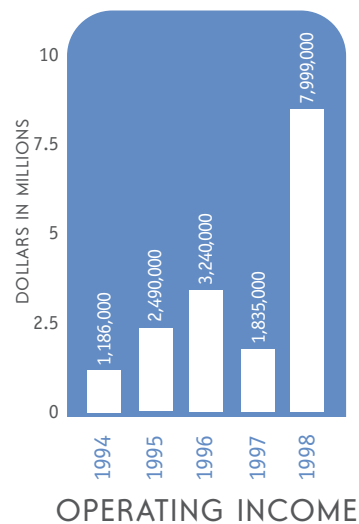
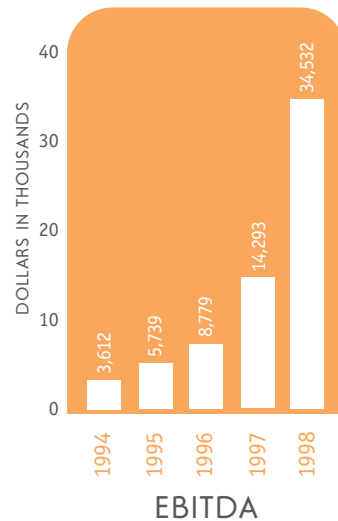
Finally, we are loyal to the communities in which our employees and customers live. We are active in the life of these communities through volunteerism and donations of time, product and money to schools and social programs.

*In June of this year I was given an award as 1998 Entrepreneur of the Year for Minnesota and the Dakotas in the category of Entertainment and Communications. I was deeply honored, and a little embarrassed, by all the nice things that were said about me. But I am well aware that the award was only possible because of the support I have received from every single individual associated with RCC. I want you to know I am proud to be President and CEO of RCC, and proud to be your representative, on whose behalf I accepted the award. I promise I will continue to represent all of you and what you stand for to the best of my ability.*

Sincerely,



Richard P. Ekstrand  
President and Chief Executive Officer



# CONNECTING WITH THE RURAL MARKET

An aerial photograph of a rural town, likely in the Northeastern United States, during the peak of autumn. The scene is dominated by vibrant, multi-colored trees in shades of orange, yellow, and red, interspersed with blue and white buildings. A prominent white church steeple rises above the rooftops in the center-right of the frame. The overall atmosphere is peaceful and scenic, capturing the essence of a rural community in fall.

Population served exceeds 3 million, and  
customers served surpassed 200,000 in  
1998, approximately double that of 1997

*Rural Cellular Corporation was established in 1990, when 40 independent rural telephone companies merged their five Minnesota cellular partnerships. The firm recognized the opportunities that existed in rural cellular communications, because it understood the rural marketplace and its needs. Within four years, the company became one of the first cellular providers to turn a profit.*

*The company went public in 1996, but maintained the corporate culture that had enabled it to succeed in its rural markets. It achieved a national leadership position in an industry that might be thought to be reserved for high-tech companies serving metropolitan areas. Through expansion, acquisition and development of technologically advanced communications services demanded by contemporary rural America, it became a full-service wireless provider.*

Rural Cellular Corporation (RCC) currently serves rural markets in the Upper Midwest and New England. Based in Alexandria, Minnesota, RCC's revenues are generated by RCC Cellular and Wireless Alliance, LLC.

RCC Cellular provides cellular service in northern Minnesota, northeastern South Dakota and a geographically contiguous service area in New England. Built through strategic acquisitions during 1998, the New England operation now covers the entire state of Vermont, a large part of Maine, and portions of New York, Massachusetts and New Hampshire. RCC Cellular offers paging services in Minnesota and Maine, and it provides long distance service in Vermont.

Wireless Alliance, LLC, a joint venture owned 51% and 49%, respectively, by RCC and an affiliate of Aerial Communications, Inc., began operations in late 1996 by reselling cellular service. This was a strategy for establishing a position in its market prior to launching its own PCS networks. During 1998 Wireless Alliance introduced PCS networks in all of its markets.

RCC has continued to have a series of successful, record-breaking years in terms of revenue, customers and managed POPs. A large part of the success has

been due to the company's strategy of decentralized management and territory managers who work directly with local agents to provide service and distribution. There are four business units in the current RCC structure.

### **RCC Midwest**

One of the largest rural cellular providers in the region, RCC Midwest, d/b/a Cellular 2000®, holds licenses for six contiguous RSAs (Rural Service Areas), covering 38,000 square miles, and adjacent to Minnesota's largest metropolitan areas. The company has taken advantage of this strategic geographic position with the equipment needed to capture significant roaming traffic between the Minnesota metropolitan areas of Minneapolis/St. Paul, Duluth and Fargo/Moorhead.

RCC Midwest's business strategy includes the promotion of paging as a way to increase the use of cellular service. The rising subscriber base for both cellular and paging service continues to outperform the industry on a revenue per customer basis.

The company's greater than 50% market share is a result of excellent cellular coverage, and the territory manager program that provides for superior distribution and channel harmony. Surveys, hands-on working with the public and management's innate sensitivity to the rural communications market keep the company in tune with the customer. RCC Midwest is well into the process of converting to a digital TDMA platform, which will allow RCC Midwest to offer expanded digital service and functionality.

### Wireless Alliance

The Wireless Alliance, d/b/a Unice!® Digital, was established in 1996 to usher in the next telecommunications breakthrough, personal communications service (PCS) networks. Wireless Alliance began by reselling cellular service to gain visibility in its markets. In the second quarter of 1998, PCS networks were launched in Fargo, North Dakota; Moorhead, Duluth, Virginia and Hibbing, Minnesota; and Superior, Wisconsin. In the third quarter PCS was launched in Sioux Falls, South Dakota. In the fourth quarter the roll out continued in Grand Forks, North Dakota. In all of these markets, Aerial Communications, Inc. contributed the licenses, and RCC is responsible for the building, managing and marketing of the networks. Wireless Alliance uses GSM technology, the standard of the industry. Through dual-mode technology, Wireless Alliance provides an even larger footprint for its customers who also wish to use the RCC Midwest network.

### RCC Maine

The RCC Maine business unit, d/b/a Unice!®, celebrated its tenth anniversary in June. The company provides coverage in three RSAs and one MSA (Metropolitan Service Area) in Maine. They cover approximately 23,500 square miles and serve more than 595,000 POPs. The company has positioned itself as the value-added provider in the service area by offering a fully operational digital system based on state-of-the-art TDMA technology.

RCC Maine also takes pride in its strong commitment to customer service and, as a result, has one of the highest retention rates in the industry. Their strategy

incorporates a customer service after-care program, as well as proactive visits to customers to provide on-site service and analysis. This further strengthens retention and helps to acquire new customers. RCC Maine offers a number of unique marketing programs, which have been well-received in the marketplace.

### RCC Atlantic

RCC Atlantic, d/b/a Cellular One, was founded in 1989 as Atlantic Cellular Company, L.P. and acquired by Rural Cellular Corporation on July 1, 1998. It covers five RSAs and one MSA in a contiguous 22,000 square mile area including Upstate New York, Vermont, Western New Hampshire and a portion of Massachusetts. It is headquartered in Colchester, a suburb of Burlington, Vermont.

RCC Atlantic markets analog cellular service to 1.1 million POPs and offers long distance services in Vermont. The licensed cellular service area generates significant roaming revenue due to its position as a premier four-season travel, tourism and outdoor recreation destination. The unit holds the dominant market share in all of its cellular service areas and has consistently outperformed industry benchmarks in all the key performance measurements. Furthermore, RCC Atlantic has received national and local recognition for public relations, advertising and, most important, customer satisfaction.

The business unit is committed to bringing modern telecommunications services to rural areas while maintaining an environmentally-sensitive and aesthetically-pleasing antenna siting policy.

**A LARGE PART OF RCC'S SUCCESS HAS BEEN DUE TO THE COMPANY'S STRATEGY OF DECENTRALIZED MANAGEMENT AND THE TERRITORY MANAGER PROGRAM.**

## ACQUISITION OF GLACIAL LAKES CELLULAR

In October 1998, RCC agreed to acquire the RGI Group, Inc., which does business as Glacial Lakes Cellular 2000®. The acquisition was completed on February 1, 1999. Glacial Lakes provides cellular service to a rural service area comprising northeastern South Dakota (RSA 4). The RSA includes eight counties similar to the rural areas already served by RCC, and Watertown, which is the state's fourth largest city. Farming and tourism are the primary economic assets. Glacial Lakes' service area is adjacent to RCC's existing cellular operations in northern and central Minnesota, and serves approximately 69,000 POPs. Glacial Lakes operates as part of RCC Midwest, which also does business as Cellular 2000®.



# BEING PART OF THE COMMUNITY

“We are loyal to the communities we serve,  
and are active in the life of those communities.”

## BEING PART OF THE COMMUNITY

Understanding the rural culture, and with community service as part of its own culture, Rural Cellular Corporation is always responsive to calls for help. Taking a look at just a few of these projects will offer some insight into another opportunity that rural markets offer — the opportunity for community service.

RCC, Global Research Systems and Paul Bunyan Rural Telephone Cooperative introduced a pilot project, BusCall®, in the Bemidji, Minnesota, school district. To ease the problems and concerns about children waiting for the school bus — traffic, weather conditions and crimes against children — BusCall® monitors the location of the bus and alerts the parents of the estimated time of arrival at a particular stop. The unique service alerts parents via phone, email and pagers.

Partnering with their industry association and Panasonic Communications and Systems Company, RCC has implemented ClassLink<sup>SM</sup> within its service areas. ClassLink<sup>SM</sup> creates a unique two-way communications system within a school. Wireless service means there is no cost for running landlines to every room, and offers faster access to teachers and other school personnel.

RCC also supports the COPP<sup>TM</sup> (Communities on Phone Patrol) program in its operating areas. Since its inception in 1996, this industry program has armed watch patrols (more than 360,000 volunteers) with more than 10,000 wireless phones to help make communities safer.

Still another industry-sponsored, RCC-supported program is Call to Protect. Its purpose is to harness the power of the wireless phone in the battle against family violence. RCC provides wireless phone service for professional counselors, for one-button calls for help from victims of family violence, and for voice-mail access for victims in transition, living in shelters or in safe houses. Rural Cellular Corporation introduced the very first such program in the U.S. in 1996.

The Minnesota Initiative Funds were founded to help stimulate economic growth and community development throughout the state. The six regional foundations strive to meet the needs of the people by building self-sufficiency in order to promote leadership, self-reliance and problem solving at the grassroots level. In the spirit of the Initiative Funds, *The Rural Cellular Corporation Endowment for Greater Minnesota* was established to generate investment income that will support those four regions in which RCC operates.

In addition to such formal programs as those above, RCC has local and one-on-one programs that serve its communities. It encourages volunteerism and provides monetary support for many community activities and social service programs.

**RCC PROVIDES WIRELESS PHONES FOR PROFESSIONAL COUNSELORS, FOR ONE-BUTTON CALLS FOR HELP FROM VICTIMS OF FAMILY VIOLENCE, AND FOR VOICE-MAIL ACCESS FOR VICTIMS IN TRANSITION.**

## CORPORATE INFORMATION

### Annual Meeting of Shareholders

The Company's annual meeting of shareholders will be held on May 20, 1999, at 2:00 p.m. (central daylight) at Rural Cellular Corporate Headquarters 3905 Dakota Street S.W., Alexandria, Minnesota.

### Shareholder, Investor and Media Contact

Shareholders, investors, analysts and members of the media seeking information about the Company should contact Corporate Communications at the Company's corporate offices at (320) 762-2000 or visit our website at [www.rccwireless.com](http://www.rccwireless.com).

### Stock Transfer Agent and Registrar

Shareowners with questions about share transfers, lost certificates or changes of address may contact:

Norwest Bank Minnesota, N.A.  
Shareowner Services  
161 North Concord Exchange Street  
South St. Paul, Minnesota 55075-1139

### Common Stock Market Data

Total Shareowners  
(as of February 3, 1999), 1,630  
Rural Cellular Corporation is listed on the Nasdaq Stock Market.  
Symbol: RCCC  
Newspaper Listing: RuralCel

### 1998 Market Price Per Share

	High	Low
First Qtr.	17 <sup>3</sup> / <sub>8</sub>	11 <sup>1</sup> / <sub>2</sub>
Second Qtr.	18 <sup>1</sup> / <sub>4</sub>	15 <sup>5</sup> / <sub>8</sub>
Third Qtr.	16 <sup>9</sup> / <sub>16</sub>	10 <sup>7</sup> / <sub>8</sub>
Fourth Qtr.	12 <sup>13</sup> / <sub>16</sub>	10 <sup>1</sup> / <sub>8</sub>

### Corporate Counsel

Moss & Barnett  
A Professional Association  
Minneapolis, Minnesota

### Independent Accountants

Arthur Andersen LLP  
Minneapolis, Minnesota

### Board of Directors

Richard P. Ekstrand  
President and Chief Executive Officer  
Rural Cellular Corporation  
Jeffrey S. Gilbert, Assistant Manager  
Paul Bunyan Rural Telephone Cooperative  
Marvin C. Nicolai, General Manager  
Consolidated Telephone Company  
George M. Revering, President  
Midwest Information Systems, Inc.  
Don C. Swenson, Director of Operations  
Arvig Communications Systems  
George W. Wikstrom, Vice President  
Wikstrom Telephone Company, Inc.

### Corporate Officers

Richard P. Ekstrand  
President and Chief Executive Officer  
Wesley E. Schultz  
Senior Vice President, Finance and Administration,  
Chief Financial Officer  
Ann K. Newhall  
Senior Vice President, General Counsel  
David J. Del Zoppo  
Vice President and Controller  
Scott G. Donlea  
Vice President of Sales and Marketing  
Karen C. Henrikson  
Vice President of Human Resources  
Fredric J. Hibbler, Ph.D.  
Vice President and Chief Information Officer

### Business Unit Officers

Michael H. Brown  
Vice President of Operations (Wireless Alliance)  
Thomas F. McLaughlin  
Vice President of Operations (RCC Atlantic)  
Robert L. Moore  
Vice President of Operations (RCC Midwest)  
Maurice P. O'Connor  
Vice President of Operations (RCC Maine)

CORPORATE HEADQUARTERS

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