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Specialists in Wireless Telecom

Equity Research

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Initiating Coverage

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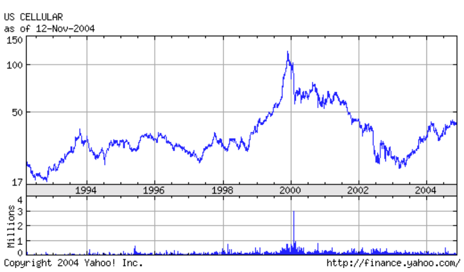
Market Price:	$43.00
Target Price:	$35.65
52 Wk Range	31.82- 44.65
Insider Ownership	82.7%
Market Cap	$3.58 B
Book Value per Share	$29.44



Wireless Telecom Provision

"U.S." Cellular? Not Exactly
Regional Focus Constrains Future
Initiating with a Sell, Target: $35.65
(USM, $43.00)

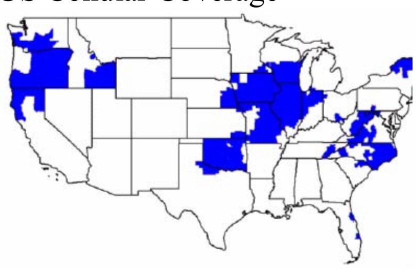
We are initiating coverage on US Cellular with an **Underweight** rating

- **Regional Emphasis Makes Sense Now, But it will likely Constrain Growth:** US Cellular has a strong business model, but future growth attainment is questionable.
- **Low Churn; Won't Get Lower:** USM has already reached a churn "floor." Limited improvements possible in the future.
- **CAPEX Still A Concern:** We question management's conservative CAPEX projections.
- **No boost from AWE merger**: Unlike other national carriers that may benefit from the merger, USM probably won't get AWE customers due to its regional focus.
- **USM not a likely M&A target:** Since USM is a regional carrier with overlapping coverage with national carriers, it is not an attractive acquisition target.

Please refer to important disclaimer at the end of this report.

I. Company Overview

US Cellular Coverage



Source: Company

Company Description: Chicago-based U.S. Cellular is the 8th largest wireless service provider in the United States, serving 4.8 million customers in 150 markets in 26 states, primarily in the Mid-West, Pacific Northwest, mid-Atlantic, and upper New England. The company offers local, regional, national, and prepaid calling plans, and data applications through CDMA technology. Founded in 1983, the company trades on the American Stock Exchange and is a business unit of Telephone and Data Systems, Inc. (TDS), which owns 82.7% of the company (2003 Annual Report).

TDS is a diversified telecommunications service company with wireless telephone (USM) and wireline telephone operations (TDS Telecom). USM provided 75% of TDS' consolidated revenues and 53% of consolidated operating income in 2003. TDS Telecom provided 25% of consolidated revenues and 47% of consolidated operating income in 2003 (Reuters).

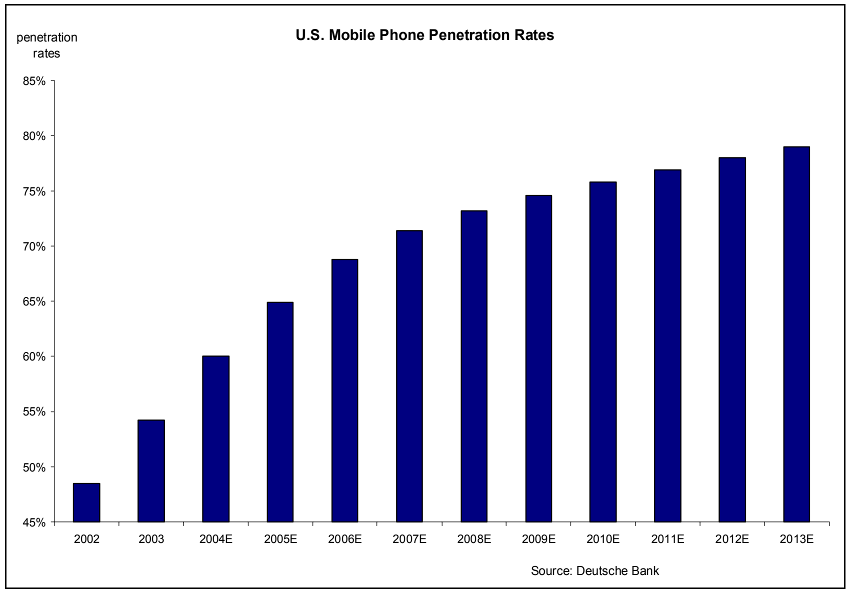
U.S. Cellular operates on a customer satisfaction strategy, meeting customer needs by providing a comprehensive range of wireless products and services, superior customer support and a high-quality network. This is evidenced by its 3Q 2004 1.6% monthly churn rate, one of the lowest in the industry.

II. Wireless Value Drivers

Gross Adds Will Slow Down

The total wireless market is expected to increase from 174.6 million subscribers in 2004 to 249.4 million in 2013.[i] Wireless penetration rate will grow from 60% in 2004 to 79% in 2013 (Exhibit 1). We believe these estimates are reasonable, as other more developed wireless markets in Western Europe and Asia have penetration rates exceeding 80 percent.[ii] Due to increased saturation, wireless providers such as USM will necessarily see reduced growth in gross additions. We project that the market that USM serves will grow from 30% of the total US market in 2004 to 38.6% of the total. This is based on the fact that USM is pursuing a deliberate but measured growth strategy into adjacent states. Evidence of this was recently seen as USM divested small service practices in Texas and Georgia and opened new markets closer to its base in Oklahoma, Nebraska, and Maine. USM will likely be successful in this strategy because rural customers tend to favor a relationship-based customer satisfaction model

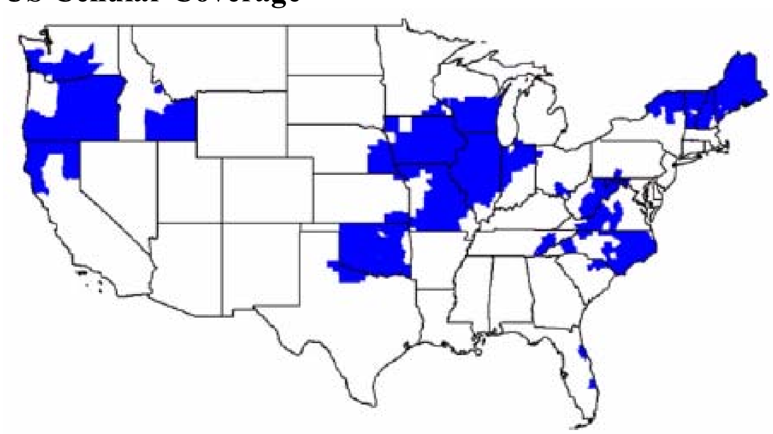
Exhibit 1



The objective is to continue slicing out pieces of the rural American landscape. These areas of focus are (Exhibit 2), for the most part, growing at or above the national average population growth rate of 3.3 percent (Exhibit 3).

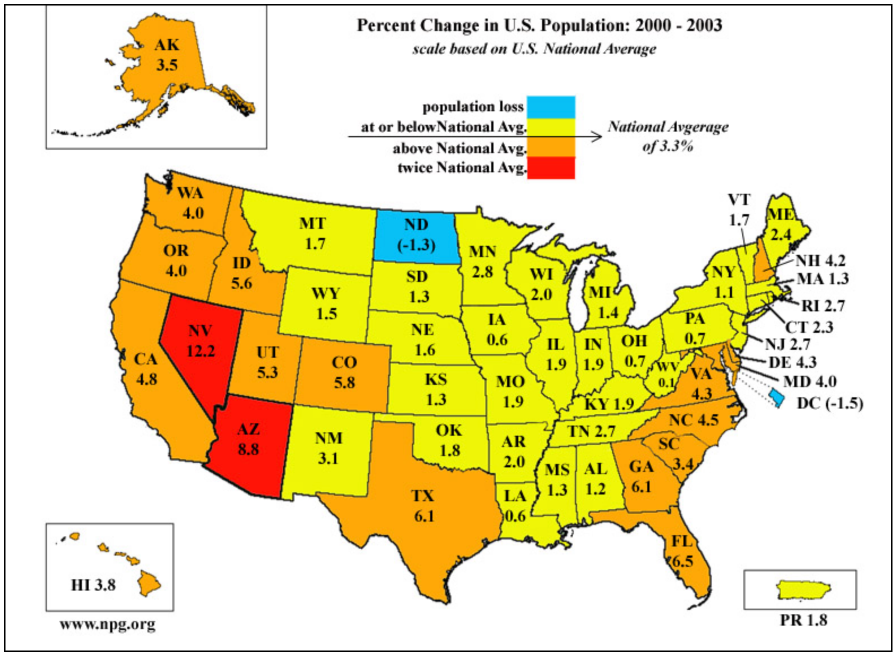
Exhibit 2

US Cellular Coverage



Source: Company

Exhibit 3



Implications are that wireless subscription growth will slow across the sector for all providers. USM captured 11.8% of the increase in its regional market in 2003. We project that USM will successfully maintain this same level of new adds for the forecast horizon. The tension between increased national saturation and USM's expansion strategy in new rural markets, we forecast total USM subscribers growing from 4.8 million in 2004 to 9.0 million in 2013 (**Appendix 1**).

Churn Can't Go Much Lower

One of USM's strengths is its low churn rate (Exhibit 4). However, we don't expect it to go any lower since churn will always exist due to the competitive nature of the wireless industry.

Exhibit 4

Average Monthly Churn

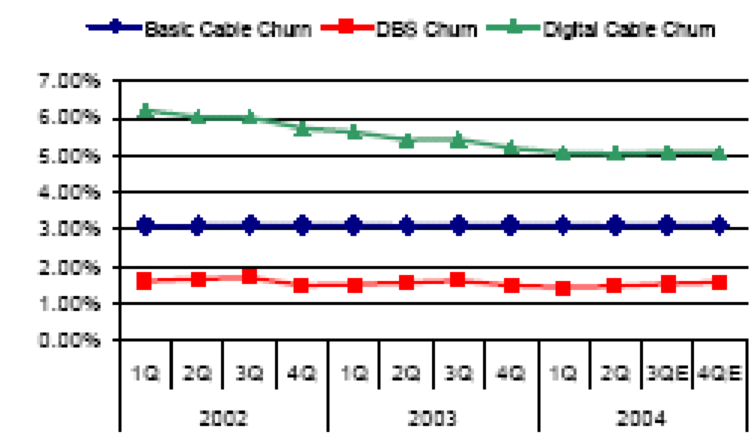
	2002	**2003**	**2004**
AT&T Wireless	2.6%	2.6%	3.6%
Cingular	2.8%	2.7%	2.7%
Nextel	2.1%	1.6%	1.7%
Sprint PCS	3.3%	2.7%	2.6%
T-Mobile	4.1%	3.1%	2.9%
Verizon Wireless	2.3%	1.9%	1.5%
US Cellular	**2.1%**	**1.8%**	**1.6%**
National Average	*2.7%*	*2.4%*	*2.5%*

source: Deutsche Bank

Due to number portability and intense competition, despite USM strong customer base, we expect churn to slightly increase to 1.7% and stay the same over the forecast horizon.

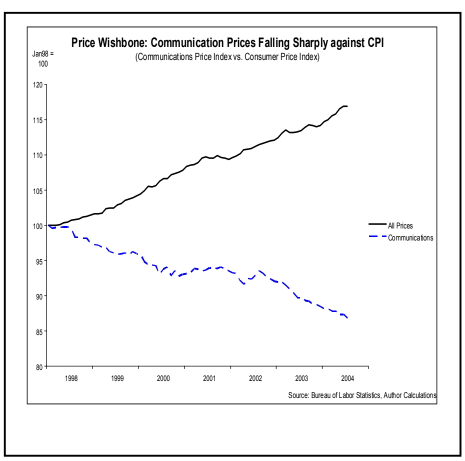
For comparison, in the cable and direct broadcast satellite (dbs) industry (Exhibit 5), monthly churn is higher for both basic and digital cable than the cellular industry. However satellite's average 1.5% monthly churn is slightly lower than cellular's average 2.5% monthly churn.

Exhibit 5



E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research



ARPU Will Increase Slightly

Exhibit 6

US Cellular Reported ARPU					
2001	% change	**2002**	% change	**2003**	% change
$ 46.28	-0.6%	$ 47.25	2.1%	$ 47.38	0.3%

Changes in ARPU are generally quite volatile, but the average hovers in the range of 0% to 1% (Exhibit 6). To remain conservative, we project ARPU growth for USM to increase at an average annual rate of 0.2% per year. We believe this is reasonable since it falls on lower end of historical range of average values. Furthermore, revenue from increased minutes of use will likely offset falling wholesale communication prices (our proxy for wireless user rates) going forward. Over the last three years, wholesale communication prices have declined at an average rate of 1.7%. Over the same period, minutes of use in the industry have increased by over 20% per annum (Exhibit 7). While we don't expect this robust growth in minutes used to continue into perpetuity, we believe the historical precedent is sufficiently strong to postulate that MOU growth will exceed price declines. Consequently, we believe an ARPU growth rate of 0.2% is fair given that it is well within the historical range.

Exhibit 7

MOU's (Min, Month)						
	2002	**% change**	**2003**	**% change**	**2004E**	**% change**
AT&T Wireless	477	22.3%	541	13.5%	609	12.6%
Cingular	442	44.3%	438	3.6%	518	18.4%
Nextel	632	12.1%	710	12.3%	795	12.0%
Sprint PCS	642	28.1%	806	25.5%	961	19.2%
T-Mobile	595	11.1%	751	26.2%	893	18.9%
Verizon	348	34.1%	457	31.4%	533	16.7%
US Cellular	546	17.6%	427	-21.8%	549	14.3%
Total US	*461*	*30.1%*	*554*	*20.3%*	*648*	*17.0%*
Average						*22.5%*

Source: Deutsche Bank

Revenue

Based on these assumptions, we project revenues to evolve according to the model shown in Appendix 1. Specifically, revenue growth will hover in the double digit figures through 2006, and then taper off, reaching 3.2% by 2013. With revenues increasing according to this schedule, USM will account for roughly 3% of the total US wireless market in the terminal year.

COGS

For wireless service providers, COGS consist primarily of the costs of wireless phone telephony and equipment sold to new customers. Over the last five years, the COGS-to-sales ratio has been 30.3%. Given low volatility in the five year statistic ($\sigma = 0.038$), we believe that a 30% ratio of COGs to sales is reasonable for the forecast period. This assertion is buttressed by the fact many mobile phone service providers have not yet been able to lower their COGS significantly (Exhibit 8) notwithstanding pervasive industry consolidation.

Exhibit 8

COGS to Sales Ratios for Wireless Pure Plays

	2002	**2003**	**2004E**
AT&T Wireless	43%	41%	40%
Nextel	29%	29%	29%
US Cellular	**33%**	**35%**	**35%**

source: company reports

SG&A

The five- and ten- year history of SG&A-to-sales was 40.4% and 43%, respectively. USM has successfully brought down its SG&A expenses, relative to revenues, over the last ten years. We believe this trend will continue and have SG&A falling from 39.1% of sales in 2004 to 36.4% in 2013. Comparatively, other wireless pure play companies have also slowly lowered their SG&A to Sales ratios (Exhibit 9).

Exhibit 9

SG&A to Sales Ratios for Wireless Pure Plays

	2002	**2003**	**2004E**
AT&T Wireless	33%	32%	32%
Nextel	35%	32%	32%
US Cellular	**40%**	**42%**	**39%**

source: company reports

Depreciation, Depletion &Amortization

We assume that DD&A, as a percent of PP&E will remain at its 10 year average of 12.4%.

Tax Rate

The average tax rate for the last three year's was 41.3%. We have no reason to believe that this will be materially different in the future.

Working Capital Reserve

For the last ten years, USM's current liabilities have exceeded current assets by an average of 29%. Subtracting the current portion of long-term debt from current liabilities, this percentage has still hovered around 24%. Consequently, the ratio of working capital reserves to sales has been negative, averaging -3.8% and -3.1% in the last 5 years and 10 years respectively. We project that USM will follow the five year trend going forward.

The negative working capital is somewhat unusual, but not out of the question for communication service providers. Until 2003, Sprint and Bell South had negative working capital. In addition, current liabilities exceed current assets for SBC and Qwest. In contrast, Nextel has had positive working capital for the last threes year.

CAPEX

Historically, industry CAPEX as a percent of revenues has been around 20%. Since USM is just completing its 2.5G upgrade and major competitors are about to launch 3G service, it is hard to agree with consensus analyst forecast of 16%. Competitors who have previously completed 2.5G upgrades did not decrease CAPEX spending, as management assumes (Exhibit 10):

> "U.S. Cellular's overlay of existing technologies with CDMA is largely completed, and when the project is fully completed in 2004 it anticipates total expenditures related to the project to be no more than $300 million."[iii]

Exhibit 10

CAPEX to Sales Ratios for Pure Plays

	2002	**2003**	**2004E**
AT&T Wireless	37%	18%	20%
Cingular	26%	24%	22%
Nextel	24%	17%	19%
T-Mobile	40%	24%	26%
US Cellular	**33%**	**25%**	**25%**

source: Deutsche Bank

Because USM takes a reactionary stance on technology investment (waits to see which technologies will pervade). This tact may seem to leave USM vulnerable to the more technologically nimble, but it has so far served the company pretty well. We believe this tactic is sustainable in the short-term, but may cause major issues in the future that may USM not to be competitive. We believe that its Capex-to-sales ratio will slowly decline from its most recent five year average. More precisely, we model the Capex ratio falling from its five year average of 23.3% to 15.2% in the terminal year.

Future Debt

USM will issue future debt on an as-needed basis:

> "U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs. U.S. Cellular anticipates issuing debt and equity securities only when capital requirements (including acquisitions), financial market conditions and other factors warrant."[iv]

Based on our future CAPEX forecast, we believe USM will issue new debt, to maintain a constant debt-to-assets ratio. Consequently, we use the DCF valuation tool.

CAPM Assumptions/Inputs

We used a Yahoo! Finance beta of 0.977, 3-year historical tax rate of 41.3%, 10-year treasury risk-free rate of 4.13%, Ibbotson market risk premium of 6.47%, a Bloomberg industry target D/E of 35%, and a debt ratio 5.6% (2003 interest expense/long-term debt). Terminal growth is 2.5%.

III. Other Issues

- **Inside Ownership**

Currently since 82.7% of the company is owned by TDS, the stock is not attractive due to low float and lack of voting power.

- **AWE Merger Will Not Benefit**

The pending (almost consummated) AT&T Wireless merger with Cingular will create interesting dynamics within the wireless community, such as increased consolidation. Many analysts believe this will create opportunities for competitors to grab disgruntled customers. However, we believe US Cellular's regional focus will be unattractive to most AWE customers and thus will not benefit USM as much as other national carriers.

- **Future Mergers Won't Benefit Since Not Likely Target**

Recently, there have been rumors of cable companies possibly entering the wireless market (WSJ, 11/9/04) However, US Cellular's regional focus will keep it off the table as a potential acquisition target due to limited national coverage. For the same reason, there may be little reason for current national carriers with already extensive and overlapping networks to want to purchase USM. If anything, if further consolidation happens, this more intense competition will hurt USM in the long run.

IV. US Cellular Valuation

DCF

Based on the assumptions that we have laid out above, we calculate a target price of $35.65. Specifically, sales will increase from $2.9 billion in 2004 to $4.8 billion in 2013. COGs will increase from $870 million in 2004 to $1.5 billion in 2013. SG&A will increase from $1.1 billion in 2004 to $1.8 billion in 2013. This gives us an EBITDA growth from $894 million to $1.624 billion in 2013. Taxes are a straight 41.3% of sales. Change in working capital contributes positively to annual cash flows. Capex grows from $675 million to $737 million in the terminal year. Accordingly, free cash flows grow from $42.6 million in 2004 to $363.1 million in 2013. Discounting these flows by a weighted average cost of capital of 9.2%, yields our target price of $35.65. This compares with a actual market price of $43.

Comparables

The market is currently discounting USM shares, relative to its national counterparts (Sprint, Cingular, Verizon). EBITDA multiples for regional players, such as USM, are all significantly below average. We believe the market doesn't like these regional plays because of low growth opportunities going forward. USM's BEV to EBITDA multiple is currently 7.2 times, compared to 8.7 for our universe of comparables. Applying the 8.7 multiple to USM's most recent EBITDA figure yields an unreasonable share price of $67.09. Because of the disparity between national and regional plays, we hold that the comparable valuation method is less reliable in our analysis. In addition, the dearth of comparable regional players makes the comparable method difficult.

Appendix 1: USM Revenue Forecast

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Wireless Penetration Rates (%)	60.0%	64.9%	68.8%	71.4%	73.2%	74.6%	75.8%	76.9%	78.0%	79.0%
Total US Wireless Subscribers (000s)	174,564,000	190,601,000	203,743,000	213,629,000	220,938,000	227,140,000	232,999,000	238,537,000	244,096,000	249,411,000
USM Market	51,609,343	58,256,646	63,292,176	67,431,378	70,843,133	73,967,486	77,040,448	80,064,256	83,150,599	86,208,193
USM Market to Total US Market (%)	29.6%	30.6%	31.1%	31.6%	32.1%	32.6%	33.1%	33.6%	34.1%	34.6%
Gross Adds	631,101	785,258	594,856	488,972	403,037	369,086	363,015	357,208	364,595	361,199
Churn	71,050	80,384	92,132	100,511	106,985	111,919	116,205	120,319	124,267	128,273
Churn Rate	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Net Adds	560,051	704,874	502,724	388,461	296,052	257,166	246,809	236,889	240,328	232,927
Average # of USM Subscribers	4,823,051	5,527,925	6,030,649	6,419,110	6,715,161	6,972,327	7,219,137	7,456,026	7,696,354	7,929,280
USM as % of Total	2.8%	2.9%	3.0%	3.0%	3.0%	3.1%	3.1%	3.1%	3.2%	3.2%
USM as % of Total (Deutsche)	2.8%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
Y/Y Growth in ARPU	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
ARPU	569.61	570.67	571.73	572.79	573.85	574.92	575.99	577.05	578.12	579.20
Monthly ARPU	47.47	47.56	47.64	47.73	47.82	47.91	48.00	48.09	48.18	48.27
USM Revenues	2,747,281,483	3,154,630,214	3,447,905,925	3,676,809,910	3,853,522,110	4,008,521,412	4,158,117,050	4,302,529,626	4,449,451,963	4,592,617,739
Change (%)	**13.3%**	**14.8%**	**9.3%**	**6.6%**	**4.8%**	**4.0%**	**3.7%**	**3.5%**	**3.4%**	**3.2%**

Appendix 2: Scenario Analysis

Assumptions												
			2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Income Statement	**Sales Growth**											
	5-Year Average Case		17.1%	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%
	10-Year Average Case		26.8%	26.8%	26.8%	26.8%	26.8%	26.8%	26.8%	26.8%	26.8%	26.8%
	Today's Price Case		11.7%	12.3%	9.6%	7.4%	6.1%	5.5%	4.7%	3.6%	3.2%	3.0%
	Deutsche Case		10.9%	12.6%	9.9%	7.7%	6.4%	5.8%	5.0%	3.9%	3.5%	3.3%
	J&J Case		13.3%	14.8%	9.3%	6.6%	4.8%	4.0%	3.7%	3.5%	3.4%	3.2%
	COGS to Sales (%)											
	5-Year Average Case		30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%
	10-Year Average Case		28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%
	Today's Price Case		37.4%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%
	Deutsche Case		37.4%	36.5%	35.9%	35.5%	34.7%	33.7%	32.7%	32.1%	32.0%	32.0%
	J&J Case		30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
	SG&A to Sales (%)											
	5-Year Average Case		40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%
	10-Year Average Case		43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
	Today's Price Case		39.1%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%	40.4%
	Deutsche Case		39.1%	38.8%	38.5%	38.5%	37.8%	37.3%	36.5%	36.3%	36.5%	36.8%
	J&J Case		39.1%	38.8%	38.5%	38.2%	37.9%	37.6%	37.3%	37.0%	36.7%	36.4%
	DD&A to Sales (%)											
	5-Year Average Case		12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
	10-Year Average Case		12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
	Today's Price Case		17.2%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
	Deutsche Case		17.2%	17.5%	18.2%	18.8%	18.5%	17.7%	16.8%	15.9%	15.5%	15.1%
	J&J Case		12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Balance Sheet	**WCR to Sales (%)**											
	5-Year Average Case	-1.9%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%
	10-Year Average Case	-1.9%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%
	Today's Price Case		-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%
	Deutsche Case		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	J&J Case		-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%
	CapEx to Sales (%)											
CapEx	5-Year Average Case		23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%
	10-Year Average Case		29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%	29.7%
	Today's Price Case		21.6%	19.4%	18.7%	18.1%	17.5%	16.9%	16.4%	15.9%	15.5%	15.1%
	Deutsche Case		21.6%	19.4%	18.7%	18.1%	17.5%	16.9%	16.4%	15.9%	15.5%	15.1%
	J&J Case		23.3%	22.4%	21.5%	20.6%	19.7%	18.8%	17.9%	17.0%	16.1%	15.2%
			g	β_L	r_f	$r_m - r_f$	Target D/E	WACC				
	CAPM Assumptions											
	5-Year Average Case		2.5%	97.7%	4.1%	6.5%	35.0%	9.2%				
	10-Year Average Case		2.5%	97.7%	4.1%	6.5%	35.0%	9.2%				
	Today's Price Case		2.5%	97.7%	4.1%	6.5%	35.0%	9.2%				
	Deutsche Case		2.5%					9.0%				
	J&J Case		2.5%	0.98	4.1%	6.5%	35%	9.2%				

US Cellular	J&J Case										
	Income Statement										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales (Net)	**2,184.48**	**2,555.46**	**2,896.5**	**3,326.0**	**3,635.2**	**3,876.6**	**4,062.9**	**4,226.3**	**4,384.0**	**4,536.3**	**4,691.2**	**4,842.1**
% change	15.3%	17.0%	13.3%	14.8%	9.3%	6.6%	4.8%	4.0%	3.7%	3.5%	3.4%	3.2%
COGS	710.63	882.26	869.5	998.5	1,091.3	1,163.7	1,219.7	1,268.7	1,316.1	1,361.8	1,408.3	1,453.6
Gross Profit	**1,473.85**	**1,673.20**	**2,027.0**	**2,327.6**	**2,544.0**	**2,712.9**	**2,843.2**	**2,957.6**	**3,068.0**	**3,174.5**	**3,282.9**	**3,388.6**
SG&A	874.13	1,083.94	1,133.3	1,291.4	1,400.6	1,481.9	1,540.9	1,590.3	1,636.4	1,679.7	1,723.0	1,763.9
EBITDA	**599.72**	**589.26**	**893.68**	**1,036.17**	**1,143.40**	**1,230.94**	**1,302.29**	**1,367.35**	**1,431.53**	**1,494.86**	**1,559.98**	**1,624.70**
DD&A	303.56	374.77	359.9	413.3	451.7	481.7	504.8	525.1	544.7	563.6	582.9	601.6
EBIT	**296.16**	**214.49**	**533.78**	**622.90**	**691.71**	**749.27**	**797.47**	**842.22**	**886.80**	**931.21**	**977.09**	**1,023.05**
Interest Expense	47.88	64.61	66.0	75.8	82.9	88.4	92.6	96.3	99.9	103.4	106.9	110.4
Non-Op Inc/Exp	49.78	56.97	221.6	254.4	278.1	296.6	310.8	323.3	335.4	347.0	358.9	370.4
Special Items	-310.45	-53.05	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	**-12.39**	**153.80**	**689.35**	**801.54**	**886.96**	**957.47**	**1,015.68**	**1,069.21**	**1,122.27**	**1,174.85**	**1,229.04**	**1,283.12**
Income Taxes - Total	-7.54	66.77	284.9	331.3	366.6	395.8	419.8	441.9	463.9	485.6	508.0	530.4
Minority Interest	13.54	11.91	14.9	2.3	34.9	22.9	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (Loss)	**-14.29**	**60.77**	**389.53**	**467.95**	**485.50**	**538.86**	**595.87**	**627.27**	**658.40**	**689.25**	**721.04**	**752.76**

US Cellular	J&J Case											
	Balance Sheet											
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
ASSETS												
Cash & Equivalents	14.86	9.85	25.04	28.75	31.42	33.51	35.12	36.53	37.89	39.21	40.55	41.85
Receivables - Total (Net)	315.25	286.98	399.43	458.66	501.30	534.58	560.27	582.81	604.55	625.55	646.91	667.73
Inventories - Total	55.49	70.96	76.65	88.02	96.20	102.59	107.52	111.85	116.02	120.05	124.15	128.14
Prepaid Expenses	19.75	22.4	20.97	24.08	26.31	28.06	29.41	30.59	31.73	32.84	33.96	35.05
Current Assets - Other	47.92	33.92	26.57	30.51	33.34	35.56	37.27	38.77	40.21	41.61	43.03	44.41
Current Assets - Total	**453.27**	**424.11**	**548.66**	**630.01**	**688.58**	**734.29**	**769.58**	**800.54**	**830.41**	**859.25**	**888.60**	**917.19**
Plant, Property & Equip (Net)	2,007.67	2,173.88	2489.44	2821.86	3152.47	3470.14	3766.51	4036.76	4277.64	4486.06	4659.38	4794.69
Investments at Equity	161.45	170.57	242.70	278.69	304.60	324.82	340.43	354.13	367.34	380.10	393.08	405.73
Other	193.25	266.66	279.25	320.65	350.46	373.73	391.69	407.45	422.65	437.33	452.26	466.82
Intangibles	1,722.27	1,663.97	2085.20	2394.38	2616.98	2790.72	2924.85	3042.49	3156.04	3265.65	3377.16	3485.83
Deferred Charges	161.93	123.94	212.65	244.18	266.88	284.60	298.28	310.27	321.85	333.03	344.40	355.49
Assets - Other	0	100.52	100.52	100.52	100.52	100.52	100.52	100.52	100.52	100.52	100.52	100.52
TOTAL ASSETS	**4,699.84**	**4,923.65**	**5958.43**	**6790.30**	**7480.49**	**8078.82**	**8591.86**	**9052.16**	**9476.46**	**9861.94**	**10215.40**	**10526.25**
LIABILITIES												
Accounts Payable	306.89	285.56	407.05	463.88	511.03	551.90	586.95	618.40	647.38	673.72	697.87	719.10
Notes Payable	505.2	0	271.13	308.99	340.39	367.62	390.97	411.91	431.22	448.76	464.84	478.99
Accrued Expenses	39.57	50.67	59.97	68.34	75.29	81.31	86.47	91.11	95.38	99.26	102.81	105.94
Taxes Payable	24.4	24.23	35.03	39.92	43.98	47.49	50.51	53.22	55.71	57.98	60.05	61.88
Long-Term Debt Due In One Year	0	108	26.51	30.21	33.28	35.94	38.23	40.27	42.16	43.88	45.45	46.83
Other Current Liabilities	102.96	113.44	145.83	166.19	183.08	197.72	210.28	221.55	231.93	241.36	250.02	257.62
Total Current Liabilities	**979.02**	**581.9**	**945.52**	**1,077.53**	**1,187.05**	**1,282.00**	**1,363.41**	**1,436.45**	**1,503.78**	**1,564.95**	**1,621.04**	**1,670.37**
Long Term Debt	806.46	1,144.34	1,143.26	1,302.87	1,435.30	1,550.10	1,648.54	1,736.86	1,818.27	1,892.23	1,960.05	2,019.69
Deferred Taxes (Balance Sheet)	424.73	443.03	737.05	839.95	925.33	999.34	1,062.81	1,119.74	1,172.23	1,219.91	1,263.64	1,302.09
Minority Interest	55.07	60.1	85.56	97.51	107.42	116.01	123.38	129.99	136.08	141.62	146.69	151.16
Liabilities - Other	19.53	198.1	67.82	77.29	85.15	91.96	97.80	103.04	107.87	112.26	116.28	119.82
TOTAL LIABILITIES	**2,284.81**	**2,427.47**	**2,979.21**	**3,395.15**	**3,740.25**	**4,039.41**	**4,295.93**	**4,526.08**	**4,738.23**	**4,930.97**	**5,107.70**	**5,263.13**
SHAREHOLDERS' EQUITY												
Common Stock	88.05	88.05	111.87	127.49	140.45	151.68	161.32	169.96	177.93	185.16	191.80	197.64
Capital Surplus	1,307.19	1,308.96	1,672.74	1,906.27	2,100.03	2,268.01	2,412.03	2,541.25	2,660.37	2,768.59	2,867.82	2,955.08
Retained Earnings (Net Other)	1,137.06	1,214.32	1,321.31	1,505.78	1,658.83	1,791.51	1,905.28	2,007.36	2,101.45	2,186.93	2,265.31	2,334.24
Less: Treasury Stock	117.26	115.16	126.70	144.39	159.07	171.79	182.70	192.49	201.51	209.71	217.23	223.84
TOTAL EQUITY	**2,415.04**	**2,496.17**	**2,979.21**	**3,395.15**	**3,740.25**	**4,039.41**	**4,295.93**	**4,526.08**	**4,738.23**	**4,930.97**	**5,107.70**	**5,263.13**
TOTAL LIABILITIES & EQUITY	**4,699.85**	**4,923.64**	**5,958.43**	**6,790.30**	**7,480.49**	**8,078.82**	**8,591.86**	**9,052.16**	**9,476.46**	**9,861.94**	**10,215.40**	**10,526.25**

DCF Model	J&J Case		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Terminal
EBITDA			893.68	1,036.17	1,143.40	1,230.94	1,302.29	1,367.35	1,431.53	1,494.86	1,559.98	1,624.70	
taxes			284.93	331.30	366.61	395.76	419.81	441.94	463.87	485.61	508.01	530.35	
Δ WCR			-109.27	-16.20	-11.66	-9.10	-7.03	-6.16	-5.95	-5.74	-5.84	-5.69	
Capex			675.47	745.69	782.29	799.34	801.19	795.38	785.61	772.07	756.21	736.96	
Free Cash Flow			42.55	-24.62	6.16	44.95	88.31	136.19	188.00	242.93	301.61	363.08	5,550.03
Discounted Cash Flow			42.55	-22.55	5.17	34.51	62.09	87.69	110.84	131.15	149.10	164.36	2,300.67
Sum			3,065.59										
Shares Outstanding			86.00										
Target			**$35.65**										
Actual (11/12)			**$43.00**										

Comparable Analysis		1	2	3	4	5	6	Comp.
($ Millions) Name >	United States Cellular	Nextel Communications Inc	Sprint FON Group	CenturyTel Inc	AT&T Wireless	Western Wireless Corp	Alltel Corp	Median
Ticker	USM	NXTI	FON	CTL	AWE	WWCA	AT	n/a
Industry SIC Code	4812-07	4812-07	4812-07	4812-07	4812-07	4812-07	4812-07	n/a
Current Stock Price	41.3	25.3	20.1	33.3	14.8	28.6	54.2	26.9
Shares Oustanding	86.2	263.0	1,430.0	135.0	2,730.0	91.9	308.3	285.6
Equity Mkt. Capitalization	3,560.9	28,060.0	28,771.6	4,494.8	40,404.0	2,630.1	16,707.2	22,383.6
Date of the Data (M/Y)	30-Sep-04	30-Sep-04	30-Sep-04	30-Sep-04	30-Sep-04	30-Sep-04	30-Sep-04	Median
Sales	2,790.0	12,280.0	24,030.0	2,410.0	16,720.0	1,730.0	8,120.0	10,200.0
% Sales Growth (lfy)	18%	24%	-2%	21%	7%	27%	0%	14%
EBITDA	668.2	4,510.0	3,430.0	1,230.0	4,130.0	496.3	3,200.0	3,315.0
Net Income	89.1	1,472.0	-1,100.0	339.6	36.0	56.0	1,010.0	197.8
% Net Income Growth	N/A		93%	-57%	N/A	N/A	44%	44%
E.P.S. (Past Year, ttm)	1.03	1.81	(0.61)	2.38	0.13	0.53	3.25	1.17
E.P.S. (Est. -- Next Year) >	1.44	0.75	1.35	2.43	0.13	2.30	3.46	1.83
Forward % Change, E.P.S.	39%	-59%	-320%	2%	0%	333%	6%	1%
Cash	346	1,691	4,020	96	4,470	174	648	1169.5
Debt	1,580	9,126	17,450	3,010	10,300	2,230	5,610	7368.0
Equity Mkt. Capitalization	3,561	28,060	28,772	4,495	40,404	2,630	16,707	22383.6
BEV (Amount)	4,794	35,495	42,202	7,408	46,234	4,687	21,669	28582.1
BEV / Sales	1.7x	2.9x	1.8x	3.1x	2.8x	2.7x	2.7x	**2.7**
BEV / EBITDA	**7.2x**	**7.9x**	**12.3x**	**6.x**	**11.2x**	**9.4x**	**6.8x**	**8.7**
P/E Ratio (Past E.P.S.)	39.9	10.1	0.0	14.0	113.8	53.9	16.7	15.3
P/E Ratio (Next E.P.S.)	28.7	14.2	14.9	13.7	113.8	12.4	15.7	14.6

Included?		yes	yes	yes	yes	yes	yes
Reason?							

			Price per Share
Nextel Valuation			
Sales Multiple	**7,636.5**	**$**	**88.57**
EBITDA Multiple	**5,784.5**	**$**	**67.09**

Multiples	BEV to Sales	BEV to EBITDA
	2.7x	**8.7x**

Important Disclaimer

Please read this document before reading this report.

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[i] Deutsche Bank, US Telecom Data Book, Industry Report, August 2004.
[ii] Loop Capital Markets LLC, July 14, 2004.
[iii] P.34 of 2003 Annual Report.
[iv] P. 32 of 2003 Annual Report.