UNITED STATES CELLULAR CORP
Form 10-Q/A
January 19, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended **September 30, 2004**

OR

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

For the transition period from ________ to ________

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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

Yes ý No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý 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, 2004
Common Shares, $1 par value	53,351,230 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, 2004, which was originally filed with the Securities and Exchange Commission ("SEC") on November 9, 2004 (the "Quarterly Report"), to amend Item 1, "Financial Statements," Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and Item 4 "Controls and Procedures."

U.S. Cellular is filing this amendment to restate the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash Flows. Certain discussions in the MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on U.S. Cellular's "Net increase in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

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 9, 2004. 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

INDEX

*Previously included in U.S. Cellular's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004, filed on November 9, 2004.

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,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Service	$ 691,964	$ 628,440	$ 1,974,004	$ 1,803,150
Equipment sales	56,249	36,536	144,084	111,537
Total Operating Revenues	748,213	664,976	2,118,088	1,914,687
OPERATING EXPENSES				
System operations (excluding Depreciation shown separately below)	154,126	153,724	436,536	438,721
Cost of equipment sold	126,659	76,926	356,729	245,149
Selling, general and administrative	298,011	236,573	825,836	745,020
Depreciation	115,377	90,171	327,131	272,534
Amortization and accretion	12,031	13,463	36,420	45,371
Loss on impairment of intangible assets	--	--	--	49,595
(Gain) loss on assets of operations held for sale	--	(1,442)	(725)	23,619
Total Operating Expenses	706,204	569,415	1,981,927	1,820,009
OPERATING INCOME	42,009	95,561	136,161	94,678
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	19,265	11,301	51,913	37,163
Interest and dividend income	687	437	3,183	2,894
Interest (expense)	(23,671)	(15,615)	(64,937)	(47,513)

Loss on investments	--	--	(1,830)	(3,500)
Other income (expense), net	(3,384)	582	(2,719)	(93)
Total Investment and Other Income (Expense)	(7,103)	(3,295)	(14,390)	(11,049)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	34,906	92,266	121,771	83,629
Income tax expense	11,646	36,047	46,401	37,725
INCOME BEFORE MINORITY INTEREST	23,260	56,219	75,370	45,904
Minority share of income	(1,951)	(4,605)	(6,845)	(9,464)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	21,309	51,614	68,525	36,440
Cumulative effect of accounting change, net of tax	--	--	--	(14,346)
NET INCOME	$ 21,309	$ 51,614	$ 68,525	$ 22,094
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	86,278	86,142	86,211	86,132
BASIC EARNINGS PER SHARE (Note 9)				
Income Before Cumulative Effect of Accounting Change	$ 0.25	$ 0.60	$ 0.79	$ 0.43
Cumulative Effect of Accounting Change	--	--	--	(0.17)
Net Income	$ 0.25	$ 0.60	$ 0.79	$ 0.26
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	86,797	89,599	86,714	86,540
DILUTED EARNINGS PER SHARE (Note 9)				
Income Before Cumulative Effect of Accounting Change	$ 0.25	$ 0.59	$ 0.79	$ 0.43
Cumulative Effect of Accounting Change	--	--	--	(0.17)
Net Income	$ 0.25	$ 0.59	$ 0.79	$ 0.26

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30,	
	2004 As Restated	2003 As Restated
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 68,525	$ 22,094
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		

Depreciation, amortization and accretion	363,551	317,905
Deferred income taxes	46,546	26,607
Investment income	(51,913)	(37,163)
Minority share of income	6,845	9,464
Cumulative effect of accounting change	--	14,346
Loss on impairment of intangible assets	--	49,595
(Gain) loss on assets of operations held for sale	(725)	23,619
Loss on investments	1,830	3,500
Other noncash expense	15,099	8,891
Accreted interest on repayment of long-term debt	(68,056)	
Changes in assets and liabilities		
Change in accounts receivable	(34,961)	31,142
Change in inventory	9,194	15,273
Change in accounts payable	(68,438)	(116,114)
Change in accrued interest	3,992	(4,093)
Change in accrued taxes	(1,610)	43,659
Change in customer deposits and deferred revenues	10,625	14,059
Change in other assets and liabilities	15,254	(732)
	315,758	422,052
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(385,160)	(420,788)
System development costs	(9,602)	(18,325)
Cash received from sale of assets	96,932	--
Acquisitions, excluding cash acquired	(40,367)	(1,251)
Proceeds from exchange transaction	--	33,958
Distributions from unconsolidated entities	23,330	21,228
Other investing activities	(661)	(1,091)
	(315,528)	(386,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	355,000	279,278
Issuance of long-term debt	412,484	--
Repayment of notes payable	(300,000)	(269,278)
Repayment of long-term debt affiliated	(105,000)	--
Repayment of long-term debt	(345,232)	(40,680)
Capital (distributions) to minority partners	(832)	(2,249)
Other financing activities	4,219	4,227
	20,639	(28,702)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,869	7,081
CASH AND CASH EQUIVALENTS-		
Beginning of period	9,848	14,864
End of period	$ 30,717	$ 21,945

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS
Unaudited

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents		
General funds	$ 30,661	$ 9,822
Affiliated cash equivalents	56	26
	30,717	9,848
Accounts Receivable		
Customers, less allowance of $17,568 and $13,786, respectively	257,810	227,651
Roaming	34,600	35,362
Other	31,287	23,967
Inventory	61,842	70,963
Prepaid expenses	26,241	22,396
Prepaid income taxes	7,883	2,407
Other current assets	30,463	31,511
	480,843	424,105
INVESTMENTS		
Licenses	1,184,014	1,189,326
License rights	42,037	42,037
Goodwill	425,343	430,256
Customer lists, net of accumulated amortization of $32,128 and $22,206, respectively	27,417	24,448
Marketable equity securities	249,571	260,188
Investments in unconsolidated entities	171,727	170,569
Notes and interest receivable long-term	5,252	6,476
	2,105,361	2,123,300
PROPERTY, PLANT AND EQUIPMENT		
In service and under construction	3,733,188	3,441,177
Less accumulated depreciation	1,503,688	1,267,293
	2,229,500	2,173,884
DEFERRED CHARGES		
System development costs, net of accumulated amortization of $138,569 and $114,673, respectively	78,466	97,370
Other, net of accumulated amortization of $1,414 and $5,815, respectively	33,081	26,565
	111,547	123,935
ASSETS OF OPERATIONS HELD FOR SALE	51,923	100,523
TOTAL ASSETS	$ 4,979,174	$ 4,945,747

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
Unaudited

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	$ 3,000	$ 3,000
Current portion of long-term debt affiliated	--	105,000
Notes payable	55,000	--
Accounts payable		
Affiliated	6,934	4,252
Trade	210,456	281,306
Customer deposits and deferred revenues	104,162	93,789
Accrued interest	15,408	11,416
Accrued taxes	84,262	24,228
Accrued compensation	46,503	39,257
Other current liabilities	23,763	19,648
	549,488	581,896
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	551,866	495,904
Derivative liability	44,567	55,735
Asset retirement obligation	69,238	64,501
Other	19,770	75,440
	685,441	691,580
LONG-TERM DEBT		
6.7% notes	530,817	436,829
6% zero coupon convertible debentures	--	157,659
7.25% notes	--	250,000
8.75% notes	130,000	130,000
7.5% notes	330,000	--
Variable prepaid forward contracts	159,856	159,856
Other	10,000	10,000
	1,160,673	1,144,344
LIABILITIES OF OPERATIONS HELD FOR SALE	2,283	2,427
MINORITY INTEREST IN SUBSIDIARIES	38,736	60,097
COMMON SHAREHOLDERS' EQUITY		
Common Shares, par value $1 per share; authorized 140,000,000 shares; issued 55,045,684 and 55,046,268 shares, respectively	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	1,302,775	1,308,963
Treasury Shares, at cost, 1,694,454 and 1,900,254 shares, respectively	(100,686)	(115,156)
Accumulated other comprehensive income	27,130	26,789
Retained earnings	1,225,282	1,156,755
	2,542,553	2,465,403
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,979,174	$ 4,945,747

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

6

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of United States Cellular Corporation (U.S. Cellular) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries since acquisition, and general partnerships in which U.S. Cellular has a majority partnership interest or has a controlling financial interest. In addition, as of January 1, 2004, the consolidated financial statements include all entities where U.S. Cellular has a variable interest that will absorb a majority of the entity s expected losses. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by U.S. Cellular, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with 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, as amended.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of September 30, 2004, the results of operations for the three and nine months ended September 30, 2004 and 2003, and the cash flows for the nine months ended September 30, 2004 and 2003. The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

2. Restatements and Reclassifications

Restatement of September 30, 2004 Consolidated Statements of Cash Flows

U.S. Cellular is filing this amendment to restate the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash Flows, as indicated in the table below. Certain discussions in the MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on U.S. Cellular's "Net increase (decrease) in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

(Dollars in thousands)	Nine Months Ended September 30, 2004		
Caption of Consolidated Statements of Cash Flows	**As Previously Reported**	**Reclassification**	**As Restated**
Cash Flows from Operating Activities	$ 383,814	$ (68,056)	$ 315,758
Cash Flows from Financing Activities	(47,417)	68,056	20,639
Net Increase (Decrease) in Cash and Cash Equivalents	$ 20,869	$ 0	$ 20,869

7

Investment in Licenses and Goodwill Restatements

On May 14, 2004, U.S. Cellular restated its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which was adopted on January 1, 2002. Prior to January 1, 2002, U.S. Cellular allocated the excess of purchase price of wireless properties over tangible assets and liabilities acquired to investment in licenses and goodwill. At that time, the accounting treatment for U.S. Cellular s investment in wireless licenses and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based upon a subsequent review of goodwill, U.S. Cellular restated the allocation of $138.9 million of purchase price recorded as goodwill to investment in licenses as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of $90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of U.S. Cellular s investment in licenses by a corresponding $90.7 million. Following these adjustments, U.S. Cellular reperformed the impairment tests for its investment in licenses as of January 1, 2002, and recorded an impairment loss of $20.9 million before an income tax benefit of $8.2 million. This impairment was recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS No. 142.

In the first quarter of 2003, U.S. Cellular had recorded a Loss on assets of operations held for sale related to the pending disposition of certain wireless properties. The investment in licenses upon which the impairment was recorded in the first quarter of 2002 included the investment in licenses of those properties. As a result, a portion of the originally recognized Loss on assets of operations held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, Loss on assets of operations held for sale in the first quarter of 2003 was reduced by $1.9 million, before an income tax benefit of $0.8 million. In the third quarter of 2003, U.S. Cellular had originally recorded an income tax expense upon the closing of the disposition of such wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in the third quarter of 2003 was reduced by $10.7 million.

In addition, as a result of the restatement discussed above, U.S. Cellular also reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million in the second quarter of 2003.

Retention Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current period presentation. Prior to the fourth quarter of 2003, U.S. Cellular separately disclosed marketing and selling expenses and general and administrative expenses in its statements of operations. In the fourth quarter of 2003, U.S. Cellular combined the marketing and selling expense and general and administrative expense captions into one caption designated as selling, general and administrative expense. Previously, costs for equipment sold to retain current customers were included in selling, general and administrative expense. Prior to the fourth quarter of 2003, these costs were partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, U.S. Cellular changed its policy for classifying retention costs and reclassified the equipment sales revenue and cost of equipment sold related to the retention of current customers out of selling, general and administrative expenses and into equipment sales revenues and cost of equipment sold, respectively, for each period presented. These reclassifications have been reflected in the three and nine months ended September 30, 2003. These reclassifications increased equipment sales revenues for the three and nine months ended September 30, 2003 by $7.6 million and $21.6 million, respectively, and increased cost of equipment sold by $23.5 million and $69.6 million, respectively, from the amounts originally reported. Selling, general and administrative expenses were reduced by $15.9 million and $48.0 million, respectively, from the amounts originally reported in the results for the three and nine months ended September 30, 2003 to reflect the amounts reclassified to equipment sales revenues and cost of equipment sold. These reclassifications did not have any impact on income from operations, net income, earnings per share, financial position or cash flows of U.S. Cellular for the three and nine months ended September 30, 2003.

8

A summary of the changes to the affected captions on the statements of operations for the three and nine months ended September 30, 2003 related to the above reclassifications and restatements is included below:

Three Months Ended September 30, 2003

(Dollars in thousands, except per share amounts)		Effects of 2003 Changes		
Statement of Operations:	As Previously Reported (1)	Investment in Licenses and Goodwill Restatements	Retention Reclass-ifications	As Restated
Operating Revenues (2)				
Service	$ 628,440	$ --	$ --	$ 628,440
Equipment sales	28,903	--	7,633	36,536
Total Operating Revenues	657,343	--	7,633	664,976
Operating Expenses				
System operations (excluding Depreciation)	153,724	--	--	153,724
Cost of equipment sold (2)	53,383	--	23,543	76,926
Selling, general and administrative (2)	252,483	--	(15,910)	236,573
Depreciation	90,171	--	--	90,171
Amortization and accretion	13,463	--	--	13,463
(Gain) loss on assets of operations held for sale	(1,442)	--	--	(1,442)
Total Operating Expenses	561,782	--	7,633	569,415
Operating Income	95,561	--	--	95,561
Income before income taxes and minority interest	92,266	--	--	92,266
Income tax expense (benefit) (3)	46,760	(10,713)	--	36,047
Minority share of income	(4,605)	--	--	(4,605)
Income before cumulative effect of accounting change	40,901	10,713	--	51,614
Cumulative effect of accounting change	--	--	--	--
Net income	$ 40,901	$ 10,713	$ --	$ 51,614
Basic Weighted Average Shares Outstanding (000s)	86,142	--	--	86,142
Basic Earnings per Share:				
Income before cumulative effect of accounting change	$ 0.47	$ 0.13	$ --	$ 0.60
Cumulative effect of accounting change	--	--	--	--
Net income	$ 0.47	$ 0.13	$ --	$ 0.60
Diluted Weighted Average Shares Outstanding (000s)	89,599	--	--	89,599
Diluted Earnings per Share:				
Income before cumulative effect of accounting change	$ 0.47	$ 0.12	$ --	$ 0.59
Cumulative effect of accounting change	--	--	--	--
Net income	$ 0.47	$ 0.12	$ --	$ 0.59

(1) Amounts as previously reported in amendment No. 2 to the September 30, 2003 Quarterly Report on Form 10-Q filed March 10, 2004.

(2) Prior to the fourth quarter of 2003, U.S. Cellular included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense, partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, U.S. Cellular changed its policy for classifying retention costs and has reclassified the equipment sales revenues and cost of equipment sold related to the retention of current U.S. Cellular customers out of selling, general and administrative expense into operating revenues and cost of equipment sold, respectively. This change was reflected retrospectively in each of the first three quarters of 2003.

(3)

In the third quarter of 2003, U.S. Cellular had originally recorded an income tax expense upon the closing of the disposition of certain wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in 2003 was reduced by $10.7 million.

9

(Dollars in thousands, except per share amounts)	Nine Months Ended September 30, 2003			
		Effects of 2003 Changes		
Statement of Operations:	As Previously Reported (1)	Investment in Licenses and Goodwill Restatements	Retention Reclass- ifications	As Restated
Operating Revenues (2)				
Service	$ 1,803,150	$ --	$ --	$ 1,803,150
Equipment sales	89,917	--	21,620	111,537
Total Operating Revenues	1,893,067	--	21,620	1,914,687
Operating Expenses				
System operations (excluding Depreciation)	438,721	--	--	438,721
Cost of equipment sold (2)	175,510	--	69,639	245,149
Selling, general and administrative (2)	793,039	--	(48,019)	745,020
Depreciation	272,534	--	--	272,534
Amortization and accretion	45,371	--	--	45,371
Loss on impairment of intangible assets (3)	--	49,595	--	49,595
(Gain) loss on assets of operations held for sale (3)	25,558	(1,939)	--	23,619
Total Operating Expenses	1,750,733	47,656	21,620	1,820,009
Operating Income	142,334	(47,656)	--	94,678
Income (loss) before income taxes and minority interest	131,285	(47,656)	--	83,629
Income tax expense (benefit) (3)	67,267	(29,542)	--	37,725
Minority share of income	(9,464)	--	--	(9,464)
Income (loss) before cumulative effect of accounting change	54,554	(18,114)	--	36,440
Cumulative effect of accounting change	(14,346)	--	--	(14,346)
Net income (loss)	$ 40,208	$ (18,114)	$ --	$ 22,094
Basic Weighted Average Shares Outstanding (000s)	86,132	--	--	86,132
Basic Earnings (Loss) per Share:				
Income (loss) before cumulative effect of accounting change	$ 0.64	$ (0.21)	$ --	$ 0.43
Cumulative effect of accounting change	(0.17)	--	--	(0.17)
Net income (loss)	$ 0.47	$ (0.21)	$ --	$ 0.26
Diluted Weighted Average Shares Outstanding (000s)	86,540	--	--	86,540
Diluted Earnings (Loss) per Share:				

Income (loss) before cumulative effect of accounting change	$ 0.63	$ (0.20)	$ --	$ 0.43
Cumulative effect of accounting change	(0.17)	--	--	(0.17)
Net income (loss)	$ 0.46	$ (0.20)	$ --	$ 0.26

(1) Amounts as previously reported in amendment No. 2 to the September 30, 2003 Quarterly Report on Form 10-Q filed March 10, 2004.
(2) Prior to the fourth quarter of 2003, U.S. Cellular included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense, partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, U.S. Cellular changed its policy for classifying retention costs and has reclassified the equipment sales revenues and cost of equipment sold related to the retention of current U.S. Cellular customers out of selling, general and administrative expense into operating revenues and cost of equipment sold, respectively. This change was reflected retrospectively in each of the first three quarters of 2003.
(3) The reductions to the (Gain) loss on assets of operations held for sale and related income tax expense are the result of impairment losses recorded on investments in licenses in 2002. Also, in the third quarter of 2003, U.S. Cellular had originally recorded an income tax expense upon the closing of the disposition of certain wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in 2003 was reduced by $10.7 million.

10

3. Summary of Significant Accounting Policies

Operating Lease Revenue and Expense

During the third quarter of 2004, U.S. Cellular revised its accounting for certain operating leases that contain fixed rental increases to recognize lease revenue and expense on a straight-line basis over the lease term in accordance with SFAS No. 13 Accounting for Leases, as amended, and related pronouncements. Pursuant to its revised accounting for such leases, U.S. Cellular recorded out-of-period adjustments to operating revenues and operating expenses during the third quarter of 2004. The adjustments were not considered material to the current year or any prior years earnings, earnings trends or financial statement line items. The adjustments were recorded in the current quarter ended September 30, 2004, and no prior periods were adjusted. The impact of the out-of-period adjustments on the affected line items in U.S. Cellular s consolidated Statements of Operations is as follows:

Increase (Decrease)	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
(Dollars in thousands, expect per share amounts)		
Service revenues long-distance and other	$ 980	$ 821
Total operating revenues	980	821
System operations expenses	2,892	2,334
Selling, general and administrative expenses	1,848	1,606
Total operating expenses	4,740	3,940
Operating income	(3,760)	(3,119)
Net income	$ (2,256)	$ (1,871)
Basic earnings per share	$ (0.03)	$ (0.02)
Diluted earnings per share	$ (0.03)	$ (0.02)

Variable Interest Entities

U.S. Cellular accounts for variable interest entities in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46). This interpretation modifies the requirements for consolidation of investments previously contained in Accounting Research Bulletin No. 51, Consolidated Financial Statements. Under FIN 46R, 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 are considered variable interest entities and are potentially subject to consolidation by an investor other than the investor with the majority equity interest. The adoption of FIN 46R in January 2004 resulted in the inclusion of one additional wireless market in U.S. Cellular s consolidated operations. The operations of such additional market did not have a material impact on U.S. Cellular s financial position or results of operations.

Pension Plan

U.S. Cellular participates in a qualified noncontributory defined contribution pension plan sponsored by Telephone and Data Systems, Inc. (TDS), U.S. Cellular s parent organization. The plan provides pension benefits for the employees of U.S. Cellular and its subsidiaries. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $1.5 million and $4.1 million for the three and nine months ended September 30, 2004, respectively, and were $1.7 million and $4.4 million for the three and nine months ended September 30, 2003, respectively.

Stock-Based Compensation

U.S. Cellular accounts for stock options, stock appreciation rights 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 stock options because, under U.S. Cellular s stock option plans, the option exercise price for each grant is equal to the quoted stock price at the grant date. No compensation costs have been recognized for employee stock purchase plans because the stock purchase price is not less than 85 percent of the fair market value of the stock at the purchase date. Had compensation cost for all plans been determined consistent with SFAS No. 123, U.S. Cellular s net income and earnings per share would have been reduced to the following pro forma amounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands, except per share amounts)			
Net Income				
As Reported	$ 21,309	$ 51,614	$ 68,525	$ 22,094
Pro Forma Expense	(3,180)	(2,243)	(8,491)	(5,757)
Pro Forma Net Income	$ 18,129	$ 49,371	$ 60,034	$ 16,337
Basic Earnings per Share				
As Reported	$ 0.25	$ 0.60	$ 0.79	$ 0.26
Pro Forma Expense Per Share	(0.04)	(0.03)	(0.10)	(0.07)
Pro Forma Basic Earnings Per Share	$ 0.21	$ 0.57	$ 0.69	$ 0.19
Diluted Earnings per Share				
As Reported	$ 0.25	$ 0.59	$ 0.79	$ 0.26
Pro Forma Expense per Share	(0.04)	(0.03)	(0.10)	(0.07)
Pro Forma Diluted Earnings per Share	$ 0.21	$ 0.56	$ 0.69	$ 0.19

Recent Accounting Pronouncements

Earnings per Share

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share. EITF Issue No. 03-6 clarifies what constitutes a participating security and provides further guidance in applying the two-class method of calculating earnings per share. The consensuses reached by the Task Force on EITF Issue No. 03-6 were ratified by the FASB on March 31, 2004, and are effective for reporting periods beginning after March 31, 2004. U.S. Cellular has reviewed the issue and concluded that it has no participating securities as defined by EITF Issue No. 03-6.

4. Income Taxes

Net income includes Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale for the three and nine months ended September 30, 2004 and 2003, which had a significant effect on the effective tax rate in each period. The effective tax rate for the nine month period was 38.1% in 2004 and 45.1% in 2003 including the tax effect of such losses and gains. The effective tax rate is higher in 2003 as a result of the tax benefits of $27.7 million recorded on Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale in 2003 being at a lower effective tax rate than the effective tax rate of the tax expense on operations, increasing the overall effective tax rate. U.S. Cellular recorded a tax expense of $3.3 million in the third quarter of 2004 related to the announced sale of certain assets to ALLTEL Communications, Inc. (ALLTEL). This transaction is expected to close in the fourth quarter of 2004 and is discussed in Note 21 Acquisitions, Divestitures and Exchanges.

Excluding the tax effects of losses and gains, the effective tax rate on operations for the nine month period was 33.4% in 2004 and 40.8% in 2003. The 2004 effective income tax rate on operations excluding losses and gains is lower than 2003 due to favorable settlements of several tax issues in 2004. During the third quarter of 2004, the Internal Revenue Service substantially completed its audit of the consolidated federal income tax returns of TDS for the years 1997 through 2001. U.S. Cellular and its subsidiaries are included in the TDS consolidated group. Primarily based on the results of the audit, U.S. Cellular reduced its accrual for audit contingencies by $6.0 million in the quarter.

The following table summarizes the effective income tax expense (benefit) rates in each of the periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
Effective Tax (Benefit) Rate From:				
Operations excluding Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale (1)	24.0%	40.3%	33.4%	40.8%
Loss on investments, Loss on impairment of intangible assets, and (Gain) loss on assets of operations held for sale (2)(3)	NM	(35.6)%	NM	(36.1)%
Income before income taxes, minority interest and cumulative effect of accounting change	33.4%	39.1%	38.1%	45.1%

NM - Not Meaningful

(1) The 2004 effective tax rates on operations excluding Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale are lower than 2003 due to favorable settlements of federal income tax audits.

(2) The 2004 effective tax rates on Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale are not meaningful primarily because U.S. Cellular recorded a tax expense of $3.3 million in the third quarter of 2004 related to the pending sale of certain assets to ALLTEL. The transaction with ALLTEL is expected to close in the fourth quarter of 2004.

(3) The 2003 effective tax rates reflect tax benefits of $0.5 million in the third quarter of 2003 and $27.7 million in the nine months ended September 30, 2003 from Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale.

5. Loss on Impairment of Intangible Assets

Loss on impairment of intangible assets totaled $49.6 million in the first nine months of 2003. As discussed previously, U.S. Cellular restated 2003 and 2002 financial statements related to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In connection with this restatement, U.S. Cellular reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million.

The 2004 annual impairment tests for investments in licenses and goodwill were performed in the second quarter of 2004. Other than a license impairment loss recorded as a Loss on investments related to a non-operating market, no impairment losses resulted from the 2004 annual impairment tests. See Note 7 Loss on Investments for a discussion of this license impairment loss.

6. (Gain) Loss on Assets of Operations Held for Sale

U.S. Cellular recorded an estimated Loss on assets of operations held for sale of $22.0 million in the fourth quarter of 2003 related to the sale of its wireless properties in southern Texas to AT&T Wireless Services, Inc. (AT&T Wireless). In the nine months ended September 30, 2004, U.S. Cellular reduced the loss by $0.7 million for a total loss of $21.3 million. The loss represents the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction when it was completed.

U.S. Cellular reported a Loss on assets of operations held for sale of $23.6 million in the nine months ended September 30, 2003, representing the difference between the carrying value of the Georgia and Florida wireless markets transferred to AT&T Wireless and the fair value of the assets received in the exchange transaction. This exchange transaction was completed on August 1, 2003.

See Note 21 Acquisitions, Divestitures and Exchanges for further information on both transactions with AT&T Wireless.

7. Loss on Investments

U.S. Cellular reported a Loss on investments of $1.8 million in the nine months ended September 30, 2004 to reflect an impairment in the carrying value of a license held in a non-operational market in Florida that remained with U.S. Cellular after the exchange with AT&T Wireless was completed. U.S. Cellular reported a Loss on investments of $3.5 million in the nine months ended September 30, 2003 for an impairment in the carrying value of the same license in a non-operating market in Florida. In September 2004, U.S. Cellular entered into an agreement to sell this market to MetroPCS California/Florida, Inc. (MetroPCS). No gain or loss is expected on this sale.

8. 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 asset retirements. 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.

9. 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 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 and conversion of debentures.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated

(Dollars and shares in thousands)

Basic Earnings per Share:				
Income Before Cumulative Effect of Accounting Change	$ 21,309	$ 51,614	$ 68,525	$ 36,440
Cumulative Effect of Accounting Change	--	--	--	(14,346)
Net Income used in Basic Earnings per Share	$ 21,309	$ 51,614	$ 68,525	$ 22,094
Diluted Earnings per Share:				
Income Before Cumulative Effect of Accounting Change	$ 21,309	$ 51,614	$ 68,525	$ 36,440
Interest Expense Eliminated as a Result of the Pro Forma Conversion of Convertible Debentures, Net of Tax	--	1,338	--	--
Cumulative Effect of Accounting Change	--	--	--	(14,346)
Net Income used in Diluted Earnings per Share	$ 21,309	$ 52,952	$ 68,525	$ 22,094
Weighted Average Number of Common Shares used in Basic Earnings per Share	86,278	86,142	86,211	86,132
Effect of Dilutive Securities:				
Stock Options (1)	519	513	503	408
Conversion of Convertible Debentures (2)	--	2,944	--	--
Weighted Average Number of Common Shares used in Diluted Earnings per Share	86,797	89,599	86,714	86,540

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
Basic Earnings per Share:				
Income Before Cumulative Effect of Accounting Change	$ 0.25	$ 0.60	$ 0.79	$ 0.43
Cumulative Effect of Accounting Change	--	--	--	(0.17)
	$ 0.25	$ 0.60	$ 0.79	$ 0.26
Diluted Earnings per Share:				
Income Before Cumulative Effect of Accounting Change	$ 0.25	$ 0.59	$ 0.79	$ 0.43
Cumulative Effect of Accounting Change	--	--	--	(0.17)
	$ 0.25	$ 0.59	$ 0.79	$ 0.26

(1) Stock options convertible into 976,456 and 1,507,401 Common Shares were not included in computing Diluted Earnings per Share in the three and nine months ended September 30, 2004, respectively, because their effects were antidilutive. Stock options convertible into 1,320,637 and 1,405,486 Common Shares were not included in computing Diluted Earnings per Share in the three and nine months ended September 30, 2003, respectively, because their effects were antidilutive.

(2) Convertible debentures were not included in computing Diluted Earnings per share in the three and nine months ended September 30, 2004 because all outstanding convertible debentures were redeemed on July 26, 2004. Convertible debentures convertible into 2,944,347 Common Shares were not included in computing Diluted Earnings per Share in the nine months ended September 30, 2003 because their effects were antidilutive.

10. Marketable Equity Securities

U.S. Cellular and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in 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 Group Plc (Vodafone) resulted from certain dispositions of non-strategic cellular investments to or settlements with AirTouch Communications, Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby U.S. Cellular received American Depositary Receipts representing Vodafone stock. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several cellular partnerships in which U.S. Cellular subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests.

The market values of the marketable equity securities may fall below the accounting cost basis of such securities. If management determines the decline in value of the marketable equity securities to be other than temporary, the unrealized loss included in Accumulated other comprehensive income is recognized and recorded as a loss in the Statements of Operations.

U.S. Cellular and its subsidiaries have entered into a number of forward contracts 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 the risk of an other than temporary loss being recorded on these contracted securities.

Information regarding U.S. Cellular s marketable equity securities is summarized below.

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
Marketable Equity Securities		
Vodafone Group Plc		
10,245,370 American Depositary Receipts	$ 247,016	$ 256,544
Rural Cellular Corporation		
370,882 Common Shares	2,555	2,949
Other	--	695
Aggregate fair value	249,571	260,188
Accounting cost, as adjusted	160,161	160,161
Gross unrealized holding gains	89,410	100,027
Deferred income tax (expense)	(35,317)	(39,518)
Net unrealized holding gains	54,093	60,509
Derivative instruments, net of tax	(26,963)	(33,720)
Accumulated other comprehensive income	$ 27,130	$ 26,789

15

11. Goodwill

U.S. Cellular has substantial amounts of goodwill as a result of the acquisition of wireless markets. The changes in goodwill for the nine months ended September 30, 2004 and 2003 were as follows:

	September 30, 2004	September 30, 2003 As Restated

	(Dollars in thousands)	
Balance, beginning of period	$ 430,256	$ 504,744
Acquisitions	3,649	--
Assets of operations held for sale (1)	(8,257)	--
Divestiture	--	(69,961)
Other adjustments	(305)	(190)
Balance, end of period	$ 425,343	$ 434,593

(1) As a result of the agreement with ALLTEL, as described more fully in Note 22 Assets and Liabilities of Operations Held for Sale, $8.3 million of Goodwill was reclassified to Assets of operations held for sale as of September 30, 2004.

12. Unconsolidated Investments

Investments in unconsolidated entities consist of amounts invested in wireless entities in which U.S. Cellular holds a minority interest. These investments are accounted for using either the equity or cost method.

Significant investments in U.S. Cellular s unconsolidated entities include the following:

	September 30, 2004	September 30, 2003
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership (1)	8.0%	8.0%
Midwest Wireless Communications, LLC	15.7%	15.7%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

(1) As a result of the agreement with ALLTEL, as described more fully in Note 22 Assets and Liabilities of Operations Held for Sale, U.S. Cellular s investment in this partnership was reclassified to Assets of operations held for sale as of September 30, 2004.

Based primarily on data furnished to U.S. Cellular by third parties, the following summarizes the combined results of operations of the wireless entities in which U.S. Cellular s investments are accounted for by the equity method:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in thousands)			
Results of operations				
Revenues	$ 718,000	$ 688,000	$ 2,167,000	$ 1,843,000
Operating expenses	482,000	515,000	1,512,000	1,376,000
Operating income	236,000	173,000	655,000	467,000
Other income, net	18,000	--	21,000	5,000
Net Income	$ 254,000	$ 173,000	$ 676,000	$ 472,000

13. Customer Lists

The customer lists, intangible assets from the acquisition of wireless properties, are being amortized based on average customer retention periods using the declining balance method. The acquisition of certain minority interests in 2004 added $12.9 million to the gross balance at September 30, 2004. Customer list amortization expense was $3.2 million and $9.9 million for the three and nine months ended September 30, 2004, respectively, and was $3.9 and $12.9 million for the three and nine months ended September 30, 2003, respectively. Amortization expense for the remainder of 2004 and for the years 2005-2008 is expected to be $2.5 million, $8.3 million, $5.4 million, $3.6 million and $2.4 million, respectively.

14. Property, Plant and Equipment

In the first quarter of 2004, U.S. Cellular adjusted the useful lives of Time Division Multiple Access (TDMA) radio equipment, switch software and antenna equipment. TDMA radio equipment lives were adjusted to be fully depreciated by the end of 2008, which is the latest date the wireless industry will be required by law to support analog service. U.S. Cellular currently uses TDMA radio equipment to support analog service, and expects to have its digital radio network fully migrated to Code Division Multiple Access (CDMA) 1XRTT or some future generation of CDMA technology by that time. The useful lives for certain switch software were reduced to one year from three years and antenna equipment lives were reduced from eight years to seven years in order to better align the useful lives with the actual length of time the assets are expected to be in use. These changes increased depreciation by $2.2 million and $12.1 million for the three and nine months ended September 30, 2004, respectively, and are estimated to increase depreciation by $14.9 million for the full year 2004. The changes in useful lives reduced net income by $1.3 million, or $0.02 per share in the three months ended September 30, 2004 and by $7.3 million, or $0.08 per share in the nine months ended September 30, 2004.

In the nine months ended September 30, 2004, certain TDMA digital radio equipment consigned to a third party for sale was written down by $11.3 million in conjunction with the consignment and sale of such equipment, increasing depreciation expense by that amount. This writedown was necessary to reduce the book value of the assets sold or to be sold to the proceeds received or to be received from their disposition.

In preparation for the implementation of a fixed asset management and tracking software system, including a bar code asset identification system, U.S. Cellular is conducting a physical inventory review of its cell site fixed assets. U.S. Cellular expects to complete the review in the fourth quarter of 2004. U.S. Cellular charged $4.0 million to depreciation expense for the estimated write-off in the second quarter of 2004. To the extent the final results differ from the $4.0 million already charged to expense, an adjustment would be required in the fourth quarter of 2004.

15. Revolving Credit Facilities and Forward Contracts

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At September 30, 2004, this line of credit had $644.8 million available for use, net of borrowings of $55.0 million and outstanding letters of credit of $0.2 million. This credit facility expires in June 2007. Borrowings bear interest at the LIBOR rate plus a margin percentage, based on U.S. Cellular s credit rating. The margin percentage was 55 basis points as of September 30, 2004 (for a rate of 2.39% based on the one month LIBOR rate at September 30, 2004).

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.

On May 14, 2004, U.S. Cellular filed a Form 10-K/A to restate its financial statements for the years ended December 31, 2003 and 2002 and for the interim periods for such years. The restatements resulted in defaults under the revolving credit agreement and certain of the forward contracts. U.S. Cellular did not fail to make any scheduled payments under such revolving credit agreement or forward contracts. U.S. Cellular received waivers from the lenders associated with the revolving credit agreement and from the counterparty to certain of the forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatements.

As disclosed in Note 2, U.S. Cellular has restated the Consolidated Financial Statements as of and for the nine months ended September 30, 2004. The restatement resulted in defaults under the revolving credit agreement and certain of the forward contracts. U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such revolving credit agreement or forward contracts. U.S. Cellular received waivers from the lenders associated with the revolving credit agreement and from the counterparty to such forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatement.

16. Asset Retirement Obligation

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 leased 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 No. 143, Accounting for Asset Retirement Obligations, and has recorded a liability and related asset retirement obligation accretion expense.

The table below summarizes the change in asset retirement obligation during the nine months ended September 30, 2004.

(Dollars in thousands)		
Beginning Balance December 31, 2003	$	64,501
Additional liabilities accrued		3,089
Accretion expense		3,713
Liabilities of operations held for sale (1)		(430)
Disposition of assets (2)		(1,635)
Ending Balance September 30, 2004	$	69,238

(1) As a result of the agreements with ALLTEL, as described more fully in Note 22 Assets and Liabilities of Operations Held for Sale, $430,000 of Asset retirement obligations recorded at U.S. Cellular were reclassified to Liabilities of operations held for sale.
(2) As a result of the sale of wireless properties to AT&T Wireless in February 2004, Asset retirement obligations associated with these properties are no longer obligations of U.S. Cellular.

17. Intercompany Note Repayment

In August 2002, U.S. Cellular entered into a loan agreement with TDS (the Intercompany Note) under which it borrowed $105 million, which was used for the Chicago market purchase. The loan bore interest at an annual rate of 8.1%, payable quarterly, and was due in August 2008, with prepayments optional. The terms of the loan did not contain covenants that were more restrictive than those included in U.S. Cellular s senior debt, except that, until December 19, 2003, the loan agreement provided that U.S. Cellular could not incur senior debt in an aggregate principal amount in excess of $325 million unless it obtained the consent of TDS as lender. 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. On February 9, 2004, U.S. Cellular repaid this note in full, including $921,000 of accrued interest.

18. Long-Term Debt

On May 25, 2004, U.S. Cellular filed with the SEC a shelf registration statement on Form S-3 to register the issuance from time to time of up to $500 million of senior debt securities. This registration statement became effective on June 2, 2004.

As of June 17, 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due June 15, 2034 under this registration statement. Interest on the notes is payable quarterly. U.S. Cellular may redeem the notes, in whole or in part, at any time on and after June 17, 2009, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $319.6 million.

Also, on June 28, 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due December 15, 2033 priced to yield 7.21% to maturity under this registration statement. The net proceeds from this offering, after deducting underwriting discounts, were approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% notes that were issued on December 8, 2003 in the aggregate principal amount of $444 million.

The total net proceeds from the 7.5% and 6.7% senior note offerings completed in June 2004, after deducting underwriting discounts, were approximately $412.5 million. Of this amount, $163.3 million was used to redeem U.S. Cellular s Liquid Yield Option Notes, on July 26, 2004, at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, was used to redeem all $250 million of U.S. Cellular s 7.25% notes on August 16, 2004. No gain or loss was recognized as a result of such redemptions. However, U.S. Cellular wrote off $3.6 million of deferred debt expenses related to the redemption of long-term debt to Other income (expense), net in the Statement of Operations in the third quarter of 2004.

19. Minority Interest in Subsidiaries

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, 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. 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 $126.8 million at September 30, 2004. 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, 2004, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3; 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, 2004 is $37.9 million, and is included in the Balance Sheet caption Minority interest in subsidiaries. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $88.9 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. 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 mandatorily redeemable minority interests at their settlement value at a later date.

20. Common Share Repurchase Program

U.S. Cellular s primary repurchase program expired in December 2003. However, U.S. Cellular has an ongoing authorization to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. In the nine months ended September 30, 2004, U.S. Cellular repurchased 5,100 U.S. Cellular Common Shares under this authorization for an aggregate purchase price of $204,000, representing an average per share price of $40.04 including commissions. No U.S. Cellular Common Shares were repurchased in the nine months ended September 30, 2003.

21. Acquisitions, Divestitures and Exchanges

2004 Activity

On September 23, 2004, U.S. Cellular announced that it had entered into a definitive agreement to sell its Daytona Beach, Florida 20 MHz C block personal communications service license to MetroPCS for approximately $8.5 million. The transaction is expected to close in the fourth quarter of 2004. U.S. Cellular does not expect to record a gain or loss as a result of this transaction. The Daytona license has been reclassified to Assets of operations held for sale on the Balance Sheet as of September 30, 2004.

On August 4, 2004, U.S. Cellular announced that it had entered into a definitive agreement with ALLTEL to sell certain wireless properties. U.S. Cellular will sell two consolidated properties and five minority interests to ALLTEL for approximately $80 million in cash, including repayment of debt and working capital that is subject to adjustment at closing. The closing of the transaction is expected to occur in the fourth quarter of 2004.

U.S. Cellular expects to record a pre-tax gain of approximately $35 million related to the ALLTEL transaction at the time of closing, representing the excess of the cash received over the net book value of the assets and liabilities sold, subject to a working capital adjustment. As a result of signing the definitive agreement for this transaction, U.S. Cellular reclassified the assets and liabilities of the properties to be transferred as Assets and Liabilities of operations held for sale on the Balance Sheet as of September 30, 2004. See Note 22 Assets and Liabilities of Operations Held for Sale.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, including a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the Loss on assets of operations held for sale in the fourth quarter of 2003 and a $0.7 million reduction of the loss in the nine months ended September 30, 2004) was recorded as a Loss on assets of operations held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction.

Prior to the close of the AT&T Wireless sale, U.S. Cellular reflected the assets and liabilities to be transferred to AT&T Wireless as assets and liabilities of operations held for sale in accordance with SFAS No. 144. The results of operations of the markets sold to AT&T Wireless were included in results of operations through February 17, 2004.

In addition, in 2004 U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.4 million in cash. These acquisitions increased investment in licenses, goodwill and customer lists by $2.7 million, $3.6 million and $12.9 million, respectively.

2003 Activity

On August 1, 2003, U.S. Cellular completed the transfer of wireless assets and customers in ten markets in Florida and Georgia to AT&T Wireless pursuant to an agreement entered into in March 2003. In return, U.S. Cellular received the following: a) rights to acquire controlling interests in 36 personal communication service licenses contiguous to and that overlap existing U.S. Cellular properties in 13 states in the Midwest and the Northeast; b) approximately $34 million in cash; and c) minority interests in six markets in which it previously owned a controlling interest. In accordance with the agreement, U.S. Cellular has deferred the assignment and development of 21 licenses 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 service requirements of the Federal Communications Commission (FCC). The value of these licenses is recorded as License rights on the Balance Sheet.

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. A $23.6 million Loss on assets of operations held for sale (included in operating expenses) was recorded in the nine months ended September 30, 2003 representing the difference between the carrying value of the markets transferred to AT&T Wireless and the fair value of the consideration received or to be received in the transaction.

20

22. Assets and Liabilities of Operations Held for Sale

In connection with the definitive agreements with ALLTEL and MetroPCS described in Note 21, the consolidated Balance Sheet and supplemental data of U.S. Cellular as of September 30, 2004 reflect the assets and liabilities to be transferred as assets and liabilities of operations held for sale in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The results of operations of the markets to be transferred are included in results of operations through September 30, 2004 and will continue to be included in results of operations through the closings of the transactions.

Summarized assets and liabilities relating to operations held for sale are as follows:

	September 30, 2004
(Dollars in thousands)	

Current assets	$	3,302
Licenses		8,758
Goodwill		8,257
Property, plant and equipment, net		10,010
Investment in unconsolidated entities		21,344
Other assets		252
Assets of operations held for sale	$	51,923
Current liabilities	$	1,796
Deferred credits		487
Liabilities of operations held for sale	$	2,283

23. Accumulated Other Comprehensive Income

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

	Nine Months Ended September 30, 2004	2003
	(Dollars in thousands)	
Balance, beginning of period	$ 26,789	$ 10,307
Marketable Equity Securities		
Add (Deduct):		
Unrealized gains (losses) on marketable equity securities	(10,617)	25,216
Income tax (expense) benefit	4,201	(9,960)
Net unrealized gains (losses)	(6,416)	15,256
Deduct (Add):		
Recognized (losses) on marketable equity securities	--	(200)
Income tax benefit	--	79
Net recognized (losses) from marketable equity securities included in net income	--	(121)
	(6,416)	15,377
Derivative Instruments		
Unrealized gains (losses) on derivative instruments	11,167	(9,016)
Income tax (expense) benefit	(4,410)	3,474
Net unrealized gains (losses) on derivative instruments	6,757	(5,542)
Net change in unrealized gains included in comprehensive income	341	9,835
Balance, end of period	$ 27,130	$ 20,142

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Dollars in thousands)	
Accumulated Unrealized Gains (Losses) on Derivative Instruments		
Balance, beginning of period	$ (33,720)	$ (5,181)
Add (Deduct):		
Unrealized gains (losses) on derivative instruments	11,167	(9,016)
Income tax (expense) benefit	(4,410)	3,474
	6,757	(5,542)
Balance, end of period	$ (26,963)	$ (10,723)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003 As Restated	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003 As Restated
	(Dollars in thousands)			
Comprehensive Income				
Net Income	$ 21,309	$ 51,614	$ 68,525	$ 22,094
Net change in unrealized gains on marketable equity securities and derivative instruments	4,391	3,596	341	9,835
	$ 25,700	$ 55,210	$ 68,866	$ 31,929

24. Commitments and Contingencies

Indemnifications

U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The terms of the indemnifications vary by agreement. The events or circumstances that would require U.S. Cellular to perform under these indemnities are transaction specific; however, these agreements may require U.S. Cellular to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. U.S. Cellular is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, U.S. Cellular has not made any significant indemnification payments under such agreements.

Legal Proceedings

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

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 82.0%-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 its audited consolidated financial statements and footnotes and Management s Discussion and Analysis of Results of Operations and Financial Condition included in its Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

RESTATEMENTS AND RECLASSIFICATIONS

Restatement of September 30, 2004 Consolidated Statements of Cash Flows

As disclosed in Note 2, U.S. Cellular has restated the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash Flows. Certain discussions in the MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on U.S. Cellular's "Net increase (decrease) in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

Investment in Licenses and Goodwill Restatements

On May 14, 2004, U.S. Cellular restated its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which was adopted on January 1, 2002. Prior to January 1, 2002, U.S. Cellular allocated the excess of purchase price of wireless properties over tangible assets and liabilities acquired to investment in licenses and goodwill. At this time, the accounting treatment for U.S. Cellular s investment in wireless licenses and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based on a subsequent review of goodwill, U.S. Cellular restated the allocation of $138.9 million of purchase price recorded as goodwill to investment in licenses as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of $90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of the investment in licenses by a corresponding $90.7 million. Following these adjustments, U.S. Cellular reperformed the impairment tests for its investment in licenses as of January 1, 2002, and recorded an impairment loss of $20.9 million before an income tax benefit of $8.2 million. This impairment has been recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS No. 142.

In the first quarter of 2003, U.S. Cellular had recorded a Loss on assets of operations held for sale related to the pending disposition of certain wireless properties. The investment in licenses upon which the impairment was recorded in the first quarter of 2002 included the investment in licenses of these properties. As a result, a portion of the originally recognized Loss on assets of operations held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, Loss on assets of operations held for sale in the first quarter of 2003 was reduced by $1.9 million, before an income tax benefit of $0.8 million. In the third quarter of 2003, U.S. Cellular had originally recorded an income tax expense upon the closing of the disposition of such wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless

properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in the third quarter of 2003 was reduced by $10.7 million.

In addition, as a result of the restatement discussed above, U.S. Cellular also reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million in the second quarter of 2003.

Retention Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current period presentation. Prior to the fourth quarter of 2003, U.S. Cellular separately disclosed marketing and selling expenses and general and administrative expenses in its Statements of Operations. In the fourth quarter of 2003, U.S. Cellular combined the marketing and selling expense and general and administrative expense captions into one caption designated as selling, general and administrative expense. Previously, costs for equipment sold to retain current customers were included in selling, general and administrative expense. Prior to the fourth quarter of 2003, these costs were partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, U.S. Cellular changed its policy for classifying retention costs and reclassified the equipment sales revenue and cost of equipment sold related to the retention of current customers out of selling, general and administrative expenses and into equipment sales revenues and cost of equipment sold, respectively, for each period presented. These reclassifications have been reflected in the three and nine months ended September 30, 2003. These reclassifications increased equipment sales revenues for the three and nine months ended September 30, 2003 by $7.6 million and $21.6 million, respectively, and increased cost of equipment sold by $23.5 million and $69.6 million, respectively, from the amounts originally reported. Selling, general and administrative expenses were reduced by $15.9 million and $48.0 million from the amounts originally reported in the results for the three and nine months ended September 30, 2003 to reflect the amounts reclassified to equipment sales revenues and cost of equipment sold. These reclassifications did not have any impact on income from operations, net income, earnings per share, financial position or cash flows of U.S. Cellular for the three and nine months ended September 30, 2003.

SUMMARY OF HOLDINGS

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, either majority or minority interests in 159 cellular markets and 70 personal communications service basic trading area markets at September 30, 2004. Of the markets it owned, nine cellular markets and one personal communications service market are expected to be divested pursuant to agreements entered into as of that date. When all pending transactions are completed, U.S. Cellular will own majority or minority interests in 150 cellular markets and 69 personal communications service markets.

A summary of the number of markets U.S. Cellular owns, has rights to acquire or agreed to divest as of September 30, 2004 follows.

	Number of Markets
Consolidated markets (1)	178
Consolidated markets to be acquired pursuant to existing agreements (2)	20
Consolidated markets to be divested pursuant to existing agreements (3)	(3)
Minority interests accounted for using equity method	25
Minority interests accounted for using equity method to be divested pursuant to existing agreements (3)	(6)
Minority interests accounted for using cost method	6
Minority interests accounted for using cost method to be divested pursuant to existing agreements (3)	(1)
Total owned markets, net of markets agreed to be divested	219

(1) Represents markets whose operations are included in U.S. Cellular s consolidated results.
(2) Represents licenses to be acquired from AT&T Wireless over a five-year period beginning August 1, 2003.
(3) Of the markets to be divested, nine markets represent licenses to be sold to ALLTEL (as defined below) and one market represents a license to be sold to MetroPCS (as defined below) pursuant to agreements entered into as of September 30, 2004. As of that date, of the nine markets to be sold to ALLTEL, two are included in U.S. Cellular s consolidated markets, six markets are accounted for using the equity method and one market is accounted for using the cost method. The market to be sold to MetroPCS is included in U.S. Cellular s consolidated markets as of September 30, 2004.

OVERVIEW

The following is a summary of certain selected information from the complete management discussion that follows the overview and does not contain all of the information that may be important. You should carefully read this entire Management s Discussion and Analysis of Results of Operations and Financial Condition and not rely solely on the overview.

Results of Operations

U.S. Cellular positions itself as a regional operator, focusing its efforts on providing wireless service to customers in the geographic areas where it has licenses to provide such service. U.S. Cellular differentiates itself from its competitors through a customer satisfaction strategy, reflecting broad product distribution, a customer service focus and a high-quality wireless network.

U.S. Cellular s business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular s operating strategy is to strengthen the geographic areas where it can continue to build long-term operating synergies and to exit those areas where it does not have opportunities to build such synergies. In addition to the recent transactions disclosed in U.S. Cellular s Annual Report on Form 10-K for the year ended December 31, 2003, as amended, on February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless Services, Inc. (AT&T Wireless) for $96.9 million in cash, including a working capital adjustment. On August 4, 2004, TDS and U.S. Cellular announced that they had entered into a definitive agreement with ALLTEL Communications Inc. (ALLTEL) to sell certain wireless properties. U.S. Cellular will sell two consolidated properties and five minority interests to ALLTEL for approximately $80 million in cash, including repayment of debt and working capital that is subject to adjustment at closing. The transaction is expected to close in the fourth quarter of 2004. Also, on September 23, 2004, U.S. Cellular announced that it had entered into a definitive agreement to sell its Daytona Beach, Florida 20 MHz C block personal communications service license to MetroPCS California/Florida, Inc. (MetroPCS) for approximately $8.5 million. The transaction is expected to close in the fourth quarter of 2004.

U.S. Cellular s operating income in the nine months ended September 30, 2004 increased $41.5 million, or 44%, to $136.2 million from $94.7 million in 2003. The operating income margins (as a percent of service revenues) were 6.9% in 2004 and 5.3% in 2003. U.S. Cellular s 2003 operating income and operating income margin were significantly affected by the Loss on assets of operations held for sale and Loss on impairment of intangible assets. Although operating income and margins improved in 2004, U.S. Cellular expects that there will be pressure on operating income and margins in the next few years related to the following factors:

- costs of customer acquisition and retention;
- competition;
- increased customer use of its services;
- launching service in new areas;
- reduced inbound roaming revenues; and
- continued enhancements to its wireless networks.

The effects of these factors are expected to be mitigated to some extent by the following factors:

- reduced outbound roaming costs per minute; and
- expansion of revenues from data-related services and newly launched markets.

See Results of Operations.

Financing Initiatives

U.S. Cellular has recently received or will receive licenses that will be in a development phase for several years. U.S. Cellular anticipates that it may require financing over the next few years for capital expenditures, for the development of these new markets and to further its growth in the Chicago market and its other recently launched markets.

To support these anticipated expenditures, U.S. Cellular continues to seek to maintain a strong Balance Sheet and its investment grade rating. U.S. Cellular had Cash and cash equivalents totaling $30.7 million and had $644.8 million of availability under its revolving credit facilities as of September 30, 2004. U.S. Cellular is also generating substantial cash flows from operations. Cash flow from operating activities totaled

$315.8 million during the first nine months of 2004. In addition, U.S. Cellular has access to public and private capital markets to help meet its long-term financing needs. Management believes that cash on hand, expected future cash flows from operations and existing sources of external financing provide substantial financial flexibility and are sufficient to permit U.S. Cellular to finance its contractual obligations and anticipated capital expenditures.

As of June 17, 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due 2034. The net proceeds from this offering, after deducting underwriting discounts, were approximately $319.6 million.

On June 28, 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due 2033 priced to yield 7.21% to maturity. The net proceeds from this offering, after deducting underwriting discounts, were approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% notes that were issued on December 8, 2003 in the aggregate principal amount of $444 million.

The total net proceeds from the 7.5% and 6.7% senior note offerings completed in June 2004, after deducting underwriting discounts, were approximately $412.5 million. Of this amount, $163.3 million was used to redeem U.S. Cellular s Liquid Yield Option Notes on July 26, 2004 at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, was used to redeem all $250 million of U.S. Cellular s 7.25% senior notes on August 16, 2004. U.S. Cellular also used borrowings under its revolving credit facility to fund the repayment of its $105 million loan from TDS (the Intercompany Note) in February 2004. As a result of these transactions, the average maturity date of U.S. Cellular s long-term debt has been significantly extended into the future.

See Financial Resources and Liquidity and Capital Resources.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

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

	Nine Months Ended or At September 30,	
	2004	2003
As of September 30, (1a)		
Total market population (2)	45,581,000	45,817,000
Customers (3)	4,828,000	4,268,000
Market penetration (4)	10.59%	9.32%
Total employees	6,475	6,100
Cell sites in service	4,713	4,082
For the Nine Months Ended September 30, (1b)		
Average monthly service revenue per customer (5)	$ 47.49	$ 47.27
Postpay churn rate per month (6)	1.5%	1.6%
Sales and marketing cost per gross customer addition (7)	$ 391	$ 378

(1a) Amounts in 2003 (i) do not include the 10 markets transferred to AT&T Wireless in August 2003, (ii) include the 15 markets acquired and transferred from AT&T Wireless in August 2003 and (iii) include the six markets sold to AT&T Wireless in February 2004. Amounts in 2004 (i) include the 15 markets acquired and transferred from AT&T Wireless in August 2003, (ii) exclude the 10 markets transferred to AT&T Wireless in August 2003 and (iii) exclude the six markets sold to AT&T Wireless in February 2004. Amounts in both periods include the markets included in Assets and Liabilities of operations held for sale at September 30, 2004.

(1b) Amounts in 2003 (i) include the results of the 10 markets transferred to AT&T Wireless through July 31, 2003, (ii) include any development and operating activities related to the 15 markets acquired and transferred from AT&T Wireless in August 2003 from the transfer date through September 30, 2003 and (iii) include the results of the six markets sold to AT&T Wireless in February 2004 for the entire period. Amounts in 2004 (i) include any development and operating activities related to the 15 markets acquired and transferred from AT&T Wireless in August 2003 for the entire period, (ii) exclude the results of the 10 markets transferred to AT&T Wireless in August 2003 for the entire period and (iii) include the results of the six markets sold to AT&T Wireless in February 2004 from January 1, 2004 through February 17, 2004. Amounts in both periods include the results of the markets included in Assets and Liabilities of operations held for sale at September 30, 2004.

(2) Represents 100% of the population of the markets in which U.S. Cellular has a controlling financial interest for financial reporting purposes, including one additional market consolidated pursuant to the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") as of January 1, 2004. The total market population of 1.5 million in the 10 markets that U.S. Cellular transferred to AT&T Wireless in August 2003 is excluded from this amount for 2003, as the customers of these 10 markets are not included in U.S. Cellular's consolidated customer base as of September 30, 2003 or 2004. The total market population of the six markets sold to AT&T Wireless in February 2004 is not included in this amount for 2004, as the customers sold to AT&T Wireless are not included in U.S. Cellular's consolidated customer base as of September 30, 2004.

(3) U.S. Cellular's customer base consists of the following types of customers:

	September 30,	
	2004	2003
Customers on postpay service plans in which the end user is a customer of U.S. Cellular ("postpay customers")	4,233,000	3,902,000
End user customers acquired through U.S. Cellular's agreement with a third party ("reseller customers")*	433,000	190,000
Total postpay customer base	4,666,000	4,092,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ("prepaid customers")	162,000	176,000
Total customers	4,828,000	4,268,000

* Pursuant to its agreement with the third party, U.S. Cellular is compensated by the third party on a postpay basis; as a result, all customers U.S. Cellular has acquired through this agreement are considered to be postpay customers.

(4) Calculated using 2003 and 2002 Claritas population estimates for 2004 and 2003, respectively. "Total market population" is used only for the purposes of calculating market penetration, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

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

	Nine Months Ended September 30,	
	2004	2003
Service Revenues per Statement of Operations	$ 1,974,004	$ 1,803,150
Divided by average customers during period (000s)	4,619	4,238
Divided by nine months in each period	9	9
Average monthly service revenue per unit	$ 47.49	$ 47.27

(6) Postpay churn rate per month represents the percentage of the postpay customer base that disconnects service each month, including both postpay customers and reseller customer numbers. Reseller customers can disconnect service without the associated account number being disconnected from U.S. Cellular's network if the reseller elects to reuse the customer telephone number; as a result, only those reseller customer numbers that are disconnected from U.S. Cellular's network are counted in the number of postpay disconnects. The calculation divides the total number of postpay and reseller customers who disconnect service during the period by the number of months in such period, and then divides that quotient by the average monthly postpay customer base, which includes both postpay and reseller customers, for such period.

(7) For a discussion of the components of this calculation, see "Operating Expenses - Selling, General and Administrative."

On August 1, 2003, U.S. Cellular completed the transfer of wireless assets and customers in ten 25 megahertz markets in Florida and Georgia to AT&T Wireless pursuant to an agreement entered into in March 2003. In exchange, U.S. Cellular received the following: i) rights to acquire controlling interests in 36 personal communication service licenses; ii) approximately $34.0 million in cash; and iii) minority interests in six markets in which it previously owned a controlling interest. In accordance with the agreement, U.S. Cellular has deferred the assignment and development of 21 licenses 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 service requirements of the Federal Communications Commission (FCC). The value of these licenses is recorded as License rights on the Balance Sheet.

A $23.6 million Loss on assets of operations held for sale (included in operating expenses) was recorded in the nine months ended September 30, 2003, representing the difference between the carrying value of the markets transferred to AT&T Wireless and the fair value of the consideration received or to be received in the transaction. The Florida and Georgia markets that were transferred to AT&T Wireless are included in consolidated operations through August 1, 2003.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, including a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the Loss on assets of operations held for sale in the fourth quarter of 2003 and a $0.7 million reduction of the loss in the second quarter of 2004) was recorded as a Loss on assets of operations held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash

received in the transaction. The southern Texas markets sold to AT&T Wireless are included in consolidated operations from January 1, 2004 through February 17, 2004.

The results of the markets included in Assets and Liabilities of operations held for sale will be included in consolidated operating results through the respective closing dates of each pending transaction.

During the third quarter of 2004, U.S. Cellular revised its accounting for certain operating leases that contain fixed rental increases to recognize lease revenue and expense on a straight-line basis over the lease term in accordance with SFAS No. 13 Accounting for Leases, as amended, and related pronouncements. Pursuant to its revised accounting for such leases, U.S. Cellular recorded out-of-period adjustments to operating revenues and operating expenses during the third quarter of 2004. The adjustments were not considered material to the current year or any prior years earnings, earnings trends or financial statement line items. The lease adjustments were recorded in the current quarter ended September 30, 2004, and no prior periods were adjusted. The impact of the out-of-period adjustments on the affected line items in U.S. Cellular s consolidated Statement of Operations is as follows:

Increase (Decrease)	Nine Months Ended September 30, 2004
(Dollars in thousands, expect per share amounts)	
Service revenues long-distance and other	$ 821
Total operating revenues	821
System operations expenses	2,334
Selling, general and administrative expenses	1,606
Total operating expenses	3,940
Operating income	(3,119)
Net income	$ (1,871)
Basic earnings per share	$ (0.02)
Diluted earnings per share	$ (0.02)

Operating revenues increased $203.4 million, or 11%, to $2,118.1 million in 2004 from $1,914.7 million in 2003.

	Nine Months Ended September 30,	
	2004	2003 As Restated
	(Dollars in thousands)	

Retail service	$	1,709,181	$	1,504,661
Inbound roaming		135,417		171,084
Long-distance and other service revenues		129,406		127,405
Service Revenues		1,974,004		1,803,150
Equipment sales		144,084		111,537
	$	2,118,088	$	1,914,687

Service revenues increased $170.8 million, or 9%, to $1,974.0 million in 2004 from $1,803.2 million in 2003. Service revenues primarily consist of: (i) charges for access, airtime, roaming and value-added services provided to U.S. Cellular s retail customers and to end users through third party resellers (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. The increase was primarily due to the growing number of retail customers. Monthly service revenue per customer averaged $47.49 in the first nine months of 2004, and $47.27 in the first nine months of 2003. See footnote 5 to the table above for the calculation of average monthly service revenue per customer.

Retail service revenues increased $204.5 million, or 14%, to $1,709.2 million in 2004 from $1,504.7 million in 2003. 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 13% to 4,828,000 at September 30, 2004, from 4,268,000 at September 30, 2003. Of

the 560,000 increase in customers, 618,000 were added through U.S. Cellular s marketing channels while 58,000 net customers were subtracted as a result of acquisition and divestiture activities, primarily the divestiture to AT&T Wireless in February 2004. Average monthly retail service revenue per customer increased 4% to $41.11 in 2004 from $39.45 in 2003. The increase in average monthly retail service revenue per customer was primarily driven by an increase in minutes of use per customer and by growth in revenue from data products.

Management anticipates that growth in the customer base in U.S. Cellular s wireless markets will be slower in the future, primarily as a result of the increased competition in its markets and continued penetration of the consumer market. However, as U.S. Cellular expands its operations in Chicago and into its other recently acquired markets in future years, it anticipates adding customers and revenues in those markets.

Monthly local retail minutes of use per customer averaged 529 in 2004 and 412 in 2003. 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. The impact on retail service revenue of this increase was partially offset by a decrease in average revenue per minute of use in 2004. The decrease in average revenue per minute of use reflects the effects of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans. 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 revenues decreased $35.7 million, or 21%, to $135.4 million in 2004 from $171.1 million in 2003. The decrease in revenue primarily related to the decrease in revenue per roaming minute of use, partially offset by an increase in roaming minutes of use. Also contributing to the decrease in inbound roaming revenue in 2004 was the effect of the transfer and sale of markets to AT&T Wireless; these markets had historically provided substantial amounts of inbound roaming revenue. In 2004, the decline in revenue per minute of use is primarily due to the general downward trend in negotiated rates. The increase in inbound roaming minutes of use was primarily driven by the overall growth in the number of customers throughout the wireless industry and strong customer growth for carriers that use Code Division Multiple Access (CDMA) digital radio technology, partially offset by the loss of minutes of use from the Florida and Georgia markets transferred to AT&T Wireless in August 2003 and the sale of the southern Texas markets to AT&T Wireless in February 2004.

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

- newer customers may roam less than existing customers, reflecting further penetration of the consumer market;
- the divestiture of U.S. Cellular s markets in Florida and Georgia in August 2003 and in southern Texas in February 2004, which have historically provided substantial inbound roaming minutes of use;
- U.S. Cellular's roaming partners may switch their business from U.S. Cellular to other operators or to their own systems; and
- as certain wireless operators convert their networks to Global System for Mobile Communication (GSM) digital technology, which U.S. Cellular only supports through its analog service and in some cases through its Time Division Multiple Access (TDMA) service, those operators may switch their business to other operators who offer GSM service.

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 service revenues increased $2.0 million, or 2%, to $129.4 million in 2004 from $127.4 million in 2003. The increase primarily reflected an $8.1 million increase in competitive eligible telecommunications carrier funds received for the states in which U.S. Cellular is eligible to receive such funds; of this increase, an adjustment of $3.5 million related to amounts from prior years regulatory filings and the remaining increase was due to the increase in the number of states in which U.S. Cellular has eligibility to receive such funds. Also contributing to the increase in long-distance and other revenues was a $2.4 million increase in tower rental revenue, including a $1.1 million adjustment to record straight-line lease revenue for certain lease arrangements with fixed rental increases (of which $0.8 million was out-of-period revenue). These increases were partially offset by a $6.4 million decrease in long-distance revenue, which primarily reflected price reductions related to long-distance charges on roaming minutes of use as well as U.S. Cellular s increasing use of pricing plans for its retail customers which include long-distance calling at no additional charge.

29

Equipment sales revenues increased $32.6 million, or 29%, to $144.1 million in 2004 from $111.5 million in 2003. U.S. Cellular includes in its equipment sales revenues any handsets and related accessories sold to its customers, whether the customers are new to U.S. Cellular or are current customers who are changing handsets. U.S. Cellular also sells handsets to its agents at a price approximately equal to U.S. Cellular s cost, before applying any rebates. Selling handsets to agents enables U.S. Cellular to provide better control over handset quality, establish roaming preferences and pass along quantity discounts. Management anticipates that it 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. Equipment sales revenues have grown less significantly than cost of equipment sold in the nine months ended September 30, 2004 due to the continued substantial discounting of handsets. This trend is occurring throughout the wireless industry.

Equipment sales revenues from handset sales to agents is recognized upon delivery of the related products to the agents, net of anticipated agent rebates. In most cases, the agents receive the rebate from U.S. Cellular at the time these agents provide handsets to sign up new customers or retain current customers.

Customers added to U.S. Cellular s customer base through its marketing distribution channels (gross customer activations), one of the primary drivers of equipment sales revenues, increased 16% in 2004. The number of handsets provided to current customers for retention purposes also increased significantly, further increasing equipment sales revenues. Retention transactions have increased as U.S. Cellular continued to focus on retaining customers by offering existing customers new handsets similar to those offered to new customers as the expiration dates of customers service contracts approached.

Operating expenses increased $161.9 million, or 9%, to $1,981.9 million in 2004 from $1,820.0 million in 2003.

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003 As Restated
	(Dollars in thousands)	
System operations (exclusive of depreciation included below)	$ 436,536	$ 438,721
Cost of equipment sold	356,729	245,149
Selling, general and administrative	825,836	745,020
Depreciation	327,131	272,534
Amortization and accretion	36,420	45,371
Loss on impairment of intangible assets		49,595
Loss (Gain) on assets of operations held for sale	(725)	23,619
	$ 1,981,927	$ 1,820,009

System operations expenses (excluding depreciation) decreased $2.2 million, or 1%, to $436.5 million in 2004 from $438.7 million in 2003. 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, outbound roaming expenses and payments to third-party data product and platform developers. The decrease in system operations expenses in 2004 was primarily due to the following factors:

- the divestitures of markets to AT&T Wireless in August 2003 and February 2004; and
- an ongoing reduction both in the per-minute cost of usage on U.S. Cellular's systems and in negotiated roaming rates.

The effects of the above factors were partially offset by the following factors:

-