

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

(State or other jurisdiction of
incorporation or organization)

62-1147325

(I.R.S. Employer Identification No.)

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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 No

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 (As Restated) | 2002 (As Restated) | 2003 (As Restated) | 2002 (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 | | | | |
| Income tax expense (benefit) | 46,760 | 15,460 | 67,267 | (3,856) |
| INCOME (LOSS) BEFORE MINORITY INTEREST | | | | |
| Minority share of income | (4,605) | (2,594) | (9,464) | (6,248) |
| INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES | | | | |
| 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) | | | | |
| BASIC EARNINGS (LOSS) PER SHARE (Note 7) | 86,142 | 86,095 | 86,132 | 86,077 |

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| | | | | | | | | |
|--|----|--------|----|--------|----|--------|----|--------|
| 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 Accounting Changes | \$ | 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 FLOWSUnaudited

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2003 | 2002 |
| | (As Restated) | (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 SHEETSASSETS

(Unaudited)

| | September 30, 2003 | December 31, 2002 |
|---|------------------------|----------------------|
| | (As Restated) | |
| | (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.

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETSLIABILITIES AND SHAREHOLDERS EQUITY

(Unaudited)

| | September 30, 2003 | December 31, 2002 |
|---|------------------------|----------------------|
| | (As Restated) | |
| | (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

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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.

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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 As Restated | 2002 As Restated | 2003 As Restated | 2002 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 to 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 As Restated | 2002 Restated | 2003 As Restated | 2002 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) |

(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.

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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 As Restated | 2002 Restated | 2003 As Restated | 2002 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 | 2002 |
| (Dollars in thousands) | |
| | |

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| | | | | |
|------------------------------|----|----------|----|---------|
| 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.

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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.

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.**

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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 | | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.48 | \$ (0.01) | \$ 0.47 |
| 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 | \$ (0.01) | \$ 0.64 |
| Cumulative effect of accounting change | \$ | \$ (0.17) | \$ (0.17) |
| Net income (loss) | \$ 0.65 | \$ (0.18) | \$ 0.47 |
| Diluted earnings (loss) per share | | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.65 | \$ (0.02) | \$ 0.63 |
| Cumulative effect of accounting change | \$ | \$ (0.17) | \$ (0.17) |
| Net income (loss) | \$ 0.65 | \$ (0.19) | \$ 0.46 |
| Balance Sheet: | | | |
| Prepaid income taxes | \$ 7,974 | \$ 100 | \$ 8,074 |
| Property, plant and equipment in service | 3,339,146 | 38,914 | 3,378,060 |
| Accumulated depreciation | (1,248,339) | (7,646) | (1,255,985) |
| Total Assets | \$ 4,740,704 | \$ 31,368 | \$ 4,772,072 |

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| | | | | | | |
|--|----|-----------|----|----------|----|-----------|
| Accrued taxes | \$ | 51,049 | \$ | (24) | \$ | 51,025 |
| Net deferred income tax liability | | 487,589 | | (10,770) | | 476,819 |
| Asset retirement obligation | | | | 61,903 | | 61,903 |
| Other deferred liabilities and credits | | 15,300 | | (3,190) | | 12,110 |
| Minority interest | | 61,395 | | (549) | | 60,846 |
| Retained earnings | | 1,182,964 | | (16,002) | | 1,166,962 |
| Total Liabilities and Stockholders' Equity | \$ | 4,740,704 | \$ | 31,368 | \$ | 4,772,072 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

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

The following discussion and analysis should be read in conjunction with U.S. Cellular's interim consolidated financial statements and footnotes included herein, and with U.S. Cellular's audited consolidated financial statements and footnotes and Management's Discussion and Analysis of Results of Operations and Financial Condition included in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2002.

U.S. Cellular is restating certain portions of its management's discussion and analysis of results of operations and financial condition 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. During the fourth quarter of 2003, U.S. Cellular revised the probability that its leased cell sites would require remediation.

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 amounts 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 requires additional charges to income for depreciation and non-cash accretion expense in the third quarter and first nine months of 2003. See Note 16 Restatement of Financial Statements.

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.

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, either majority or minority interests in 165 cellular markets and 71 personal communications service basic trading area markets at September 30, 2003. Pursuant to an agreement reached in March 2003, U.S. Cellular transferred 10 markets in which it owned a controlling interest to AT&T Wireless on August 1, 2003, in exchange for controlling interests in 36 personal communications service licenses and minority interests in six cellular markets in which U.S. Cellular currently owns a controlling interest. Of the 36 personal communications service licenses, 14 were transferred to U.S. Cellular on the transaction closing date and others will be acquired in the future. A summary of the number of markets U.S. Cellular owns or has acquirable as of September 30, 2003 follows.

**Number of
Markets**

141

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| | |
|---|-----|
| Consolidated markets which have begun marketing activities and have signed up customers for service (operational consolidated markets) | |
| Consolidated markets which have not yet begun marketing activities | 41 |
| Consolidated markets to be acquired pursuant to existing agreements (1) | 22 |
| Minority interests accounted for using equity method | 26 |
| Minority interests accounted for using cost method | 6 |
| Total current and acquirable | 236 |

(1) Represents personal communications service licenses to be acquired from AT&T Wireless over a five-year period, beginning with the date of the closing of the transaction.

RESULTS OF OPERATIONS**Nine Months Ended 9/30/03 Compared to Nine Months Ended 9/30/02**

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

| | Nine Months Ended or At September 30, (1) | |
|--|--|---------------|
| | 2003 | 2002 |
| Total market population (in thousands) (2) | 45,817 | 41,048 |
| Customers | 4,268,000 | 3,943,000 |
| Market penetration | 9.32% | 9.61% |
| Total employees | 6,100 | 5,900 |
| Cell sites in service | 4,082 | 3,750 |
| Average monthly service revenue per customer (3) | \$ 47.27 | \$ 47.02 |
| Postpay churn rate per month (4) | 1.6% | 1.9% |
| Marketing cost per gross customer addition | \$ 378 | \$ 363(5) (6) |

(1) Amounts in 2003 include the results of the 10 markets transferred to AT&T Wireless through July 31, and include the results of the 14 markets acquired and transferred from AT&T Wireless from August 1 - September 30. Amounts in 2002 include the operations of USCOC of Chicago (as defined below) from August 7 - September 30.

(2) Represents 100% of the population of U.S. Cellular's consolidated markets, regardless of whether the market has begun marketing operations. Market penetration is calculated using 2002 and 2001 Claritas population estimates for 2003 and 2002, respectively.

(3) Average monthly service revenue per customer is calculated as follows:

| | Nine Months Ended September 30, 2003 | Nine Months Ended September 30, 2002 (As Restated) |
|---|--|---|
| Service Revenues per statement of operations | \$ 1,803,150 | \$ 1,523,506 |
| Divided by average customers during period (000s) | 4,238 | 3,600 |
| Divided by nine months in each period | 9 | 9 |
| Average monthly revenue per unit | \$ 47.27 | \$ 47.02 |

(4) Postpay churn rate per month represents the percentage of the customer base on postpay service plans (i.e., service plans where customers are billed in arrears for service) which disconnects service each month. The calculation divides the total number of customers on postpay service plans who disconnect service during the period by the number of months in such period, then divides that quotient by the average monthly postpay service customer base for such period.

(5) Restated to reflect U.S. Cellular's change in application of Staff Accounting Bulletin (SAB) No. 101 in 2002.

(6) For a discussion of the components of this calculation, see Operating Expenses Cost of Equipment Sold.

U.S. Cellular's operations include 100% of the revenues and expenses of its consolidated markets plus its corporate office operations. Operating revenues, driven by an 18% increase in average customers served, rose \$310.6 million, or 20%, to \$1.893 billion in 2003 from \$1.583 billion in 2002. Operating expenses, driven by growth in customers, fixed assets and minutes of use and the continued integration of the Chicago market into its operations, increased \$411.8 million, or 31%, to \$1.751 billion in 2003 from \$1.339 billion in 2002. Operating income decreased \$101.3 million, or 42%, to \$142.3 million in 2003 from \$243.6 million in 2002. The decline in operating income primarily reflects percentage increases in all recurring operating expense captions that were as large or larger than the percentage growth in operating revenues. In addition, U.S. Cellular recorded a loss, included in operating expenses, of \$25.6 million in 2003 related to the assets transferred to AT&T Wireless. U.S. Cellular expects operating income for the full year of 2003 to be lower than in 2002, reflecting the factors above.

Investment and other (expense) totaled (\$11.0) million in 2003 and (\$274.3) million in 2002. In 2003, interest expense increased related to the financing of the acquisition of the Chicago market during the second half of 2002. In 2002, U.S. Cellular recorded a loss of \$278.9 million on the writedown of investments. Net income (loss) and diluted earnings per share totaled income of \$40.2 million and \$0.46, respectively, in 2003 and a loss of (\$28.9) million and (\$0.34), respectively, in 2002. Excluding the after-tax effects of the cumulative effect of accounting change, net income (loss) and diluted earnings per share totaled income of \$54.6 million and \$0.63, respectively, in 2003 and a loss of (\$33.0) million and (\$0.39), respectively, in 2002.

On August 1, 2003, U.S. Cellular completed the transfer of the wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. In exchange, U.S. Cellular received 14 personal communications service licenses and approximately \$34 million in cash and minority interests in six markets it currently controls. The assignment and development of the remaining 22 licenses yet to be transferred from AT&T Wireless will be deferred by U.S. Cellular for a period of up to five years from the closing date. 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. The Florida and Georgia markets that were transferred to AT&T Wireless are included in consolidated operations for the first seven months of 2003 and for the nine months ended September 30, 2002.

On August 7, 2002, U.S. Cellular completed the acquisition of the assets and certain liabilities of Chicago 20MHz, LLC, now known as United States Cellular Operating Company of Chicago, LLC (USCOC of Chicago or the Chicago market) from PrimeCo Wireless Communications LLC (PrimeCo). USCOC of Chicago operates a wireless system in the Chicago major trading area. USCOC of Chicago is the holder of certain FCC licenses, including a 20 megahertz personal communications service license in the Chicago Major Trading Area (excluding Kenosha County, Wisconsin). The Chicago market s operations are included in consolidated operations for the first nine months of 2003 but only for the period of 2002 from August 7 September 30. The Chicago market s operations contributed to the increases in U.S. Cellular s operating revenues and expenses during 2003 compared to 2002.

Operating Revenues

| | Nine Months Ended September 30, | |
|---------------------------------|---------------------------------|---------------------|
| | 2003 | 2002 |
| | (Restated) | |
| | (Dollars in thousands) | |
| Operating Revenues | | |
| Retail service | \$ 1,469,499 | \$ 1,217,387 |
| Inbound roaming | 171,084 | 190,910 |
| Long-distance and other | 162,567 | 115,209 |
| Service Revenues | 1,803,150 | 1,523,506 |
| Equipment sales | 89,917 | 59,039 |
| Total Operating Revenues | \$ 1,893,067 | \$ 1,582,545 |

Operating revenues increased \$310.6 million, or 20%, to \$1.893 billion in 2003 from \$1.583 billion in 2002.

Service revenues increased \$279.6 million, or 18%, to \$1.803 billion in 2003 from \$1.523 billion in 2002. Service revenues primarily consist of: (i) charges for access, airtime and value-added services provided to U.S. Cellular's retail customers (retail service); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming (inbound roaming); and (iii) charges for long-distance calls made on U.S. Cellular's systems. Service revenues increased \$279.6 million, or 18%, in 2003. The increase was primarily due to the 18% increase in average retail customers. Monthly service revenue per customer averaged \$47.27 in 2003, a less than 1% increase from the average of \$47.02 in 2002.

Retail service revenue increased \$252.1 million, or 21%, to \$1.469 billion in 2003 from \$1.217 billion in 2002. Growth in U.S. Cellular's customer base and an increase in average monthly retail service revenue per customer were the primary reasons for the increase in retail service revenue. The number of customers increased 8% to 4,268,000 at September 30, 2003, due to customer additions from its marketing channels over the past 12 months, partially offset by the transfer of customers to AT&T Wireless. Average customers during the nine months of 2003 increased 18% from the same period of 2002. The average number of customers is affected by the timing of acquisitions and divestitures in both years, including the acquisition of the Chicago market in August 2002 and the disposition of markets to AT&T Wireless in 2003. Average monthly retail service revenue per customer increased 3% to \$38.53 in 2003.

Management anticipates that overall growth in U.S. Cellular's customer base will continue at a slower pace in the future, primarily as a result of the increased number of competitors in its markets and continued penetration of the consumer market. As U.S. Cellular expands its operations in the Chicago market and into other personal communications service markets in the remainder of 2003 and in 2004, it

anticipates adding customers and revenues in those markets.

Monthly local retail minutes of use per customer averaged 412 in 2003 and 280 in 2002. The increase in monthly local retail minutes of use was driven by U.S. Cellular's focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage, as well as the acquisition of the Chicago market, whose customers used more minutes per month than the U.S. Cellular average. The impact on retail service revenue of the increase in minutes of use in 2003 was partially offset by a decrease in average revenue per minute of use. Management anticipates that U.S. Cellular's average revenue per minute of use will continue to decline in the future, reflecting increased competition and penetration of the consumer market.

Inbound roaming revenue decreased \$19.8 million, or 10%, to \$171.1 million in 2003 from \$190.9 million in 2002. The decrease in revenue related to inbound roaming on U.S. Cellular's systems primarily resulted from a decrease in revenue per roaming minute of use, partially offset by the increase in roaming minutes used. Also contributing to the decrease was the transfer of the Florida and Georgia markets to AT&T Wireless in August 2003; these markets had historically provided a substantial amount of inbound roaming revenue. The increase in inbound roaming minutes of use was primarily driven by the overall growth in the number of customers throughout the wireless industry. The decline in revenue per minute of use is primarily due to the general downward trend in negotiated rates.

Management anticipates that the rate of growth in inbound roaming minutes of use will continue to slow down due to two factors:

newer customers may roam less than existing customers, reflecting further penetration of the consumer market, and

as new wireless operators begin service in U.S. Cellular's markets, U.S. Cellular's roaming partners may switch their business from U.S. Cellular to these new operators or to their own systems.

Management also anticipates that average inbound roaming revenue per minute of use will continue to decline, reflecting the continued general downward trend in negotiated rates.

Long-distance and other revenue increased \$47.4 million, or 41%, to \$162.6 million in 2003 from \$115.2 million in 2002, primarily related to a \$34.3 million increase in amounts billed to U.S. Cellular's customers to offset costs related to certain regulatory mandates, such as universal service funding, wireless number portability and E-911 infrastructure, which are being passed through to customers. In particular, the amounts U.S. Cellular charges to its customers to offset universal service funding costs increased significantly due to changes in FCC regulations beginning April 1, 2003, contributing to the \$34.3 million increase.

The increase in long-distance and other revenue was also driven by an increase in the volume of long-distance calls billed by U.S. Cellular to other wireless carriers whose customers used U.S. Cellular's systems to make long-distance calls. This effect was partially offset by price reductions primarily related to long-distance charges on roaming minutes of use as well as U.S. Cellular's increasing use of pricing plans for its

customers which include long-distance calling at no additional charge.

Equipment sales revenues increased \$30.9 million, or 52%, to \$89.9 million in 2003 from \$59.0 million in 2002. The increase in equipment sales revenues reflects a change in U.S. Cellular's method of distributing handsets to its agent channel. Beginning in the second quarter of 2002, U.S. Cellular began selling handsets to its agents at a price approximately equal to U.S. Cellular's cost before applying any rebates. Previously, U.S. Cellular's agents purchased handsets from third parties. Selling handsets to agents enables U.S. Cellular to provide better control over handset quality, set roaming preferences and pass along quantity discounts. Management anticipates that U.S. Cellular will continue to sell handsets to agents in the future, and that it will continue to provide rebates to agents who provide handsets to new and current customers.

In these transactions, equipment sales revenue is recognized upon delivery of the related products to the agents, net of any anticipated agent rebates. In most cases, the agents receive a rebate from U.S. Cellular at the time these agents provide handsets to sign up a new customer or retain a current customer.

Handset sales to agents, net of all rebates, increased equipment sales revenues by approximately \$37.2 million during 2003. Equipment sales to customers through U.S. Cellular's non-agent channels decreased \$6.3 million, or 13%, from 2002. Gross customer activations from non-agent channels, the primary driver of such equipment sales revenues, increased 15% in 2003. The increase in gross customer activations from non-agent channels in 2003 was driven by an increase in store traffic in U.S. Cellular's markets and the acquisition of the Chicago market, which added to U.S. Cellular's distribution network. The decrease in equipment sales revenues from U.S. Cellular's non-agent channels is primarily attributable to lower revenue per handset in 2003, reflecting declining handset prices on most models and the reduction in sales prices to end users as a result of increased competition.

Operating Expenses

| | Nine Months Ended September 30, | |
|---|---------------------------------|--------------|
| | 2003 | 2002 |
| | As Restated | As Restated |
| | (Dollars in thousands) | |
| Operating Expenses | | |
| System operations (excluding Depreciation shown separately below) | \$ 438,721 | \$ 362,426 |
| Marketing and selling | 309,058 | 249,185 |
| Cost of equipment sold | 175,510 | 118,550 |
| General and administrative | 483,981 | 356,702 |
| Depreciation | 272,534 | 228,289 |
| Amortization and accretion | 45,371 | 23,748 |
| Loss on assets held for sale | 25,558 | |
| Total Operating Expenses | \$ 1,750,733 | \$ 1,338,900 |

Operating expenses increased \$411.8 million, or 31%, to \$1.751 billion in 2003 from \$1.339 billion in 2002.

System operations expenses (excluding depreciation) increased \$76.3 million, or 21%, to \$438.7 million in 2003 from \$362.4 million in 2002. System operations expenses include charges from landline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the landline network, charges for maintenance of U.S. Cellular's network, long-distance charges and outbound roaming expenses. The increase in system operations expenses in 2003 was due to the following factors:

a 9% increase in the number of cell sites within U.S. Cellular's systems, to 4,082 in 2003 from 3,750 in 2002, as U.S. Cellular continues to expand and enhance coverage in its service areas through both acquisitions and internal growth; and

increases in minutes of use both on U.S. Cellular's systems and by U.S. Cellular's customers using other systems while roaming.

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

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

the cost of minutes used on U.S. Cellular's systems increased \$36.9 million, or 42%;

maintenance, utility and cell site expenses increased \$34.1 million, or 36%; and

expenses incurred when U.S. Cellular's customers used other systems when roaming increased \$5.3 million, or 3%.

System operations expenses increased due to the August 2002 acquisition of the Chicago market, as nine months of activity in the Chicago market is included in 2003 compared to only the period from August 7 – September 30 in 2002. The increase in expenses in the Chicago market was partially offset by a reduction in expenses in other markets, primarily in the Midwest, when certain customers in surrounding markets used the Chicago system. Prior to acquiring the Chicago market, U.S. Cellular paid roaming charges to third parties when any of its customers roamed in the Chicago market.

In total, management expects system operations expenses to increase over the next few years, driven by the following factors:

increases in the number of cell sites within U.S. Cellular's systems as it continues to add capacity and enhance quality in all markets, and begins startup activities in new markets; and

increases in minutes of use, both on U.S. Cellular's systems and by U.S. Cellular's customers on other systems when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular's systems and on other carriers' networks. The Chicago area has historically been a high-volume roaming destination for U.S. Cellular's customers. Management anticipates that the continued integration of the Chicago market into its operations will result in a further increase in minutes of use by U.S. Cellular's customers on its system and a corresponding decrease in minutes of use by its customers on other systems, resulting in a lower overall increase in minutes of use by U.S. Cellular's customers on other systems. Such a shift in minutes of use should reduce U.S. Cellular's average per-minute cost of usage in the future, to the extent that U.S. Cellular's customers use U.S. Cellular's systems rather than other carriers' networks. Additionally, U.S. Cellular's acquisition and subsequent buildout of licensed areas received in the AT&T Wireless transaction may shift more minutes of use to U.S. Cellular's systems, as many of these licensed areas are major roaming destinations for U.S. Cellular's current customers.

Marketing and selling expenses increased \$59.9 million, or 24%, to \$309.1 million in 2003 from \$249.2 million in 2002. Marketing and selling expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent commissions and related expenses; corporate marketing, merchandise management and telesales department salaries and expenses; advertising; and public relations expenses. The increase in 2003 was primarily due to the following factors:

a \$31.3 million increase in advertising costs, primarily related to the continued marketing of U.S. Cellular brand in the Chicago market; and

the 19% increase in gross customer activations in 2003, which drove a \$10.7 million, or 14%, increase in commissions and agent-related payments;

a \$16.2 million, or 14%, increase in salaries and other sales-related costs, which is primarily attributable to increased marketing activities related to the acquisition of the Chicago market and to the expenses incurred in preparation of U.S. Cellular's rollout of data services in its markets.

Cost of equipment sold increased \$57.0 million, or 48%, to \$175.5 million in 2003 from \$118.5 million in 2002. The increase in 2003 is primarily due to the \$59.0 million increase in costs related to the sale of handsets to agents beginning in the second quarter of 2002. Cost of equipment sold from non-agent channels decreased by \$2.1 million, or 2%, in 2003. The decrease in cost of equipment sold from non-agent channels primarily reflects the effects of economies realized from U.S. Cellular's merchandise management system almost fully offset by the 15% increase in gross customer activations from non-agent channels.

Sales and marketing cost per gross customer activation increased 4% to \$378 in 2003 from \$363 in 2002. The numerator of the sales and marketing cost per gross customer activation calculation is the sum of the statement of operations line items Marketing and selling expenses and Cost of equipment sold, less Equipment sales revenues (excluding agent rebates related to customer retention), incurred during a specific period. The denominator is the number of gross new

customers activated on the U.S. Cellular network during such period, excluding renewals and upgrades.

Agent handset sales rebates related to the retention of current customers increased \$13.1 million in 2003. Such handset rebate amounts paid to agents related to the renewal or upgrade of service contracts of existing U.S. Cellular customers are excluded from the numerator of the sales and marketing cost per gross customer activation calculation, as these costs are not related to the addition of new customers. Due to the exclusion of these agent handset rebates from the calculation, sales and marketing cost per gross customer activation is not calculable using financial information derived directly from the statement of operations. U.S. Cellular's definition of sales and marketing cost per gross customer activation may not be comparable to similarly titled measures that are reported by other companies. Below is a summary of sales and marketing cost per gross customer activation for each period:

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------------|
| | 2003 | 2002 As Restated |
| Components of cost (000s): | | |
| Marketing and selling expenses | \$ 309,058 | \$ 249,185 |
| Cost of equipment sold | 175,510 | 118,550 |
| Less equipment sales revenues | (89,917) | (59,039) |
| Less retention-related agent rebate reductions of equipment sales revenues | (20,741) | (7,685) |
| Total costs | \$ 373,910 | \$ 301,011 |
| Gross customer activations (000s) | 989 | 829 |
| Sales and marketing cost per gross customer activation | \$ 378 | \$ 363 |

General and administrative expenses increased \$127.3 million, or 36%, to \$484.0 million in 2003 from \$356.7 million in 2002. These expenses include the costs of operating U.S. Cellular's customer care centers, the costs of serving and retaining customers and the majority of U.S. Cellular's corporate expenses. Monthly general and administrative expenses per customer increased 18% to \$13.23 in 2003 from \$11.25 in 2002. General and administrative expenses represented 27% of service revenues in 2003 and 23% in 2002. The increase in general and administrative expenses in 2003 is primarily due to the following factors:

- a \$29.0 million increase in billing-related expenses, primarily due to the expenses related to the maintenance of the Chicago market's billing system and the conversion of such billing system to the system used in U.S. Cellular's other operations in July 2003;

- a \$22.0 million increase in expenses related to payments into the federal universal service fund, based on an increase in rates due to changes in FCC regulations, substantially all of which is offset by increases in long-distance and other revenue for amounts passed through to customers;

- a \$14.4 million increase in customer retention expenses, excluding agent handset rebates recorded as a reduction of equipment sales revenue;

- an increase in employee-related expenses, primarily as a result of the acquisition of the Chicago market as well as the increase in U.S. Cellular's customer base; and

- an increase in customer service-related expenses as a result of the increase in U.S. Cellular's customer base.

The above factors were all affected by the acquisition of the Chicago market.

U.S. Cellular anticipates that customer retention expenses will increase in the future as it changes to a single digital technology platform and certain customers will require new handsets. A substantial portion of these customer retention expenses are anticipated to be agent rebates, which are recorded as a reduction of equipment sales revenues.

Depreciation expense increased \$44.2 million, or 19%, to \$272.5 million in 2003 from \$228.3 million in 2002. The increases reflect rising average fixed asset balances, which increased 27% in 2003. Increased fixed asset balances in 2003 resulted from the following factors:

the addition of new cell sites built to improve coverage and capacity in U.S. Cellular's markets;

the acquisition of the Chicago market;

U.S. Cellular's migration of its network toward a single digital equipment platform, which began during the second half of 2002;

the addition of digital radio channels to U.S. Cellular's network to accommodate increased usage; and

investments in U.S. Cellular's billing and office systems.

See Financial Resources and Liquidity Liquidity and Capital Resources for further discussion of U.S. Cellular's capital expenditures.

Partially offsetting these increases, depreciation expense decreased \$15.0 million due to a charge in 2002 to reflect the writeoff of certain analog radio equipment based on fixed asset inventory reviews performed in 2002.

Amortization and accretion expense increased \$21.7 million, or 92%, to \$45.4 million in 2003 from \$23.7 million in 2002, primarily driven by the \$13.2 million increase in amortization related to the customer list intangible assets and other deferred charges acquired in the USCOC of Chicago transaction during 2002. These customer list assets are amortized based on the average customer retention period of each customer list. Amortization and accretion expense includes \$3.3 million of accretion related to the asset retirement obligation in 2003.

Loss on assets held for sale totaled \$25.6 million in 2003. This loss represents the difference between the fair value of the assets U.S. Cellular received and expects to receive in the AT&T Wireless transaction, as determined by an independent valuation, and the recorded value of the assets it transferred to AT&T Wireless.

Operating Income

Operating income totaled \$142.3 million in 2003 compared to \$243.6 million in 2002, a \$101.3 million, or 42%, decrease. The operating income margins (as a percent of service revenues) were 7.9% in 2003 and 16.0% in 2002. The decline in operating income and operating income margin in 2003 reflects the following:

increased general and administrative expenses, primarily driven by the acquisition and subsequent transition of the Chicago market's billing system as well as increased customer retention;

increased system operations expenses, primarily driven by increases in the number of cell sites in and the number of minutes used by U.S. Cellular's customers and on U.S. Cellular's network;

increased marketing and selling expenses primarily driven by additional costs related to advertising and marketing the U.S. Cellular brand;

increased depreciation expense, driven by an increase in average fixed assets related to ongoing improvements to U.S. Cellular's wireless network;

increased equipment subsidies, primarily due to U.S. Cellular's practice of selling handsets to agents, which began in the second quarter of 2002;

the acquisition and subsequent transition costs related to the Chicago market; and

the loss on assets held for sale related to the asset exchange transaction with AT&T Wireless.

These were partially offset by increased service revenues, driven by growth in the number of customers served by U.S. Cellular's systems and an increase in average monthly revenue per customer.

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U.S. Cellular expects most of the above factors, except for those related to the transition of the Chicago market, to continue to have an effect on operating income and operating margins for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular's operating results, may cause operating income and operating margins to fluctuate over the next several quarters.

Related to U.S. Cellular's acquisition and subsequent transition of the Chicago market's operations, U.S. Cellular plans to incur additional expenses during the remainder of 2003 as it competes in the Chicago market. Additionally, U.S. Cellular plans to build out its network into other as yet unserved portions of its personal communications service licensed areas, and will begin sales and marketing operations in those areas during 2003 and 2004. U.S. Cellular also expects to incur additional expenses related to its launch of data-related wireless services in many of its markets during the fourth quarter of 2003. As a result, U.S. Cellular expects its operating income and operating margin to be below historical levels for the full year of 2003 compared to the full year of 2002. See "Outlook" for a discussion of U.S. Cellular's 2003 full-year operating income guidance.

U.S. Cellular expects service revenues to continue to grow during the remainder of 2003; however, management anticipates that average monthly service revenue per customer may decrease, as retail service revenue per minute of use and inbound roaming revenue per minute of use decline. Additionally, U.S. Cellular expects expenses to remain higher than normal during the remainder of 2003 as it incurs costs associated with customer growth, service and retention, initiation of new services and new markets and fixed asset additions. See "Outlook" for a discussion of U.S. Cellular's 2003 full-year guidance.

Management continues to believe there exists a seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in

the fourth quarter due to increased marketing activities and customer growth, which may cause operating income to vary from quarter to quarter. Management anticipates that the impact of such seasonality will decrease in the future, particularly as it relates to operating expenses, as the proportion of full year customer activations derived from fourth quarter holiday sales is expected to decline.

Additionally, competitors licensed to provide wireless services have initiated service in substantially all of U.S. Cellular's markets over the past several years. U.S. Cellular expects other wireless operators to continue deployment of their networks throughout all of U.S. Cellular's service areas during the remainder of 2003 and in 2004. Management continues to monitor other wireless communications providers' strategies to determine how additional competition is affecting U.S. Cellular's results.

The effects of additional wireless competition and the downturn in the nation's economy have significantly slowed customer growth in certain of U.S. Cellular's markets. Management anticipates that overall customer growth may be slower in the future, primarily as a result of the increase in competition in its markets and due to the maturation of the wireless industry.

The FCC has mandated that all wireless carriers must be capable of facilitating wireless number portability beginning in November 2003. By November 24, 2003, all wireless providers must allow a customer to retain, subject to certain geographical limitations, their existing telephone number when switching from one telecommunications carrier to another. At that time, any wireless customer in the largest 100 metropolitan statistical areas in the United States may switch carriers and keep their current wireless telephone number. U.S. Cellular believes it will have the infrastructure in place to accommodate wireless number portability as of the November 2003 deadline.

Once wireless number portability is implemented, current rules require that wireless providers and local exchange carriers would have to provide wireless number portability in the 100 largest metropolitan statistical areas, in compliance with certain FCC performance criteria, upon request from another carrier. For metropolitan statistical areas outside the largest 100, wireless providers that receive a request to allow an end user to port their number must be capable of doing so within six months of receiving the request or within six months after November 24, 2003, whichever is later.

U.S. Cellular is unable to predict the impact that the implementation of wireless number portability will have on its overall business. The implementation of wireless number portability will likely increase churn rates for U.S. Cellular and other wireless companies, as the ability of customers to retain their wireless telephone numbers removes a significant barrier for customers who wish to change wireless carriers. U.S. Cellular believes that it may be able to obtain additional new customers that wish to change their service from other wireless carriers as a result of wireless number portability. The future volume of any porting requests, and the processing costs related thereto, may increase U.S. Cellular's operating costs in the future. Any of the above factors could have an adverse affect on U.S. Cellular's competitive position, costs of obtaining new subscribers, liquidity, financial position and results of operations.

Investment and Other Income (Expense)

Investment and other income (expense) totaled (\$11.0) million in 2003 and (\$274.3) million in 2002, a \$263.3 million decrease in expense.

Investment income was \$37.2 million in 2003, a \$6.5 million, or 21%, increase from \$30.7 million in 2002. Investment income primarily represents U.S. Cellular's share of net income from the markets managed by others that are accounted for by the equity method.

Interest expense totaled \$47.5 million in 2003, a \$16.5 million or 53%, increase from \$31.0 million in 2002. Interest expense in 2003 is primarily related to Liquid Yield Option Notes (\$7.0 million); U.S. Cellular's 7.25% Notes (\$13.9 million); U.S. Cellular's 8.75% Notes (\$8.5 million); U.S. Cellular's revolving credit facilities with a series of banks (\$7.9 million); U.S. Cellular's contracts with a series of banks related to its investment in Vodafone AirTouch plc (forward contracts) (\$2.2 million); and U.S. Cellular's Intercompany note with TDS (the Intercompany Note) (\$6.5 million). Interest expense in 2002 was primarily related to Liquid Yield Option Notes (\$6.6 million); the 7.25% Notes (\$13.9 million); U.S. Cellular's revolving credit facility entered into in 1997 with a series of banks (the 1997 Revolving Credit Facility) (\$3.9 million); U.S. Cellular's 9% Series A Notes due (the 9% Series A Notes) (\$2.4 million); the Vodafone forward contracts (\$1.3 million); and the Intercompany Note (\$1.3 million).

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

U.S. Cellular's \$250 million principal amount of 7.25% Notes are unsecured and become due in August 2007. Interest on the Notes is payable semi-annually on February 15 and August 15 of each year.

The 9% Series A Notes were issued to PrimeCo in a private placement and are due in August 2032. The notes are callable by U.S. Cellular at the principal amount after five years. Interest is payable quarterly. In November 2002, U.S. Cellular repaid \$129.8 million of its 9% Series A Notes with proceeds from its 8.75% Senior Notes offering. U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A Notes in January 2003 with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities.

In November 2002, U.S. Cellular sold \$130 million of 8.75% Senior Notes. Interest is payable quarterly. The notes are callable by U.S. Cellular, at the principal amount plus accrued and unpaid interest, at any time on and after November 7, 2007. U.S. Cellular issued the 8.75% Senior Notes under the \$500 million shelf registration statement on Form S-3 filed in May 2002.

For information regarding U.S. Cellular's 1997 and 2002 Revolving Credit Facilities, see [Liquidity and Capital Resources](#) - Revolving Credit Facilities. For information regarding the forward contracts, see [Market Risk](#). For information regarding the Intercompany Note, see [Certain Relationships and Related Transactions](#).

Loss on investments totaled \$3.5 million in 2003 and \$278.9 million in 2002, a \$275.4 million decrease. In 2003, a license impairment loss was recorded related to U.S. Cellular's investment in a non-operational market in Florida that remains with U.S. Cellular after the exchange with AT&T Wireless was completed.

U.S. Cellular and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. U.S. Cellular and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets. U.S. Cellular has not disposed of the investments because of their low tax cost basis would likely trigger a substantial taxable gain upon disposal. See [Liquidity](#) - Marketable Equity Securities and Forward Contracts for a discussion on marketable equity securities.

In 2002, U.S. Cellular recognized \$244.7 million of other than temporary losses on its investments in Vodafone and Rural Cellular Corporation and recorded a \$34.2 million writedown related to certain notes receivable.

Income Taxes

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Income tax expense (benefit) totaled expense of \$67.3 million in 2003 and a benefit of \$3.9 million in 2002, a \$71.2 million increase in expense. The overall effective tax rates were 51% in 2003 and 13% in 2002. The effective tax rates in 2003 and 2002 were impacted by the loss on assets held for sale and the losses on investments, which have different tax rates than U.S. Cellular's overall operations. For an analysis of U.S. Cellular's effective tax rates in 2003 and 2002, see Note 3 Income Taxes.

TDS and U.S. Cellular are parties to a Tax Allocation Agreement, pursuant to which U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group.

For financial reporting purposes, U.S. Cellular computes federal income taxes as if it was filing a separate return as its own affiliated group and was not included in the TDS group.

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 the full year of 2003; accordingly, U.S. Cellular anticipates it will have no current federal tax liability in 2003.

Cumulative Effect of Accounting Change

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 commissions expenses related to customer activations and began deferring expense recognition of a portion of commissions expenses in the amount of activation fees revenue deferred. The cumulative effect of this accounting change on periods prior to 2002 was recorded in the first quarter of 2002, increasing net income by \$4.1 million, net of tax and minority interest, or \$.05 per diluted share.

Net Income (Loss)

Net income (loss) totaled income of \$40.2 million in 2003, a \$69.1 million increase in income from a loss of \$28.9 million in 2002. *Diluted earnings (loss) per share* was \$0.46 in 2003, a \$0.80 increase in income from (\$0.34) in 2002.

Three Months Ended 9/30/03 Compared to Three Months Ended 9/30/02

Operating revenues totaled \$657.3 million in the third quarter of 2003, an increase of \$77.5 million, or 13%, from \$579.8 million in 2002.

Retail service revenues increased \$63.7 million, or 14%, to \$507.0 million in 2003 from \$443.3 million in 2002, primarily due to a 13% increase in U.S. Cellular's average customer base and a 2% increase in average monthly retail service revenue per customer.

Inbound roaming revenue decreased \$14.6 million, or 20%, to \$59.6 million in 2003 from \$74.2 million in 2002 for reasons generally the same as for the first nine months of 2003.

Long-distance and other revenues increased \$18.1 million, or 41%, to \$61.8 million in 2003 from \$43.7 million in 2002 for reasons generally the same as for the first nine months of 2003.

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Equipment sales revenue increased \$10.4 million, or 56%, to \$28.9 million in 2003 from \$18.5 million in 2002. The increase in equipment sales revenues primarily reflects an increase in handset sales to agents, which began in the second quarter of 2002. Such handset sales to agents, net of all rebates, increased equipment sales revenues by approximately \$9.7 million during 2003. Equipment sales to customers through U.S. Cellular's non-agent channels increased \$691,000, or 5%, from 2002. Gross customer activations from non-agent channels decreased 11% in 2003. U.S. Cellular increased its average price per handset in 2003, driving the increase in revenue despite the decline in gross customer activations.

Operating expenses totaled \$561.8 million in the third quarter of 2003, an increase of \$44.7 million, or 9%, from \$517.1 million in 2002.

System operations expenses (excluding depreciation) increased \$17.4 million, or 13%, to \$153.7 million in 2003 from \$136.3 million in 2002 for reasons generally the same as for the first nine months of 2003.

Marketing and selling expenses increased \$10.6 million, or 12%, to \$101.6 million in 2003 from \$91.0 million in 2002, primarily due to a \$10.1 million increase in advertising expenses related to the continued marketing of the U.S. Cellular brand in the Chicago market and in preparation for the rollout of data services in the fourth quarter of 2003.

Cost of equipment sold increased \$1.8 million, or 3%, to \$53.4 million in 2003 from \$51.6 million in 2002. The increase in 2003 is primarily due to the \$6.1 million increase in costs related to the sale of handsets to agents beginning in the second quarter of 2002, partially offset by a decrease in cost of equipment sold from non-agent channels, which decreased by \$4.4 million, or 14%, in 2003. The decrease in cost of equipment sold from non-agent channels primarily reflects the 11% decline in gross customer activations from non-agent channels in 2003.

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Sales and marketing cost per gross customer activation increased \$57, or 16%, to \$405 in 2003 from \$348 in 2002. Below is a summary of sales and marketing cost per gross customer activation for each period:

| | Three Months Ended September 30, | |
|--|-------------------------------------|---------------------|
| | 2003 | 2002 As Restated |
| Components of cost (000s): | | |
| Marketing and selling expenses | \$ 101,589 | \$ 91,060 |
| Cost of equipment sold | 53,383 | 51,595 |
| Less equipment sales revenues | (28,903) | (18,546) |
| Less retention-related agent rebate reductions of equipment sales revenues | (7,103) | (7,292) |
| Total costs | \$ 118,966 | \$ 116,817 |
| Gross customer activations (000s) | 294 | 336 |
| Sales and marketing cost per gross customer activation | \$ 405 | \$ 348 |

General and administrative expenses increased \$15.7 million, or 12%, to \$150.9 million in 2003 from \$135.2 million in 2002, primarily driven by the 13% increase in U.S. Cellular's average customer base in 2003. Monthly general and administrative expenses per customer decreased less than 1% to \$12.47 in 2003 from \$12.52 in 2002. General and administrative expenses as a percent of service revenues were 24% both in 2003 and 2002.

Depreciation expense decreased \$3.2 million, or 3%, to \$90.2 million in 2003 from \$93.4 million. Excluding the \$15 million writeoff of certain analog radio equipment in the third quarter of 2002, depreciation expense increased 15% in 2003. Average fixed asset balances increased 24% in 2003.

Amortization and accretion expense increased \$4.0 million, or 42%, to \$13.5 million in 2003 from \$9.5 million in 2002, for reasons generally the same as for the first nine months of 2003.

Operating income increased \$32.9 million, or 52%, to \$95.6 million in 2003 from \$62.7 million in 2002; operating income margins (as a percent of service revenues) totaled 15.2% in 2003 and 11.2% in 2002.

Investment and other (expense) totaled (\$3.3) million in 2003 and (\$33.7) million in 2002, a \$30.4 million decrease in expense. Investment income decreased \$1.7 million, or 13%, in 2003 to \$11.3 million from \$13.0 million as U.S. Cellular's share of net income from the markets managed by others that are accounted for by the equity method decreased. Loss on investments totaled \$34.2 million in 2002, as U.S. Cellular recognized a loss on the writedown of certain notes receivable.

Interest expense increased \$2.3 million, or 17%, to \$15.6 million in 2003 from \$13.3 million in 2002, as U.S. Cellular's average debt balances increased since September 2002, primarily to finance the USCOC of Chicago acquisition and subsequent operations and to fund capital expenditures.

Income tax expense totaled \$46.8 million in 2003 and \$15.5 million in 2002, a \$31.3 million increase. For an analysis of U.S. Cellular's effective tax rates in 2003 and 2002, see Note 3 - Income Taxes.

Net income totaled \$40.9 million in 2003 compared to \$11.0 million in 2002, a \$29.9 million increase. Diluted earnings per share totaled \$0.47 in 2003 and \$0.13 in 2002, a \$0.34 increase.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards (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 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, this Statement did not have any effect on U.S. Cellular's 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 to 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 and results of operations.

FINANCIAL RESOURCES AND LIQUIDITY

U.S. Cellular operates a capital- and marketing-intensive business. In recent years, U.S. Cellular has generated cash from its operations, received cash proceeds from divestitures and used its short-term credit facilities to fund its network construction costs and operating expenses. U.S. Cellular anticipates further increases in wireless customers, revenues, operating expenses, cash flows from operating activities and fixed assets in the future. Cash flows may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

The following is a discussion of U.S. Cellular's cash flows for the first nine months of 2003 compared to the same period of 2002.

Cash flows from operating activities provided \$422.1 million in 2003 and \$463.6 million in 2002. Income excluding adjustments to reconcile income (loss) to net cash provided by operating activities, excluding noncash items and changes in assets and liabilities from operations, totaled \$438.9 million in 2003 and \$428.9 million in 2002. Changes in assets and liabilities from operations required \$16.8 million in 2003 and provided \$34.7 million in 2002, reflecting timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable. Income taxes and interest paid totaled \$12.8 million in 2003 and \$59.8 million in 2002.

The following table is a summary of the components of cash flows from operating activities.

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2003 | 2002 |
| | As Restated | |
| | (Dollars in thousands) | |
| Net income (loss) | \$ 40,208 | \$ (28,917) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | 398,650 | 457,897 |
| | 438,858 | 428,980 |
| Increase (decrease) due to changes in assets and liabilities | (16,806) | 34,668 |
| | \$ 422,052 | \$ 463,648 |

Cash flows from investing activities required \$386.3 million in 2003 and \$828.2 million in 2002. Cash required for property, plant and equipment and system development expenditures totaled \$439.1 million in 2003 and \$449.0 million in 2002.

In 2003, these expenditures were financed primarily with internally generated cash and borrowings from U.S. Cellular's revolving credit facilities. In 2002, these expenditures were financed primarily with internally generated cash. These expenditures primarily represent the construction of 384 and 263 cell sites in 2003 and 2002, respectively, as well as other plant additions and costs related to the development of U.S. Cellular's office systems. In 2003 and 2002, these plant additions included approximately \$47 million and \$126 million, respectively, for the migration toward a single digital equipment platform. In both periods, other plant additions included significant amounts related to the replacement of retired assets and the changeout of analog equipment for digital equipment. Acquisitions, excluding cash received and bonds issued to the sellers of USCOC of Chicago, required \$1.3 million in 2003 and required \$451.5 million in 2002. Proceeds from the exchange transaction with AT&T Wireless totaled \$34.0 million in 2003. Cash distributions from wireless entities in which U.S. Cellular has an interest provided \$21.2 million in 2003 and \$25.0 million in 2002. In 2002, U.S. Cellular was refunded \$47.6 million of its deposit with the Federal Communications Commission (FCC) related to the January 2001 FCC spectrum auction.

Cash flows from financing activities required \$28.7 million in 2003 and provided \$374.2 million in 2002. In

2003, U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A Notes with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities. The 9% Series A Notes were issued to PrimeCo in a private placement in August 2002 and are now retired. In 2002, U.S. Cellular received \$160.0 million from the monetization of its Vodafone investment through the forward contracts and received \$105.0 million from TDS through the Intercompany Note and were used primarily to finance the USCOC of Chicago acquisition. In 2003 and 2002, U.S. Cellular repaid \$269.3 million and \$306.4 million, respectively, under its revolving credit facilities. In 2003 and 2002, U.S. Cellular borrowed \$279.3 million and \$422.4 million, respectively, under its revolving credit facilities.

Acquisitions and Divestitures

Acquisitions

U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum.

On August 7, 2002, U.S. Cellular completed the acquisition of USCOC of Chicago for approximately \$618 million, including certain working capital and other adjustments. U.S. Cellular financed the purchase using its 1997 Revolving Credit Facility, the \$175 million 9% Series A Notes and the \$105 million Intercompany Note with TDS. Net of cash acquired in the transaction and notes issued to the sellers of USCOC of Chicago, U.S. Cellular used cash totaling \$431.9 million for the acquisition of USCOC of Chicago.

Additionally, in the first nine months of 2002, U.S. Cellular, through joint ventures, acquired majority interests in three personal communications service licenses for \$18.0 million in cash.

Exchanges

On August 1, 2003, U.S. Cellular completed the transfer of its properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the personal communications service licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately \$34 million in cash and minority interests in six cellular markets it currently controls. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. U.S. Cellular has deferred the assignment and development of certain licenses until later periods. When this transaction is fully consummated, U.S. Cellular will have received 10 and 20 megahertz personal communications service licenses in 13 states contiguous to and that overlap existing properties in the Midwest and Northeast.

Divestitures

In the first nine months of 2003 and 2002, U.S. Cellular did not complete any material divestitures of wireless interests.

Liquidity and Capital Resources

Capital Expenditures

Anticipated capital expenditures requirements for 2003 primarily reflect U.S. Cellular's plans for construction, system expansion, the execution of its plans to migrate to a single digital equipment platform and the buildout of certain of its personal communications service licensed areas. U.S. Cellular's estimated capital spending for 2003 is \$650 million to \$670 million, of which \$439 million of expenditures have been incurred as of September 30, 2003. These expenditures will primarily address the following needs:

Expand and enhance U.S. Cellular's coverage in its service areas.

Provide additional capacity to accommodate increased network usage by current customers.

Addition of digital service capabilities to its systems, including the migration toward a single digital equipment platform, Code Division Multiple Access (CDMA), from a mixture of CDMA and another digital technology, Time Division Multiple Access (TDMA).

Build out certain personal communications service licensed areas acquired in 2001, 2002 and 2003.

Enhance U.S. Cellular's office systems.

U.S. Cellular expects its overlay of existing technologies with CDMA to be largely completed during 2004. Capital expenditures related to this overlay to date have totaled approximately \$262 million, and in total are expected to aggregate to no more than the estimated \$385 million to \$410 million planned for the entire project. U.S. Cellular has contracted with multiple infrastructure vendors to provide a substantial portion of the equipment related to the overlay.

U.S. Cellular expects capital expenditures related to the buildout of the personal communications service licensed areas it acquired in 2001-2003, including those included in the AT&T Wireless transaction, to be substantial. U.S. Cellular plans to build networks to serve these licensed areas and launch commercial service in these areas over the next several years. Approximately \$80 million of the estimated capital spending for 2003 is allocated to the buildout of certain of these licenses, and U.S. Cellular expects a significant portion of its capital spending over the next few years to be related to the buildout of personal communications service licensed areas.

Repurchase of Securities

U.S. Cellular, as market conditions warrant, may continue the repurchase of its common shares, on the open market or at negotiated prices in private transactions. There are 859,000 shares available to be repurchased under the most recent 1.4 million share authorization, which expires in December 2003. The repurchases of common shares will be funded by internal cash flow, supplemented by short-term borrowings and other sources.

U.S. Cellular's board of directors has authorized management to opportunistically repurchase Liquid Yield Option Notes in private transactions. U.S. Cellular may also purchase a limited amount of Liquid Yield Option Notes in open-market transactions from time to time. U.S. Cellular's Liquid Yield Option Notes are convertible, at the option of their holders, at any time prior to maturity, redemption or purchase, into USM Common Shares at a conversion rate of 9.475 USM Common Shares per Liquid Yield Option Note. Upon conversion, U.S. Cellular has the option to deliver to holders either USM Common Shares or cash equal to the market value of the USM Common Shares into which the Liquid Yield Option Notes are convertible. U.S. Cellular may redeem the Liquid Yield Option Notes for cash at the issue price plus accrued original issue discount through the date of redemption.

Revolving Credit Facilities and Long-Term Debt

U.S. Cellular is generating substantial cash from its operations and anticipates financing all of the 2003 obligations listed above with internally generated cash and with borrowings under U.S. Cellular's revolving credit facilities as the timing of such expenditures warrants. U.S. Cellular had \$21.9 million of cash and cash equivalents at September 30, 2003.

At September 30, 2003, \$30 million of the 1997 Revolving Credit Facility and all \$325 million of the 2002 Revolving Credit Facility, respectively, were unused and remained available to meet any short-term borrowing requirements.

The 1997 Revolving Credit Facility expires in August 2004 and provides for borrowings with interest at LIBOR plus a margin percentage based on U.S. Cellular's credit rating, which was 19.5 basis points as of September 30, 2003 (for a rate of 1.32% as of September 30, 2003).

The 2002 Revolving Credit Facility expires in June 2007 and permits revolving loans on terms and conditions substantially similar to U.S. Cellular's 1997 Revolving Credit Facility. The terms of the 2002 Revolving Credit Facility provide for borrowings with interest at LIBOR plus a margin percentage based on U.S. Cellular's credit rating, which was 55 basis points as of September 30, 2003 (for a rate of 1.67% as of September 30, 2003).

The continued availability of these revolving lines of credit requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and to represent certain matters at the time of each borrowing. At September 30, 2003, U.S. Cellular was in compliance with all covenants and

other requirements set forth in the revolving credit facilities. U.S. Cellular's interest cost related to both lines of credit would increase if its credit rating goes down, which would increase its cost of financing, but such lines of credit would not cease to be available solely as a result of a decline in its credit rating.

Management believes that U.S. Cellular's cash flows from operations and sources of external financing, including the above-referenced 1997 and 2002 Revolving Credit Facilities, provide sufficient financial flexibility for U.S. Cellular to meet both its short- and long-term needs. U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs. U.S. Cellular anticipates issuing debt and equity securities when capital requirements (including acquisitions), financial market conditions and other factors warrant.

However, the availability of financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, some of which are not in U.S. Cellular's control. If at any time financing is not available on terms acceptable to U.S. Cellular, it might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. U.S. Cellular does not believe that any circumstances that could materially adversely affect its liquidity or capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur or that they will not occur rapidly. Economic downturns, changes in financial markets or other factors could rapidly change the availability of U.S. Cellular's liquidity and capital resources. Uncertainty of access to capital for telecommunications companies, further deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development and acquisition programs.

At September 30, 2003, U.S. Cellular is in compliance with all covenants and other requirements set forth in long-term debt indentures. U.S. Cellular does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future.

In June 2003, Moody's Investors Service placed the debt ratings of U.S. Cellular and TDS, its parent U.S. Cellular, under review for possible downgrade. Moody's has stated that the review will focus on 1) U.S. Cellular's ability to improve its earnings and generate meaningful free cash flow given its substantial capital expenditure requirements, slowing industry subscriber growth rates, declining roaming revenues, intensifying competition and higher operating expenses associated with competition, increasing network usage and expansion of distribution channels and 2) the extent and timing of the de-leveraging of the balance sheet of TDS. As of November 10, 2003, Moody's had not completed and released the results of its review.

Marketable Equity Securities and Forward Contracts

U.S. Cellular and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. U.S. Cellular and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets. The investment in Vodafone resulted from certain sales or trades of non-strategic cellular investments to or settlements with AirTouch Communications in exchange for stock of AirTouch, which was then acquired by Vodafone for American Depositary Receipts representing Vodafone stock. The investment in Rural Cellular Corporation is the result of a consolidation of several cellular partnerships in which U.S. Cellular subsidiaries held interests into Rural Cellular Corporation, and the distribution of Rural Cellular Corporation stock in exchange for these interests. U.S. Cellular has not disposed of the investments because their low tax cost basis would likely trigger a substantial taxable gain upon disposal.

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A subsidiary of U.S. Cellular has entered into a number of variable prepaid forward contracts (forward contracts) related to the marketable equity securities that it holds. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the respective security or cash. U.S. Cellular has provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts are paid upon settlement of the contracts by its subsidiary. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. Deferred taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in

deferred tax liabilities on the balance sheet. As of September 30, 2003, such deferred tax liabilities totaled \$66.9 million.

Off-Balance Sheet Arrangements

U.S. Cellular has no material transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons (off-balance sheet arrangements), that may have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

U.S. Cellular prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). U.S. Cellular 's significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements included in U.S. Cellular 's Annual Report on Form 10-K for the year ended December 31, 2002.

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

U.S. Cellular 's management believes the following estimates reflect its more significant accounting policies and estimates used in the preparation of its consolidated financial statements. U.S. Cellular 's senior management has discussed the development of each of the following accounting policies and estimates and the following disclosures with the audit committee of U.S. Cellular 's board of directors.

Investment in Licenses and Goodwill

U.S. Cellular reported \$1,111.8 million of investment in licenses and \$549.8 million of goodwill at September 30, 2003 as a result of the acquisition of wireless licenses and markets. In addition, U.S. Cellular reported \$47.2 million of deferred wireless licenses that are to be received when the AT&T Wireless transaction is completed.

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Investments in licenses and goodwill must be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. U.S. Cellular performs the annual impairment review on investments in licenses and goodwill during the second quarter. There can be no assurance that, upon review at a later date, material impairment charges will not be required.

The intangible asset impairment test consists of comparing the fair value of the intangible asset to the carrying amount of the intangible asset. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference. The goodwill impairment test is a two-step process. The first step compares the fair value of the reporting unit, as identified in accordance with SFAS No. 142, to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities of the reporting unit is the implied fair value of goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized for that difference.

The fair value of an intangible asset and reporting unit goodwill is the amount at which that asset or

reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value shall be based on the best information available, including prices for similar assets and the use of other valuation techniques. Other valuation techniques include present value analysis, multiples of earnings or revenue or a similar performance measure. The use of these techniques involve assumptions by management about factors that are highly uncertain, including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs could create materially different results.

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a reporting unit. U.S. Cellular has identified seven reporting units pursuant to paragraph 30 of SFAS No. 142. The seven reporting units represent seven geographic groupings of FCC licenses, constituting seven markets or service areas. U.S. Cellular combines its FCC licenses into seven units of accounting for purposes of testing the licenses for impairment pursuant to EITF 02-7 and SFAS No. 142, using the same geographic groupings as its reporting units.

U.S. Cellular retained a third-party valuation firm to prepare valuations of the seven reporting units. A discounted cash flow approach was used to value each of the reporting units, using value drivers and risks specific to each individual geographic region. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures, and selection of terminal values.

U.S. Cellular also retained a third party valuation firm to prepare valuations of the seven groupings of FCC licenses (units of accounting pursuant to EITF 02-7). The valuations were prepared using an excess earnings methodology, through the use of a discounted cash flow approach. This excess earnings methodology estimates the fair value of the intangible assets (FCC license units of accounting) by measuring the future cash flows of the license groups, reduced by charges for contributory assets such as working capital, trademarks, existing subscribers, fixed assets, assembled workforce and goodwill.

In the first quarter of 2003, a license impairment loss of \$3.5 million was recorded related to U.S. Cellular's investment in a non-operational market in Florida that will remain after the exchange with AT&T Wireless is completed. The annual impairment review of goodwill and license costs for 2003, completed in the second quarter, did not result in any impairment losses.

Asset Retirement Obligations

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.

The calculation of the asset retirement obligation for U.S. Cellular is a critical accounting estimate because changing the factors used in calculating the obligation could result in larger or smaller estimated obligation that could have a significant impact on U.S. Cellular's results of operations and financial condition. Such factors may include probabilities or likelihood of remediation, cost estimates, lease renewals and salvage values. Actual results may differ materially from estimates under different assumptions or conditions.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include costs 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. Upon settlement of the obligations any difference between the cost to retire an asset and the liability recorded is recognized in the statement of operations as a gain or loss.

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 \$54.4 million liability upon adoption.

Income Taxes

The accounting for income taxes, the amounts of income tax assets and liabilities and the related income tax provision are critical accounting estimates because such amounts are significant to U.S. Cellular's financial condition, changes in financial condition and results of operations.

The preparation of the consolidated financial statements requires U.S. Cellular to calculate its provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items, such as depreciation expense, for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in U.S. Cellular's consolidated balance sheet. U.S. Cellular must then assess the likelihood that deferred tax assets will be recovered from future taxable income, and, to the extent management believes that recovery is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. Actual results may differ materially from estimates under different assumptions or conditions. U.S. Cellular's current net deferred tax asset, included in Other current assets on its consolidated balance sheet, was \$9.8 million as of September 30, 2003, representing primarily the deferred tax effects of the allowance for doubtful accounts on accounts receivable.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities as of September 30, 2003 are as follows:

| | September 30, 2003 | |
|--|-------------------------------|----------------|
| | As Restated | |
| | (Dollars in thousands) | |
| Deferred Tax Asset | | |
| Net operating loss carryforward | \$ | 13,731 |
| Derivative investments | | 7,001 |
| Unearned revenue | | 6,856 |
| Other | | 11,248 |
| | | 38,836 |
| Less valuation allowance | | 9,333 |
| Total Deferred Tax Asset | | 29,503 |
| Deferred Tax Liability | | |
| Property, plant and equipment | | 282,795 |
| Licenses | | 156,642 |
| Marketable equity securities | | 66,885 |
| Total Deferred Tax Liability | | 506,322 |
| Net Deferred Income Tax Liability | \$ | 476,819 |

The valuation allowance relates to state net operating loss carryforwards and the federal operating loss carryforwards for those subsidiaries not included in the federal income tax return since it is more than likely that a portion will expire before such carryforwards can be utilized.

The deferred income tax liability relating to marketable equity securities of \$66.9 million at September 30, 2003 represents deferred income taxes calculated on the difference between the book basis and the tax basis of the marketable securities. Income taxes will be payable when U.S. Cellular sells the marketable equity securities.

U.S. Cellular is routinely subject to examination of its income tax returns by the Internal Revenue Service (IRS) and other tax authorities. U.S. Cellular periodically assesses the likelihood of adjustments to its tax liabilities resulting from these examinations to determine the adequacy of its provision for income taxes, including related interest. Management's judgment is required in assessing the eventual outcome of these examinations. Changes to such assessments affect the calculation of U.S. Cellular's income tax expense. The IRS has completed audits of U.S. Cellular's federal income tax returns (through its parent company TDS) for tax years through 1996.

In the event of an increase in the value of tax assets or a decrease in the value of tax liabilities, U.S. Cellular would decrease the income tax expense or increase the income tax benefit by an equivalent amount. In the event of a decrease in the value of tax assets or an increase in the value of tax liabilities, U.S. Cellular would increase the income tax expense or decrease the income tax benefit by an equivalent amount.

The Jobs & Growth Tax Relief Reconciliation Act of 2003, enacted in May 2003, provides for increases in bonus depreciation from 30% to 50% and extends the bonus depreciation provisions until December 31, 2004. U.S. Cellular expects to take advantage of the new rules. Such additional depreciation deductions are expected to result in a federal net operating loss for U.S. Cellular in 2003.

OUTLOOK

This outlook section summarizes U.S. Cellular's expectations for 2003. Notwithstanding U.S. Cellular's expectations regarding its ability to deliver these results, U.S. Cellular can never be certain that future revenues or earnings will be achieved at any particular level. Estimates of future financial performance are forward-looking statements and are subject to uncertainty created by the risk factors otherwise identified under Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement.

U.S. Cellular has reviewed its forward-looking guidance and revised the guidance for the year 2003 as follows:

2003 Outlook

| | |
|--|------------------------|
| Net customer additions | 450,000 - 475,000 |
| Service revenues | \$2.35 - \$2.4 billion |
| Depreciation and amortization expenses | \$435 - \$440 million |
| Operating income * | \$180 - \$200 million |
| Capital spending | \$650 - \$670 million |

* Includes \$26 million in operating expenses related to loss on assets held for sale resulting from the AT&T Wireless exchange.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In August 2002, U.S. Cellular entered into a loan agreement with TDS under which it borrowed \$105 million, which was used for the purchase of the Chicago market. The loan bears interest at an annual rate of 8.1%, payable quarterly, and becomes due in August 2008, with prepayments optional. The terms of the loan do not contain covenants that are more restrictive than those included in U.S. Cellular's senior debt, except that the loan agreement provides that U.S. Cellular may not incur senior debt in an aggregate principal amount in excess of \$325 million unless it obtains the consent of TDS as lender. The loan is subordinated to the 2002 Revolving Credit Facility. U.S. Cellular's Board of Directors, including independent directors, approved the terms of this loan and determined that such terms were fair to U.S. Cellular and all of its shareholders.

U.S. Cellular is billed for all services it receives from TDS, pursuant to the terms of various agreements between U.S. Cellular and TDS. The majority of these billings are included in U.S. Cellular's general and administrative expenses. Some of these agreements were established at a time prior to U.S. Cellular's initial public offering when TDS owned more than 90% of U.S. Cellular's outstanding capital stock and may not reflect terms that would be obtainable from an unrelated third party through arms-length negotiations. The principal arrangements that affect U.S. Cellular's operations are described in Item 13 of U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2002. Management believes the method TDS uses to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular are reflected in U.S. Cellular's financial statements on a basis which is representative of what they would have been if U.S. Cellular operated on a stand-alone basis.

The following persons are partners of Sidley Austin Brown & Wood, the principal law firm of U.S. Cellular and its subsidiaries: Walter C. D. Carlson, a director of U.S. Cellular, a director and non-executive Chairman of the Board of Directors of TDS and a trustee and beneficiary of a voting trust that controls TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain

subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel and/or an Assistant Secretary of U.S. Cellular and certain other subsidiaries of TDS. Walter C. D. Carlson does not provide legal services to TDS, U.S. Cellular or their subsidiaries.

OTHER MATTERS

The Securities and Exchange Commission (SEC) Division of Corporation Finance routinely sends public companies comment letters relating to their filings with the SEC. In 2003, U.S. Cellular received a comment letters from the staff of the SEC regarding its review of the U.S. Cellular 2002 annual report on Form 10-K and quarterly reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2003. The comments principally ask U.S. Cellular to provide additional information to the SEC and to make additional disclosures in its Forms 10-K and 10-Q on a prospective basis. U.S. Cellular provided responses to the SEC comments, provided supplemental information and agreed to provide certain additional information and disclosures in our future filings with the SEC. Based upon supplemental guidance from the SEC related to the implementation of SFAS 143, Asset Retirement Obligations, U.S. Cellular amended its first, second and third quarter 2003 Form 10-Qs to adjust its liability. The amendments also included the additional information and disclosures agreed to by TDS. There can be no assurance that the SEC will not have further comments or make additional requests that would require changes to previously reported information.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

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

Increases in the level of competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular's revenues or increase its costs to compete.

Advances or changes in telecommunications technology could render certain technologies used by U.S. Cellular obsolete or could increase U.S. Cellular's cost of doing business.

Changes in the telecommunications regulatory environment, related to wireless number portability and E-911 services in particular, could adversely affect U.S. Cellular's financial condition or results of operations or ability to do business.

Changes in the supply or demand of the market for wireless licenses, adverse developments in U.S. Cellular's business or the wireless industry and/or other factors could result in an impairment of the value of U.S. Cellular's investment in licenses, goodwill and/or physical assets, which may require U.S. Cellular to write down the value of such assets.

Conversions of debt, early redemptions of debt or repurchases of debt, changes in prepaid forward contracts, operating leases, purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations to be different from the amounts presented.

Changes in accounting standards or U.S. Cellular's accounting policies, estimates and/or the assumptions underlying the accounting estimates, including those described under Critical Accounting Policies, could have a material effect on U.S. Cellular's financial condition, changes in financial condition and results of operations.

Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending or future litigation could have an adverse effect on U.S. Cellular's financial condition, results of operations or ability to do business.

Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses could have an adverse effect on U.S. Cellular's financial condition or results of operations.

Changes in prices, the number of wireless customers, average revenue per customer, penetration rates, churn rates, marketing and selling expenses and retention costs associated with wireless number portability, roaming rates and the mix of products and services offered in wireless markets could have an adverse effect on U.S. Cellular's operations.

Comments from the SEC and/or changes in guidance or interpretations of accounting requirements could require amendments to or restatements of disclosures or financial information included in this or prior filings with the SEC.

Continued uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development and acquisition programs.

Changes in the income tax rates or tax laws, regulations or rulings could have an adverse effect on U.S.

Cellular's financial condition and results of operations.

War, conflicts, hostilities and/or terrorist attacks could have an adverse effect on U.S. Cellular's business.

Changes in general economic and business conditions, both nationally and in the markets in which U.S. Cellular operates, could have an adverse effect on U.S. Cellular's business.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

U.S. Cellular is subject to market rate risks due to fluctuations in interest rates and equity markets. U.S. Cellular currently has both fixed-rate and variable-rate long-term debt instruments, with original maturities ranging from five to 30 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. As of September 30, 2003, U.S. Cellular has not entered into financial derivatives to reduce its exposure to interest rate risks.

U.S. Cellular maintains a portfolio of available for sale marketable equity securities, which resulted from the sale of non-strategic investments. The market value of these investments, principally Vodafone American Depositary Receipts, amounted to \$211.2 million at September 30, 2003 and \$186.0 million at December 31, 2002. As of September 30, 2003, U.S. Cellular had recorded an unrealized holding gain, net of tax, of \$30.9 million in accumulated other comprehensive income. Management continues to review the valuation of the investments on a periodic basis.

A subsidiary of U.S. Cellular has entered into a number of forward contracts related to the marketable equity securities that it holds. U.S. Cellular has provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts are paid upon settlement of the contracts by its subsidiary. The risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decrease in the market prices of the securities (downside limit) while retaining a share of gains from increases in the market prices of such securities (upside potential). The downside risk is hedged at or above the accounting cost basis, thereby eliminating the risk of an other than temporary loss being recorded on the contracted securities.

Under the terms of the forward contracts, U.S. Cellular will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the respective security or in cash, pursuant to formulas that collar the price of the shares. The collars effectively limit U.S. Cellular's downside risk and upside potential on the contracted shares. The collars are typically adjusted for any changes in dividends on the contracted shares. The forward contracts may be settled in shares of the marketable equity security or in cash upon expiration of the forward contract. If U.S. Cellular elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If U.S. Cellular elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

Deferred taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in deferred tax liabilities on the balance sheet. As of September 30, 2003, such deferred tax liabilities totaled \$66.9 million.

The following table summarizes certain facts relating to the contracted securities.

| Security | Shares | Collar | | Loan Amount September 30, 2003 (000s) |
|----------|------------|------------------------------|----------------------------------|--|
| | | Downside Limit (Floor) | Upside Potential (Ceiling) | |
| Vodafone | 10,245,370 | \$15.07-\$16.07 | \$21.56-\$23.25 | \$ 159,856 |

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The following analysis presents the hypothetical change in the fair value of U.S. Cellular's marketable equity securities and derivative instruments at September 30, 2003, assuming the same hypothetical price fluctuations of plus and minus 10%, 20% and 30%. The table presents hypothetical information as required by Securities and Exchange Commission rules. Such information should not be inferred to suggest that U.S. Cellular has any intention of selling any marketable securities or canceling any derivative instruments.

| (\$ in thousands) | Valuation of investments assuming indicated decrease | | | September 30, 2003 | Valuation of investments assuming indicated increase | | |
|------------------------------|--|------------|------------|--------------------|--|-------------|-------------|
| | -30% | -20% | -10% | Fair Value | +10% | +20% | +30% |
| Marketable Equity Securities | \$ 147,824 | \$ 168,942 | \$ 190,060 | \$ 211,178 | \$ 232,295 | \$ 253,413 | \$ 274,531 |
| Derivative Instruments (1) | \$ 29,466 | \$ 14,491 | \$ (709) | \$ (17,724) | \$ (32,437) | \$ (49,028) | \$ (66,149) |

(1) Represents change in the fair value of the derivative instrument assuming the indicated increase or decrease in the underlying securities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation required by Rule 13a-15(b) under the Securities Exchange Act of 1934, the principal executive officer and principal financial officer of U.S. Cellular have concluded that U.S. Cellular's disclosure controls and procedures (as defined in Rules 13a-15(e)), as of the end of the period covered by the report, are effective to ensure that the information required to be disclosed by U.S. Cellular in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b) Changes in internal controls over financial reporting. There was no change in U.S. Cellular's internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, U.S. Cellular's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

U.S. Cellular is involved in a number of legal proceedings before the FCC and various state and federal courts. In some cases, the litigation involves disputes regarding rights to certain wireless telephone systems and other interests. U.S. Cellular does not believe that any of these proceedings should have a material adverse impact on U.S. Cellular.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit 11 - Statement regarding computation of per share earnings is included herein as Note 7 to the financial statements.

Exhibit 12 - Statement regarding computation of ratios.

Exhibit 31.1 - Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

(b) Reports on Form 8-K filed during the quarter ended September 30, 2003:

U.S. Cellular furnished a Current Report on Form 8-K dated July 23, 2003, for the purpose of furnishing U.S. Cellular's second quarter 2003 earnings release.

SIGNATURES

Pursuant to the requirements 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.

UNITED STATES CELLULAR CORPORATION

(Registrant)

Date February 17, 2004

/s/ John E. Rooney
John E. Rooney
President
(Chief Executive Officer)

Date February 17, 2004

/s/ Kenneth R. Meyers
Kenneth R. Meyers
Executive Vice President-Finance and
Treasurer
(Chief Financial Officer)

Date February 17, 2004

/s/ Thomas S. Weber
Thomas S. Weber
Vice President and Controller
(Principal Accounting Officer)