

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

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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

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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

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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			