FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

COMMNET CELLULAR INC

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SIC: **4812** Radiotelephone communications

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark one)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: September 30, 1996

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission file number: 0-15056

COMMNET CELLULAR INC.
(Exact name of registrant as specified in its charter)

Colorado	84-0924904
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8350 East Crescent Parkway, Suite 400, Englewood, Colorado 80111
(Address of principal executive offices)
(Zip Code)

303/694-3234
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.001 per share
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

Indicate by check mark whether the registrant (a) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by nonaffiliates of the registrant, computed by reference to the last sale price of such stock as of the close of trading on December 18, 1996 was $264,436,632.

The number of shares of the registrant's common stock outstanding as of December 18, 1996 was 13,741,378.

PART I

Item 1. Business.

(a) General Development of Business.

CommNet Cellular Inc. was organized under the laws of Colorado in 1983. Cellular, Inc. Financial Corporation ("CIFC") subsequently was organized to provide financing to affiliates of the Company. Cellular Inc. Network Corporation ("CINC") also subsequently was organized to acquire interests in cellular licenses. CIFC and CINC are wholly-owned subsidiaries of CommNet Cellular Inc. Unless the context indicates otherwise, the "Company" refers to CommNet Cellular Inc. and its consolidated subsidiaries.

The Company operates, manages and finances cellular telephone systems, primarily in rural markets in the mountain and plains regions of the United States. The Company's cellular interests currently represent approximately 3,526,000 net Company pops in 82 markets located in 14 states. These markets consist of 72 RSA markets having a total of 5,183,000 pops and 10 MSA markets having a total of 1,295,000 pops, of which the Company's interests represent 2,843,000 net Company pops and 683,000 net Company pops, respectively. Systems in which the Company holds an interest constitute one of the largest geographic collection of contiguous cellular markets in the United States.

As used herein, "pops" means the estimated total 1995 population of a Metropolitan Statistical Area ("MSA") or Rural Service Area ("RSA") as initially licensed by the Federal Communications Commission ("FCC"), based upon Demographics On-Call population estimates. "Net Company pops" means an MSA's or RSA's pops multiplied by the Company's net ownership interest in the entity licensed by the FCC to operate a cellular telephone system in that MSA or RSA. An MSA or RSA is referred to herein as a "market," and a market served by a cellular telephone system that is managed, directly or indirectly, by the Company is referred to herein as a "managed market." The radio signal from the Company's managed systems covers virtually all of the pops within the managed markets. The number of pops does not represent the current number of users of cellular services and is not necessarily indicative of the number of users of cellular services in the future. Those corporations and partnerships through which the Company holds ownership interests in cellular licensees and those cellular licensees in which the Company holds a direct ownership interest are referred to herein as "affiliates." Any reference herein to an "affiliate" does not necessarily imply that the Company exercises, or has the power to exercise, control over the management and policies of such entity.

The Company was formed to acquire cellular interests through participation in the licensing process conducted by the FCC. In order to participate in that process, the Company formed affiliates which originally were owned at least 51% by one or more independent telephone companies ("telcos") and no more than 49% by the Company. See "-- Federal Regulation." In exchange for the Company's 49% interest, the Company offered to sell shares of its Common Stock to the telcos and agreed to provide financing to the affiliates. The Company subsequently purchased additional interests in many of such affiliates, as well as in additional cellular properties. The Company currently manages 55 of the 82 markets in which it holds an interest and owns a greater than 50% interest in 45 of its 55 managed markets. The Company provides capital and financing to entities holding interests representing approximately 4,335,000 pops, of which 3,526,000 are included in net Company pops and 809,000 are attributable to parties other than the Company.

Since completion of the licensing process, the Company has concentrated on creating an integrated network of contiguous cellular systems comprised of markets which are managed by the

Company. The network currently consists of 55 markets (48 RSA and 7 MSA markets) spanning nine states and represents approximately 4,105,000 pops and 3,183,000 net Company pops. As of September 30, 1996, the RSA and MSA managed markets had 159,796 and 55,896 subscribers, respectively. The Company significantly expanded radio signal coverage with construction of 36 new cell sites in fiscal year 1996.

The Company believes that certain demographic characteristics of the rural marketplace should further facilitate commercial exploitation of the network. As compared to urban residents, rural residents travel greater distances by personal vehicle and have access to fewer public telephones along drive routes. The Company believes that these factors will sustain demand for mobile telecommunication service in the rural marketplace. These same factors produce "roaming" revenues that are higher as a percentage of total revenues than would likely be the case in more densely populated urban areas. In-roaming revenues tend to produce higher margins because roaming calls on average are priced at higher rates than local calls and because there are no associated sales commission costs.

(b) Financial Information About Industry Segments.

The Company has only one principal industry being the management, financing and operation of cellular telephone systems. Information concerning revenue, operating profit or loss and identifiable assets of the Company's sole industry segment are set forth in the consolidated financial statements and related notes included in Part II of this Report.

(c) Narrative Description of Business.

The Company's Operations

General. Information regarding the Company's net ownership interests in each cellular licensee and the market subject to such license as of December 18, 1996 is summarized in the following table.

MSA or RSA Code (1)(7)	State	Net Company Interest in Licensee (2)	1995 Population (3)(6)	Net Company Pops (4)
MSAs:				
141	Minnesota	16.34%	228,599	37,353
185	Indiana	16.67%	169,996	28,338
241*(5)	Colorado	73.99%	128,834	95,324
253*(5)	Iowa	74.50%	120,090	89,467
267*(5)	South Dakota	51.00%	136,948	69,843
268*(5)	Montana	77.05%	124,991	96,306
279	Maine	11.11%	103,825	11,534
289*(5)	South Dakota	100.00%	111,008	111,008
297*(5)	Montana	100.00%	81,860	81,860
298*(5)	North Dakota	70.00%	89,182	62,427
Total MSA			1,295,333	683,460

MSA or RSA Code (1)	State	Net Company Interest in Licensee (2)	1995 Population (3)(6)	Net Company Pops (4)
RSAs:				
348*	Colorado	10.00%	45,735	4,574
349*(5)	Colorado	61.75%	61,982	38,274
351*(5)	Colorado	61.75%	69,660	43,015
352*(5)	Colorado	66.00%	28,096	18,543
353*(5)	Colorado	100.00%	70,398	70,398
354*(5)	Colorado (B1)	69.40%	45,704	31,719
355*	Colorado	49.00%	45,191	22,144
356*	Colorado (B1)	49.00%	24,852	12,177
389	Idaho	50.00%	69,570	34,785
390	Idaho	33.33%	16,271	5,423
392*(5)	Idaho (B1)	100.00%	138,640	138,640
393*(5)	Idaho	91.64%	290,301	266,032
415	Iowa	10.11%	155,123	15,689
416 (5)	Iowa	78.57%	108,909	85,570
417*(5)	Iowa	100.00%	154,029	154,029
419*	Iowa	44.92%	54,713	24,576
420*(5)	Iowa	100.00%	63,639	63,639
424	Iowa	35.00%	66,874	23,406
425*	Iowa	13.28%	107,540	14,286
426*	Iowa	49.14%	84,145	41,347
427*	Iowa	49.17%	104,222	51,242
428	Kansas	3.07%	28,100	863
429	Kansas	3.07%	30,793	945
430	Kansas	3.07%	52,838	1,622
431	Kansas	3.07%	139,000	4,267
432	Kansas	3.07%	30,818	946
433	Kansas	3.07%	20,322	624
434	Kansas	3.07%	80,841	2,482
435	Kansas	3.07%	130,085	3,994
436	Kansas	3.07%	58,827	1,806
437	Kansas	3.07%	107,888	3,312
438	Kansas	3.07%	83,409	2,561
439	Kansas	3.07%	43,269	1,328
440	Kansas	3.07%	29,648	910
441	Kansas	3.07%	174,109	5,345
442	Kansas	3.07%	154,451	4,742
512	Missouri (B1)	14.70%	55,832	8,207
523*(5)	Montana (B1)	100.00%	71,238	71,238
523*(5)	Montana (B2)	98.81%	76,396	75,487
524*(5)	Montana (B1)	79.40%	34,534	27,420
526*(5)	Montana (B1)	100.00%	21,606	21,606
527*(5)	Montana	100.00%	185,108	185,108
528*(5)	Montana	80.88%	64,763	52,377
529*(5)	Montana	87.25%	29,470	25,713
530*(5)	Montana	80.88%	90,681	73,338

531*(5)	Montana	100.00%	33,158	33,158
532*(5)	Montana	100.00%	20,150	20,150

</TABLE>

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MSA or RSA Code (1)	State	Net Company Interest in Licensee (2)	1995 Population (3)(6)	Net Company Pops (4)
<S>	<C>	<C>	<C>	<C>
553*(5)	New Mexico (B2)	58.36%	112,118	65,432
555	New Mexico	12.25%	85,123	10,428
557	New Mexico	16.33%	58,288	9,519
580*(5)	North Dakota	53.36%	102,631	54,763
581*	North Dakota	49.00%	60,484	29,637
582	North Dakota	41.45%	90,761	37,620
583*	North Dakota	49.00%	64,068	31,393
584*(5)	North Dakota	61.75%	49,088	30,312
634*(5)	South Dakota	100.00%	36,925	36,925
635*(5)	South Dakota	100.00%	22,682	22,682
636*(5)	South Dakota	100.00%	53,571	53,571
638*(5)	South Dakota (B1)	100.00%	16,390	16,390
638*(5)	South Dakota (B2)	100.00%	8,922	8,922
639*(5)	South Dakota (B1)	100.00%	36,165	36,165
639*(5)	South Dakota (B2)	100.00%	3,250	3,250
640*(5)	South Dakota	64.49%	66,695	43,012
641*(5)	South Dakota	61.13%	73,708	45,058
642*	South Dakota	49.00%	95,097	46,598
675*(5)	Utah	100.00%	54,892	54,892
676*(5)	Utah	100.00%	101,360	101,360
677*(5)	Utah (B3)	100.00%	39,137	39,137
678*(5)	Utah	80.00%	27,699	22,159
718*(5)	Wyoming	66.00%	49,619	32,749
719*(5)	Wyoming	100.00%	75,369	75,369
720*(5)	Wyoming	100.00%	146,385	146,385
Total RSA			5,183,355	2,842,785
Total MSA and RSA			6,478,688	3,526,245

</TABLE>

(1) MSA ranking is based on population as established by the FCC. RSAs have been numbered by the FCC alphabetically by state.
(2) Represents the net ownership interest of the Company in the licensee for a cellular telephone system in the respective market. Net ownership of greater than 50% does not necessarily represent a controlling interest in such licensee.
(3) Derived from the Demographics On-Call 1995 population estimates.
(4) Net Company Pops represents Net Company Interest in Licensee multiplied by 1995 population.
(5) The operations of these markets are currently reflected on a consolidated basis in the Company's consolidated financial statements. The operations of the other markets in which the Company holds an interest are reflected in such financial statements on either an equity or a cost basis.
(6) Represents population within the market area initially licensed by the FCC. The number of pops which are covered by radio signal in a market is expected to be marginally lower than the market's total pops on a going-forward basis.
(7) The FCC recently ruled to return the license for the Portland, Maine MSA (MSA 152) to Portland Cellular Partnership, an affiliate of the Company. This ruling is the subject of ongoing litigation, and therefore the pops are not included in the table. Had the market been included, Net Company Pops would have increased approximately 32,000.

Markets managed by the Company are denoted by an asterisk (*).

Subscriber Growth Table

Information regarding subscribers to the MSA and RSA cellular systems managed by the Company is summarized by the following table:

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	Number of Managed Markets			Estimated Population of Managed Markets			Number of Subscribers			Subscriber Growth
	Total	MSA	RSA	Total	MSA	RSA	Total	MSA	RSA	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Sept. 30, 1987	0	0	0	0	0	0	0	0	0	
Sept. 30, 1988	4	4	0	504,529	504,529 (1)	0	424	424	0	
Sept. 30, 1989	4	4	0	500,804	500,804 (2)	0	1,362	1,362	0	221.23%
Sept. 30, 1990	18	4	14	1,687,481	500,804 (2)	1,186,677 (2)	6,444	3,513	2,931	373.13%
Sept. 30, 1991	49	5	44	3,509,779	566,722 (3)	2,943,057 (3)	17,952	6,387	11,565	178.58%
Sept. 30, 1992	49	5	44	3,509,779	566,722 (3)	2,943,057 (3)	35,884	11,119	24,765	99.89%
Sept. 30, 1993	51	6	45	3,665,758	644,526 (4)	3,021,232 (4)	60,381	17,898	42,483	68.27%
Sept. 30, 1994	55	7	48	3,906,063	771,660 (5)	3,134,403 (5)	99,002	30,711	68,291	63.96%
Sept. 30, 1995	56	7	49	4,220,975	785,866 (6)	3,435,109 (6)	151,482	42,401	109,081	53.01%
Dec. 31, 1995	55	7	48	4,043,143	785,866 (6)	3,257,277 (6)	168,465	46,381	122,084	11.21%
March 31, 1996	55	7	48	4,043,143	785,866 (6)	3,257,277 (6)	180,506	49,084	131,422	7.15%
June 30, 1996	55	7	48	4,105,119	792,913 (7)	3,312,206 (7)	195,386	52,497	142,889	8.24%
Sept. 30, 1996	55	7	48	4,105,119	792,913 (7)	3,312,206 (7)	211,278	55,896	155,382	8.13%

</TABLE>

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(1) Derived from 1988 Donnelley Market Service population estimates.
(2) Derived from 1989 Donnelley Market Service population estimates.
(3) Derived from 1990 Census Report.
(4) Derived from 1992 Donnelley Market Service population estimates.
(5) Derived from 1993 Strategic Marketing Inc. population estimates.
(6) Derived from 1994 Strategic Marketing Inc. population estimates.
(7) Derived from 1995 Demographics On-Call population estimates.

Network Construction and Operations. Construction of cellular telephone systems requires substantial capital investment in land and improvements, buildings, towers, mobile telephone switching offices ("MTSOs"), cell site equipment, microwave equipment, engineering and installation. The Company believes that it has achieved significant economies of scale in constructing the network. For example, the network uses cellular switching systems capable of serving multiple markets. As a result of the contiguous nature of the network, only 10 MTSOs are currently required to serve all 55 of the Company's managed markets. By consolidating and deploying high capacity MTSOs, the Company intends to achieve further economies of scale. Economies of scale generated by the network also have permitted the Company to use one network operations center, to centralize services such as network design and engineering, traffic analysis, interconnection, billing, roamer verification, maintenance and support and to access volume discount purchasing of cellular system equipment.

The network also affords the Company certain technical advantages in the provision of enhanced services, such as call delivery and call forwarding. Through the use of single switching facilities serving multiple markets, the Company has implemented continuous coverage on an intrastate basis throughout the network. The Company has widened the area of coverage within the network by interconnecting MTSOs located in adjoining markets. The Company has substantially achieved its objective of providing subscribers with "seamless" coverage throughout the network, which permits subscribers, as they travel through the network, to receive calls and otherwise use their cellular telephone as if they were in their home market. This is a result of the networking of the MTSOs managed by the Company and MTSOs of other carriers, especially those operating adjoining markets within the nine-state area. The Company has achieved a high degree of network reliability through the deployment of standardized components and operating procedures, and the introduction of redundancy in switching and cell site equipment, interconnect facilities and power supply. Most of the Company's equipment is built by Northern Telecom, Inc. ("Nortel"), and interconnection between the Nortel MTSOs has been achieved using Nortel's internal software and hardware.

The Company implemented the "IS-41" technical interface during fiscal 1995. This technical interface, developed by the cellular industry, allows carriers that have different types of equipment to integrate their systems with the eventual goals of establishing a national seamless network, substantially reducing the cost of validating calls and reducing fraud exposure.

The Company also has entered into agreements with other cellular carriers to enhance the range of markets and quality of service available to cellular subscribers when traveling outside the network. Pursuant to existing agreements with other cellular carriers, the Company's subscribers are able to "roam" throughout most MSA and RSA markets in the United States and Canada.

Expansion. The Company has completed the process of "filling in" the "cellular geographic service area" or "CGSA" (as defined by the FCC) within its managed markets by adding network facilities which increased the coverage of the radio signal. The Company significantly expanded radio signal coverage with construction of 36 new cell sites in fiscal year 1996. In addition, the Company analyzed the quality of existing coverage based upon empirical data gathered using sophisticated mobile testing equipment. These "drive tests" gave rise to changes in how certain sites were configured or deployed in the network. For example, certain sites were "sectorized" to reduce interference and provide additional capacity facing particular directions. The Company expects to continue such efforts to improve coverage, especially for low power portable cellular phones, throughout fiscal year 1997. Expansion and optimization of signal coverage has increased subscribers, enhanced the use of the systems by existing subscribers, increased roamer traffic due to the larger geographic area covered by the radio signal and improved the overall efficiency of the network. Under the rules and regulations of the FCC, expansion of signal coverage has preserved the Company's right to provide cellular service in valuable areas within the network.

The Company continually evaluates acquisitions of cellular properties that are geographically and operationally compatible with the network. In evaluating acquisition targets, the Company considers, among other things, demographic factors, including population size and density, traffic patterns, cell site coverage, required capital expenditures and the likely ability of the Company to integrate the target market into the network. In pursuing such acquisitions, the Company may exchange interests in nonmanaged markets for interests in existing or new markets that serve to expand the network. Certain acquisitions and related dispositions may be subject to rights of first refusal held by partners in the respective partnerships in which the Company holds an interest. Recent acquisitions are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Acquisitions and Sales." The Company also from time to time may sell nonmanaged assets to raise capital for network expansion.

Services and Products. Mobile subscribers in the Company's managed markets have available to them substantially all of the services typically provided by landline telephone systems, including custom-calling features such as call forwarding, call waiting, three-way conference calling and, in most cases, voice mail services. Several price plans are presented to prospective customers so that they may choose the plan that will best fit their expected calling needs. The plans provide specific charges for custom-calling features and voice mail to offer value to the customer while enhancing airtime use and revenues for the Company. The Company also packages cellular equipment with its cellular service as a way to encourage use of its mobile services. The Company provides warranty and repair services after the sale through regional equipment service centers, which provide state-of-the-art test equipment and certified repair technicians. An ongoing review of equipment and service pricing is maintained to ensure the Company's competitiveness. Through a centralized procurement and equipment distribution strategy, the Company obtains the benefits of favorable equipment costs through bulk purchases. As appropriate, revisions to pricing of service plans and equipment pricing are made to meet local marketplace demands.

The network affords the Company the opportunity to offer service over expanded geographic territories at favorable rates. Customers that subscribe to a stand-alone cellular system generally are charged premium roaming rates when using a cellular system outside of their home service area. The Company's subscribers are able to roam within the network and are afforded "home rate follows" pricing, whereby subscribers are charged the rate applicable in their home service area when traveling within the network. In addition, the Company's simplified retail roaming rate structure allows the customer to roam on certain adjacent carriers' systems at a preferred rate and minimizes confusion by consolidating the remainder of the country into a uniform rate. Finally, the Company offers toll-free calling across single or multiple states to its subscribers for a nominal monthly fee, due to favorably negotiated interconnect agreements.

The Company believes that certain attributes of the Company's operating infrastructure, including existing towers, established distribution channels and other administrative resources, can be utilized to offer one-way paging service throughout the managed markets and adjoining areas on a cost-efficient basis. In fiscal year 1996, the Company filed for paging licenses with the FCC and pursued an alliance with a national paging company. However, the FCC has recently delayed the licensing process in an attempt to attract applicants which would ultimately compete for purchase of licenses at auction. As a result, the Company was unable to obtain sufficient paging licenses to commence paging operations. In addition, the national paging company was acquired by another paging company and began experiencing operating problems, making the proposed alliance unfeasible. The Company is currently in negotiations with another national paging company. Many paging sites were constructed in fiscal 1996, and the Company expects to offer paging services in fiscal 1997, subject to the receipt of sufficient FCC paging licenses or the successful consummation of an alliance with a national paging company.

The Company is committed to providing consistently high quality customer service. The Company maintains a comprehensive, centralized customer assistance department which offers the advantages of expanded customer service hours, specialized roaming and key account representatives and an automated customer information database that allows for efficiency and accuracy, while decreasing the time spent on each customer contact. In addition, calls are efficiently processed using sophisticated call center technologies. Inbound calls are processed through an automatic call distribution system and an integrated voice response system which route and track calls among customer service representatives and permit customers to obtain information quickly and accurately on their own. Outbound calls are placed to select cross sections of the customer base using a predictive dialing system. The customer assistance department also supports the administrative functions required to activate a customer's phone through a high speed, call-in process and to enter the customer into the informational databases required for customer service and billing. The Company believes this centralized approach provides cost efficiencies while also addressing the need for quality control. To ensure that it is delivering a consistently high level of quality service, the Company monitors customer satisfaction with its network quality, sales and customer service support, billing and quality of roaming through regular surveys conducted by an independent research firm.

In 1992, the Company began investing in TVX, Inc. TVX, Inc. develops and distributes digital image management systems for the security and surveillance industry and the transportation management industry. It also is a value-added reseller of imaging hardware and software with systems engineering capabilities. The TVX system enables video and still images from remote locations to be captured, digitized and compressed for storage or immediate transmission over wired or wireless networks for evaluation by end users. The Company intends to work closely with TVX, Inc. to market cellular service in conjunction with the TVX system for use with automated teller machines, public transit systems and at locations where phone lines are not available or as a backup when phone lines have been disabled. The Company owns 48% of the Common Stock, 48% of the Series A Redeemable Preferred Stock and 100% of the Series B Convertible Preferred Stock of TVX, Inc.

Marketing. The Company coordinates the marketing strategy for each of its managed markets. The Company markets cellular telephone service under the CommNet Cellular name. The use of a single name over a broad geographic territory creates strong brand-name recognition and allows the Company to achieve advertising efficiencies. In addition, the Company packages services which are marketed under a program called "Fun, Easy and Affordable." Benefits to customers include free use of a base model phone, permissive dialing to complete calls, toll-free calling in the home area code, free enhanced features such as call forwarding, call waiting and itemized call listing and others.

The Company believes that a key competitive advantage in marketing its service is the large geographic area covered by the network. Seamless coverage in the network is critical to marketing, as customers are attracted to the higher percentage of delivered calls that such coverage provides. Furthermore, the Company's "home rate follows" pricing allows customers to make calls from anywhere in the network without incurring additional daily fees or surcharges which usually occur when customers roam outside of their home market. Additionally, the Company uses the "INLink" and "Follow-Me-Roaming" services provided by GTE Telecommunication Services, Inc. which permit customers to receive calls in any market that is part of the INLink or Follow Me Roaming system without having to dial complicated access codes. The Company also offers discounted roaming prices, and offers enhanced services, in certain markets as a result of arrangements to link with certain adjacent markets managed by other carriers. See "Business -- The Company's Operations -- Network Construction and Operations." The Company offers additional services such as toll-free calling across multiple area codes, use of premium model phones, weekend blocks of usage and others to its subscribers for nominal monthly fees. In a majority of the Company's managed RSA markets, the Company was the first cellular system operator to provide service in the market, thereby affording a significant competitive advantage. Being first to market in the majority of the Company's managed RSA markets has also allowed the Company to obtain exclusive marketing agreements with the leading telecommunication retailers in a particular market and to obtain prime locations for its sales centers.

Initially, the Company relied to a significant extent on direct sales representatives and on independent sales agents. The Company currently emphasizes a channel of distribution, which also performs local customer service functions, represented by 30 Company-owned retail stores located within the network, which will be supplemented by 28 additional Company-owned retail stores scheduled to open during fiscal 1997. The retail distribution channel also includes 47 Wal-Mart/(R)/ kiosks staffed by Company personnel. The Company believes that development of retail distribution channels owned or staffed by the Company maximizes customer additions, generates cost efficiencies in the acquisition of such new subscribers, and enhances customer service. (Over half of the current customer base lives within commuting distance to a Company-owned retail store.) The Company also maintains 76 direct sales representatives and 938 agents or outlets, including 59 Radio Shack and 16 /(C)/Sears stores which have exclusive distribution agreements with the Company. In general, such agents earn a fixed commission, which can vary depending upon the price plan sold, when a customer subscribes to the Company's cellular service and remains a subscriber for a certain period of time. In future periods, the Company expects to market service through an in-house telemarketing staff. Additionally, the Company expects to affiliate with more resellers, potentially including large telecommunications companies, which are expected to package the Company's service with theirs to compete under new regulatory conditions.

Subscribers. To date, a substantial majority of the subscribers who use cellular service in markets managed by the Company have been business users of mobile communication services. However, safety and combined personal and business use are reasons newer customers subscribe. This trend is consistent with the experience of the cellular industry generally, although given the Company's geographic presence in the mountain and plains states, its customers have tended to include proportionally more persons in agricultural, construction and energy industries. The Company believes that certain demographic characteristics of the rural marketplace will enhance

the Company's ability to market cellular service to its primary customer base within its managed RSA markets. On average, rural residents spend a higher percentage of their annual household income on transportation and travel a relatively greater distance by personal vehicle than do urban residents. The relatively large average distance between public telephones in the rural marketplace is an additional factor that increases the need for mobile telecommunication services in that market.

Management Agreements. Management agreements applicable to the Company's managed RSA markets generally appoints the Company as exclusive management agent of the licensee with specifically enumerated responsibilities relating to the day-to-day business operation of the licensee, although the licensee retains ultimate control over its cellular system. Generally, the RSA management agreements were for an initial term of five years and are automatically renewed for additional terms unless terminated by notice from either party prior to expiration of the then current term. The agreements provide for reimbursement to the Company of expenses incurred on behalf of the licensee.

The Company has entered into management agreements with three MSA affiliates pursuant to which the Company has been appointed the exclusive management agent for each such affiliate. The MSA management agreements appoint the Company as managing agent of the MSA affiliate with specifically enumerated responsibilities relating to the day-to-day business operation of the affiliate. The affiliate is the general partner in the licensee, and the Company acts as exclusive management agent for the licensee, although the licensee retains ultimate control over its cellular system. The MSA management agreement provides for compensation to the Company in an amount equal to 10% of the distributions to the affiliate derived from the affiliate's interest in the licensee. Compensation to date under this agreement has not been material. The agreements also provide for reimbursement of reasonable administrative and overhead expenses. The agreements generally were for an initial term of five years, were extended for an additional one-year term and are automatically renewed for one-year terms thereafter unless terminated by notice from either party prior to expiration of the then current term.

The Company has also entered into a management agreement with CINC, whereby it manages all systems owned by CINC and in which CINC is the general partner.

History. The Company initially acquired its cellular interests by participating in the wireline licensing process conducted by the FCC. In order to participate in that process, the Company formed affiliates which were originally owned at least 51% by one or more telcos and no more than 49% by the Company. In exchange for the Company's 49% interest, the Company offered to sell shares of its Common Stock and agreed to provide financing to the affiliates for certain capital needs, as well as certain management services. In addition to obtaining interests in cellular markets through participation in the FCC licensing process, the Company also has purchased direct interests in additional markets in order to expand the network.

Financing Arrangements with Affiliates; CIFC. CIFC has entered into loan agreements with RSA and MSA affiliates to finance or refinance the costs related to the construction, operation and expansion of cellular telephone systems in which such affiliates own an interest. The loans are financed with funds borrowed by CIFC from CoBank, ACB as agent for a syndicate of lenders ("CoBank") and the Company. As of September 30, 1996, CIFC had loan agreements outstanding with 40 RSA affiliates, 5 MSA affiliates and CINC and had advanced $264,226,000 thereunder, including $199,133,000 to entities which are consolidated for financial reporting purposes. All loans to affiliates from CIFC are secured by a lien upon all assets of the entity to which funds are advanced. At September 30, 1996, loans were charged interest at the average cost of CoBank borrowings.

The loan agreement between CIFC and CoBank and the loan agreements between the affiliates and CIFC terminate at December 31, 1996 with principal amortization to begin in 1997. CIFC and CoBank have agreed to modify certain provisions of the loan agreement, including extending the term, which modifications are expected to be completed by January 31, 1997. CIFC is

also in the process of modifying the loan agreements with the affiliates to extend the term and change the amortization schedule. Loans from CIFC to affiliates will be repaid from funds generated by operations of the licensee or distributions to affiliates by licensees in which such affiliates own an interest. If such funds are not adequate to meet required principal payments, additional capital may be required. Amounts paid to CIFC will be applied by CIFC towards payment of its obligations to CoBank or retained to make future advances. The Company has made and will continue to make advances to affiliates on an interim basis. Funds borrowed from CIFC by affiliates are used to repay the Company for such interim advances. As of September 30, 1996, the Company had outstanding interim advances of $60,560,000 to nonconsolidated affiliates, which advances bear interest at 2% over the prime rate.

As of September 30, 1996, the Company and CIFC had advanced a total of $327,715,000 to RSA and MSA affiliates. Based on its proportionate ownership interests in these affiliates, the Company's share of total affiliate loans and advances was $273,288,000. The assets of the affiliates in which the Company has investments or advances represent 4,359,000 pops, which include 3,526,000 net Company pops. Advances related to pops attributable to parties other than the Company total $54,427,000.

The Cellular Telephone Industry. Cellular telephone service is a form of wireless telecommunication capable of providing high quality, high capacity service to and from mobile, portable and fixed radio telephones. Cellular telephone technology is based upon the division of a given market area into a number of regions, or "cells," which in most cases are contiguous. Each cell contains a low-power transmitter-receiver at a "base station" or "cell site" that communicates by radio signal with cellular telephones located in the cell. The cells are typically designed on a grid, although terrain factors, including natural and man-made obstructions, signal coverage patterns and capacity constraints, may result in irregularly shaped cells and overlaps or gaps in coverage. Cells generally have radii ranging from two miles to more than 25 miles. Cell boundaries are determined by the strength of the signal emitted by the cell's transmitter-receiver. Each cell site is connected to a MTSO, which, in turn, is connected to the local landline telephone network.

When a cellular subscriber in a particular cell dials a number, the cellular telephone sends the call by radio signal to the cell's transmitter-receiver, which then sends it to the MTSO. The MTSO completes the call by connecting it with the landline telephone network or another cellular telephone unit. Incoming calls are received by the MTSO which instructs the appropriate cell to complete the communications link by radio signal between the cell's transmitter-receiver and the cellular telephone. By leaving the cellular telephone on, a signal is emitted so the MTSO can sense in which cell the cellular telephone is located. The MTSO also records information on system usage and subscriber statistics.

The FCC has allocated the cellular telephone systems frequencies in the 800 MHz band of the radio spectrum. Each of the two licensees in each cellular market is assigned 416 frequency pairs. Each conversation on a cellular system occurs on a pair of radio talking paths, thus providing full duplex (i.e., simultaneous two-way) service. Two distinguishing features of cellular telephone systems are: (i) frequency reuse, enabling the simultaneous use of the same frequency in two or more adequately separated cells, and (ii) call hand-off, occurring when a deteriorating transmission path between a cell site and a cellular telephone is rerouted to an adjacent cell site on a different channel to obtain a stronger signal and maintain the call. A cellular telephone system's frequency reuse and call hand-off features result in far more efficient use of available frequencies and enable cellular telephone systems to process more simultaneous calls and service more users over a greater area than pre-cellular mobile telephone systems.

Call hand-off in a cellular telephone system is automatic and virtually unnoticeable to either party to the call. The MTSO and base stations continuously monitor the signal strength of calls in progress. The signal strength of the transmission between the cellular telephone and the

base station declines as the caller moves away from the base station in that cell. When the signal strength of a call declines to a predetermined threshold level, the MTSO automatically determines if the signal strength is greater in another cell and, if so, hands off the cellular telephone to that cell. The automatic hand-off process within the system takes a fraction of a second. However, if the cellular telephone leaves the reliable service areas of the cellular telephone system, the call is disconnected unless an appropriate technical interface is established with an adjacent system through intersystem networking arrangements.

Frequency reuse is one of the most significant characteristics of cellular telephone systems. Each cell in a cellular telephone system is assigned a specific set of frequencies for use between that cell's base station and cellular telephones located within the cell, so that the radio signals being used in one cell do not interfere with those being used in adjacent cells. Because of the relatively low transmission power of the base stations and cellular telephones, two cells sufficiently far apart can use the same frequencies in the same market without interfering with one another.

A cellular telephone system's capacity can be increased in various ways. Within certain limitations, increasing demand may be met by simply adding available frequency capacity to cells as required or, by using directional antennas, dividing a cell into discrete multiple sectors or coverage areas, thereby facilitating frequency reuse in other cells. Furthermore, an area within a system may be served by more than one cell through procedures which utilize available channels in adjacent cells. When all possible channels are in use, further growth can be accomplished through a process called "cell splitting." Cell splitting entails dividing a single cell into a number of smaller cells serviced by lower-power transmitters, thereby increasing the reuse factor and the number of calls that can be handled in a given area. Digital transmission technologies are expected to provide cellular licensees with additional capacity to handle calls on cellular frequencies. As a result of present technology and assigned spectrum, however, there are limits to the number of signals that can be transmitted simultaneously in a given area. In highly populated MSAs, the level of demand for mobile and portable service is often large in relation to the existing capacity. Because the primary objective of the cellular licensing process is to address mobile and portable uses, operators in highly populated MSAs may have capacity constraints which limit their ability to provide alternate cellular service. The Company does not anticipate that the provision of mobile and portable services within the network will require as large a proportion of the systems' available spectrum and, therefore, the systems will have more spectrum with which to pursue data applications, which may enhance revenues.

FCC rules require that all cellular telephones be functionally compatible with cellular telephone systems in all markets within the United States and with all frequencies allocated for cellular use, so that a cellular telephone may be used wherever a subscriber is located, subject to appropriate arrangements for service charges. Changes to cellular telephone numbers or other technical adjustments to cellular telephones by the manufacturer or local cellular telephone service businesses may be required, however, to enable the subscriber to change from one cellular service provider to another within a service area.

Because cellular telephone systems are fully interconnected with the landline telephone network and long distance networks, subscribers can receive and originate both local and long-distance calls from their cellular telephones.

Cellular telephone systems operate under interconnection agreements with various local exchange carriers and interexchange carriers. The interconnection agreements establish the manner in which the cellular telephone system integrates with other telecommunications systems. The cellular operator and the local landline telephone company must cooperate in the interconnection between the cellular and landline telephone systems to permit cellular subscribers to call landline subscribers and vice versa. The technical and financial details of such

interconnection arrangements are subject to negotiation and vary from system to system. See "Federal Regulation--Recent Legislation."

While most MTSOs process information digitally, most radio transmissions of cellular telephone calls are done on an analog basis. Digital technology offers advantages, including improved voice quality, larger system capacity, and perhaps lower incremental costs for additional subscribers. The conversion from analog to digital radio technology is expected to be an industry-wide process that will take a number of years. However, based on estimated capacity requirements, the Company does not foresee a need to convert to digital radio transmission technology in the near or intermediate term.

Competition

General. The cellular telephone business is a regulated duopoly. The FCC awarded only two licenses in each market, although certain markets have been subdivided as a result of voluntary settlements. Each licensee has the exclusive use of a defined frequency band within its market.

The primary competition for the Company's mobile cellular service in any market comes from the other licensee in such market, which may have significantly greater resources than the Company and its affiliates. Competition is principally on the basis of coverage, services and enhancements offered, technical quality of the system, quality and responsiveness of customer service and price. Such competition may increase to the extent that licenses pass from weaker stand-alone operators into the hands of better capitalized and more experienced cellular operators who may be able to offer consumers certain network advantages similar to those offered by the Company. Within the network, the Company has three primary direct competitors, in addition to a number of stand-alone operators.

Competition From Other Technologies. The FCC is now licensing commercial personal communications services ("PCS"). PCS is not a specific technology, but a variety of potential technologies that could compete with cellular telephone systems. The FCC has identified two categories of PCS: broadband and narrowband. Licenses will be awarded by competitive bidding. Auctions for the first two spectrum blocks have been completed and several systems have commenced operations in major metropolitan locations.

The FCC has adopted rules to authorize the operation of new narrowband PCS systems in the 900 MHz band. The possible new services using this 900 MHz band spectrum include advanced voice paging, two-way acknowledgment paging, data messaging, electronic mail and facsimile transmissions. These services most likely will be provided using a variety of devices, such as laptop and palmtop computers and computerized "personal organizers" that allow receipt of office messages, calendar planning and document editing from remote locations in some circumstances.

The FCC also has adopted rules to authorize the operation of new, broadband PCS systems in the 2 GHz band. Equipment proposed for broadband PCS includes small, lightweight and wireless telephone handsets; computers that can communicate over the airwaves wherever they are located; and portable facsimile machines and other graphic devices. The regulatory plan adopted for broadband PCS includes an allocation of spectrum, a flexible regulatory structure, eligibility restrictions and technical and operational rules. In a related matter in the same proceeding, the FCC revised its cellular rules to explicitly state that cellular licensees may provide any PCS-type services (including wireless PBX, data transmission and telepoint services) on their 800 MHz band cellular channels without prior notification to the FCC (other than the notification required to report the construction of new cell sites).

The FCC has allocated 140 MHz of spectrum in the 2 GHz band for the provision of licensed and unlicensed broadband PCS. Much of the spectrum allocated for broadband PCS is already occupied by microwave licensees. As a general proposition, broadband PCS licensees will be required to pay the costs associated with relocating these existing microwave users to other portions of the radio spectrum within a specified time frame.

Of the 140 MHz of spectrum allocated to broadband PCS, 120 MHz has been allocated for licensed PCS. The 120 MHz of spectrum allocated to licensed PCS has been divided into six channel blocks, as follows: (i) two channel blocks (Blocks A and B) have been allocated 30 MHz of spectrum each, and has been licensed on the basis of 51 Major Trading Areas ("MTAs"), (ii) one channel block (Block C) has been allocated 30 MHz of spectrum and has been licensed on the basis of 493 Basic Trading Areas ("BTAs"), (iii) three channel blocks (Blocks D, E and F) have been allocated 10 MHz of spectrum each and will be licensed on the basis of BTAs. The FCC will allow a single entity to combine all three 10 MHz blocks as long as the entity complies with the 45 MHz spectrum cap described below. Licensing has thus far been accomplished by spectrum auctions, but the FCC has recently adopted partitioning rules that will allow PCS licensees to assign portions of their coverage area and/or spectrum to other entities. Restrictions apply to those channel bands (Blocks C & F) which have been set aside for licensing to small businesses and other "designated entities."

Subject to certain cross-ownership benchmarks, spectrum aggregation is permitted in broadband PCS, but is limited to 45 MHz of attributable Commercial Mobile Radio Service ("CMRS") spectrum per service area to prevent any one person or entity from exercising undue market power. Relevant CMRS spectrum includes broadband PCS, cellular and certain specialized mobile radio systems ("SMRs") operations. Because attributable interests can be triggered by management and joint marketing arrangements, as well as partitioning, and the 45 MHz spectrum cap is a complex rule which is under legal challenge, great care must be taken in complying with this rule.

Broadband PCS licensees will be subject to minimum construction requirements. Broadband PCS licenses will be awarded for a period of ten years, with provisions for a license renewal expectancy similar to those currently applied to cellular licensees.

It is uncertain what effect these new personal communications services may have on the Company. A recent study conducted by the Company indicates that the cost to build out a PCS network in a representative market of the Company would be three to four times as expensive as the cost incurred by the Company for the same coverage. Therefore, the Company believes that PCS is unlikely to compete effectively with cellular telephone service in the rural marketplace in the near future, but there can be no assurance that this will be the case. The Company also believes that technological advances in cellular telephone technology in conjunction with buildout of the cellular systems existing throughout the nation with cell splitting and microcell technology would provide essentially the same services as the PCS proposals described above, but there is no assurance that this will happen. The FCC issued operating authority for personal communications services competitive to the Company's services in the markets managed by the Company, but no commercial operations have commenced in areas in which the Company provides services.

Potential users of cellular systems may find an increasing number of current and developing technologies able to meet their communication needs. For example, SMRs of the type generally used by taxicab and tow truck services and other communications services have the technical capability to handle mobile telephone calls (including interconnection to the landline telephone network) and may provide competition in certain markets.

Although SMR operators are currently subject to limitations that make usage of SMR frequencies more appropriate for short dispatch messages, the FCC has granted waivers of its rules to permit the construction and operation of low powered "cellular-like" services using a collection of

SMR frequencies ("ESMR") in a number of markets in the United States. Recent legislation permits commercial mobile service providers, including SMR providers, to obtain upon demand physical interconnection with the landline telephone network. Such interconnection enhances an SMR provider's ability to compete with cellular operators, including the Company. The FCC has encouraged ESMR activities and has amended its rules to establish an Expanded Mobile Service Provider ("EMSP") licensing approach that would facilitate such operations. The new rules grant a new type of 800 MHz wide-area license that would permit channels to be aggregated for operation of systems throughout defined geographic areas. A new rulemaking is underway to determine what protections will be afforded to existing SMR licensees that may now be subject to relocation.

One-way paging or beeper services that feature voice message and data display as well as tones may be adequate for potential cellular subscribers who do not need to transmit back to the caller. SMR and paging systems are in operation in many of the service areas within the network.

Technological advances in the communications field continue to occur and make it difficult to predict the extent of additional future competition for cellular systems. See "Business -- The Company's Operations -- Expansion." Although satellite service may offer a customer worldwide coverage, the substantial investments required to initiate service, as well as significant technical, political and regulatory hurdles that need to be overcome, may impede the early growth of this technology. Recent legislation may make available up to 200 MHz of spectrum for new communications systems. Each of these systems could provide services that compete with those provided by the Company. The FCC has also authorized Basic Exchange Telecommunications Radio Service to make basic telephone service more accessible to rural households and businesses.

Federal Regulation

Overview. The construction, operation and acquisition of cellular systems in the United States are regulated by the FCC pursuant to the Communications Act and the rules and regulations promulgated thereunder (the "FCC rules"). The FCC rules govern applications to construct and operate cellular systems, licensing and administrative appeals and technical standards for the provision of cellular telephone service. The FCC also regulates coordination of proposed frequency usage, height and power of base station transmitting facilities and types of signals emitted by such stations. In addition, the FCC regulates (or forbears from regulating) certain aspects of the business operations of cellular systems. It has declined to regulate the price and terms of offerings to the public. See "-- Recent Legislation."

Initial Regulation. For licensing purposes, the FCC established 734 discrete geographically defined market areas comprised of 306 MSAs and 428 RSAs. In each market area, the FCC awarded only two licenses authorizing the use of radio frequencies for cellular telephone service. The allocated cellular frequencies were divided into two equal 25 MHz blocks. One block of frequencies, and the associated operating license, was initially reserved for exclusive use by an entity that was majority-owned and controlled by local landline telephone companies or their affiliates. The second block of frequencies initially was reserved for use by entities that did not provide landline telephone service in the market area. Upon the issuance of a construction permit, such construction permit could be sold to any qualified buyer, regardless of telephone company affiliation. The FCC generally prohibits a single entity from holding an interest in both licenses in the same market.

RSAs were divided along county lines and consisted of one or more contiguous counties within a single state. The RSAs were numbered alphabetically by state, rather than on the basis of population. The FCC applied a licensing policy for RSA markets similar to that utilized in the MSAs. Applications for both licenses in each RSA were filed simultaneously. The FCC chose among mutually exclusive applicants for each license through the use of a lottery.

Upon favorable review of the lottery winner or settlement entity, designation of the tentative selectee and following a public comment period, the FCC issued a construction permit for the cellular telephone system on each frequency block in a specified market. An operating license was then granted for an initial term of ten years (although a license may be revoked during its term for cause after formal proceedings by the FCC).

License Renewal. The FCC has established rules and procedures to process cellular renewal applications filed by existing carriers and the competing applications filed by renewal challengers. Subject to one exception discussed below, the renewal proceeding is a two-step hearing process. The first step of the hearing process is to determine whether the existing cellular licensee is entitled to a renewal expectancy, and otherwise remains basically qualified to hold a cellular license. Two criteria are evaluated to determine whether the existing licensee will receive a renewal expectancy. The first criterion is whether the licensee has provided "substantial" service during its past license term, defined as service which is sound, favorable and substantially above a level of mediocre service which minimally might justify renewal. The second criterion requires that the licensee must have substantially complied with applicable FCC rules and policies. Under this second criterion, the FCC determines whether the licensee has demonstrated a pattern of compliance. The second criterion does not require a perfect record of compliance, but if a licensee has demonstrated a pattern of noncompliance it will not receive a renewal expectancy. If the FCC grants the licensee a renewal expectancy during the first step of the hearing process and the licensee is basically qualified, its license renewal application will be automatically granted and any competing applications will be denied. If, however, the FCC denies the licensee's request for renewal expectancy, the licensee's application will be comparatively evaluated under specifically enumerated criteria with the applications filed by competing applicants.

The exception to the two-step renewal hearing process allows a competing applicant proposing to provide service that far exceeds the service presently being provided by the incumbent licensee to request a waiver of the two-step process. If the waiver request is granted, the FCC will hold only a comparative hearing, *i.e.*, it will not make a threshold determination in the first instance as to whether the incumbent licensee is entitled to a renewal expectancy.

Cellular Service Area. In all markets, at least one cell site must have been placed into commercial service within 18 months after the award of the initial construction permit. Under FCC rules, the authorized service area for a cellular licensee in a market is referred to as the CGSA. The CGSA is defined as the area served by the cellular licensee (as computed by a mathematical formula based on the height and power of operating cell sites within which the licensee is entitled to protection from interference on its frequencies). The CGSA will be smaller than the market if a licensee has not fully built-out its system, or it may be larger than the market if the licensee serves areas of adjacent markets. Cellular licensees do not need to obtain FCC authority prior to increasing the CGSA within their market during the five-year period after the construction permit is initially granted for the market. However, FCC notification of construction is still generally required. After the five-year exclusive period has expired, any entity may apply to serve the unserved areas of the market that comprise at least 50 contiguous square miles and are outside of the licensee's CGSA (an "unserved area application").

Unserved area applications are filed in two phases, Phase I and Phase II. During the first half of 1993, the FCC accepted Phase I unserved area applications for frequency blocks in all markets in which: the five-year fill-in period had already expired or would expire on or before March 15, 1993; no applications for initial authorizations were filed; or authorizations were surrendered or canceled for failure to meet the 18-month construction deadline or other reasons. For all other markets, Phase I applications were due on the 31st day following expiration of the five-year fill-in period. All Phase I applications for a given market are deemed mutually exclusive even if their proposed CGSAs do not overlap. Once an authorization has been granted to a Phase I applicant, the permittee has 90 days within which to file an application requesting FCC authority

to make major modifications to its Phase I system. During this period, the FCC will not accept any other applications for unserved areas in a market during this period that are mutually exclusive with the Phase I carrier's major modification application.

Phase II unserved area applications for any remaining area may be filed on the 121st day after the Phase I authorization has been granted (or if no Phase I applications are filed, on the first day after Phase I applications for that market are permitted). In the event mutually exclusive applications are filed the authorization will be issued by auction. Phase II applications may propose CGSAs that cover area in more than one market. Phase II applications will be placed on public notice by the FCC, and all interested and qualified parties will have an opportunity to apply for the same market area within 30 days of the public notice.

Phase I applicants for unserved areas not contiguous to licensed systems must propose to serve a minimum of 50 contiguous square miles and must demonstrate their financial qualifications to construct the proposed system and to operate it for one year (assuming no revenues). Existing licensees proposing to expand their systems through the filing of an unserved area application and Phase II applicants are not subject to the 50 square mile minimum coverage rule, nor are they required to make a financial qualifications showing. Under recent legislation described below, mutually exclusive unserved area applications are processed by lottery selection procedures (for applications filed prior to July 26, 1993) or by auctions (for applications filed after July 26, 1993), and existing cellular carriers receive no preference in the lottery selection or auction process.

Unserved area cellular carriers (both Phase I and Phase II) are allowed one year within which to complete construction of their systems. Unserved area cellular carriers are not permitted a five-year fill-in period. If an unserved area cellular carrier forfeits its authorization for failure to construct, the area which thereby reverts to "unserved" status may be applied for under Phase II procedures.

<u>Alien Ownership Restrictions.</u> The Communications Act prohibits the issuance of a license to, or the holding of a license by, any corporation of which more than 20% of the capital stock is owned of record or voted by non-U.S. citizens or their representatives or by a foreign government or a representative thereof, or by any corporation organized under the laws of a foreign country. The Communications Act also prohibits the issuance of a license to, or the holding of a license by, any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by non-U.S. citizens or their representatives or by a foreign government or representative thereof, or by any corporation organized under the laws of a foreign country, although the FCC has the power in appropriate circumstances to waive these restrictions. The FCC has interpreted these restrictions to apply to partnerships and other business entities as well as corporations, with certain modifications. Failure to comply with these requirements may result in denial or revocation of licenses. The Articles of Incorporation of the Company contain prohibitions on foreign ownership or control of the Company that are substantially similar to those contained in the Communications Act.

<u>Recent Legislation.</u> The Telecommunications Act of 1996 (the "Act") which modifies and amends the Communications Act of 1934, covers virtually every element of communications. Congress' main objective was to promote competition and reduce regulation in order to secure lower prices and higher quality services for telecommunications consumers and to encourage the rapid deployment of new telecommunications technologies. A great portion of the Act is aimed at removing restrictions which prevent local and long distance service providers from offering competing services in the same territory and redefining compensation arrangements between CMRS providers, which include cellular carriers such as the Company, Interexchange Carriers ("IXCs"), Local Exchange Carriers ("LECs") and Independent Local Exchange Carriers ("ILECs"). The major impact of the Act on the Company will initially be to reduce the costs paid by the Company to interconnect and terminate calls on LEC, ILEC and IXC networks. The Act requires

such carriers to base termination charges to CMRS providers on cost and to compensate CMRS providers for calls they terminate. This impact has not yet affected the Company. Legal challenges to the FCC's proceeding to implement those portions of the Act dealing with interconnection (the "Interconnection Order") have resulted in an U.S. Court of Appeals stay of part of the Interconnection Order's pricing rules. The Court recently lifted the stay with respect to the rules which govern the compensation received by LEC's and wireless carriers for transporting and terminating each other's traffic.

In addition, the Act mandates CMRS providers pay into the Universal Service Fund ("USF"). The USF is to ensure basic telephone services are available, reasonable and affordable for all citizens. In addition, the USF will promote access to high capacity telecommunications services for schools, libraries and rural health care providers. The FCC is in the process of promulgating rules relating to USF; therefore, the impact on the Company is currently unknown. Additionally, states may create their own funds imposing charges only on intrastate service to supplement the resources available from USF. State governments will be responsible for determining who will be eligible to receive such federal or state subsidies. Most states have not finalized their rules, but it is likely that the Company will be subject to additional state regulation should it choose to withdraw from the fund.

In November 1996, the FCC issued a notice of proposed rulemaking to designate the 2305-2320 and 2345-2360 MHz bands for new communications services to be called Wireless Communications Service. The proposal responds to a Congressional directive described in the Omnibus Consolidated Appropriations Act that was passed at the end of the 104th Congress which requires the FCC to reallocate these frequency bands in the 2.3 Ghz spectrum to wireless services and award the licenses through competitive bidding by April 15, 1997. The notice proposes that licensees would be allowed to offer any fixed, mobile or radio location service or satellite Digital Audio Radio Services on a primary basis. On a secondary basis, amateur radio service and aeronautical telemetry operations will continue in certain portions of the band.

State, Local and Other Regulation

State. Following receipt of an FCC construction permit and prior to the commencement of commercial service (prior to construction in certain states), a cellular licensee must also obtain any necessary approvals from the appropriate regulatory bodies in each of the states in which it will offer cellular service. Certain state authorities regulate certain service practices of cellular system operators. While such state regulations may affect the manner in which the Company's affiliates conduct their business and could adversely affect their profitability, they should not place the Company's affiliates at a competitive disadvantage with other service providers in the same markets. The Company has not experienced and does not presently contemplate any regulatory constraints, difficulties or delays.

FAA, Zoning and Other Land Use. The location and construction of cellular transmitter towers and antennas are subject to Federal Aviation Administration ("FAA") regulations and may be subject to federal, state and local environmental regulation as well as state or local zoning, land use and other regulation. Before a system can be put into commercial operation, the grantee of a construction permit must obtain all necessary zoning and building permit approvals for the cell sites and MTSO locations. The time needed to obtain zoning approvals and requisite state permits varies from market to market and state to state. Likewise, variations exist in local zoning processes. There can be no assurance that any state or local regulatory requirements currently applicable to the systems in which the Company's affiliates have an interest will not be changed in the future or that regulatory requirements will not be adopted in those states and localities which currently have none.

Employees

As of December 18, 1996, the Company had 523 full-time employees. The Company engages the services of independent contractors on an as-needed basis.

Item 2. Properties.

In addition to the direct and attributable interests in cellular licensees discussed in this Report, the Company leases its principal executive offices (consisting of approximately 60,000 square feet) located in Englewood, Colorado. The Company and its affiliates lease and own locations for inventory storage, microwave, cell site and switching equipment and administrative offices.

Item 3. Legal Proceedings.

There are no material, pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject which, if adversely decided, would have a material adverse effect on the Company.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the quarter ended September 30, 1996.

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters.

The common stock of the Company ("Common Stock") is traded on the Nasdaq National Market under the symbol "CELS." The following table sets forth the range of high and low closing sale prices of the Common Stock for each fiscal quarter since October 1, 1994 as reported by Nasdaq.

Fiscal Year 1995:	High	Low
First Quarter.....	$29 1/4	$ 22 1/4
Second Quarter....	28 1/2	22 3/4
Third Quarter.....	28 3/4	24 9/16
Fourth Quarter....	30 1/2	27 1/4

Fiscal Year 1996:	High	Low
First Quarter.....	$29 1/4	$ 24 3/4
Second Quarter....	29 1/2	25 1/2
Third Quarter.....	35 3/8	28 3/4
Fourth Quarter....	32	25 3/8

As of December 18, 1996, there were 391 holders of record of the Common Stock.

The Company has not paid cash dividends on the Common Stock and does not anticipate that any cash dividends will be paid on the Common Stock in the foreseeable future. Furthermore, certain financing agreements to which the Company is a party contain provisions which restrict the payment by the Company of dividends or distributions on the Common Stock (other than dividends or distributions payable in shares of Common Stock).

Item 6. Selected Financial Data. (Amounts in thousands, except share and per share data)

Statement of Operations Data (1):
<TABLE>
<CAPTION>

	Years ended September 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 115,196	$ 89,844	$ 61,360	$ 33,689	$ 14,906
Costs and expenses (net of amounts allocated to affiliates):					
Cellular operations	76,123	68,929	50,856	30,289	18,138
Corporate	880	1,327	406	(1,119)	997
Total depreciation and amortization	21,840	17,595	12,650	19,950	14,115
Write-down of investment in cellular system equipment	-	-	3,117	-	-
Operating income (loss)	16,353	1,993	(5,669)	(15,431)	(18,344)
Equity in net loss of affiliates	(1,636)	(5,028)	(5,092)	(6,339)	(8,852)
Minority interest in net income of consolidated affiliates	(1,123)	(964)	(544)	-	-
Gains (losses) on sales of affiliates	(250)	19,471	3,912	7,821	14,339
Interest expense	(28,208)	(26,044)	(21,339)	(16,428)	(14,801)
Interest income	10,468	13,046	12,081	10,703	10,616

Income (loss) before income taxes and extraordinary charge	(4,396)	2,474	(16,651)	(19,674)	(17,042)
Income tax expense	-	400	100	-	-
Income (loss) before extraordinary charge	(4,396)	2,074	(16,751)	(19,674)	(17,042)
Extraordinary charge	-	(2,012)	-	(2,992)	-
Net income (loss)	$ (4,396)	$ 62	$ (16,751)	$ (22,666)	$ (17,042)
Income (loss) per common share before extraordinary charge	$(.32)	$.17	$(1.45)	$(2.30)	$(2.44)
Extraordinary charge	-	(.16)	-	(.35)	-
Net income (loss) per common share	$(.32)	$.01	$(1.45)	$(2.65)	$(2.44)
Weighted average shares outstanding	13,727,203	12,153,592	11,577,191	8,551,785	6,984,541

Balance Sheet Data (1):

	Years ended September 30,				
	1996	1995	1994	1993	1992
Working capital	$ 16,246	$ 39,911	$ 25,525	$ 63,561	$ 29,478
Investments in and advances to affiliates	57,245	56,919	61,909	55,892	52,020
Net property and equipment	118,099	105,289	79,918	53,460	44,210
Total assets	331,837	325,668	282,638	269,524	208,364
Long-term debt	245,845	246,357	243,913	259,676	189,430
Total liabilities	268,855	267,012	266,731	278,946	204,124
Stockholders' equity (deficit) (2)	62,982	58,656	15,906	(9,422)	4,240

</TABLE>

(1) Markets in which the Company holds a greater than 50% net interest are reflected on a consolidated basis in the Company's consolidated financial statements. Markets in which the Company holds a net interest which is 50% or less but 20% or greater are accounted for under the equity method. Markets in which the Company holds a less than 20% interest are accounted for under the cost method. The following table sets forth the number of markets and relevant accounting methods at the end of each of the last five fiscal years.

	September 30,				
	1996	1995	1994	1993	1992
Consolidated	46	45	42	36	28
Equity	18	20	35	38	37
Cost	18	18	18	6	18
	82	83	95	80	83

(2) No cash dividends were declared or paid during any period presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The Company generated operating income during fiscal 1996 and 1995 and focused on increasing penetration and subscriber usage. In addition, the Company expects that operating income before depreciation and amortization ("EBITDA"), which was positive during the fiscal years ended September 30, 1996 and 1995, will also be positive in future fiscal years (although there can be no assurance that this will be the case). Certain financial analysts consider EBITDA a meaningful measure of an entity's ability to meet long-term financial obligations, and growth in EBITDA a meaningful barometer of future profitability, especially in a capital-intensive industry such as cellular telecommunications. However, EBITDA should not be considered in isolation to, or be construed as having greater significance than, other indicators of an entity's performance. The results discussed below may not be indicative of future results.

Consolidated results of operations include the revenues and expenses of those markets in which the Company holds a greater than 50% interest. The results of operations of 46 markets, 44 of which were consolidated for the entire period, are included in the consolidated results for the fiscal year ended September 30, 1996. The results of operations of 45 markets, 42 of which were consolidated for the entire period, are included in the consolidated results for the fiscal year ended September 30, 1995. The increase in the number of markets included in consolidated results is due to acquisitions consummated subsequent to September 30, 1995. Consolidated results of operations also include the operations of Cellular, Inc. Financial Corporation ("CIFC"), the Company's wholly-owned financing subsidiary, as well as the operations of Cellular Inc. Network Corporation ("CINC"), a wholly-owned subsidiary through which the Company holds interests in certain cellular licenses.

Equity in net loss of affiliates includes the Company's share of net loss in the markets in which the Company's interest is 50% or less but 20% or greater. For the fiscal year ended September 30, 1996, 18 markets were accounted for under the equity method, compared to 20 such markets for the fiscal year ended September 30, 1995. Markets in which the Company's interest is less than 20% are accounted for under the cost method. Eighteen markets were accounted for under the cost method for both fiscal years ended September 30, 1996 and September 30, 1995.

Interest income reflects interest income derived from the financing activities of CIFC and the Company with nonconsolidated affiliates, as well as interest income derived from cash and short-term investments of the Company and its consolidated affiliates. CIFC has entered into loan agreements with the Company's affiliates pursuant to which CIFC makes loans to such entities for the purpose of financing or refinancing the affiliates' costs of construction and operation of cellular telephone systems. Such loans are financed with funds borrowed by CIFC from CoBank, ACB, as agent for a syndicate of lenders ("CoBank") and from the Company. At September 30, 1996, loans bore interest at the average cost of CIFC borrowings. From time to time, the Company advances funds on an interim basis to affiliates. These advances typically are refinanced through CIFC. To the extent that the cellular markets in which the Company holds an interest generate positive cash flow, the cash is generally used to repay borrowings by the affiliates from CIFC and thereafter will be used to make cash distributions to equity holders, including the Company.

Management believes there exists a seasonality in both service revenues, which tend to increase more rapidly in the third and fourth quarters, and operating expenses, which tend to be highest in the first quarter due to increased marketing activities and customer growth, which may cause operating income to vary from quarter to quarter.

In addition to historical information, this report includes certain forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. Such statements represent the Company's reasonable judgment on the future and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially. Such factors include, but are not limited to: a change in economic conditions in the Company's markets which adversely affects the level of demand for wireless services; greater-than-anticipated competition resulting in price reductions, new product offerings, or higher customer acquisition costs; better-than-expected customer growth necessitating increased investment in network capacity; negative economies that could result if one or more agreements to manage markets are not renewed; increased cellular fraud; the impact of new business opportunities requiring significant initial investments; and the impact of deployment of new technologies on capital spending.

Results of Operations

Fiscal Year 1996 Compared With Fiscal Year 1995. Cellular service revenues, including in-roaming revenues, increased 37% from $81,939,000 for the year ended September 30, 1995 to $112,387,000 for the year ended September 30, 1996. The growth was primarily due to the increase in the number of subscribers in consolidated markets. In addition to increases in market penetration, growth resulted from an increase in the number of markets consolidated for the entire year from 42 during the year ended September 30, 1995 to 44 during the year ended September 30, 1996. Growth in subscribers accounted for 82% of the increase, and the number of consolidated markets accounted for 18% of the increase. In-roaming revenues increased by 40%, or $8,503,000, from $21,085,000 for the year ended September 30, 1995 to $29,588,000 for the year ended

September 30, 1996 due to increased coverage in cellular markets and to industry-wide subscriber increases. In-roaming revenues are expected to increase in the future as a result of further industry-wide growth in subscribers and expansion of the Company's coverage, particularly along highway corridors; however, roaming rates may decline, consistent with expected industry trends.

Average monthly revenue per subscriber, including in-roaming revenues, decreased from $68 for the year ended September 30, 1995 to $63 for the year ended September 30, 1996, reflecting the benefit of declining prices to the consumer and lower usage by new subscribers which is consistent with an overall industry trend. However, in-roaming revenues per subscriber per month decreased only $1, from $17 to $16, reflecting the larger scale benefit of the Company's cell site expansion program.

Cost of cellular service decreased as a percentage of service revenues from 20% in fiscal year 1995 to 19% in fiscal year 1996, as revenues derived from the growing subscriber base outpaced the fixed components of cost of service.

Equipment sales decreased 64% from $7,905,000 in fiscal year 1995 to $2,809,000 in fiscal year 1996 due to the introduction of the Company's new customer satisfaction and pricing program. The program packages the use of a handset, airtime and long-distance within one area code for one monthly fee, which results in no handset revenue. However, certain customers are charged additional monthly fees, which are classified as service revenues, for use of higher-end equipment. Such fees are not significant currently but are expected to increase in the future. After January 1996, sales of accessories accounted for the majority of the Company's equipment sales. Cost of equipment sales decreased 3% from $10,902,000 in fiscal year 1995 to $10,588,000 in fiscal year 1996. Approximately $4,850,000 and $1,671,000 of the fiscal year 1996 cost of equipment sales relates to equipment provided to new and existing customers, respectively, which the customers are required to return to the Company if service is terminated. Although the Company retains ownership of the equipment, it carries such equipment at no value on its balance sheet. The Company expects negative equipment margins in the future as the Company subsidizes use of handsets to shift consumer focus to the value of cellular service. However, the Company expects to implement a refurbishment program during fiscal 1997 whereby returned handsets would be reconditioned at a nominal cost and placed back in service.

General and administrative costs of cellular operations increased 14% from $20,223,000 in fiscal year 1995 to $23,038,000 in fiscal year 1996, due to the growth in the customer base and the number of consolidated markets. The majority of these costs were incremental customer billing expense and customer service support staff, offset by reductions to bad debt expense. General and administrative costs as a percentage of service revenues decreased from 25% in fiscal year 1995 to 20% in fiscal year 1996. The decrease was primarily due to revenues increasing at a faster rate than incremental general and administrative costs.

Marketing and selling costs decreased 3% from $21,642,000 in fiscal year 1995 to $20,920,000 in fiscal year 1996, primarily as a result of reductions in commission costs offset by increased advertising costs. Marketing costs per net new subscriber decreased 18% from $523 in fiscal year 1995 to $429 in fiscal year 1996, as a result of increased net subscriber additions which outpaced increases in costs incurred. In addition, the Company continues to expand its retail presence to capitalize on retail trade while driving down commission costs.

Depreciation and amortization relating to cellular operations increased 17% from $15,454,000 in fiscal year 1995 to $18,149,000 in fiscal year 1996, primarily related to increased property and equipment balances.

Corporate costs and expenses in fiscal year 1995 were $3,468,000, which represented gross expenses of $9,533,000 less amounts allocated to nonconsolidated affiliates of $6,065,000. Corporate costs and expenses in fiscal year 1996 were $4,571,000, which represented gross expenses of $11,037,000 less amounts allocated to nonconsolidated affiliates of $6,466,000. The increase in corporate costs and expenses was due primarily to acceleration of depreciation expense related to certain corporate assets, and expenses related to paging activities which were not allocated to affiliates.

Equity in net loss of affiliates decreased 67% from $5,028,000 in fiscal year 1995 to $1,636,000 in fiscal year 1996. The decrease was due primarily to decreased losses in nonconsolidated affiliates. Management expects operating results of the markets that are accounted for under the equity method to continue to improve.

Interest expense increased 8% from $26,044,000 in fiscal year 1995 to

$28,208,000 in fiscal year 1996 due to the higher interest rate on the 11 1/4% subordinated notes than on the 6 3/4% convertible subordinated debentures which were redeemed with the proceeds of the sale of subordinated notes, and the higher accreted discount note balance. Cash paid for interest increased 15% from $12,209,000 in fiscal year 1995 to $14,012,000 in fiscal year 1996.

Interest income decreased 20% from $13,046,000 in fiscal year 1995 to $10,468,000 in fiscal year 1996. The decrease was due to lower nonconsolidated affiliate notes receivable balances and lower cash and cash equivalent balances.

During fiscal year 1995, the Company recognized gains on sales of affiliates of $19,471,000 primarily as a result of the sale of its interest in Nebwest Cellular, Inc., which held an interest in Nebraska Cellular Telephone Corporation, the licensee for the ten wireline RSA markets in the state of Nebraska. See "Acquisitions and Sales." No significant sales occurred during fiscal 1996.

At September 30, 1996, the Company had net operating loss ("NOL") carryforwards for income tax purposes of $50,808,000, compared to $40,503,000 at September 30, 1995. The increase resulted from the NOL consolidation of two affiliated corporations offset by current year taxable income.

Fiscal Year 1995 Compared With Fiscal Year 1994. Cellular service revenues, including in-roaming revenues, increased 56% from $52,586,000 for the year ended September 30, 1994 to $81,939,000 for the year ended September 30, 1995. The growth was primarily due to the increase in the number of subscribers in consolidated markets. In addition to increases in market penetration, growth resulted from an increase in the number of markets consolidated for the entire year from 36 during the year ended September 30, 1994 to 42 during the year ended September 30, 1995. Growth in subscribers accounted for 88% of the increase, and the number of consolidated markets accounted for 12% of the increase. In-roaming revenues increased by 58%, or $7,710,000, from $13,375,000 for the year ended September 30, 1994 to $21,085,000 for the year ended September 30, 1995 due to increased coverage in cellular markets.

Average monthly revenue per subscriber, including in-roaming revenues, decreased from $74 for the year ended September 30, 1994 to $68 for the year ended September 30, 1995, reflecting the benefit of declining prices to the consumer that is consistent with an overall industry trend. However, in-roaming revenues per subscriber were essentially flat reflecting the larger scale benefit of the Company's cell site expansion program.

Cost of cellular service increased as a percentage of service revenues from 18% in fiscal year 1994 to 20% in fiscal year 1995, primarily due to an increase in costs related to interconnect service.

Equipment sales decreased 10% from $8,774,000 in fiscal year 1994 to $7,905,000 in fiscal year 1995, reflecting declining equipment pricing due to competitive factors. Cost of equipment sales increased 23% from $8,835,000 in fiscal year 1994 to $10,902,000 in fiscal year 1995. The large loss on equipment sales was due to equipment promotions during most of 1995 to stimulate subscriber growth.

General and administrative costs of cellular operations increased 21% from $16,768,000 in fiscal year 1994 to $20,223,000 in fiscal year 1995, due to the growth in the customer base and the number of consolidated markets. The majority of these costs were incremental customer billing expense, customer service support staff and bad debts. General and administrative costs as a percentage of service revenues decreased from 32% in fiscal year 1994 to 25% in fiscal year 1995. The decrease was primarily due to revenues increasing at a faster rate than incremental general and administrative costs.

Marketing and selling costs increased 37% from $15,786,000 in fiscal year 1994 to $21,642,000 in fiscal year 1995, primarily as a result of the number of subscribers added in consolidated markets. The majority of these costs were incremental sales commissions and advertising costs. Marketing costs per net new subscriber decreased 8% from $568 in fiscal year 1994 to $523 in fiscal year 1995, as a result of increased net subscriber additions which outpaced increases in costs incurred.

Depreciation and amortization relating to cellular operations increased 47% from $10,541,000 in fiscal year 1994 to $15,454,000 in fiscal year 1995, primarily related to increased fixed asset balances.

Corporate costs and expenses in fiscal year 1994, exclusive of write-downs of property and equipment, were $2,515,000, which represented gross expenses of $9,053,000 less amounts allocated to nonconsolidated affiliates of $6,538,000. Corporate costs and expenses in fiscal year 1995 were $3,468,000, which represented gross expenses of $9,533,000 less amounts allocated to nonconsolidated affiliates of $6,065,000.

Equity in net loss of affiliates decreased 1% from $5,092,000 in fiscal year 1994 to $5,028,000 in fiscal year 1995. The decrease was principally attributable to decreasing losses in markets being accounted for under the equity method at September 30, 1995, compared to September 30, 1994, due to the shift in focus in these markets from construction and initial operation to increasing penetration and subscriber usage.

Interest expense increased 22% from $21,339,000 in fiscal year 1994 to $26,044,000 in fiscal year 1995 due to higher accreted discount note and average secured bank financing balances. Cash paid for interest increased 25% from $9,731,000 in fiscal year 1994 to $12,209,000 in fiscal year 1995, due to higher average secured bank financing balances.

Interest income increased 8% from $12,081,000 in fiscal year 1994 to $13,046,000 in fiscal year 1995, due to higher yields on cash and cash equivalents and available-for-sale securities, and due to higher rates charged on nonconsolidated affiliates' notes.

During fiscal year 1995, the Company recognized gains on sales of affiliates of $19,471,000 primarily as a result of the sale of its interest in Nebwest Cellular, Inc., which held an interest in Nebraska Cellular Telephone Corporation, the licensee for the ten wireline RSA markets in the state of Nebraska. See "Acquisitions and Sales." During fiscal year 1994, the Company recognized gains on sales of affiliates of $2,905,000, primarily related to the sale of its limited partnership interest in MSA 239 (Joplin, MO) during the second quarter of fiscal 1994 ($1,921,000) and a multimarket transaction with Contel Cellular, Inc. during the third quarter of fiscal 1994 ($841,000). An additional $907,000 gain was recognized due to the write-off of contingent liabilities related to stock price guarantees.

At September 30, 1995, the Company had NOL carryforwards for income tax purposes of $40,503,000, compared to $54,725,000 at September 30, 1994. This decrease resulted from a change in the tax treatment of sales commissions and the utilization of NOL carryforwards to offset current year taxable income.

Acquisitions and Sales

In November 1995, the Company purchased additional interests ranging from 18% to 19% in three managed markets for 28,283 shares of the Company's Common Stock.

In March 1996, the Company purchased additional interests ranging from 43% to 44% in two managed RSA markets for 79,520 shares of the Company's Common Stock.

In April 1996, the Company acquired interests in one managed MSA and one managed RSA market for a net purchase price of $1,011,000, comprised of the Company's interest in one managed RSA market (transferred in November 1995), common stock, cash and forgiveness of certain obligations.

Also in April 1996, the Company purchased additional interests ranging from 8% to 38% in one managed and one nonmanaged RSA market and one nonmanaged MSA market for approximately $392,000 in cash and 44,415 shares of the Company's Common Stock.

In May 1996, the Company partitioned the New Mexico 1 RSA, sold its interest in the southern portion of the market and acquired the interest of U S WEST NewVector Group, Inc. in the northern portion of the market. As a result of the transaction, the Company paid approximately $1,105,000 in cash and net Company pops increased 24,289.

In June 1996, the Company purchased an additional 40% interest in one nonmanaged RSA market for 27,258 shares of the Company's Common Stock and approximately $790,000 in cash.

In September 1996, the Company acquired 577,812 shares of convertible preferred stock in TVX, Inc. for approximately $800,000. TVX develops and markets products for the management of digital video and images, including visual observation and verification products for the security industry. Prior to this acquisition, the Company held 1,157,022 shares of Common Stock or 39% voting interest in TVX, Inc. and 484,756 shares of redeemable convertible preferred stock with a redemption value of $484,756.

The Company continues to pursue acquisitions to the extent they enhance or extend its network or increase shareholder value, although there can be no assurance any such acquisitions will be consummated.

Changes in Financial Condition

Fiscal Year 1996. Net cash provided by operating activities was

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$20,751,000 during the year ended September 30, 1996 due primarily to operating income before depreciation and amortization of $38,193,000, offset by increases in working capital requirements of $6,700,000.

Net cash used by investing activities was $39,436,000 for the year ended September 30, 1996. This was due primarily to $32,320,000 required to fund the purchase of property and equipment and investment in cellular system equipment, $4,112,000 to fund additional investments in and advances to affiliates, and $3,676,000 to purchase additional interests in affiliates.

Net cash used by financing activities was $10,841,000 for the year ended September 30, 1996. This was due primarily to net reductions to long-term debt and capital leases of $9,412,000, repurchases of Common Stock of $1,378,000 and distributions to minority interests of $1,029,000, offset by $978,000 of cash received from the issuance of Common Stock upon exercise of options.

Fiscal Year 1995. Net cash provided by operating activities was
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$14,068,000 during the year ended September 30, 1995. This was primarily due to the increase in EBITDA of $9,490,000 and decreases in working capital of $5,222,000. Working capital decreases were primarily the result of a reduction in inventory.

Net cash provided by investing activities was $7,028,000 for the year ended September 30, 1995. This was due primarily to $21,428,000 provided from the net sale of securities and

$23,654,000 provided from the net sales of affiliates, offset by $31,797,000 of cash required to fund the purchase of property and equipment related to the Company's expansion efforts, and $6,017,000 related to nonconsolidated affiliates reflected as additions to investments in and advances to affiliates.

Net cash provided by financing activities was $17,840,000 for the year ended September 30, 1995. These proceeds were comprised of $77,400,000 from the issuance of subordinated notes, offset by $41,852,000 used to redeem the Company's convertible subordinated debentures and an overall $15,277,000 decrease in incremental secured bank financing.

Liquidity and Capital Resources

General. CommNet Cellular Inc. (referred to herein as the "parent
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company") is effectively a holding company and, accordingly, must rely on distributions, loan repayments and other intercompany cash flows from its affiliates and subsidiaries to generate the funds necessary to satisfy the parent company's capital requirements. On a consolidated basis, the Company's principal source of financing is the loan facility with CoBank (the "Credit Agreement"), pursuant to which CoBank has agreed to lend up to $165,000,000 to CIFC. Of the $165,000,000, $140,000,000 may be reloaned by CIFC to the Company's affiliates for the construction, operation and expansion of cellular telephone systems including up to $5,000,000 for the construction and operation of a paging network. The remaining $25,000,000 is reserved for acquisitions by CINC. Of the $140,000,000, $80,000,000 is available to be borrowed by CIFC to be repaid to the parent company and used for general corporate purposes, including capital expenditures, debt service and acquisitions. The Credit Agreement restricts the ability of the Company's affiliates and subsidiaries, a substantial number of which are consolidated for financial statement purposes, to make distributions to the parent company until such affiliates and subsidiaries have repaid all outstanding debt to CIFC. As a result, a portion of the Company's consolidated cash flows and cash balances is not available to satisfy the parent company's capital and debt service requirements.

The Company's budgeted capital requirements consist primarily of (i) parent company capital expenditures, working capital and debt service and (ii) the capital expenditures, working capital, other operating and debt service requirements of the affiliates. In addition to budgeted capital requirements, the Company is constantly evaluating the acquisition of additional cellular properties, and to the extent the Company consummates future acquisitions, additional capital may be required.

As of September 30, 1996, the Company had unused commitments under the Credit Agreement of $140,810,000, of which $64,250,000 was available to be repaid to the parent company for general corporate purposes. In addition to the liquidity provided by the Credit Agreement, at September 30, 1996, the Company, on a consolidated basis, had available $11,492,000 of cash and cash equivalents.

Capital expenditures in managed markets, reflected as additions to investments in and advances to affiliates, and additions to property and equipment and investment in cellular system equipment, for the year ended September 30, 1996 was $33,700,000. These expenditures were primarily for 36 new cell sites, channel expansion, paging sites, call center systems and other computer equipment. The Company expects capital expenditures for fiscal year 1997 to be $50,000,000 to optimize coverage, upgrade switching capacity, increased channel capacity and for paging infrastructure.

The Company's near-term debt service requirements will consist primarily of interest payments on the indebtedness incurred under the Credit Agreement and interest payments on the 11 1/4% Subordinated Notes due 2005. Interest on the Company's 11 3/4% Senior Subordinated Discount Notes is payable in cash commencing March 1, 1999. The Company anticipates its cash

interest expense for fiscal year 1997 will be $13,045,000. Revolving loan indebtedness outstanding under the Credit Agreement currently will convert to term loan indebtedness at December 31, 1996 to be amortized over the next four years; however, the Company and CIFC are currently in discussion with CoBank to modify certain provisions of the Credit Agreement, including the loan term. See "The Credit Agreement" below.

The Company believes operating cash flow, existing cash balances and borrowing availability under the Credit Agreement will be sufficient to meet all future anticipated capital requirements of the parent company and its affiliates and debt service requirements of the Company at both the parent company level and on a consolidated basis.

Although the Company believes that the foregoing sources of liquidity will be sufficient to meet budgeted capital expenditures and debt service requirements of the parent company and the affiliates, there can be no assurance that this will be the case. In such event, the Company believes it will be able to satisfy its capital expenditure and debt service requirements with unrestricted operating cash flow; however, the Company may be required to reduce discretionary capital spending. To the extent the Company's cash flow is not sufficient to satisfy such requirements, the Company will be required to raise funds through additional financings or asset sales.

The Company continually evaluates the acquisition of cellular properties. Acquisitions are likely to require capital in addition to the budgeted capital requirements described above, and such requirements may in turn require the issuance of additional debt or equity securities. The Company's ability to finance the acquisition of additional cellular properties with debt financing may be constrained by certain restrictions contained in its existing debt instruments. In such event, the Company would be required to seek amendments to such instruments. There can be no assurance that such amendments could be obtained on terms acceptable to the Company.

In August 1996, the Company announced a program to repurchase, from time to time, up to $20,000,000 of its outstanding Common Stock using available liquidity to fund the repurchases. At September 30, 1996, the Company had repurchased 47,500 shares at prices ranging from $28.875 to $29.125 for an aggregate price of $1,378,438. Subsequent to year end, the Company repurchased an additional 102,000 shares at prices ranging from $27.75 to $29 per share, for an aggregate price of $2,932,500.

The Credit Agreement. Pursuant to the Credit Agreement, CoBank has agreed to loan up to $165,000,000 to CIFC to be reloaned by CIFC to affiliates of the Company for the construction, operation and expansion of cellular telephone systems including $25,000,000 to fund the acquisitions of additional cellular systems, subject to certain conditions. As of September 30, 1996, $64,250,000 was available under the Credit Agreement to be borrowed from CoBank by CIFC and repaid to the parent company for general corporate purposes. The outstanding balance under the Credit Agreement was approximately $24,190,000 at September 30, 1996. The Credit Agreement provides, at the Company's option, for interest at 1.00% over prime (9.25% at September 30, 1996) or 2.50% over LIBOR (8.23% at September 30, 1996), subject to reduction upon the maintenance of certain debt to cash flow ratios. The Credit Agreement is a revolving loan which converts to a four-year term loan on December 31, 1996; however, the Company and CIFC are in discussion with CoBank to modify certain provisions of the Credit Agreement, including the loan term, whereby principal payments would commence subsequent to September 30, 1997. The loan is secured by a first lien upon all of the assets of CIFC and each of the affiliates to which funds are advanced by CIFC. In addition, the Company has guaranteed the obligations of CIFC to CoBank and has granted CoBank a first lien on all of the assets of the Company as security for such guaranty.

The Credit Agreement prohibits the payment of cash dividends, limits the use of borrowings, prohibits any other senior borrowings, restricts expenditures for certain investments, requires positive working capital and requires the maintenance of certain liquidity, capitalization, debt, debt service and cash interest ratios. The requirements of the Credit Agreement were established in relation to the anticipated capital and financing needs of the Company's affiliates and their anticipated results of operations. The Company is currently in compliance with all covenants and anticipates it will continue to meet the requirements of the Credit Agreement. Approval may be required from the syndicate for waivers or other amendments to the Credit Agreement requested by CIFC or the Company.

Supplemental Information:

SELECTED COMBINED AND PROPORTIONATE
OPERATING RESULTS OF CELLULAR LICENSEES
(Amounts in thousands, except statistical data)

The following unaudited table presents operating data for all cellular licensees in which the Company holds an interest. The "Combined," "Financed Proportionate" and "Company Proportionate" operating results, which are not included in the Company's consolidated financial statements, are provided to assist in understanding the results of the licensees in which the Company holds an interest. Generally accepted accounting principles ("GAAP") prescribe inclusion of revenues and expenses for consolidated interests (generally interests of more than 50%), but not for equity interests (generally interests of 20% to 50%) or cost interests (generally interests of less than 20%). Equity accounting ordinarily results in the same net income as consolidation; however, the net operating results are reflected on one line below operating income. Operating activity related to interests accounted for under the cost method are not reflected at all in a GAAP operating statement.

<TABLE>
<CAPTION>

	Years ended September 30,					
	1996	1995	1996	1995	1996	1995
	Combined (1)		Financed Proportionate (2)		Company Proportionate (3)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
MANAGED MARKETS						
Revenues:						
Cellular service	$ 99,736	$ 74,143	$ 93,066	$ 69,140	$ 74,112	$ 53,868
In-roaming	36,027	26,363	33,732	24,761	27,243	19,039
Equipment sales	3,094	4,683	2,851	4,334	2,341	3,348
Total revenues	138,857	105,189	129,649	98,235	103,696	76,255
Costs and expenses involving cash:						
Cost of sales:						
Cellular service (including in-roaming)	25,967	19,871	24,470	18,813	19,484	14,192
Equipment sales	11,900	8,325	10,868	7,724	8,926	5,907
General and administrative	27,883	24,659	25,859	23,090	20,541	17,985
Marketing and selling	25,608	26,387	23,838	24,642	18,942	19,097
Total cash costs and expenses	91,358	79,242	85,035	74,269	67,893	57,181
EBITDA	$ 47,499	$ 25,947	$ 44,614	$ 23,966	$ 35,803	$ 19,074
Capital expenditures	$ 33,694	$ 35,797	$ 32,291	$ 32,388	$ 29,064	$ 25,567
Subscriber count	211,278	151,482	196,780	139,773	157,816	108,255
Total markets	55	56	55	56	55	56
NONMANAGED MARKETS						
Revenues:						
Cellular service (including in-roaming)	$ 92,177	$ 86,148	$ 14,457	$ 17,858	$ 9,607	$ 9,928
Equipment sales	6,889	8,433	689	1,378	531	869
Total revenues	99,066	94,581	15,146	19,236	10,138	10,797
Costs and expenses involving cash:						
Cost of sales:						
Cellular service	21,368	25,061	3,941	5,584	2,591	3,034
Equipment sales	7,717	8,048	893	1,345	655	818
General and administrative	17,940	16,374	3,390	3,819	2,152	2,119
Marketing and selling	19,683	22,972	3,017	5,119	2,141	2,868
Total cash costs and expenses	66,708	72,455	11,241	15,867	7,539	8,839

EBITDA	$ 32,358	$ 22,126	$ 3,905	$ 3,369	$ 2,599	$ 1,958
Capital expenditures	$ 20,071	$ 35,174	$ 2,529	$ 9,546	$ 1,803	$ 5,540
Subscriber count	158,613	174,930	23,241	32,208	17,312	19,126
Total markets	27	27	27	27	27	27

</TABLE>

<TABLE>
<CAPTION>

	Years ended September 30,	
	1996	1995
Reconciliation From Company Proportionate EBITDA to Consolidated Reporting		
<S>	<C>	<C>
Total proportionate EBITDA (managed and nonmanaged markets)	$ 38,402	$ 20,942
Proportionate depreciation and amortization	(15,766)	(13,285)
Proportionate interest expense (net) and other	(9,555)	(9,231)
Equity in nonlicensee affiliates	(4,735)	(5,079)
Minority interests	2,423	(579)
Intercompany interest	8,202	6,820
Amortization of license costs not owned by affiliates	(2,605)	(2,276)
Unallocated corporate expenses	(4,570)	(3,468)
(Losses) gains on sales of affiliates	(250)	19,471
Interest expense (net) and other	(15,942)	(13,253)
Consolidated net income (loss)	$ (4,396)	$ 62

</TABLE>

____
(1) Includes 100% of the operating activity of all licensees, regardless of the Company's ownership interest. This is essentially equivalent to consolidating all licensees regardless of ownership percentage.
(2) Includes that percentage of a licensee's operating results which equals the Company's ownership interest as well as the ownership interest held by affiliates of the Company that are financed by CIFC.
(3) Includes only that percentage of a licensee's operating results which corresponds to the Company's ownership interest. This is essentially equivalent to a pro rata consolidation.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of the Company are filed under this item, beginning on page II-15. The consolidated financial statement schedules required under Regulation S-X are filed pursuant to Item 14 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Report of Independent Auditors

The Board of Directors and Shareholders
CommNet Cellular Inc.

We have audited the accompanying consolidated balance sheets of CommNet Cellular Inc. as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended September 30, 1996. Our audits also included the financial statement schedules listed in the Index at Item 14 (a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 listed in the accompanying index to financial statements (Item 14 (a)) present fairly, in all material respects, the consolidated financial position of CommNet Cellular Inc. at September 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Denver, Colorado
December 6, 1996

COMMNET CELLULAR INC.
CONSOLIDATED BALANCE SHEETS
September 30, 1996 and 1995

(Amounts in thousands, except share data)

ASSETS (Note 4)	1996	1995
Current assets:		
Cash and cash equivalents	$ 11,492	$ 41,018
Accounts receivable, net of allowance for doubtful accounts of $1,947 and $1,958 in 1996 and 1995, respectively	19,933	13,673
Inventory and other	3,949	2,931
Total current assets	35,374	57,622
Investment in and advances to affiliates (Notes 2 and 3)	57,245	56,919
Investment in cellular system equipment	11,809	5,427
Property and equipment, at cost:		
Cellular system equipment	126,305	107,433
Land, buildings and improvements	25,977	23,183
Furniture and equipment	17,144	18,636
	169,426	149,252
Less accumulated depreciation	51,327	43,963
Net property and equipment	118,099	105,289
Other assets, less accumulated amortization of $33,166 and $28,617 in 1996 and 1995, respectively:		
FCC licenses and filing rights (Note 2)	103,251	92,350
Deferred loan costs and other	6,059	8,061
Total other assets	109,310	100,411
	$331,837	$325,668

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 1996 and 1995

(Amounts in thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
Current liabilities:		
Accounts payable	$ 7,431	$ 9,266
Accrued liabilities	5,458	4,862
Accrued interest	2,556	3,265
Current portion of secured bank financing and other long-term debt	3,683	318
Total current liabilities	19,128	17,711
Long-term debt:		
Secured bank financing (Note 4)	20,825	36,263
Note payable and other long-term debt (Note 4)	3,057	449
11 3/4% senior subordinated discount notes (Note 5)	141,963	126,645
11 1/4% subordinated notes (Note 5)	80,000	80,000
8.75% convertible subordinated notes (Note 5)	-	3,000
Minority interests	3,882	2,944
Commitments (Note 6)		
Stockholders' equity (Notes 2, 3, 4, 5, 8, 9, and 10):		
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no shares issued	-	-
Common Stock, $.001 par value; 40,000,000 shares authorized; 13,859,740 and 13,442,967 shares issued at September 30, 1996 and 1995, respectively	14	13
Capital in excess of par value	168,103	159,382
Accumulated deficit	(105,135)	(100,739)
Total stockholders' equity	62,982	58,656
	$ 331,837	$ 325,668

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended September 30, 1996, 1995 and 1994
(Amounts in thousands, except share and per share data)

<TABLE>
<CAPTION>

Revenues:	1996	1995	1994
<S>	<C>	<C>	<C>
Cellular service	$ 82,799	$ 60,854	$ 39,211
In-roaming	29,588	21,085	13,375
Equipment sales	2,809	7,905	8,774
	115,196	89,844	61,360
Costs and expenses:			
Cellular operations:			
Cost of cellular service	21,577	16,162	9,467
Cost of equipment sales (Note 1)	10,588	10,902	8,835
General and administrative	23,038	20,223	16,768
Marketing and selling	20,920	21,642	15,786
Depreciation and amortization	18,149	15,454	10,541
Write-down of property and equipment	-	-	2,865
Corporate:			
General and administrative	7,346	7,392	6,944
Depreciation and amortization	3,691	2,141	2,109
Write-down of property and equipment	-	-	252

Less amounts allocated to nonconsolidated affiliates	(6,466)	(6,065)	(6,538)
	98,843	87,851	67,029
Operating income (loss)	16,353	1,993	(5,669)
Equity in net loss of affiliates (Note 3)	(1,636)	(5,028)	(5,092)
Minority interest in net income of consolidated affiliates	(1,123)	(964)	(544)
Gains (losses) on sales of affiliates and other (Note 2)	(250)	19,471	3,912
Interest expense	(28,208)	(26,044)	(21,339)
Interest income (Note 3)	10,468	13,046	12,081
Income (loss) before income taxes and extraordinary charge	(4,396)	2,474	(16,651)
Income tax expense	-	400	100
Income (loss) before extraordinary charge	(4,396)	2,074	(16,751)
Extraordinary charge related to early extinguishment of long-term debt (Notes 4 and 5)	-	(2,012)	-
Net income (loss)	$ (4,396)	$ 62	$ (16,751)
Income (loss) per common share:			
Income (loss) before extraordinary charge	$(.32)	$.17	$(1.45)
Extraordinary charge	-	(.16)	-
Net income (loss) per common share	$(.32)	$.01	$(1.45)
Weighted average shares outstanding	13,727,203	12,153,592	11,577,191

</TABLE>

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended September 30, 1994, 1995 and 1996

(Amounts in thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Unrealized Gains (Losses)	Accumulated Deficit
<S>	<C>	<C>	<C>	<C>	<C>
Balance at October 1, 1993	8,911,579	$ 9	$ 74,620	$ -	$ (84,050)
Exercise of options	121,250	-	1,479	-	-
Issuance of Common Stock - acquisitions (Note 2)	156,132	1	2,761	-	-
Issuance of Common Stock - ESOP (Note 9)	20,953	-	478	-	-
Debenture conversion (Note 5)	2,529,194	2	37,809	-	-
Unrealized losses	-	-	-	(450)	-
Net loss	-	-	-	-	(16,751)
Balance at September 30, 1994	11,739,108	12	117,147	(450)	(100,801)
Exercise of options	101,875	-	815	-	-
Debenture and note conversion (Note 5)	1,320,785	1	34,088	-	-
Issuance of Common Stock - acquisitions (Note 2)	262,178	-	6,780	-	-

Issuance of Common Stock - ESOP (Note 9)	19,021	-	552	-	-
Reversal of unrealized losses	-	-	-	450	-
Net income	-	-	-	-	62
Balance at September 30, 1995	13,442,967	13	159,382	-	(100,739)
Exercise of options	48,000	-	978	-	-
Note conversion (Note 5)	200,000	1	2,908	-	-
Issuance of Common Stock - acquisitions (Note 2)	191,786	-	5,506	-	-
Issuance of Common Stock - ESOP (Note 9)	24,487	-	707	-	-
Common Stock repurchased	(47,500)	-	(1,378)	-	-
Net loss	-	-	-	-	(4,396)
Balance at September 30, 1996	13,859,740	$14	$168,103	$ -	$(105,135)

</TABLE>

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended September 30, 1996, 1995 and 1994

(Amounts in thousands)

	1996	1995	1994
Operating activities:			
Net income (loss)	$(4,396)	$ 62	$(16,751)
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Extraordinary charge related to early extinguishment of long-term debt	-	2,012	-
Minority interests	1,123	964	544
Compensation expense related to ESOP and option grants	707	552	478
Depreciation and amortization	21,840	17,595	12,650
Equity in net loss of affiliates	1,636	5,028	5,092
Losses (gains) on sales of affiliates and other	250	(19,471)	(3,912)
Interest expense on 11 3/4% senior discount notes	15,318	13,665	12,133
CoBank patronage income	(289)	(535)	(815)
Accrued interest on advances to affiliates	(8,738)	(11,247)	(11,380)
Write-down of property and equipment	-	-	3,117
Write-down of short-term investments	-	-	744
Loss on sale of short-term investments	-	221	-
Change in operating assets and liabilities, net of effects from consolidating acquired interests (Note 2):			
Accounts receivable	(5,435)	927	(3,797)
Inventory and other	(1,018)	4,387	(4,363)
Accounts payable and accrued liabilities	462	(1,026)	(246)
Accrued interest	(709)	934	(664)
Net cash provided (used) by operating activities	20,751	14,068	(7,170)

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended September 30, 1996, 1995 and 1994

(Amounts in thousands)

	1996	1995	1994
Investing activities:			
Purchases of available-for-sale securities	$ (987)	$ (82)	$(16,788)
Sales of available-for-sale securities	987	21,510	15,489
Additions to investments in and advances to affiliates	(4,112)	(6,016)	(6,789)
Additions to property and equipment and investment in cellular system equipment	(32,320)	(31,797)	(36,821)
Reductions in (additions to) other assets	58	(240)	-
Proceeds from sales of interests in affiliates (Note 2)	614	26,140	9,037
Purchase of interests in affiliates, net of cash acquired and net of assets and liabilities recorded due to consolidation (Note 2)	(3,676)	(2,487)	(13,992)
Net cash provided (used) by investing activities	(39,436)	7,028	(49,864)

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years ended September 30, 1996, 1995 and 1994

(Amounts in thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Financing activities:			
Proceeds from secured bank financing	$ 16,250	$ 23,366	$ 13,779
Payments of secured bank financing	(28,270)	(38,643)	(2,630)
Extraordinary charge related to early extinguishment of long-term debt	-	(1,130)	-
Loan fees and offering costs related to long-term debt	-	(1,511)	-
Additions (reductions) of obligation under capital leases	(308)	(605)	827
Additions to notes payable	2,916	-	-
Distributions to minority interest	(1,029)	-	-
Issuance of subordinated notes	-	77,400	-
Redemption of convertible subordinated debentures	-	(41,852)	-
Issuance of Common Stock, net of offering costs	978	815	1,479
Repurchases of Common Stock	(1,378)	-	-
Net cash (used) provided by financing activities	(10,841)	17,840	13,455
Net increase (decrease) in cash and cash equivalents	(29,526)	38,936	(43,579)
Cash and cash equivalents at beginning of year	41,018	2,082	45,661
Cash and cash equivalents at end of year	$ 11,492	$ 41,018	$ 2,082

</TABLE>

See accompanying notes.

COMMNET CELLULAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years ended September 30, 1996, 1995 and 1994

(Amounts in thousands)

Supplemental schedule of additional cash flow information and noncash activities:

	1996	1995	1994
Cash paid during the year for interest	$14,012	$12,209	$ 9,731
Purchase of cellular system equipment through accounts payable	2,116	4,235	4,112
Purchases of interests in affiliates by issuance of Common Stock	5,506	6,780	2,762
Conversion of convertible subordinated debentures and notes to Common Stock	2,909	34,090	37,811
Additions to deferred loan costs related to 11 1/4% subordinated notes	-	2,600	-
Write-off of offering costs included in extraordinary loss on early extinguishment of long-term debt	-	882	-

See accompanying notes.

COMMNET CELLULAR INC.
NOTES TO CONSOLIDTED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Organization and basis of presentation

CommNet Cellular Inc. and its majority-owned affiliates (the "Company") operates, manages and finances cellular telephone systems principally in the mountain and plains regions of the United States. Cellular telephone systems are capable of providing a wide variety of telecommunication services including high quality wireless local and long-distance telephone service within a specified market area through mobile, portable or fixed telephone equipment.

The Federal Communications Commission ("FCC") initially granted only two licenses in each cellular market area, one to a telephone company with an exchange presence in the area ("wireline" license), and one to an entity other than a telephone company ("nonwireline" license).

The Company initially acquired its cellular interests by participating in the wireline licensing process conducted by the FCC. In order to participate in that process, the Company formed affiliates which were originally owned at least 51% by one or more independent telephone companies and no more than 49% by the Company. In addition to obtaining interests in cellular markets through participation in the FCC licensing process, the Company also has purchased direct interests in additional markets in order to expand the network.

All affiliate investments in which the Company has greater than a 50% interest are consolidated. All affiliate investments in which the Company has a 50% or less but 20% or greater interest are accounted for under the equity method. All affiliate investments in which the Company has less than a 20% interest are accounted for under the cost method.

The Company and its affiliates participated in the following markets as of September 30, 1996:
<TABLE>
<CAPTION>

MSA or RSA Code (1)	State	Net Company Interest in Licensee (2)
<C>	<S>	<C>
MSAs: 141	Minnesota	16.34%
185	Indiana	16.67%
241	Colorado	73.99%

253	Iowa	74.50%
267	South Dakota	51.00%
268	Montana	77.05%
279	Maine	11.11%
289	South Dakota	100.00%
297	Montana	100.00%
298	North Dakota	70.00%

</TABLE>

1. Summary of significant accounting policies (continued)

Organization and basis of presentation (continued)

MSA or RSA Code (1)		State	Net Company Interest in Licensee (2)
RSAs:	348	Colorado	10.00%
	349	Colorado	61.75%
	351	Colorado	61.75%
	352	Colorado	66.00%
	353	Colorado	100.00%
	354	Colorado (B1)	69.40%
	355	Colorado	49.00%
	356	Colorado (B1)	49.00%
	389	Idaho	50.00%
	390	Idaho	33.33%
	392	Idaho (B1)	100.00%
	393	Idaho	91.64%
	415	Iowa	10.11%
	416	Iowa	78.57%
	417	Iowa	100.00%
	419	Iowa	44.92%
	420	Iowa	100.00%
	424	Iowa	35.00%
	425	Iowa	13.28%
	426	Iowa	49.14%
	427	Iowa	49.17%
	428	Kansas	3.07%
	429	Kansas	3.07%
	430	Kansas	3.07%
	431	Kansas	3.07%
	432	Kansas	3.07%
	433	Kansas	3.07%
	434	Kansas	3.07%
	435	Kansas	3.07%
	436	Kansas	3.07%
	437	Kansas	3.07%
	438	Kansas	3.07%
	439	Kansas	3.07%
	440	Kansas	3.07%
	441	Kansas	3.07%
	442	Kansas	3.07%
	512	Missouri (B1)	14.70%
	523	Montana (B1)	100.00%
	523	Montana (B2)	98.81%
	524	Montana (B1)	79.40%
	526	Montana (B1)	100.00%

1. Summary of significant accounting policies (continued)

Organization and basis of presentation (continued)

<TABLE>
<CAPTION>

MSA or RSA Code (1)	State	Net Company Interest in Licensee (2)
<C>	<S>	<C>

527	Montana	100.00%
528	Montana	80.88%
529	Montana	87.25%
530	Montana	80.88%
531	Montana	100.00%
532	Montana	100.00%
553	New Mexico (B2)	58.36%
555	New Mexico	12.25%
557	New Mexico	16.33%
580	North Dakota	53.36%
581	North Dakota	49.00%
582	North Dakota	41.45%
583	North Dakota	49.00%
584	North Dakota	61.75%
634	South Dakota	100.00%
635	South Dakota	100.00%
636	South Dakota	100.00%
638	South Dakota (B1)	100.00%
638	South Dakota (B2)	100.00%
639	South Dakota (B1)	100.00%
639	South Dakota (B2)	100.00%
640	South Dakota	64.49%
641	South Dakota	61.13%
642	South Dakota	49.00%
675	Utah	100.00%
676	Utah	100.00%
677	Utah (B3)	100.00%
678	Utah	80.00%
718	Wyoming	66.00%
719	Wyoming	100.00%
720	Wyoming	100.00%

</TABLE>

(1) Metropolitan Statistical Area ("MSA") ranking is based on population as established by the FCC. Rural Service Areas ("RSAs") have been numbered by the FCC alphabetically by state.

(2) Represents the net ownership interest held by the Company in the licensee for the respective market.

1. Summary of significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned affiliates. All significant intercompany transactions have been eliminated.

Minority interests, occurring only when other stockholders or partners provide funding to the affiliates, is classified with noncurrent liabilities in the accompanying balance sheets. For all other majority-owned affiliates, the Company records all operating losses given that the minority interests have no funding obligations. At such time as the cumulative net income attributed to these nonfunding minority interests exceeds the cumulative net losses previously absorbed, the Company will record a minority interest liability for such entities.

Use of estimates

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

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

The Company performs credit evaluations of its customers' financial condition prior to initial activation and generally does not require collateral. Receivables generally are due within 30 days. Credit losses relating to the Company's customers consistently have been within management's expectations. The Company's provision for doubtful accounts receivable was approximately $1,231,000, $5,096,000 and $3,372,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Inventory

Inventories are stated at the lower of cost (first-in, first-out) or market and are comprised of cellular communication equipment and accessories held for resale to the Company's subscribers.

Investment in cellular system equipment

Investment in cellular system equipment relates to cellular system equipment under construction or held in inventory at the Company's warehouse facility.

During the year ended September 30, 1994, the Company replaced and upgraded certain cellular system equipment. As a result, the Company realized a loss of $3,117,000 representing the excess of net book over realizable value.

1. Summary of significant accounting policies (continued)

Long-lived assets

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present. The Company is required to adopt Statement No. 121 in the first quarter of fiscal year 1997 and, based on current circumstances, does not believe the effect of adoption will be material.

Deferred loan costs

Deferred loan costs relate to the offerings of senior notes and to loan agreements (see Notes 4 and 5). These costs are being amortized over the respective terms of the notes and loans.

FCC licenses and filing rights

FCC licenses represent the costs of the FCC licenses acquired by consolidated affiliates. Filing rights represent costs associated with acquiring the rights to file for cellular telephone licenses. The excess of the purchase price of affiliate interests acquired over the fair market value of the related net assets acquired is included as the cost of FCC licenses and filing rights and is amortized over 40 years from the date of acquisition.

Revenue recognition

Cellular service revenues based upon subscriber usage are recognized at the time service is provided. Access and special feature cellular service revenues are recognized when earned. Equipment sales are recognized at the time equipment is delivered to the subscriber or to an unaffiliated agent.

Cost of equipment sold

During 1996, the Company introduced a new customer service program whereby a handset is provided to the customer and returned to the Company at the end of the service agreement. The cost of providing the handset to the customer is included in cost of equipment sales, with no corresponding recognition of equipment revenue, as any revenue related to the program is recognized in cellular service revenue.

Depreciation and amortization

Depreciation of property and equipment is provided principally on the straight-line method over estimated useful lives as follows:

	Years
Cellular system equipment	8-15
Building and improvements	6-10
Furniture and equipment	3-5

1. Summary of significant accounting policies (continued)

Cost allocations

The Company allocates shared operating costs to its managed affiliates. Costs which bear an identifiable causal relationship are allocated directly to the affiliate. Indirect costs are allocated based on a methodology negotiated with the affiliates and applied consistently to all managed markets. This methodology allocates functional cost pools on a pro rata basis taking into consideration total property, plant and equipment, population, subscribers and other attributes of the managed markets.

The Company incurs certain overhead costs related to expansion. As a result, the Company capitalized $1,937,000, $2,536,000 and $3,991,000 for the years ended September 30, 1996, 1995 and 1994, respectively, which is included in property and equipment, and investment in cellular system equipment. In addition, the Company allocated $429,000, $816,000 and $713,000 to nonconsolidated affiliates for the years ended September 30, 1996, 1995 and 1994, respectively.

Advertising

The Company expenses advertising costs as incurred. Advertising expense was approximately $2,825,000, $2,624,000 and $2,370,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Stock-based compensation

In October 1995, the FASB issued Statement No. 123, _Accounting and Disclosure of Stock-Based Compensation_. Statement No. 123 is applicable to fiscal years beginning after December 15, 1995 and gives the issuer the option to either follow fair value accounting or to follow Accounting Principles Board Opinion No. 25 _Accounting for Stock Issued to Employees_ ("APB No. 25") and related interpretations. The Company will comply with the disclosure rules of Statement No. 123 for fiscal year 1997, and will elect to continue to follow APB No. 25 and related interpretations in accounting for its employee stock options.

Earnings per common share

Net income (loss) per common share is based on the weighted average number of common shares outstanding during the periods. Common Stock equivalents consist of employee stock options. The difference between earnings per common share and primary earnings per share is insignificant. Fully diluted earnings per share are not presented because conversion of the convertible subordinated debentures and notes would be anti-dilutive. The convertible subordinated debentures and notes are not considered to be Common Stock equivalents.

Certain reclassifications

Certain reclassifications have been made to the 1995 financial statements to conform with the 1996 financial statement presentation.

2. Business acquisitions and dispositions

1994

In December 1993, the Company acquired 100% of the stock of a corporation which owns and operates the Rapid City, South Dakota MSA market and owns general partnership interests in two partitioned RSA markets (South Dakota 5 (B2) and South Dakota 6 (B2)) for approximately $10,420,000 in cash plus property valued at approximately $400,000.

In December 1993, the Company sold its interests in affiliates which held a 44.44% limited partnership interest in the wireline licensee for RSA 608 (Oregon 3) for approximately $2,076,000 in cash. The sale resulted in a gain of approximately $630,000.

In December 1993, the Company acquired additional interests in two affiliated corporations for approximately $139,000.

In February 1994, the Company acquired an additional 51% of the stock of an affiliate which held a 28.6% limited partnership interest in MSA 239 (Joplin, MO) for 69,051 shares of the Company's Common Stock, then sold the Company's entire limited partnership interest for $4,494,000 in cash. The sale resulted in a gain of approximately $1,921,000.

In March 1994, the Company acquired an additional interest in an affiliated corporation for 2,732 shares of the Company's Common Stock.

In April 1994, the Company acquired three affiliated corporations which hold limited partnership interests in Utah RSA managed markets for 80,145 shares of the Company's Common Stock.

In May 1994, the Company sold its interest in an affiliate which held an 8.125% limited partnership interest in three nonmanaged RSA markets for approximately $2,468,000 in cash. The sale resulted in a gain of approximately $841,000. Contemporaneously, the Company acquired additional limited partnership interests in four managed RSA markets for approximately $373,000.

In July 1994, the Company acquired an additional interest in an affiliated corporation for approximately $199,000 in cash.

In August 1994, the Company acquired an aggregate of 3.07% of the stock of a corporation which operates cellular systems throughout Kansas from two unrelated corporations for approximately $3,000,000 in cash.

During fiscal year 1994, the Company recognized a gain of approximately $907,000 due to the write-off of contingent liabilities related to stock price guarantees in acquisition agreements.

2. Business acquisitions and dispositions (continued)

1995

In November 1994, the Company purchased an additional 5.97% interest in Nebwest Cellular, Inc. for $1,600,000 in cash. Pursuant to the terms of a shareholder's agreement, the Company subsequently sold a portion of that interest to the other shareholders on a pro rata basis for approximately $450,000 in cash. In February 1995, the Company purchased an additional 3.37% interest in this corporation for 34,688 shares of the Company's Common Stock. In March 1995, the Company purchased an additional 2.57% interest in this corporation for 28,638 shares of the Company's Common Stock. In July 1995, the Company sold its 61.50% interest in Nebwest Cellular, Inc. which owned 25.52% of Nebraska Cellular Telephone Corporation, the licensee for the ten wireline RSA markets in the state of Nebraska, for approximately $24,300,000 which resulted in a gain after tax of approximately $19,600,000.

In January 1995, the Company sold a wholly-owned subsidiary for approximately $86,000 which resulted in a loss of approximately $297,000.

In January 1995, the Company transferred its 25% interest in one nonmanaged RSA market to a partner in that market pursuant to a judgment. The Company received approximately $1,699,000 upon transfer of the interest which resulted in a gain of approximately $497,000.

In February 1995, the Company purchased additional interests ranging from 2% to 41% in eleven managed and one nonmanaged markets for approximately $1,259,000 in cash and the issuance of 49,738 shares of the Company's Common Stock.

In May and June 1995, the Company acquired additional interests ranging from 17% to 51% in two managed markets and two nonmanaged markets for an aggregate of 138,168 shares of the Company's Common Stock.

In August and September 1995, the Company acquired additional interests ranging from 3% to 26% in two managed markets for 3,592 shares of the Company's Common Stock and approximately $38,000 in cash.

1996

In November 1995, the Company purchased additional interests ranging from 18% to 19% in three managed markets for 28,283 shares of the Company's Common Stock.

In March 1996, the Company purchased additional interests ranging from 43% to 44% in two managed RSA markets for 79,520 shares of the Company's Common Stock.

In April 1996, the Company acquired interests in one managed MSA and one managed RSA market for a net purchase price of $1,011,000, comprised of the Company's interest in one managed RSA market (transferred in November 1995), common stock, cash and forgiveness of certain obligations.

Also in April 1996, the Company purchased additional interests ranging from 8% to 38% in one managed and one nonmanaged RSA markets and one nonmanaged MSA market for approximately $392,000 in cash and 44,415 shares of the Company's Common Stock.

2. Business acquisitions and dispositions (continued)

In May 1996, the Company partitioned the New Mexico 1 RSA, sold its interest in the southern portion of the market and acquired the interest of U S WEST NewVector Group, Inc. in the northern portion of the market. As a result of the transaction, the Company paid approximately $1,105,000 in cash, and net Company pops increased 24,289.

In June 1996, the Company purchased an additional 40% interest in one nonmanaged RSA market for 27,258 shares of the Company's Common Stock and approximately $790,000 in cash.

In September 1996, the Company acquired 577,812 shares of convertible preferred stock in TVX, Inc. for approximately $800,000. TVX develops and markets products for the management of digital video and images, including visual observation and verification products for the security industry. Prior to this acquisition, the Company held 1,157,022 shares of Common Stock or 39% voting interest in TVX, Inc. and 484,756 shares of redeemable convertible preferred stock with a redemption value of $484,756.

Each of the above acquisitions was accounted for using the purchase method of accounting. The applicable results of operations of the acquired interests have been included in the Company's consolidated statements of operations from the respective acquisition dates.

The following represents the pro forma results of operations as if the above noted acquisitions and dispositions had occurred at the beginning of the respective period in which the acquisition or disposition occurred, as well as at the beginning of the immediately preceding period:

	Years ended September 30,		
	1996	1995	1994
	(Amounts in thousands, except per share data)		
Revenues	$118,603	$94,948	$67,287
Equity in net loss of affiliates	(1,880)	(4,258)	(3,888)
Income (loss) before extraordinary charge	(5,594)	(399)	1,097
Net income (loss)	(5,594)	(2,411)	1,097
Net income (loss) per common share	(.40)	(.19)	.09

3. Investment in and advances to affiliates

Investment in and advances to the Company's nonconsolidated affiliates consisted of the following:

	September 30,	
	1996	1995
	(Amounts in thousands)	
Investment	$ 17,620	$ 13,097
Equity in loss - cumulative	(20,935)	(23,399)
Advances and other	60,560	67,221
	$ 57,245	$ 56,919

3. Investment in and advances to affiliates (continued)

The combined financial position of the nonconsolidated affiliates is as follows:

<TABLE>
<CAPTION>

<S>	September 30, 1996	September 30, 1995
	(Amounts in thousands)	
Current assets	$ 8,938	$ 2,929
Investment in affiliated limited partnerships	8,664	13,189
Property and equipment, net of accumulated depreciation	16,742	14,268
Other assets	4,356	2,600
Total assets	$ 38,700	$ 32,986
Due to CommNet Cellular Inc.	$ 3,262	$ 8,593
Due to Cellular, Inc. Financial Corporation	46,719	54,411
Other liabilities	14,767	5,783
Minority interests	692	565
Stockholders' deficit	(26,740)	(36,366)
Total liabilities and stockholders' deficit	$ 38,700	$ 32,986

</TABLE>

Combined operations of these nonconsolidated affiliates are summarized as follows:

<TABLE>
<CAPTION>

<S>	Years ended September 30, 1996	1995	1994
	(Amounts in thousands)		
Revenues	$ 21,826	$ 14,260	$ 42,160
Operating costs	(29,262)	(23,345)	(50,520)
Minority interests	(276)	(4)	7
Equity in income (loss) of affiliates	3,811	(4)	370
Net loss	$ (3,901)	$ (9,093)	$ (7,983)

</TABLE>

Interest income from affiliates on advances was $8,738,000, $11,247,000 and $11,380,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Certain advances to affiliates bear interest at the prime rate of Norwest Bank (8.25% at September 30, 1996, 8.75% at September 30, 1995 and 7.75% at September 30, 1994) plus 2%. These advances to and receivables from affiliates are temporary. They are generally refinanced under loan agreements with CIFC. The CIFC loans bear interest at CIFC's average cost of borrowing from CoBank, ACB as agent for a syndicate of lenders ("CoBank") and will be repaid from income derived from the operation of the cellular system or income derived from the affiliates' interest in the partnership providing cellular service.

4. Secured bank financing and note payable

CIFC has a secured financing agreement with CoBank. The secured bank financing is due December 31, 2000, with interest only payable quarterly through December 31, 1996, and thereafter quarterly principal and interest payments payable through maturity. Amounts outstanding under the agreement were $24,190,000 and $36,263,000, of which $3,365,000 and $0 are classified as current, for the years ended September 30, 1996 and 1995, respectively. The Company and CIFC are currently in discussion with CoBank to modify certain provisions of the Credit Agreement, including the loan term whereby principal payments would commence subsequent to September 30, 1997. Under the terms of the current agreement, CoBank has agreed to loan to CIFC a maximum of $165,000,000 to be reloaned by CIFC to affiliates of the Company for the construction, operation and expansion of cellular telephone systems, including $25,000,000 for the acquisition of cellular systems. Interest is payable at either the prime rate plus 1.00% for variable rate loans (9.25% and 9.75% at September 30, 1996 and 1995, respectively) or LIBOR (London InterBank Offered Rate) plus 2.50% for fixed rate loans (8.23% and 8.53% at the six-month rate at September 30, 1996 and 1995, respectively). CIFC continues to maintain fixed interest rates on substantially all loans outstanding for terms ranging from one to three months at an average rate of 8.09% at September 30, 1996. The loans are secured by a first lien on all assets of CIFC, as well as all assets of each of the affiliates to which loans are made by CIFC. CIFC's assets totaled approximately $276,044,000 and $242,298,000 at September 30, 1996 and 1995, respectively. In addition, the Company has guaranteed the obligations of CIFC to CoBank and has granted CoBank a first security interest in all of the assets of the Company as security for such guaranty. A commitment fee of .5% per annum is payable by CIFC to CoBank on the average daily unborrowed commitment.

The Credit Agreement prohibits the payment of cash dividends, prohibits any other senior borrowings, limits the use of borrowings, restricts expenditures for certain acquisitions and investments, requires positive working capital and financed proportionate operating cash flow and requires the maintenance of certain liquidity, capitalization, debt, debt service and cash interest ratios. The requirements of the Credit Agreement were established in relation to the anticipated capital and financing needs of the Company's affiliates and their anticipated results of operations. The Company is currently in compliance with all covenants and anticipates it will continue to meet the requirements of the Credit Agreement. CoBank acts as agent for a syndicate of lenders whose approval may be required for waivers or other amendments to the Credit Agreement requested by CIFC or the Company.

One affiliate of the Company has entered into a similar financing arrangement with CoreStates Bank, N.A. to refinance prior indebtedness, finance working capital and capital expenditures and fund distributions to its partners. The affiliate may borrow up to $3,500,000 through September 30, 1999 at which time the loan becomes a reducing revolving loan through September 30, 2001. At September 30, 1996, the affiliate had borrowed $2,916,000 at an interest rate of 6.94%.

Aggregate maturities of the secured bank financing and note payable for each of the next five years ending September 30 are as follows: 1997 - $3,365,000; 1998 - $4,662,000; 1999 - $6,048,000; 2000 - $8,653,000; 2001 - $4,378,000.

5. Senior and subordinated debt

In August 1989, the Company completed a public offering of $74,750,000 aggregate principal amount of 6 3/4% Convertible Subordinated Debentures due 2009. The debentures were convertible at any time prior to maturity, unless previously redeemed or repurchased, into Common Stock of the Company at a conversion price of $27 5/8 per share, subject to adjustment under certain conditions. During the first fiscal quarter of 1995, $3,000 of the debentures were converted into 108 shares of the Company's Common Stock. In July 1995, the Company called all outstanding 6 3/4% debentures for redemption. As a result, $32,895,000 of the debentures were converted into 1,190,673 shares of the Company's Common Stock, and $41,852,000 were redeemed for cash. The Company redeemed the debentures at a price of 102.7% resulting in a premium of $1,130,004. In addition, the Company wrote off $882,253 in offering costs previously capitalized. As a result of the redemption, the Company recognized an extraordinary charge related to early extinguishment of long-term debt of $2,012,257 in the Company's 1995 statement of operations. The Company also charged $758,228 of offering costs against capital in excess of par value as a result of the conversion.

In May 1990, the Company completed an offering of $40,000,000 in aggregate principal amount of 8% Convertible Subordinated Debentures due 2000. The 8% debentures were convertible at any time prior to maturity, unless previously redeemed or repurchased, into Common Stock of the Company at a conversion price of $14.95 per share, subject to adjustment under certain circumstances. On September 8, 1993, the Company called all outstanding 8% debentures for redemption. As of September 30, 1993, $2,127,800 of the debentures had been converted into 142,329 shares of the Company's Common Stock. In October 1993, the remaining $37,812,200 of 8% debentures were converted into 2,529,194 shares of the Company's Common Stock, and the Company paid approximately $60,000 to the remaining holders of the debentures.

In January 1993, the Company completed a private placement of $4,950,000 of 8.75% Convertible Senior Subordinated Notes Due 2001. The notes were general unsecured obligations of the Company, were subordinate in right of payment to all Senior Debt of the Company, and were convertible into shares of the Company's Common Stock at the price of $15.00 per share. In September 1995, $1,950,000 of the notes were converted into 130,004 shares of the Company's Common Stock. On December 7, 1995, the Company notified the remaining noteholders of its intent to call for redemption the balance of the notes outstanding. In January 1996, the remaining $3,000,000 in notes were converted into 200,000 shares of the Company's Common Stock. Loss per share would not have been materially effected had this conversion occurred at the beginning of the year.

In September 1993, the Company completed an offering of $176,651,000 aggregate principal amount of 11 3/4% Senior Subordinated Discount Notes Due 2003. The notes were issued at a substantial discount from their principal amount resulting in gross proceeds to the Company of approximately $100,000,000. After deducting offering costs, net proceeds were $96,740,000. The notes are general unsecured obligations of the Company and are subordinate in right of payment to all Senior Debt of the Company. Commencing September 1, 1998, interest will accrue until maturity on the notes at the rate of 11 3/4% per annum. Interest on the discount notes is payable semi-annually on March 1 and September 1, commencing March 1, 1999. The discount notes mature on September 1, 2003 and are redeemable commencing September 1, 1998, in whole at any time or in part from time to time, at the option of the Company at the redemption prices (together with accrued interest) of 105.87% if redeemed in 1998 decreasing to 101.46% of the principal amount in 2001. The discount note holders may require the Company to repurchase the discount notes, in whole or in part, in certain instances constituting a change of control of the Company.

5. Senior and subordinated debt (continued)

In July 1995, the Company completed an offering of $80,000,000 in aggregate principal amount of 11 1/4% Subordinated Notes due 2005. The notes are subordinate to all existing and future Senior Debt of the Company. Interest on the notes accrues from the original date of issuance at the rate of 11 1/4% per annum. Interest is payable in cash semi-annually on each January 1 and July 1. The notes mature on July 1, 2005 and are redeemable in whole or in part from time to time, at the option of the Company, at any time on or after July 1, 2000 at the redemption prices of 106% if redeemed in 2000 decreasing to 101.5% of the principal amount in 2003. The note holders may require the Company to repurchase the notes, in whole or in part, in certain instances constituting a change of control of the Company at a price equal to 101% of the principal amount.

6. Commitments

The Company leases office space and equipment under agreements which provide for rental payments based on lapse of time. Certain of these lease agreements contain renewal option clauses. Rent expense was $3,798,000, $2,410,000 and $1,366,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

The aggregate annual rental commitment as of September 30, 1996 is as follows (amounts in thousands):

1997	$3,356
1998	3,087
1999	2,710
2000	2,365
2001	2,053
Future years	6,981
	$20,552

On May 15, 1989, the Company adopted a retirement savings plan (pursuant to Section 401(k) under the Internal Revenue Code) providing for a deferred compensation and Company matching provision. Under the plan, eligible employees are permitted to contribute up to 15% of gross compensation, subject to certain limitations into the retirement plan and the Company will match at the minimum 25% of each employee's contribution up to 3% of the employee's eligible compensation (6% as of January 1, 1997).

On January 31, 1996, the Company entered into two Option to Sell Agreements as part of the New Mexico 1 RSA transaction pursuant to which the minority owners in one managed RSA market can require the Company to purchase their interests at a price based upon a multiple of EBITDA. If the transaction occurs after January 1, 2001, the minimum purchase price will be $10,000,000, plus any capital contributed by the minority owners subsequent to October 1, 1995.

COMMNET CELLULAR INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Commitments (continued)

The Company has indicated its intent to finance the ongoing operating and capital requirements of TVX, Inc. through September 30, 1997. The Company provided $4,369,000 of financing to TVX, Inc. for the year ended September 30, 1996 of which $2,169,000 was utilized for operating purposes. Funding requirements for the year ended September 30, 1997 could be similar if TVX, Inc. is unable to obtain alternative financing. There can be no assurance TVX, Inc. will obtain such financing. As of September 30, 1996, the Company carried its investment in TVX, Inc. at a value of $4,742,000.

7. Income taxes

At September 30, 1996, the Company had cumulative NOL carryforwards of $50,808,000 for income tax purposes. If not offset against taxable income, the tax loss carryforwards will expire between 2001 and 2011. Prior NOLs have been restated to reflect the impact of adding entities consolidated in 1996 that incurred NOLs prior to becoming part of the consolidated reporting group. The income tax provision of $400,000 and $100,000 for the years ended September 30, 1995 and 1994, respectively, was mainly attributable to gains on sales of investments and consisted solely of a current Federal Alternative Minimum Tax ("AMT") component. There was no income tax provision for the year ended September 30, 1996. The Company has no liability for regular tax expense due to tax net operating losses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of September 30, 1996 and 1995, the Company's net deferred tax asset has been fully reserved with a valuation allowance. Significant components of the Company's deferred tax assets and liabilities are as follows:
<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
<S>	<C>	<C>
	(Amounts in thousands)	
Deferred tax assets:		
Equity method investments	$ 1,576	$ 2,793
Intangible asset differences	8,182	8,808
Inventory adjustments	508	269
Accrued liabilities	298	232
Interest expense on 11 3/4% discount notes	15,946	10,125
Other - net	303	270
Other capitalized costs - net	1,709	2,977
Net operating loss carryforwards	19,307	15,391
Tax credit carryforwards	302	400
Total deferred tax assets	48,131	41,265
Deferred tax liabilities:		
Difference in license costs	32,455	27,787
Fixed asset differences	4,720	4,680
Total deferred tax liabilities	37,175	32,467
Net deferred tax asset	10,956	8,798
Valuation allowance	(10,956)	(8,798)
Net deferred taxes	$ -	$ -

</TABLE>

7. Income taxes (continued)

The following table reconciles the amount which would be provided by applying the 35% federal statutory rate to income before income tax expense to the federal income taxes actually provided:

	Years ended September 30,		
	1996	1995	1994
	(Amounts in thousands)		
Income tax at federal statutory rate of 35%	$(1,539)	$ 866	$(5,828)
Benefit of tax losses not recognized	1,539	-	5,828
Benefit due to utilization of regular tax Net Operating Loss (NOL) carryforwards	-	(866)	-
Alternative Minimum Tax (AMT) arising from the inability to fully utilize AMT NOL carryforwards	-	400	100
Total income tax expense	$ -	$ 400	$ 100

8. Common Stock options

In 1987, the Company adopted a Key Employees' Nonqualified Stock Option Plan whereby employees may be granted options to purchase up to 500,000 shares of the Company's Common Stock. All outstanding options were granted at an exercise price which represented at least 100% of the quoted market value of the Company's Common Stock at the date of grant and were exercisable for a period of five years from the date of grant. In November 1992, the Company terminated the Key Employees' Nonqualified Stock Option Plan as to future grants. All options outstanding under this plan were exercised during 1995.

The Company adopted an Omnibus Stock and Incentive Plan, effective November 1, 1991, pursuant to which 500,000 shares of the Company's Common Stock are reserved for issuance pursuant to Options, Stock Appreciation Rights, Stock Bonuses or Phantom Stock Rights. In February 1993, the Company's shareholders approved an additional 500,000 shares of the Company's Common Stock to be reserved for issuance pursuant to the Omnibus Stock and Incentive Plan plus 1% of the number of shares outstanding at the end of each fiscal year commencing October 1, 1993. In February 1995, the Company's shareholders approved an additional 750,000 shares of the Company's Common Stock to be reserved for issuance under this plan.

8. Common Stock options (continued)

An analysis of options related to the Company's benefit plans is as follows:
<TABLE>
<CAPTION>

	Key Employees' Nonqual. Stock Option Plan	Omnibus Stock and Incentive Plan	Exercise Price Range
<S>	<C>	<C>	<C>
Outstanding options at September 30, 1994	89,000	544,625	$ 7.00 - $26.00
Granted	-	692,000	$23.00 - $25.63
Forfeitures	(10,000)	(19,125)	
Exercised	(79,000)	(7,875)	$ 7.00 - $19.50
Outstanding options at September 30, 1995	-	1,209,625	$11.75 - $25.63
Granted	-	529,000	$ 25.56
Forfeitures	-	(100,500)	
Exercised	-	(36,750)	$13.00 - $25.63

Outstanding options at September 30, 1996	-	1,601,375	\$11.75 - \$25.63
	==============	=========	
Options available for grant at September 30, 1996	-	570,715	
	==============	=========	
Options exercisable at September 30, 1996	-	484,750	
	==============	=========	

</TABLE>

The weighted average exercise price of the options outstanding at September 30, 1996 was $22.62.

Subsequent to September 30, 1996, the Company granted options to purchase 295,250 shares of Common Stock to officers and employees of the Company at an exercise price of $29.375 pursuant to the Company's Omnibus Stock and Incentive Plan.

In addition to the plans described above, in July 1993, the Company granted options to purchase 152,500 shares of Common Stock to two former officers at exercise prices ranging from $7.00 - $15.75. As a result, the Company recognized compensation expense of approximately $370,000. The options became exercisable at various intervals through November 1995 and, as of September 30, 1996, all of these options had been exercised. During the fiscal years ended September 30, 1996, 1995 and 1994, options to purchase 11,250, 15,000 and 101,250 shares were exercised, respectively. In September 1995, the Company granted options to purchase 60,000 shares of Common Stock to a former officer at an exercise price of $30.375. These options are exercisable over a period of four years from the date of grant. In June 1996, options to purchase 30,000 of these shares were canceled. During the fiscal year ended September 30, 1996, options to purchase 7,500 shares became exercisable and no options were exercised under this agreement.

9. Employee stock ownership plan

On October 1, 1988, the Company adopted an Employee Stock Ownership Plan ("ESOP"). The cost of the ESOP is borne by the Company through annual contributions to a Trustee in amounts determined by the Board of Directors. Employees are eligible to participate in the ESOP after one year of service. Shares of Common Stock acquired by the ESOP are to be allocated to each employee and held until the employee's retirement or death. The employee can also choose early withdrawal under certain circumstances. Each employee's account vests ratably over a period of five years. Contributions totaling approximately $707,000 (24,487 shares), $552,000 (19,021 shares) and $478,000 (20,953 shares) were made to the ESOP for the years ended September 30, 1996, 1995 and 1994, respectively. Shares are deemed issued for accounting purposes in the year that ESOP contribution expense is recognized.

10. Stockholders' equity

In December 1990, the Board of Directors declared a dividend distribution of one right (a "Right") attached to each outstanding share of the Company's Common Stock at any point in time. Each Right, when exercisable, entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Preferred Stock, at a price of $45 per one one-hundredth of a share, subject to adjustment (the "Purchase Price").

The Rights will detach from the Common Stock and a "Distribution Date" will occur upon the earliest of (i) ten days following a public announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of 25% or more of the outstanding shares of the Company's Common Stock (the "Stock Acquisition Date"), (ii) ten business days following commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 30% or more of the Company's Common Stock, or (iii) ten business days after the Board of Directors have made a determination that someone has become the beneficial owner of a substantial amount of the Company's Common Stock and that such ownership is adverse to the Company's interest. Should these events occur, each holder of a Right will thereafter have the right to receive, upon exercise, the Company's Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the Purchase Price. Similarly, in the event that at any time following a Stock Acquisition Date, the Company is acquired in a merger or other business combination transaction in which the Company is not the surviving corporation or 50% or more of its assets, cash flow or earning power is sold or transferred, each holder of a Right shall thereafter have the right to receive, upon exercise, Common Stock of the acquiring entity having a value equal to two times the Purchase Price. Under certain circumstances, any Rights that are owned by the acquiring person or the adverse person will be null and void.

In general, the Company may redeem the Rights in whole, but not in part, at a price of $.01 per Right, at any time until ten days following the acquisition by a person or group of 25% or more of the Company's outstanding Common Stock or the declaration by the Board of Directors that a person is an adverse person. The Rights will expire on December 24, 2000, unless earlier redeemed.

10. Stockholders' equity (continued)

In August 1996, the Company announced a program to repurchase, from time to time, up to $20,000,000 of its outstanding Common Stock using available liquidity to fund the repurchases. At September 30, 1996, the Company had repurchased 47,500 shares at prices ranging from $28.875 to $29.125 per share for an aggregate price of $1,378,438. Subsequent to year end, the Company repurchased an additional 102,000 shares at prices ranging from $27.75 to $29.00 per share, for an aggregate price of $2,932,500.

11. Fair values of financial instruments

FAS Statement No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments for which it is practicable to estimate that value, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Advances to affiliates: The carrying amounts of the Company's advances to and receivables from affiliates approximate their fair value.

Long and short-term debt: The carrying amounts of the secured bank financing and note payable borrowings approximate their fair value as all borrowings either carry a variable interest rate or fixed interest rates having a term of three months or less. Other long-term debt is valued based on quoted market prices.

The carrying amounts and fair values of the Company's financial instruments at September 30, 1996 are as follows:
<TABLE>
<CAPTION>

<S>	Carrying Amount <C>	Fair Value <C>
	(Amounts in thousands)	
Cash and cash equivalents	$ 11,492	$ 11,492
Advances to affiliates and other	60,560	60,560
Notes payable	2,916	2,916
Secured bank financing	24,190	24,190
11 1/4% subordinated notes	80,000	84,000
11 3/4% senior subordinated discount notes	141,963	158,103

</TABLE>

12. Quarterly Financial Data (unaudited)

Quarterly financial data and per share data are presented below (amounts in thousands, except for per share data):

Quarterly Financial Data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Revenues	$25,071	$23,590	$29,765	$36,770
Operating income (loss)	1,536	(41)	4,320	10,538
Net income (loss)	(3,354)	(4,734)	(968)	4,660
Income (loss) per share	$ (0.25)	$ (0.35)	$ (0.07)	$ 0.34
1995				
Revenues	$19,275	$19,064	$24,178	$27,327
Operating income (loss)	(1,821)	(1,592)	1,539	3,867
Income (loss) before extraordinary charge	(6,437)	(5,837)	(3,546)	17,894
Net income (loss)	(6,437)	(5,837)	(3,546)	15,882
Income (loss) per share:				
Income (loss) before extra-ordinary charge	$ (0.55)	$ (0.49)	$ (0.29)	$ 1.38
Net income (loss)	(0.55)	(0.49)	(0.29)	1.22

As described in Note 2, the Company sold its interest in Nebwest Cellular, Inc. during the fourth fiscal quarter of 1995, resulting in a gain after tax of approximately $19,600,000. In addition, as discussed in Note 6, during the fourth fiscal quarter of 1995, the Company experienced an extraordinary charge related to the early extinguishment of long-term debt of approximately $2,012,000.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth certain information regarding the executive officers and directors of the Company:

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Arnold C. Pohs	68	Chairman of the Board, President, Chief Executive Officer and Director
Daniel P. Dwyer (1)	37	Executive Vice President, Treasurer, Chief Financial Officer and Director
Andrew J. Gardner	42	Senior Vice President and Controller
Homer Hoe	47	Executive Vice President and Chief Information Officer
Timothy C. Morrisey	43	Executive Vice President - Sales Operations
David S. Lynn	39	Senior Vice President - Network Operations
Amy M. Shapiro	43	Senior Vice President, Secretary and General Counsel
John E. Hayes, Jr. (1) (2)	59	Director
Robert J. Paden (2)	41	Director
David E. Simmons (1) (2)	39	Director

</TABLE>

____
(1) Member Audit Committee.

(2) Member Compensation Committee.

The Company's Articles of Incorporation provide for a classified Board of Directors consisting of three classes, each class to be as nearly equal in number as possible. The members of each class are elected to a three-year term and one class is elected at each annual meeting. Messrs. Dwyer and Hayes are members of Class III with terms expiring at the 1996 Annual Meeting of Stockholders (to be held in February 1997); Messrs. Pohs and Paden are members of Class I with terms expiring at the 1997 Annual Meeting (to be held in February 1998); and Mr. Simmons is a member of Class II with a term expiring at the 1998 Annual Meeting (to be held in February 1999).

Arnold C. Pohs has been Chairman of the Board of the Company since February 1991, President and Chief Executive Officer since August 1989 and a director since September 1985. Mr. Pohs served as Executive Vice President of the Company from January 1986 through August 1989. Mr. Pohs was designated Chief Operating Officer of the Company in August 1987, prior to which time he was the Chief Financial Officer of the Company. Mr. Pohs currently serves as 1st Vice Chairman and a member of the Executive Committee of the Board of Directors of the Cellular Telecommunications Industry Association and as Chairman of the Public Policy Council.

He is a director, and former Chairman, of the CTIA Foundation for Wireless Telecommunications and is also a member of the CEO Council. He also serves as Chairman of the Board of TVX, Inc.

Daniel P. Dwyer has been Executive Vice President of the Company since November 1992, a director of the Company since March 1990, and Chief Financial Officer since August 1988 and Treasurer since August 1987. He was Vice President - Finance of the Company from November 1989 until November 1992, Secretary from August 1987 until March 1990, Assistant Secretary from January 1987 until August 1987, Controller from May 1986 until November 1988 and accounting manager for the Company from March 1986 until May 1986. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants. Mr. Dwyer currently serves as a director of TVX, Inc.

Andrew J. Gardner was named Senior Vice President of the Company in July 1994. He was Vice President and Controller from November 1992 to July 1994 and Assistant Vice President - Accounting and Tax from July 1990 to October 1992.

Homer Hoe was elected Executive Vice President and Chief Information Officer of the Company in October 1994. From August 1992 until joining the Company in October 1994, he was a self-employed consultant to the Information Services industry, and was contracted by the Company as interim CIO from April to October 1994. From August 1991 to August 1992, Mr. Hoe was Director of Information Services for Tenneco Minerals, a subsidiary of Tenneco, Inc. From May 1986 to August 1991, he was employed by Digital Equipment Corporation, most recently as Senior Consultant, specializing in multi-vendor computer system integration.

David S. Lynn was named Senior Vice President-Network Operations of the Company in July 1994. He was Vice President-Network Operations from March 1993 until July 1994, Vice President-Network Development from February 1992 until March 1993, Assistant Vice President-Finance from June 1990 until February 1992, Controller from November 1988 until June 1990 and Manager, Financial Reporting from August 1988 until November 1988.

Timothy C. Morrisey was named Executive Vice President - Sales Operations of the Company in November 1996. He was Senior Vice President-Sales Operations from February 1995 until November 1996 and General Sales Manager of the Company's Midwest Region from July 1993 until February 1995. From February 1990 until joining the Company in July 1993, Mr. Morrisey was President and General Manager of the Washington D.C. and Baltimore cellular operations for Southwestern Bell Mobile Systems.

Amy M. Shapiro was named Senior Vice President of the Company in November 1995. She was Vice President of the Company from November 1992 to November 1995 and has been Secretary of the Company since March 1990 and General Counsel since October 1989.

John E. Hayes, Jr. was elected a director of the Company in October 1990. Mr. Hayes has served as Chairman of the Board, President and Chief Executive Officer of Western Resources, Inc. since October 1989. From May 1989 to October 1989, Mr. Hayes was Chairman of the Board of Triad Capital Partners, a venture capital firm. Mr. Hayes was President and Chief Executive Officer of Southwestern Bell Telephone Company from September 1986 to January 1989. Mr. Hayes is a director of the Automobile Club of Missouri, Boatmen's Bancshares, Inc., American Gas Association, Edison Electric Institute, Security Benefit Group, the Topeka Community Foundation, Boys Hope, Kansas Wildscape and Boy Scouts of America and a Trustee of Midwest Research Institute, Menninger Foundation and Rockhurst College.

Robert J. Paden has been a director of the Company since December 1985. For the past 13 years, Mr. Paden has been General Manager/Vice President of the Stanton Telephone Company, Stanton, Nebraska. He is also a board member of the Nebraska Telephone Association.

David E. Simmons has been a director of the Company since August 1987. Mr. Simmons has served as President of Simmons Family Incorporated, a broadcasting and communications company, since 1989 and as its Executive Vice President from 1985 to 1989.

Item 11. Executive Compensation.

REPORT OF COMPENSATION COMMITTEE

General. The Compensation Committee of the Board of Directors is responsible for establishing the executive compensation program for the Company. The Committee monitors and recommends changes in the compensation levels of executive management and administers the Company's incentive compensation programs as well as determining the grants under the Company's Employee Stock Ownership Plan. All of the Committee members are outside, non-employee directors of the Company. The Company has periodically retained the services of a nationally recognized executive compensation consulting firm to assist the Company in compensation matters.

Compensation Philosophy. The Company's compensation program is designed to attract and retain high quality executive management, to give management incentives that motivate superior performance on behalf of the Company and to align the interests of management with those of the Company's shareholders. The Committee believes that the Company's base salaries should approximate the average of base salaries paid to executives with similar responsibilities in similar cellular companies. Executive compensation should also be correlated to the Company's performance and shareholder return. In determining executive compensation, the Committee considers compensation from Company subsidiaries and affiliates received by executive officers in their capacity as Board members of such entities.

The companies used for compensation comparison purposes are not all of the same companies contained in the Nasdaq telecommunications industry group comparison of total shareholder return in the Stockholder Performance Return Graph. The companies used for compensation purposes are those companies which are similarly sized and are in the cellular industry.

Components of Compensation.

Salary: The salary of the Chief Executive Officer and the other executive officers of the Company are based on a subjective evaluation of an individual officer's responsibility, Company performance and a comparison of salaries for similar positions in comparable companies.

During 1996 the salary increases for the executive officers, other than Arnold C. Pohs, the Chief Executive Officer, ranged between 10% and 25%. Mr. Pohs' base salary was increased by 17%. The basis for Mr. Pohs' salary increase was twofold. First, the increase recognizes the performance of the Company in terms of operating cash flow achievements. Second, Mr. Pohs' salary was adjusted after an evaluation of comparative industry information to approximate the Company's compensation objective of paying at the average.

Short-Term Incentive Plan Bonuses: The Company maintains an annual bonus plan which is based on meeting certain operational targets. The bonus opportunities are established based on the average opportunities provided to executives in similar positions at similar companies.

Actual annual bonuses for the executive officers were determined based on the Company's performance relative to corporate operating targets and on each individual's performance relative to officer specific individual goals. The weightings of corporate and individual performance vary by

position and responsibilities and range from a weighting of 70% corporate/30% individual to 90% corporate/10% individual, which is the weighting applied to Mr. Pohs' award.

The corporate operating targets were based on the following measures which represent the key business indicators of performance within the cellular industry: Net managed market subscriber additions (20%), managed market acquisition cost (including equipment margin) net subscriber addition (25%), consolidated service revenues (15%), consolidated operating cash flow (30%) and total consolidated debt as a percentage of financed proportionate cash flow (10%).

During fiscal 1996, the Company's weighted average performance results were 101.8% of the operating targets as described above and bonuses were paid accordingly after a subjective evaluation of individual performance The corporate performance results represent excellent performance against aggressive operating plan targets.

Mr. Pohs' award was 40% of base salary and was based 90% on the weighted performance results of 101.8% of the operating targets and 10% on individual performance. The Committee determined that the individual portion of Mr. Pohs' award should be based on a maximum individual performance rating. Specifically, the Committee considered the following: the Company added 60,286 managed market customers, a 39% increase, bringing the total to 211,278 at September 30, 1996, and consolidated EBITDA increased to $38.2 million which represented a 95% increase over the $19.6 million reported in the prior fiscal year.

<u>Long-Term Incentive Compensation:</u> The Company provides long-term incentive compensation to its executives through stock option grants under the Omnibus Stock and Incentive Plan which are intended to align the interest of executives with those of stockholders. This plan was approved by the Company's shareholders during fiscal 1991 and was amended in 1993 and 1995.

Subsequent to the 1996 fiscal year-end, stock options were granted to the Company's executives as set forth in the "Option Grants Table." All options are granted at an exercise price equal to the market price of the Company's Common Stock at the date of grant and vest over a period of four years. The size of option grants to the executives were based on a subjective evaluation of Company and individual performance and on a study by an independent compensation consulting firm of dilution levels of comparable companies. After the stock option grant, the Company's stock option dilution levels are within the range of dilution levels found at comparable companies. In addition, the shares owned by the named executives and their respective option positions were considered in determining such option grants.

In November 1996, Mr. Pohs received an option to purchase 100,000 shares of Common Stock with an exercise price equal to the fair market value of the stock on the date of grant. The size of the award was determined based on a subjective evaluation of Mr. Pohs' performance.

As of the date of this report, Mr. Pohs owns 85,944 shares of the Company's Common Stock and, with the recent grant, holds options to purchase an additional 740,000 shares. The Committee believes that the equity interests held by the named executives represent a significant incentive to continue to increase stockholder value.

<u>Policy with Respect to the $1 Million Limit.</u> Section 162(m) of the Internal Revenue Code generally limits to $1,000,000 the tax deductible compensation paid to the Chief Executive Officer and the four highest-paid executive officers who are employed as executive officers on the last day of the year. However, the limitation does not apply to performance-based compensation provided certain conditions are satisfied.

None of the Company's compensation payments for fiscal 1996 exceeded the tax deductibility limit set forth in Section 162(m) nor is it expected that compensation to be paid in fiscal 1997 will exceed the limit. The committee will continue to monitor the Company's executive compensation program with the impact of Section 162(m) and will seek to minimize the impact of Section 162(m) where appropriate and consistent with the Company's compensation philosophy.

David E. Simmons   John E. Hayes, Jr.   Robert J. Paden

STOCKHOLDER PERFORMANCE RETURN GRAPH

The following graph compares the yearly percentage change in the cumulative total shareholder return on the Company's Common Stock with that of the cumulative total return of the Nasdaq Stock Market - US Index ("NASDAQ STOCK MRKT - US") and the Nasdaq Telecommunications Index ("NASDAQ TELECOM") for the five-year period ended on September 30, 1996. The information below is based on an investment of $100, on September 30, 1991, in the Company's Common Stock, the NASDAQ STOCK MRKT - US and the NASDAQ TELECOM, with dividends reinvested.

[GRAPH APPEARS HERE]
COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
AMONG COMMNET CELLULAR INC., THE NASDAQ STOCK MARKET-US INDEX
AND THE NASDAQ TELECOMMUNICATIONS INDEX

Measurement period (Fiscal year Covered)	Commnet Cellular	NASDAQ Index	NASDAQ Telecommunications Index
Measurement PT - 9/30/91	$100	$100	$100
FYE 9/30/92	$ 93	$112	$109
FYE 9/30/93	$133	$147	$193
FYE 9/30/94	$175	$148	$178
FYE 9/30/95	$223	$204	$213
FYE 9/30/96	$222	$243	$220

* $100 invested on 9/30/91 in stock or index--including reinvestment of dividends. Fiscal year ending September 30.

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation received by the named Executive Officers for each of the three years ended September 30, 1996.

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary ($)	Bonus ($)	All Others ($)(1)	Options (#)	All Others ($)(2)
Arnold C. Pohs................	1996	350,000	149,306	11,473	100,000	10,125
Chairman of the Board,	1995	300,000	126,455	10,861	200,000	8,625
President and Chief	1994	250,000	112,601	-	250,000	13,980
Executive Officer						
Daniel P. Dwyer..............	1996	250,000	83,598	2,880	50,000	10,125
Executive Vice	1995	200,000	66,203	3,734	100,000	8,625
President, Treasurer	1994	180,000	58,974	-	125,000	13,070
and Chief Financial						
Officer						
Homer Hoe.....................	1996	200,000	63,878	2,259	20,000	8,112
Executive Vice President	1995	170,000	55,253	2,206	35,000	975
and Chief Information	1994	-	-	-	-	-
Officer						
Timothy C. Morrisey..........	1996	132,000	36,753	-	20,000	10,125
Executive Vice President	1995	115,000	23,820	-	20,000	8,625
- Sales Operations	1994	-	-	-	-	-
David S. Lynn................	1996	132,000	35,103	-	20,000	10,125
Senior Vice President -	1995	120,000	33,095	-	20,000	8,625
Network Operations	1994	108,000	28,755	-	20,000	7,637

____
(1) The amounts shown represent premiums paid on supplemental health benefits for certain named executives.

(2) The amounts shown represent contributions by the Company to defined contribution plans.

1996 OPTION GRANTS

The following table provides information on option grants for fiscal 1996 by the Company to its named Executive Officers.

<TABLE>
<CAPTION>

	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term (2)	
Name	Granted (#) (1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Arnold C. Pohs	100,000	33.87%	29.375	12/11/06	$1,847,378	$4,681,618
Daniel P. Dwyer	50,000	16.93%	29.375	12/11/06	923,689	2,340,809
Homer Hoe	20,000	6.77%	29.375	12/11/06	369,476	936,324
Timothy C. Morrisey	20,000	6.77%	29.375	12/11/06	369,476	936,324
David S. Lynn	20,000	6.77%	29.375	12/11/06	369,476	936,324

</TABLE>

(1) Indicates number of shares as to which options were granted on December 11, 1996 pursuant to the Company's Omnibus Stock and Incentive Plan. Options become exercisable in four equal annual installments commencing December 11, 1997.

(2) These are hypothetical values using assumed growth as prescribed by the SEC. The assumed annual rates of appreciation of 5% and 10% over the ten year term of the options would result in the price of the Company's stock increasing to $47.85 and $76.19, respectively.

The following table provides information on option grants for fiscal 1996 by TVX, Inc., a subsidiary of the Company.

<TABLE>
<CAPTION>

	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term (2)	
Name	Granted (#) (1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Arnold C. Pohs	100,000	29.67%	1.50	9/18/06	$41,442	$94,334
Daniel P. Dwyer	50,000	14.84%	1.50	9/18/06	20,721	47,167

</TABLE>

(1) Indicates number of shares as to which options were granted on September 18, 1996 to purchase shares of TVX, Inc.

(2) These are hypothetical values using assumed growth as prescribed by the SEC. The assumed annual rates of appreciation of 5% and 10% over the ten year term of the options would result in the value of the options increasing to $1.91 and $2.44, respectively.

Change in Control Agreements

In July 1993, the Board of Directors approved change in control agreements (the "Agreements") with Messrs. Pohs and Dwyer. In October 1994, the Board authorized a comparable agreement with Mr. Hoe, the Company's Chief Information Officer. In November 1995, the Board authorized comparable agreements with Messrs. Gardner, Lynn and Morrisey, the Company's Senior Vice President and Controller, Senior Vice President - Network Operations, and Executive Vice President - Sales Operations, respectively, and Ms. Shapiro, the Company's Senior Vice President and General Counsel. The purpose of the Agreements is to reinforce and encourage the officers to maintain objectivity and a high level of attention to their duties without distraction from the possibility of a change in control of the Company. These Agreements provide that in the event of a change in control of the Company, as that term is defined in the Agreements, each officer is entitled to receive certain severance benefits upon the subsequent termination or constructive termination of employment, unless such termination is due to death, disability or voluntary retirement; unless the termination is by the Company for cause (as defined in the Agreements) or is by the officer for other than good reason (as defined in the Agreements).

The severance benefits include the payment of the officer's full base salary through the date of termination. The severance benefits also include a lump sum payment equal to 2.99 times the sum of (a) the officer's annual base salary in effect immediately prior to the circumstances giving rise to termination, and (b) the actual bonus earned by the officer in the year prior to the year in which termination occurs. In addition, each officer will be provided with life and health benefits and a continuation of all other employee benefits for 12 months following the date of termination. In addition, the officers will be fully vested in all benefit plans to the extent not otherwise entitled to 100% of all contributions made by the Company on their behalf.

In the event any payment or benefit to be received by an officer pursuant to the Agreements would be subject to the federal excise tax, the amount of the benefits payable under the Agreement will be increased such that the net amount retained by the officer after deduction of any excise tax on such payment and any federal, state and local tax and excise tax upon such additional payment shall be equal to the full severance benefits contemplated by the Agreement.

1996 AGGREGATED OPTION EXERCISES
AND YEAR-END OPTION VALUES

The following table provides information on the value of unexercised options at September 30, 1996.

<TABLE>
<CAPTION>

Name	Number of Unexercised Options at Fiscal Year End (#)(1) Vested	Unvested	Value of Unexercised In-the-Money Options at Fiscal Year End Vested	Unvested
<S>	<C>	<C>	<C>	<C>
Arnold C. Pohs	537,500 (2)	452,500	$2,030,000 (2)	$1,978,750
Daniel P. Dwyer	270,000 (2)	227,500	1,470,844 (2)	1,009,219
Homer Hoe	6,250	53,750	20,313	176,876
Timothy C. Morrisey	3,125	28,125	13,984	96,484
David S. Lynn	27,250	46,250	313,281	244,844

</TABLE>
(1) Does not reflect options granted on December 11, 1996 for fiscal 1996.
(2) Includes options to purchase 250,000 and 150,000 shares of TVX, Inc. held by Arnold C. Pohs and Daniel P. Dwyer, respectively. There is currently no public market for shares of TVX, Inc., accordingly the table reflects an assumed fair market value per share of $1.50.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

At December 18, 1996, there were 13,741,378 shares of Common Stock of the Company issued and outstanding. As of such date options to purchase 1,918,500 shares were outstanding. Each holder of Common Stock, but not unexercised options, is entitled to one vote per share on each matter which may be presented at a meeting of stockholders. Cumulative voting is not allowed. The Company's Common Stock is traded on the Nasdaq National Market under the symbol CELS.

The following table sets forth information regarding ownership of the Company's Common Stock at December 18, 1996 by each person who is known by management of the Company to own beneficially more than 5% of the Common Stock, by each director of the Company and by all directors and executive officers of the Company as a group. Shares issuable on exercise of options are deemed to be outstanding for the purpose of computing the percentage ownership of persons beneficially owning such options, but have not been deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Insofar as is known to the Company, the persons indicated below have sole voting and investment power with respect to the shares indicated as owned by them except as otherwise stated in the notes to the table.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
<S>	<C>	<C>
Arnold C. Pohs 8350 East Crescent Parkway Englewood, Colorado 80111	430,551 (1)	3.06%

Daniel P. Dwyer 8350 East Crescent Parkway Englewood, Colorado 80111	218,627 (2)	1.57%
John E. Hayes, Jr. 818 Kansas Avenue Topeka, Kansas 66612	7,500	.05%
Main Street Partners, L.P. 3637 Fall Creek Highway Granbury, Texas 76049	2,075,800 (3)	15.11%
Janus Capital Corporation 100 Filmore Street Denver, Colorado 80206	2,000,100 (4)	14.56%
The Equitable Companies Inc. 787 Seventh Avenue New York, New York 10019	1,232,000 (5)	8.97%
All executive officers and directors (10 persons)	835,168 (6)	5.78%

</TABLE>

(1) Includes options to purchase 340,000 shares of Common Stock.
(2) Includes options to purchase 197,500 shares of Common Stock.
(3) A Schedule 13D, dated April 4, 1995, was filed on behalf of Main Street Partners, L.P., MS Advisory Partners, L.P., MS Advisory Partners (Overseas), L.P., San Francisco Partners II, L.P., SF Advisory Partners, L.P., SF Advisory Corp., SF Advisory Corp. II, The Phoebe Snow Foundation, John H. Scully, William E. Oberndorf, William J. Patterson and Glenn B. Solomon.
(4) A Schedule 13G, dated February 13, 1996, filed on behalf of Janus Capital Corporation, Janus Venture Fund and Thomas H. Bailey reflects that such group has shared voting and shared disposition power over such shares.
(5) A Schedule 13G, dated as of December 31, 1995, filed on behalf of five French mutual insurance companies, AXA Assurance I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, Alpha Assurances I.A.R.D. Mutuelle, Alpha Assurances Vie Mutuelle and Uni Europe Assurance Mutuelle, as a group, AXA, The Equitable Companies Incorporated and their subsidiaries reflects that such group has sole voting power over 1,097,300 shares of Common Stock of the Company. No information is given in respect of voting power over the remaining shares.
(6) Includes options to purchase 698,938 shares of Common Stock held by directors and executive officers of the Company.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

1. Report of Independent Auditors

2. Consolidated Balance Sheets, September 30, 1996 and 1995

3. Consolidated Statements of Operations, Years ended September 30, 1996, 1995 and 1994

4. Consolidated Statements of Stockholders' Equity (Deficit), Years ended September 30, 1994, 1995 and 1996

5. Consolidated Statements of Cash Flows, Years ended September 30, 1996, 1995 and 1994

6. Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

Schedule I. Condensed Financial Information of Registrant

Schedule II. Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) Exhibits

3.1 Amended and First Restated Articles of Incorporation, as amended, of the Company.
Incorporated herein by reference to Exhibit 3.1 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1994.

3.2 Bylaws, as amended, of the Company.
Incorporated herein by reference to Exhibit 3.2 to the Company's registration statement on Form S-18, SEC File No. 33-2700.

4.1 Specimen certificate representing Common Stock.
Incorporated herein by reference to Exhibit 4.1 to the Company's registration statement on Form S-18, SEC File No. 33-2700.

4.2 Indenture between the Company and State Street Bank and Trust Company, as Trustee, relating to the 11 3/4% Senior Subordinated Discount Notes.
Incorporated herein by reference to Exhibit 4.1 to the Company's registration statement on Form S-3, SEC File No. 33-66492.

(a)(3) Exhibits (continued)

4.3 Indenture between the Company and America Bank N.A., as Trustee, relating to the 11 1/4% Subordinated Notes.
Incorporated herein by reference to Exhibit 4.1 to the Company's registration statement on Form S-3, SEC File No. 33-60393.

4.4 Rights Agreement between the Company and State Street Bank and Trust Company, as Rights Agent.
Incorporated herein by reference to Exhibit 2 to the Company's registration statement on Form 8-A dated December 19, 1990.

*4.5 Amendment Three to Rights Agreement between the Company and the Rights Agent.

10.1 Lease Agreement dated August 8, 1995 between the Company and TCD North, Inc.
Incorporated herein by reference to Exhibit 10.1 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1995.

10.2 Amended and Restated Employee Stock Ownership Plan and Trust.
Incorporated herein by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1996.

10.3 Short-Term Incentive Plan.
Incorporated herein by reference to Exhibit 10.6 to Company's annual report on Form 10-K for the fiscal year ended September 30, 1990.

10.4 Omnibus Stock and Incentive Plan.
Incorporated herein by reference to Exhibit 10.7 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1991.

10.5 Consolidated Loan Agreement between CoBank and CIFC.
Incorporated herein by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1995.

10.6 Third Amended and Restated Guaranty of the Company to CoBank.
Incorporated herein by reference to Exhibit 10.6 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1995.

10.7 Form of change in control agreement between the Company and its senior management.
Incorporated herein by reference to Exhibit 10.7 to the Company's annual report on Form 10-K for the fiscal year ended September 30, 1995.

*12.1 Computation of ratio of earnings to fixed charges.

*21.1 Subsidiaries of the Company.

*23.1 Consent of Independent Auditors.

____
* Filed herewith

(b) Reports on Form 8-K during the quarter ended September 30, 1996.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMNET CELLULAR INC.

By: /s/ Arnold C. Pohs

Arnold C. Pohs, President

Date: December 30, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated.

<TABLE>
<CAPTION>

Signature	Title	Date
/s/ Arnold C. Pohs Arnold C. Pohs	President, Chief Executive Officer and Director	December 30, 1996
/s/ Daniel P. Dwyer Daniel P. Dwyer	Executive Vice President, Treasurer, Chief Financial Officer and Director	December 30, 1996
/s/ Andrew J. Gardner Andrew J. Gardner	Senior Vice President and Controller (Principal Accounting Officer)	December 30, 1996
/s/ John E. Hayes, Jr. John E. Hayes, Jr.	Director	December 30, 1996
/s/ Robert J. Paden Robert J. Paden	Director	December 30, 1996
/s/ David E. Simmons David E. Simmons	Director	December 30, 1996

</TABLE>

COMMNET CELLULAR INC.

SCHEDULE I

Condensed Financial Information of Registrant

(Amounts in thousands)

<TABLE>
<CAPTION>
CONDENSED BALANCE SHEETS

	September 30, 1996	September 30, 1995
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	$ 10,204	$ 40,179
Accounts receivable	16	13
Inventory and other	3,933	2,918
Total current assets	14,153	43,110
Property, plant and equipment	48,719	43,004
Less allowance for depreciation	15,308	16,208
	33,411	26,796
OTHER ASSETS		
Investment in and advances to subsidiaries and affiliates	241,695	202,775
Other	9,596	10,842
	251,291	213,617
	$298,855	$283,523
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES	$ 13,770	$ 14,774
LONG-TERM DEBT		
Subordinated debentures and discount notes	221,963	209,645
Other	140	449
	222,103	210,094
STOCKHOLDERS' EQUITY		
Common stock	14	13
Other stockholders' equity	62,968	58,642
	62,982	58,655
	$298,855	$283,523

</TABLE>

COMMNET CELLULAR INC.

SCHEDULE I

Condensed Financial Information of Registrant
(continued)

(Amounts in thousands)

<TABLE>
<CAPTION>

CONDENSED STATEMENTS OF OPERATIONS

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
COST AND EXPENSES			
General and administrative	$ 31,248	$ 28,969	$ 21,763
Depreciation and amortization	8,077	6,076	4,521
Write-down of property and equipment	-	-	2,441
Less amounts allocated to subsidiaries and affiliates	(40,527)	(31,577)	(25,957)
NET INCOME (LOSS) BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES AND AFFILIATES AND INTEREST INCOME AND EXPENSE	1,202	(3,468)	(2,768)
Equity in net loss of subsidiaries and affiliates	(3,528)	(12,122)	(15,028)
Gains (loss) on sales of affiliates	(250)	18,580	1,245
Interest expense	(24,474)	(20,465)	(18,113)
Interest income	22,654	17,537	17,913
NET INCOME (LOSS)	$ (4,396)	$ 62	$(16,751)

</TABLE>

COMMNET CELLULAR INC.

SCHEDULE I

Condensed Financial Information of Registrant
(continued)

(Amounts in thousands)

<TABLE>
<CAPTION>

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended September 30		
	1996	1995	1994
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (495)	$ 2,632	$ 1,772
INVESTING ACTIVITIES			
Purchase of short-term investments	(987)	(82)	(16,788)
Sale of short-term investments	987	21,509	15,488
Additions to property and equipment	(5,715)	(1,305)	(13,284)
Additions to investment in affiliates	(23,518)	(11,299)	(31,259)
Additions to other assets	461	(1,633)	3,117
	(28,772)	7,190	(42,726)
FINANCING ACTIVITIES			
Payment on secured bank financing	-	(4,023)	(1,071)
Extraordinary charge related to extinguishment of long-term debt	-	(1,130)	-
Offering costs related to the issuance of subordinated notes	-	(518)	-
Additions/Reductions to cap lease	(308)	(335)	1,035
Issuance of subordinated notes	-	77,400	-
Redemption of convertible subordinated debentures	-	(41,852)	-
Repurchase Common Stock	(1,378)	-	-
Issuance of common stock	978	815	1,479
	(708)	30,357	1,443
INCREASE (DECREASE) IN CASH	$(29,975)	$ 40,179	$(39,511)

</TABLE>

COMMNET CELLULAR INC.

SCHEDULE I

Condensed Financial Information of Registrant
(continued)

BASIS OF PRESENTATION

In the accompanying parent company only, CommNet Cellular Inc. (the "Company") financial statements, the Company's investment in subsidiaries and affiliates is stated at cost plus equity in undistributed net loss of subsidiaries and affiliates since date of acquisition. The Company's share of net loss of its subsidiaries and affiliates is included in the accompanying condensed statement of operations using the equity method. Parent company only financial statements should be read in conjunction with the Company's consolidated financial statements.

Certain amounts for 1994 and 1995 have been reclassified to conform to the 1996 presentation.

COMMNET CELLULAR INC.

SCHEDULE II

Valuation and Qualifying Accounts

Description	Beginning Balance	Additions: Charged to Costs & Expenses	Additions: Charged to Other Accounts	Deductions (1)	Ending Balance
Allowance for doubtful accounts	$1,958,000	$1,231,000	$ -	$1,242,000	$1,947,000

(1) All deductions are the result of actual write-offs to accounts receivable.

EXHIBIT 4.5
AMENDMENT THREE
TO
RIGHTS AGREEMENT

THIS AMENDMENT THREE TO RIGHTS AGREEMENT is dated as of January 11, 1996, between CommNet Cellular Inc. (formerly known as Cellular, Inc.), a Colorado corporation (the "Company"), and State Street Bank and Trust Company (the "Rights Agent").

WHEREAS, the Company and the Rights Agent are parties to a Rights Agreement dated as of December 10, 1990 (as amended, the "Rights Agreement"); and

WHEREAS, Section 26 of the Rights Agreement provides that prior to the earlier of the Distribution Date or the occurrence of an Adverse Person Event, the Company may, by resolution of the Board of Directors, supplement or amend the Rights Agreement; and

WHEREAS, neither the Distribution Date nor an Adverse Person Event has occurred and, the Board of Directors, by resolution, has determined it to be in the best interest of the Company to amend the Rights Agreement and has directed the Rights Agent to amend the Rights Agreement;

NOW, THEREFORE, in consideration of the obligation of the parties set forth in the Rights Agreement, the parties hereby agree as follows:

1. The definition of "acquiring person" in Section 1(a) of the Rights Agreement is hereby amended in its entirety to read as follows:

> "Acquiring person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 25% or more of the shares of Common Stock of the Company then outstanding, provided that an Acquiring Person shall not include an exempt person.

2. The Rights Agreement, as amended hereby, remains in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment Three to Rights Agreement to be duly executed and their respective corporate seals to be affixed and attested, all as of the day and year first above written.

COMMNET CELLULAR INC.

ATTEST:

By: /s/ Daniel P. Dwyer
Its: Executive Vice President

By: /s/ Amy M. Shapiro
Name: Amy M. Shapiro
Title: Secretary

[CORPORATE SEAL]

STATE STREET BANK AND TRUST COMPANY

ATTEST:

By: /s/ Stephen Cesso
Its: vice president & associate counsel

By: /s/ Patricia Foster
Name: Patricia Foster
Title: Senior Client Administrator

[CORPORATE SEAL]

COMMNET CELLULAR INC.

EXHIBIT 12.1

Ratio of Earnings to Fixed Charges

(Amounts in thousands)

<TABLE>
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	Years ended September 30,				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
Income (loss) before income taxes	$(17,042)	$(22,666)	$(16,751)	$ 62	$(4,396)
Add:					
Interest on indebtedness	14,801	16,428	21,339	26,044	28,208
Portion of rents representative of the interest factor	391	378	455	803	1,266
Income (loss) as adjusted	$ (1,850)	$ (5,860)	$ 5,043	$26,909	$25,078
Fixed charges:					
Interest on indebtedness	14,801	16,428	21,339	26,044	28,208
Portion of rents representative of the interest factor	391	378	455	803	1,266
	$ 15,192	$ 16,806	$ 21,794	$26,847	$29,474
Excess (deficiency) of earnings to fixed charges	$(17,042)	$(22,666)	$(16,751)	$ 62	$(4,396)

</TABLE>

EXHIBIT 21.1

SUBSIDIARIES

<TABLE>
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Cellular, Inc. Financial Corporation	CO
Cellular Inc. Network Corporation (1)	CO
CommNet Paging Inc.	CO
TVX, Inc.	CO
Pueblo MSA Limited Partnership (1)	CO
Platte River Cellular of Colorado Limited Partnership (1)	CO
Colorado 4 - Park Limited Partnership (1)	CO
Smoky Hill Cellular of Colorado Limited Partnership (1)	CO
Colorado 6 - San Miguel Limited Partnership (1)	CO
San Miguel Cellular of Colorado Limited Partnership	CO
San Miguel Cellular, Inc.	CO
Colorado 7 - Saguache Limited Partnership (1)	CO
Sioux City MSA Limited Partnership (1)	IA
Schaller Cellular, Inc.	CO
Idaho 6 - Clark Limited Partnership (1)	ID
Teton Cellular of Idaho Limited Partnership	CO
Teton Cellular, Inc.	ID
North Central Idaho Cellular of Idaho Limited Partnership	CO
Sawtooth Cellular of Idaho Limited Partnership	CO
Iowa RSA 5 Limited Partnership	DE
East Iowa Cellular of Iowa Limited Partnership	CO
East Iowa Cellular, Inc.	IA
R & D Cellular of Iowa Limited Partnership	CO

Terre Haute Cellular, Inc.	CO
Chequamegon Cellular, Inc.	CO

</TABLE>

EXHIBIT 21.1

SUBSIDIARIES
(continued)

<TABLE>
<CAPTION>

<S>	Jurisdiction of Organization <C>
Billings MSA Limited Partnership (1)	CO
Billings Cellular, Inc.	CO
Mission Cellular of Montana Limited Partnership (1)	CO
Montana RSA No. 1 (B2) Limited Partnership (1)	MT
Montana 2-Toole Limited Partnership (1)	CO
Hi-Line Cellular of Montana Limited Partnership	CO
Montana 4-Daniels Limited Partnership (1)	CO
Prairie Cellular of Montana Limited Partnership	CO
Montana 5-Mineral Limited Partnership (1)	CO
Mountain Cellular of Montana Limited Partnership	CO
Montana 6-Deer Lodge Limited Partnership (1)	CO
Mineral Cellular of Montana Limited partnership	CO
Montana 7-Fergus Limited Partnership (1)	CO
Central Cellular of Montana Limited Partnership	CO
Central Cellular, Inc.	MT
Montana 8-Beaver Head Limited Partnership (1)	CO
Big Hole Cellular of Montana Limited Partnership	CO
Montana 9-Carbon Limited Partnership (1)	CO
Big Horn Cellular of Montana Limited Partnership	CO
Montana 10-Prairie Limited Partnership (1)	CO
Powder River Cellular of Montana Limited Partnership	CO
Bismarck MSA Limited Partnership (1)	DE
Northern New Mexico Limited Partnership (1)	CO

Northwest Dakota Cellular of North Dakota Limited Partnership (1)	CO
North Dakota 5-Kidder Limited Partnership (1)	CO
Sioux Falls Cellular Limited Partnership (1)	DE
South Dakota 7-Sully Limited Partnership (1)	CO

</TABLE>

EXHIBIT 21.1

SUBSIDIARIES
(continued)

<TABLE>
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<S>	Jurisdiction of Organization <C>
South Dakota 8-Kingsbury Limited Partnership (1)	CO
Utah RSA 6 Limited Partnership (1)	DE
Canyonland Cellular of Utah Limited Partnership	CO
Wyoming 1-Park Limited Partnership (1)	CO
Wyoming 2-Sheridan Limited Partnership (1)	CO
Custer Cellular of Wyoming Limited Partnership	CO
Custer Cellular, Inc.	WY

</TABLE>

____

(1) Does business under the trade name CommNet Cellular Inc.

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the following registration statements of CommNet Cellular Inc. and in the related prospectuses of our report dated December 6, 1996, with respect to the consolidated financial statements and schedules of CommNet Cellular Inc. included in this Annual Report (Form 10-K) for the year ended September 30, 1996:

1. Registration Statement on Form S-8 (No. 33-40500) pertaining to the Employee Stock Ownership Plan.

2. Registration Statement on Form S-8 (No. 33-47755) pertaining to the CommNet Cellular Inc. Omnibus Stock and Incentive Plan.

3. Registration Statement on Form S-4 (No. 33-54590).

4. Registration Statement on Form S-8 (No. 33-62236) pertaining to the CommNet Cellular Inc. Omnibus Stock and Incentive Plan.

5. Registration Statement on Form S-8 (No. 33-64737) pertaining to the CommNet Cellular Inc. Omnibus Stock and Incentive Plan.

6. Registration Statement on Form S-8 (No. 33-64735) pertaining to a Stock Option Agreement.

7. Registration Statement on Form S-4 (No. 33-64725).

ERNST & YOUNG LLP

Denver, Colorado
December 30, 1996

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<F1>Includes both cellular and equipment revenue.
<F2>Primary EPS is not presented as the difference between basic EPS and primary
    EPS is not material.
<F3>Fully diluted EPS is not presented as all CS equivalents are antidilutive.
</FN>
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</TABLE>