UNITED STATES CELLULAR CORP
Form 10-Q/A
February 17, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

OR

o	**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 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**62-1147325**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8410 West Bryn Mawr, Suite 700, Chicago, Illinois 60631

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(773) 399-8900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2003
Common Shares, $1 par value	53,140,423 Shares
Series A Common Shares, $1 par value	33,005,877 Shares

EXPLANATORY NOTE

United States Cellular Corporation (U.S. Cellular) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, which was originally filed with the Securities and Exchange Commission (the SEC) on November 12, 2003 (the Quarterly Report), to amend Item 1 Financial Statements , Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 4 Controls and Procedures contained in Part I Financial Information of the Quarterly Report and Item 6 Exhibits and Reports of Form 8-K contained in Part II Other Information of the Quarterly Report.

U.S. Cellular is filing this amendment in response to a comment letter received from the Division of Corporation Finance of the Securities and Exchange Commission (the SEC). This report revises the disclosures related to U.S. Cellular s adoption of Statement of Financial Accounting Standards (SFAS) No. 143 Accounting for Asset Retirement Obligations and restates the financial statements in response to such comments. The SEC also requested additional disclosures be included in future filings which have been incorporated into this amendment.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by the U.S. Cellular principal executive officer and principal financial officer are being filed with this Form 10-Q/A.

Except as expressly stated herein, this amendment does not update any of the disclosures contained in the original filing to reflect any events that occurred after the original filing date of November 12, 2003. The filing of this Form 10-Q/A shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

UNITED STATES CELLULAR CORPORATION

3RD QUARTER REPORT ON FORM 10-Q/A

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
	(As Restated)	**(As Restated)**	**(As Restated)**	**(As Restated)**
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Service	$ 628,440	$ 561,240	$ 1,803,150	$ 1,523,506
Equipment sales	28,903	18,546	89,917	59,039
Total Operating Revenues	657,343	579,786	1,893,067	1,582,545
OPERATING EXPENSES				
System operations (excluding Depreciation shown separately below)	153,724	136,367	438,721	362,426
Marketing and selling	101,589	91,060	309,058	249,185
Cost of equipment sold	53,383	51,595	175,510	118,550
General and administrative	150,894	135,191	483,981	356,702
Depreciation	90,171	93,355	272,534	228,289
Amortization and accretion	13,463	9,521	45,371	23,748
(Gain) Loss on assets held for sale	(1,442)		25,558	
Total Operating Expenses	561,782	517,089	1,750,733	1,338,900
OPERATING INCOME	95,561	62,697	142,334	243,645
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	11,301	12,963	37,163	30,711
Interest income	437	729	1,240	3,142
Other income, net	582	156	1,561	1,782
Interest expense	(15,615)	(13,306)	(47,513)	(30,993)
Loss on investments		(34,210)	(3,500)	(278,909)
Total Investment and Other Income (Expense)	(3,295)	(33,668)	(11,049)	(274,267)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	92,266	29,029	131,285	(30,622)
Income tax expense (benefit)	46,760	15,460	67,267	(3,856)
INCOME (LOSS) BEFORE MINORITY INTEREST	45,506	13,569	64,018	(26,766)
Minority share of income	(4,605)	(2,594)	(9,464)	(6,248)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	40,901	10,975	54,554	(33,014)
Cumulative effect of accounting changes, net of tax			(14,346)	4,097
NET INCOME (LOSS)	$ 40,901	$ 10,975	$ 40,208	$ (28,917)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	86,142	86,095	86,132	86,077
BASIC EARNINGS (LOSS) PER SHARE (Note 7)				

Income (Loss) Before Cumulative Effect of Accounting Changes	$	0.47	$	0.13	$	0.64	$	(0.39)
Cumulative Effect of Accounting Changes						(0.17)		0.05
Net Income (Loss)	$	0.47	$	0.13	$	0.47	$	(0.34)
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING(000s)		89,599		86,306		86,540		86,077
DILUTED EARNINGS (LOSS) PER SHARE (Note 7)								
Income (Loss) Before Cumulative Effect of AccountingChanges	$	0.47	$	0.13	$	0.63	$	(0.39)
Cumulative Effect of Accounting Changes						(0.17)		0.05
Net Income (Loss)	$	0.47	$	0.13	$	0.46	$	(0.34)

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Nine Months Ended September 30, 2003 (As Restated)	Nine Months Ended September 30, 2002 (As Restated)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 40,208	$ (28,917)
Add (Deduct) adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, amortization and accretion	317,905	252,037
Deferred income tax provision	56,149	(53,072)
Investment income	(37,163)	(30,711)
Minority share of income	9,464	6,248
Cumulative effect of accounting changes	14,346	(4,097)
Loss on assets held for sale	25,558	
Loss on investments	3,500	278,909
Other noncash expense	8,891	8,583
Changes in assets and liabilities		
Change in accounts receivable	31,142	(19,919)
Change in inventory	15,273	16,463
Change in accounts payable	(116,114)	7,014
Change in accrued interest	(4,093)	(3,501)
Change in accrued taxes	43,659	21,464
Change in customer deposits and deferred revenues	14,059	15,325
Change in other assets and liabilities	(732)	(2,178)
	422,052	463,648
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(420,788)	(421,959)
System development costs	(18,325)	(27,071)
Refund of deposit from FCC		47,565
Acquisitions, excluding cash acquired	(1,251)	(451,487)
Proceeds from exchange transaction	33,958	
Distributions from unconsolidated entities	21,228	24,975
Other investing activities	(1,091)	(200)
	(386,269)	(828,177)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contracts payable		159,856
Affiliated long-term debt borrowings		105,000
Increase in notes payable	279,278	422,444
Repayment of notes payable	(269,278)	(306,444)
Repurchase of long-term debt	(40,680)	
Capital (distributions) to minority partners	(2,249)	(4,631)
Other financing activities	4,227	(2,041)
	(28,702)	374,184

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7,081		9,655
CASH AND CASH EQUIVALENTS-				
Beginning of period		14,864		28,941
End of period	$	21,945	$	38,596

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

		September 30, 2003 (As Restated)		December 31, 2002
		(Dollars in thousands)		
CURRENT ASSETS				
Cash and cash equivalents				
General funds	$	21,945	$	14,155
Affiliated cash equivalents				709
		21,945		14,864
Accounts Receivable				
Customers, less allowance of $18,703 and $17,866, respectively		199,512		220,430
Roaming		42,421		53,545
Other		31,967		41,276
Inventory		39,674		55,490
Prepaid expenses		22,307		19,749
Prepaid income taxes		8,074		26,610
Other current assets		20,994		21,309
		386,894		453,273
INVESTMENTS				
Licenses		1,111,780		1,038,556
License rights		47,158		
Goodwill		549,780		643,629
Customer lists, net of accumulated amortization of $19,453 and $6,567, respectively		27,201		40,087
Marketable equity securities		211,178		185,961
Investments in unconsolidated entities		178,417		161,451
Notes and interest receivable long-term		6,476		7,287
		2,131,990		2,076,971
PROPERTY, PLANT AND EQUIPMENT				
In service and under construction		3,378,060		3,085,583
Less accumulated depreciation		1,255,985		1,051,792
		2,122,075		2,033,791
DEFERRED CHARGES				
System development costs, net of accumulated amortization of $107,805 and $89,320, respectively		107,754		114,642
Other, net of accumulated amortization of $5,453 and $5,023, respectively		23,359		21,164
		131,113		135,806
Total Assets	$	4,772,072	$	4,699,841

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

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UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY

(Unaudited)

	September 30, 2003 (As Restated)	December 31, 2002
	(Dollars in thousands)	
CURRENT LIABILITIES		
9% senior notes	$	$ 45,200
Notes payable	470,000	460,000
Accounts payable		
Affiliates	5,446	4,958
Trade	179,619	301,929
Customer deposits and deferred revenues	94,032	82,639
Accrued interest	5,203	9,295
Accrued taxes	51,025	24,401
Accrued compensation	32,493	30,279
Other current liabilities	24,311	20,323
	862,129	979,024
LONG-TERM DEBT		
Long-term debt-affiliated	105,000	105,000
6% zero coupon convertible debentures	155,356	148,604
7.25% notes	250,000	250,000
8.75% notes	130,000	130,000
Variable prepaid forward contracts	159,856	159,856
Other	13,000	13,000
	813,212	806,460
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	476,819	424,728
Asset retirement obligation	61,903	
Derivative liability	17,724	8,709
Other	12,110	10,818
	568,556	444,255
MINORITY INTEREST	60,846	55,068
COMMON SHAREHOLDERS EQUITY		
Common Shares, par value $1 per share; authorized 140,000,000 Shares; issued and outstanding 55,046,268 shares	55,046	55,046
Series A Common Shares, par value $1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares	33,006	33,006
Additional paid-in capital	1,307,646	1,307,185
Treasury Shares, at cost, 1,905,845 and 1,932,322 shares, respectively	(115,473)	(117,262)
Accumulated other comprehensive income	20,142	10,307
Retained earnings	1,166,962	1,126,752
	2,467,329	2,415,034
Total Liabilities and Shareholders Equity	$ 4,772,072	$ 4,699,841

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by United States Cellular Corporation (U.S. Cellular), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although U.S. Cellular believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular s latest annual report on Form 10-K.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position as of September 30, 2003 and December 31, 2002, the results of operations for the three and nine months ended September 30, 2003 and 2002, and the cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the three and nine months ended September 30, 2003, are not necessarily indicative of the results to be expected for the full year.

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

U.S. Cellular adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, in January 2003. In the fourth quarter of 2003, U.S. Cellular revised the probability that its lease cell sites would require remediation resulting in U.S. Cellular restating its financial statements for the three and nine months ended September 30, 2003. See Note 6 Cumulative Effect of Accounting Changes and Note 16 Restatement of Financial Statements.

U.S. Cellular made changes to its accounting policies, which required it to restate certain items on its statement of operations for the three and nine months ended September 30, 2002. See Note 5 Effects of 2002 Accounting Changes for the impact on operating income, net income (loss) and earnings (loss) per share.

2. Summary of Significant Accounting Policies

Asset Retirement Obligation (As Restated)

Statement of Financial Accounting Standards (SFAS) No. 143 Accounting for Asset Retirement Obligations was issued in June 2001, and became effective for U.S. Cellular beginning January 1, 2003. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the liability recorded is recognized in the statement of operations as a gain or loss.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Legal obligations include obligations to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also required to return lease retail store premises and office space to their pre-existing conditions.

U.S. Cellular determined that it had an obligation to remove long-lived assets in its cell sites, retail sites and office locations as described by SFAS 143, and has recorded a $54.4 million liability upon adoption. U.S. Cellular also recorded a charge for a non-cash cumulative change in accounting principle of $14.3 million representing accumulated accretion and depreciation through December 31, 2002.

The asset retirement obligation increased by $7.5 million to $61.9 million as of September 30, 2003. The increase was due to additional liabilities incurred of $4.2 million and accretion of $3.3 million. See Note 19 Restatement of Financial Statements for a discussion of the periodic impact due to accretion and depreciation.

In accordance with the transition rules of SFAS No. 143, the following pro forma amounts show the effect of the retroactive application of the change in accounting principle for the adoption of SFAS No. 143:

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Actual				
Net income (loss)	$ 40,901	$ 10,975	$ 40,208	$ (28,917)
Basic earnings per share	$ 0.47	$ 0.13	$ 0.47	$ (0.34)
Diluted earnings per share	$ 0.47	$ 0.13	$ 0.46	$ (0.34)
Pro forma				
Net income (loss)	$ 40,901	$ 10,232	$ 54,554	$ (42,359)
Basic earnings per share	$ 0.47	$ 0.12	$ 0.64	$ (0.49)
Diluted earnings per share	$ 0.47	$ 0.12	$ 0.63	$ (0.49)

	At December 31, 2002	**At January 1, 2002**
Pro forma		
Asset Retirement Obligation	$ 54,438	$ 45,246

Assets and Liabilities of Operations Held for Sale

U.S. Cellular accounts for the disposal of long-lived assets in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets . When long-lived assets meet the held for sale criteria set forth in SFAS No. 144, the balance sheet will reflect the assets and liabilities of the properties to be disposed of as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale will be presented separately in the asset and liability sections of the balance sheet. The revenues and expenses of the properties to be disposed of will be included in operations until the transaction is completed. See Note 10 Acquisitions and Divestitures - Completed for the discussion on the sale of long-lived assets.

Stock-Based Compensation

U.S. Cellular accounts for stock options, stock appreciation rights (SARs) and employee stock purchase plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees as allowed by SFAS No. 123 Accounting for Stock-Based Compensation .

No compensation costs have been recognized for the stock option and employee stock purchase plans. Had compensation costs for all plans been expensed and the value determined consistent with SFAS No. 123, U.S. Cellular s net income (loss) and earnings per share would have been reduced to the following pro forma amounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	As Restated	As Restated	As Restated	As Restated
	(Dollars in thousands, except per share amounts)			
Net Income (Loss)				
As Reported	$ 40,901	$ 10,975	$ 40,208	$ (28,917)
Pro Forma Expense	(2,243)	(1,196)	(5,756)	(3,588)
Pro Forma Net Income (Loss)	$ 38,658	$ 9,779	$ 34,452	$ (32,505)
Basic Earnings (Loss) Per Share				
As Reported	$ 0.47	$ 0.13	$ 0.47	$ (0.34)
Pro Forma Expense Per Share	(0.02)	(0.02)	(0.06)	(0.04)
Pro Forma Basic Earnings (Loss) Per Share	$ 0.45	$ 0.11	$ 0.41	$ (0.38)
Diluted Earnings (Loss) Per Share				
As Reported	$ 0.47	$ 0.13	$ 0.46	$ (0.34)
Pro Forma Expense Per Share	(0.02)	(0.02)	(0.07)	(0.04)
Pro Forma Diluted Earnings (Loss) Per Share	$ 0.45	$ 0.11	$ 0.39	$ (0.38)

Recent Accounting Pronouncements

SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities was issued in April 2003, and is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. U.S. Cellular adopted the provisions of this Standard to contracts entered into or modified after June 30, 2003 and to hedging relationships designated after June 30, 2003. There was no effect on U.S. Cellular s financial position or results of operations.

SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity was issued in May 2003, and for U.S. Cellular is effective for financial instruments entered into or modified after May 31, 2003, and otherwise beginning July 1, 2003. SFAS No. 150 requires freestanding financial instruments within its scope to be recorded as a liability in the financial statements. Freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase issuer s equity shares and certain obligations to issue a variable number of issuer s shares. As of September 30, 2003, U.S. Cellular has no freestanding financial instruments within the scope of SFAS No. 150 and therefore, that portion of this Statement did not have any effect on its financial position or results of operations.

In addition, under SFAS No. 150, certain minority interests in consolidated entities with finite lives may meet the standard s definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity s organization agreement assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). U.S. Cellular s consolidated financial statements include such minority interests that meet the standard s definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and U.S. Cellular in accordance with the respective partnership and LLC agreements. The termination dates of U.S. Cellular s mandatorily redeemable minority interests range from 2042 to 2100.

On November 7, 2003, the FASB issued FASB Staff Position (FSP) No. FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* .

The FSP indefinitely deferred the classification and measurement provisions of SFAS No. 150 related to the mandatorily redeemable minority interests associated with finite-lived subsidiaries, but retained the related disclosure provisions. The settlement value of U.S. Cellular s mandatorily redeemable minority interests is estimated to be $99.0 million at September 30, 2003. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2003, net of estimated liquidation costs. This amount is being disclosed pursuant the requirements of FSP FAS150-3; U.S. Cellular has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at September 30, 2003 is $40.3 million, and is included in the balance sheet caption Minority Interest. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $58.7 million is primarily due to the unrecognized appreciation of the minority interest holders share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders share, nor U.S. Cellular s share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements under U.S. GAAP. The estimate of settlement value was based on certain factors and assumptions. Change in those factors and assumptions could result in a materially larger or smaller settlement amount.

The FASB plans to reconsider certain implementation issues and perhaps the classification or measurement guidance for mandatorily redeemable minority interests during the deferral period. The outcome of their deliberations cannot be determined at this point. Accordingly, it is possible that the FASB could require the recognition and measurement of our mandatorily redeemable minority interests at their settlement value at a later date.

FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities was issued in January 2003, and is effective for all variable interests in variable interest entities created after January 31, 2003, and is effective October 1, 2003 for variable interests in variable interest entities created before February 1, 2003. This Interpretation clarifies the application of Accounting Research Bulletin No. 51 Consolidated Financial Statements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. U.S. Cellular has reviewed the provisions of FIN 46 and has determined that it will, as of the effective date of FIN 46, include in consolidated results the operations of an entity that it currently accounts for using the equity method of accounting. This change, pursuant to the adoption of FIN 46, is not anticipated to have a material impact on U.S. Cellular s future financial position or results of operations.

3. Income Taxes

Net income (loss) before cumulative effect of accounting change includes losses from investments and losses on assets held for sale for the three and nine months ended September 30, 2003 and 2002. The following table summarizes the effective income tax (benefit) rates in each of the periods from net income before cumulative effect of accounting change excluding losses and from net income before cumulative effect of accounting change.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	As Restated	Restated	As Restated	Restated
Effective Tax Rate From				
Income before cumulative effect of accounting change excluding losses on investments and assets held for sale	40.3%	44.1%	40.8%	43.4%
Losses on investments and assets held for sale (1)	N/M	(36.3)%	(6.3)%	(40.0)%
Income (Loss) before cumulative effect of accounting change	50.7%	53.3%	51.2%	(12.6)%

(1) The effective tax rate related to the provision for Losses on investments and assets held for sale is not meaningful. Because U.S. Cellular s tax basis in the assets transferred to AT&T Wireless Services, Inc. was lower than its book basis, it was necessary for U.S. Cellular to record a tax provision of $10.2 million at the time of this transfer in the third quarter. U.S. Cellular had previously disclosed that it had anticipated that this amount would be approximately $12 million.

4. Loss on Investments

U.S. Cellular recorded a license impairment loss of $3.5 million ($2.1 million after subtracting taxes of $1.4 million) in the first quarter of 2003 related to the investment in a non-operational market in Florida that remained with U.S. Cellular upon completion of the exchange with AT&T Wireless Services, Inc.(AT&T Wireless). See Note 10 Acquisitions and Divestitures Completed for further information regarding the exchange transaction with AT&T Wireless.

The loss on investments in 2002 includes an other than temporary investments loss of $244.7 million ($145.6 million, net of $99.1 million of income taxes) on U.S. Cellular s marketable equity securities. The adjusted cost basis of U.S. Cellular s marketable equity securities was written down to market value upon determining that the unrealized losses on the securities were other than temporary.

U.S. Cellular had notes receivable consisting of loans to Kington Management Corporation (Kington) that were due in June 2005, relating to the purchase by Kington of certain of U.S. Cellular s minority interests in 2000. As of June 30, 2002, the principal amount of these notes aggregated $45.8 million. In the third quarter of 2002, an independent third party valuation of one of the wireless minority interests sold and a transaction involving the same market as the other wireless minority interest sold indicated a lower market value for these wireless minority interests, and therefore a lower value of the notes. Management concluded that the notes receivable were impaired and established a valuation allowance against the notes. A loss of $34.2 million was charged to the Statement of Operations in the third quarter of 2002 and was included in the caption (Loss) on Investments. Following this action, the carrying value of such notes receivable at September 30, 2002 was $11.6 million.

5. Effects of 2002 Accounting Changes

U.S. Cellular made certain changes to its accounting policies in the fourth quarter of 2002 which required it to restate certain items on its income statement for the three and nine month periods ending September 30, 2002. The impact of these changes in accounting policies on the prior periods is presented below.

	Three Months Ended September 30, 2002					
		As Reported		Changes		As Restated
	(Dollars in thousands, except per share amounts)					
Effects of 2002 Accounting Changes						
Operating Revenues						
Changes related to EITF 01-09 reclassification (1)	$		$	(14,850)	$	
Changes related to EITF 01-09 accrual (1)				(2,935)		
		597,571		(17,785)		579,786
Operating Expenses						
Changes related to EITF 01-09 reclassification (1)				(14,850)		
Changes related to SAB 101(2)				(937)		
		532,876		(15,787)		517,089
Operating Income		64,695		(1,998)		62,697
Net (Loss)	$	12,164	$	(1,189)	$	10,975
Earnings Per Share Net (Loss)						
Basic	$	0.14	$	(0.01)	$	0.13
Diluted	$	0.14	$	(0.01)	$	0.13

	Nine Months Ended September 30, 2002					
		As Reported		Changes		As Restated
	(Dollars in thousands, except per share amounts)					
Effects of 2002 Accounting Changes						
Operating Revenues						
Changes related to EITF 01-09 reclassification (1)			$	(18,221)		
Changes related to EITF 01-09 accrual (1)				(2,935)		
	$	1,603,701		(21,156)	$	1,582,545
Operating Expenses						
Changes related to EITF 01-09 reclassification (1)				(18,221)		
Changes related to SAB 101(2)				(2,990)		
		1,360,111		(21,211)		1,338,900
Operating Income		243,590		55		243,645
(Loss) before Cumulative Effect of Accounting Change		(33,046)		32		(33,014)
Cumulative Effect of Accounting Change (2)				4,097		4,097
Net (Loss)	$	(33,046)	$	4,129	$	(28,917)

Earnings Per Share Cumulative Effect of Accounting Change						
Basic	$		$	0.05	$	0.05
Diluted	$		$	0.05	$	0.05
Earnings Per Share Net (Loss)						
Basic	$	(0.38)	$	0.04	$	(0.34)
Diluted	$	(0.38)	$	0.04	$	(0.34)

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(1) U.S. Cellular changed its accounting for certain rebate transactions pursuant to Emerging Issues Task Force Statement (EITF) No. 01-09 in the fourth quarter of 2002. Under EITF No. 01-09, all rebates paid to agents who participate in qualifying new activation and retention transactions are recorded as a reduction of equipment sales revenues. Previously, U.S. Cellular had recorded new activation rebates as marketing and selling expense and retention rebates as general and administrative expense. Further, these rebates are now recorded at the time handsets are sold by U.S. Cellular to these agents. Previously, U.S. Cellular recorded these transactions at the time the handsets were delivered by agents to U.S. Cellular s customers.

(2) U.S. Cellular changed its accounting policy related to certain transactions pursuant to Staff Accounting Bulletin (SAB) No. 101 during the fourth quarter of 2002. U.S. Cellular had adopted SAB No. 101 as of January 1, 2000, and began deferring certain customer activation fees as of that date. As permitted by SAB No. 101, as of January 1, 2002, U.S. Cellular began deferring commissions expenses equal to the amount of activation fees deferred. In conjunction with this change, U.S.

Cellular recorded a $4.1 million addition to net income as of January 1, 2002, related to commissions expenses which would have been deferred in prior years had U.S. Cellular adopted its new policy at the time it adopted SAB No. 101.

6. Cumulative Effect of Accounting Change (As restated)

Effective January 1, 2003, U.S. Cellular adopted SFAS No.143, Accounting for Asset Retirement Obligations and recorded the initial liability for legal obligations associated with an asset retirement. The cumulative effect of the implementation of this accounting standard on periods prior to 2003 was recorded in the first quarter of 2003, decreasing net income by $14.3 million, net of tax and minority interest, or $0.17 per basic and diluted share.

Effective January 1, 2002, U.S. Cellular changed its method of accounting for commission expenses related to customer activations and began deferring expense recognition of a portion of commission expenses equal to the amount of activation fees revenue deferred. U.S. Cellular believes this change is a preferable method of accounting for such costs primarily due to the fact that the new method of accounting provides for better matching of revenue from customer activations to direct incremental costs associated with these activations within each reporting period. The cumulative effect of this accounting change on periods prior to 2002 was recorded in 2002 increasing net income by $4.1 million, net of tax and minority interest, or $0.05 per diluted share.

7. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using net income available to common and weighted average common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities included in diluted earnings per share represent incremental shares issuable upon exercise of outstanding stock options, vesting of restricted stock and conversion of debentures.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	As Restated	Restated	As Restated	Restated
	(Dollars and shares in thousands)			
Basic Earnings per Share:				
Income (Loss) Before Cumulative Effect of Accounting Changes	$ 40,901	$ 10,975	$ 54,554	$ (33,014)
Cumulative Effect of Accounting Changes			(14,346)	4,097
Net Income (Loss) used in Basic Earnings per Share	$ 40,901	$ 10,975	$ 40,208	$ (28,917)
Diluted Earnings per Share:				
Income (Loss) Before Cumulative Effect of Accounting Changes	$ 40,901	$ 10,975	$ 54,554	$ (33,014)
Interest expense eliminated as a result of the pro forma conversion of Convertible Debentures, net of tax	1,338			
Cumulative Effect of Accounting Changes			(14,346)	4,097
Net Income (Loss) used in Diluted Earnings per Share	$ 42,239	$ 10,975	$ 40,208	$ (28,917)
Weighted Average Number of Common Shares used in Basic Earnings per Share	86,142	86,095	86,132	86,077
Effect of Dilutive Securities:				
Stock options and stock appreciation rights (1)	513	211	408	
Conversion of convertible debentures (1)	2,944			
Weighted Average Number of Common Shares used in Diluted Earnings per Share	89,599	86,306	86,540	86,077
Basic Earnings (Loss) per Share:				
Income (Loss) Before Cumulative Effect of Accounting Changes	$ 0.47	$ 0.13	$ 0.64	$ (0.39)
Cumulative Effect of Accounting Changes			(0.17)	0.05
	$ 0.47	$ 0.13	$ 0.47	$ (0.34)
Diluted Earnings (Loss) per Share:				
Income (Loss) Before Cumulative Effect of Accounting Changes	$ 0.47	$ 0.13	$ 0.63	$ (0.39)
Cumulative Effect of Accounting Changes			(0.17)	0.05
	$ 0.47	$ 0.13	$ 0.46	$ (0.34)

(1) Stock options, restricted stock and convertible debentures convertible into 4,511,000 and 6,331,000 Common shares in the three and nine months ended September 30, 2002, respectively, were not included in computing Diluted Earnings per Share because their effects were antidilutive. Stock options and convertible debentures convertible into 1,321,000 and 4,350,000 Common shares in the three and nine months ended September 30, 2003, respectively, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

8. Marketable Equity Securities

U.S. Cellular and its subsidiaries holds a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. U.S. Cellular does not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, exchanges or reorganizations of other investments. The market values of the marketable securities may fall below the accounting cost basis of such securities. If management determines the decline in value of the marketable securities to be other than temporary , any unrealized loss included in accumulated other comprehensive income is recognized and recorded as a loss in the Statement of Operations.

During the nine months ended September 30, 2002, management determined that the decline in the value of its investment in Vodafone relative to its accounting cost basis was other than temporary and charged a $244.7 million loss to the Statement of Operations ($145.6 million, net of tax of $99.1 million) and reduced the accounting cost basis of the marketable securities by a corresponding amount. The loss was reported in the caption Loss on investments in the Statement of Operations.

U.S. Cellular and its subsidiaries have entered into forward contracts in 2002 related to the marketable equity securities that they hold. The risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis thereby eliminating risk of an other than temporary loss being recorded on these contracted securities.

Information regarding U.S. Cellular s marketable equity securities and the components of accumulated other comprehensive income are summarized below.

		September 30, 2003		December 31, 2002
		(Dollars in thousands)		
Marketable Equity Securities				
Fair Value				
Vodafone Group Plc 10,245,370 American Depositary Receipts	$	207,469	$	185,646
Rural Cellular Corporation 370,882 common shares		3,709		315
Aggregate Fair Value		211,178		185,961
Accounting Cost Basis*		160,162		160,362
Gross Unrealized Holding Gains		51,016		25,599
Income Tax (Expense)		(20,151)		(10,111)
Unrealized Holding Gains, net of tax		30,865		15,488
Derivative Accounting, net of tax		(10,723)		(5,181)
Accumulated Other Comprehensive Income	$	20,142	$	10,307

*The accounting cost basis of the marketable equity securities was reduced by an other-than-temporary loss of $200,000 recognized related to U.S. Cellular s investment in Rural Cellular Corporation during 2003. This loss is recorded in Other income, net.

9. Goodwill

U.S. Cellular has recorded goodwill as a result of the acquisition of wireless licenses and markets. Included in U.S. Cellular s balance sheet is goodwill related to various acquisitions structured to be tax-free. No deferred taxes have been provided on goodwill related to tax-free acquisitions.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003 and 2002 were as follows:

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(Dollars in thousands)	

Balance, beginning of period	$	643,629	$	473,975
Divestitures		(93,658)		
Net additions				155,566
Other		(191)		
Balance, end of period	$	549,780	$	629,541

10. Acquisitions and Divestitures - Completed

On March 10, 2003, U.S. Cellular announced that it had entered into a definitive agreement with AT&T Wireless to exchange wireless properties. When this transaction is fully consummated, U.S. Cellular will receive 10 and 20 megahertz personal communications service licenses in 13 states contiguous to and that overlap existing properties in the Midwest and the Northeast; approximately $34 million in cash; and minority interests in six markets it currently controls. On August 1, 2003, U.S. Cellular completed the transfer of wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless and the assignments to it from AT&T Wireless of a portion of the personal communications service licenses. The assignment and development of certain licenses has been deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the agreement. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with the service requirements of the FCC. On the initial closing date, U.S. Cellular also received the cash and the minority interests. The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale.

The 14 licenses that have been transferred to U.S. Cellular as of September 30, 2003, with a fair value totaling $131.5 million, are included in Investment in licenses on the consolidated balance sheet. The 22 licenses that have not yet been assigned to U.S. Cellular, with a fair value totaling $47.2 million, are included in License rights on the balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation.

Prior to the close of the AT&T Wireless exchange, U.S. Cellular reflected the assets and liabilities to be transferred as assets and liabilities of operations held for sale in accordance with SFAS No. 144. The results of operations of the markets transferred to AT&T Wireless were included in results of operations through July 31, 2003.

Also prior to the close of the AT&T Wireless exchange, U.S. Cellular allocated $93.7 million of goodwill related to the properties transferred to AT&T Wireless to assets of operations held for sale in accordance with SFAS No. 142 Goodwill and Other Intangible Assets . A total loss of $25.6 million (including a $1.4 million reduction recorded in the third quarter) was recorded as a Loss on assets held for sale (included in operating expenses), representing the difference between the book value of the markets transferred to AT&T Wireless and the fair value of the assets received or to be received in the transaction.

U.S. Cellular recorded an additional charge to the Statement of Operations of approximately $10 million for income taxes in the three months ended September 30, 2003 and has a current liability of approximately $3.5 million related to state income taxes on the completion of the transaction. As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted in May of 2003, U.S. Cellular anticipates that it will claim additional federal tax depreciation deductions in 2003. Such additional depreciation deductions are expected to result in a federal net operating loss for U.S. Cellular for 2003; accordingly, U.S. Cellular anticipates that there will be no current federal tax liability in 2003 attributable to the exchange of assets with AT&T Wireless.

U.S. Cellular and AT&T Wireless have entered into a Transition Services Agreement in order to ensure a smooth transition of the exchanged markets to AT&T Wireless. U.S. Cellular will provide transitional services including information services, customer service, engineering, finance, and marketing. The services will be provided for a period of up to one year after the closing date. U.S. Cellular will be paid a monthly fee to offset its costs for services it provides to AT&T Wireless; these fees are primarily recorded as a reduction of general and administrative expenses in the consolidated statement of operations. In the third quarter of 2003, U.S. Cellular billed AT&T Wireless $2.8 million for these services.

11. Common Share Repurchase Program

U.S. Cellular s Board of Directors from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. In 2000, U.S. Cellular authorized the repurchase of up to 4.2 million Common Shares through three separate 1.4 million share programs. U.S. Cellular may use repurchased shares to fund acquisitions and for other corporate purposes. There are 859,000 shares available to be repurchased under the most recent 1.4 million share authorization, which expires in December 2003.

As of September 30, 2003, U.S. Cellular had repurchased 4,139,000 Common Shares under these and other authorized programs. No shares were repurchased in the first nine months of 2003 or 2002.

12. Accumulated Other Comprehensive Income (Loss)

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

	Nine Months Ended September 30,			
	2003		2002	
	(Dollars in thousands)			
Balance, beginning of period	$	10,307	$	(78,997)
Marketable Equity Securities				
Add (Deduct):				
Unrealized gains (losses) on marketable equity securities		25,216		(140,622)
Income tax (expense) benefit		(9,960)		57,021
Net unrealized gains (losses)		15,256		(83,601)
Deduct (Add):				
Recognized (losses) on marketable equity securities		(200)		(244,699)
Income tax benefit		79		99,112
Net recognized (losses) from Marketable Equity Securities Included in Net Income		(121)		(145,587)
		15,377		61,986
Derivative Instruments				
Unrealized gain (loss) on derivative instruments		(9,016)		35,961
Income tax (expense) benefit		3,474		(14,565)
Net unrealized gains (losses) on derivative instruments		(5,542)		21,396
Net change in unrealized gains (losses) included in Comprehensive Income (Loss)		9,835		83,382
Balance, end of period	$	20,142	$	4,385
Accumulated Unrealized Gain (Loss) on Derivative Instruments				
Balance, beginning of period	$	(5,181)	$	
Add (Deduct):				
Change in unrealized gain (loss) on derivative instruments		(9,016)		35,961
Income tax (expense) benefit		3,474		(14,565)
		(5,542)		21,396
Balance, end of period	$	(10,723)	$	21,396

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	As Restated	As Restated	As Restated	As Restated

	(Dollars in thousands)			
Comprehensive Income (Loss)				
Net Income (loss)	$ 40,901	$ 10,975	$ 40,208	$ (28,917)
Net change in unrealized gains on Marketable equity securities and derivative instruments	3,596	6,244	9,835	83,382
	$ 44,497	$ 17,219	$ 50,043	$ 54,465

13. Customer Lists

U.S. Cellular s customer lists represent intangible assets from the acquisition of wireless properties and are being amortized based on the average customer retention periods using the declining balance method. Amortization expense was $3.9 million and $12.9 million for the three and nine months ended September 30, 2003, respectively. Amortization expense was $1.3 million for both the three and nine months ended September 30, 2002. The related amortization expense for the remainder of 2003 and for the years 2004-2007 is expected to be $2.8 million, $9.5 million, $5.8 million, $3.5 million and $2.1 million, respectively.

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14. Supplemental Cash Flow Information

The following summarizes certain noncash transactions and interest and income taxes paid.

	Nine Months Ended September 30, 2003	2002
	(Dollars in thousands)	
Interest paid	$ 43,601	$ 26,697
Income taxes paid (refunds received)	(30,834)	33,068
Noncash interest expense	7,769	6,995

15. Contingencies

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

16. Restatement of Financial Statements

U.S. Cellular is restating its financial statements in response to a comment letter received from the SEC regarding its Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 that was originally filed on November 12, 2003. This restatement relates to the adoption of SFAS No. 143, as explained below.

U.S. Cellular adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, effective January 1, 2003. An asset retirement obligation is the cost of closing facilities and removing assets, or performing other remediation to a property as required by contractual agreement. This accounting principle requires entities to record the estimated fair value of a legal liability for an asset retirement obligation in the period it is incurred. Adoption of this standard in the first quarter of 2003 required U.S. Cellular to recognize estimated liabilities related to the future remediation of certain leased properties. **Initially, U.S. Cellular used a zero probability in determining its liability for cell site remediation due to the absence of history of remediation. During the fourth quarter of 2003, based upon guidance received from the SEC that U.S. Cellular s limited history could not be relied upon to support a probability less than the default probability of 100%, U.S. Cellular revised the probability that its leased cell sites would require remediation. In its restatement, U.S. Cellular used the 100% probability in calculating the asset retirement obligation on the cell site leases.**

As a result of this change, U.S. Cellular has restated its financial statements for the first nine months of 2003 to reflect a liability for future remediation of $54.4 million and a charge of $14.3 million, net of taxes and minority interest, as a cumulative effect of an accounting change. This cumulative effect reflects accretion and depreciation that would have been charged to expense in prior years had SFAS No. 143 been effective for periods prior to January 1, 2003. This change also resulted in additional charges to income for depreciation and non-cash accretion expense for the three and nine months ended September 30, 2003. There was no impact to the consolidated balance sheet as of December 31, 2002 or cash flows for the three and nine months ended September 30, 2002. A summary of changes to the third three and nine months ended September 30, 2003 is included below.

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2003 As Originally Reported		Effects of 2003 Accounting Changes		As Restated	
Statement of Operations:						
Depreciation expense:						
SFAS 143 reclassification of retail/office leases			$			
SFAS 143 depreciation for period				374		
Total	$	89,797		374	$	90,171
Amortization and accretion expense		12,367		1,096		13,463
Operating Income (Loss)						
SFAS 143 reversal of one-time adjustment						
SFAS 143 depreciation for period				(374)		
SFAS 143 accretion for period				(1,096)		
Total		97,031		(1,470)		95,561
Income tax expense (benefit)		47,364		(604)		46,760
Minority share of income		(4,633)		28		(4,605)
Income (loss) before cumulative effect of accounting change		41,739		(838)		40,901
Cumulative effect of accounting change:						
SFAS 143 retail/office leases						
SFAS 143 cell site leases						
Total						
Net income (loss)	$	41,739	$	(838)	$	40,901
Basic earnings per share						
Income (loss) before cumulative effect of accounting change	$	0.48	$	(0.01)	$	0.47
Cumulative effect of accounting change	$		$		$	
Net income (loss)	$	0.48	$	(0.01)	$	0.47
Diluted earnings (loss) per share	$	0.48	$	(0.01)	$	0.47
Income (loss) before cumulative effect of accounting change	$		$		$	
Cumulative effect of accounting change	$	0.48	$	(0.01)	$	0.47
Net income (loss)						

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(Dollars in thousands, except per share amounts)	Nine Months Ended September 30, 2003 As Originally Reported	Effects of 2003 Accounting Changes	As Restated
Statement of Operations:			
Depreciation expense:			
SFAS 143 reclassification of retail/office leases		$ (1,321)	
SFAS 143 depreciation for period		1,082	
Total	$ 272,773	(239)	$ 272,534
Amortization and accretion expense	42,165	3,206	45,371
Operating Income (loss)			
SFAS 143 reversal of one-time adjustment		1,321	
SFAS 143 depreciation for period		(1,082)	
SFAS 143 accretion for period		(3,206)	
Total	145,301	(2,967)	142,334
Income tax expense (benefit)	68,493	(1,226)	67,267
Minority share of income	(9,549)	85	(9,464)
Income (loss) before cumulative effect of accounting change	56,210	(1,656)	54,554
Cumulative effect of accounting change:			
SFAS 143 retail/office leases		(799)	
SFAS 143 cell site leases		(13,547)	
Total		(14,346)	(14,346)
Net income (loss)	$ 56,210	$ (16,002)	$ 40,208
Basic earnings per share			
Income (loss) before cumulative effect of accounting change	$ 0.65		