UNITED STATES CELLULAR CORP
Form 10-Q/A
April 26, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2005 OR

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

For the transition period from to

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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

Yes o No ý

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

Yes ý No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

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 June 30, 2005**
Common Shares, $1 par value	54,048,812 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 quarterly period ended June 30, 2005, which was originally filed with the Securities and Exchange Commission (SEC) on August 1, 2005 (Original Form 10-Q), to amend Part I Financial Information 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, and Part II Other Information Item 5 Other Information and Item 6 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, on November 9, 2005, U.S. Cellular and its audit committee concluded that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2004, to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005, to restate the financial statements and financial information included therein.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred and, correct the timing of the reversal of certain tax liabilities and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first and second quarters of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, U.S. Cellular has adjusted previously reported USF contributions expense to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, U.S. Cellular made adjustments to properly reflect revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts U.S. Cellular has entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, U.S. Cellular made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and to recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates From time to time, U.S. Cellular s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, U.S. Cellular has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize investment income in the appropriate period based on the entities actual net income (loss) reported for such periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Other items In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

In connection with the restatement, U.S. Cellular concluded that certain material weaknesses existed in its internal control over financial reporting. See Part I Item 4 Controls and Procedures.

For the convenience of the reader, this Form 10-Q/A sets for the Original Form 10-Q, as amended hereby, in its entirety. However, this Form 10-Q/A amends and restates only Items 1, 2, and 4 of Part I and Item 6 of Part II of the Original From 10-Q, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying financial statements, and no other information in the Original Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-Q/A represented management s views as of the date of filing of the Original Form 10-Q for the quarter ended June 30, 2005 on August 1, 2005. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by U.S. Cellular s principal executive officer and principal financial officer are being filed with this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

UNITED STATES CELLULAR CORPORATION

2ND QUARTER REPORT ON FORM 10-Q/A

AMENDMENT NO. 1

INDEX

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended June 30, 2005 (As Restated)	Three Months Ended June 30, 2004 (As Restated)	Six Months Ended June 30, 2005 (As Restated)	Six Months Ended June 30, 2004 (As Restated)
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Service	$ 691,746	$ 655,782	$ 1,363,385	$ 1,270,733
Equipment sales	50,219	49,808	89,651	88,032
Total Operating Revenues	741,965	705,590	1,453,036	1,358,765
OPERATING EXPENSES				
System operations (excluding depreciation, amortization and accretion shown separately below)	147,238	145,337	285,709	284,945
Cost of equipment sold	116,811	110,605	244,059	230,423
Selling, general and administrative	284,209	265,623	562,539	516,416
Depreciation, amortization and accretion	126,784	122,228	254,277	236,246
(Gain) on assets held for sale		(582)		(725)
Total Operating Expenses	675,042	643,211	1,346,584	1,267,305
OPERATING INCOME	66,923	62,379	106,452	91,460
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	17,825	16,297	32,265	30,081
Interest and dividend income	4,347	2,108	6,372	2,478
Interest (expense)	(21,444)	(20,951)	(42,182)	(41,266)
Gain (loss) on investments		(1,830)	551	(1,830)
Other income, net	(71)	227	155	551
Total Investment and Other Income (Expense)	657	(4,149)	(2,839)	(9,986)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	67,580	58,230	103,613	81,474
Income tax expense	27,040	21,365	40,974	33,018
INCOME BEFORE MINORITY INTEREST	40,540	36,865	62,639	48,456
Minority share of income	(2,463)	(2,435)	(4,997)	(4,622)
NET INCOME	$ 38,077	$ 34,430	$ 57,642	$ 43,834
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	86,708	86,199	86,558	86,176
BASIC EARNINGS PER SHARE (Note 5)	$ 0.44	$ 0.40	$ 0.67	$ 0.51
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	87,375	86,653	87,257	86,682
DILUTED EARNINGS PER SHARE (Note 5)	$ 0.44	$ 0.40	$ 0.66	$ 0.51

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

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UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Six Months Ended June 30, 2005 (As Restated)	Six Months Ended June 30, 2004 (As Restated)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 57,642	$ 43,834
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	254,277	236,246
Bad debts expense	14,296	22,328
Deferred income taxes	34,819	31,836
Investment income	(32,265)	(30,081)
Distributions from unconsolidated entities	27,956	7,221
Minority share of income	4,997	4,622
(Gain) on assets held for sale		(725)
(Gain) Loss on investments	(551)	1,830
Other noncash expense	4,423	8,376
Changes in assets and liabilities		
Change in accounts receivable	(22,444)	(36,617)
Change in inventory	21,791	24,397
Change in accounts payable	(44,643)	(88,412)
Change in accrued interest	(123)	1,310
Change in accrued taxes	10,871	3,647
Change in customer deposits and deferred revenues	4,737	8,373
Change in other assets and liabilities	(8,559)	(1,451)
	327,224	236,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(256,557)	(263,903)
Cash received from sale of assets		96,932
Acquisitions, excluding cash acquired	(125,482)	(40,367)
Other investing activities	(1,358)	(842)
	(383,397)	(208,180)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	310,000	270,000
Issuance of long-term debt		412,484
Repayment of notes payable	(290,000)	(270,000)
Repayment of long-term debt affiliated		(105,000)
Common shares issued for benefit plans	14,012	1,739
Other financing activities	(1,256)	(1,006)
	32,756	308,217
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,417)	336,771
CASH AND CASH EQUIVALENTS-		
Beginning of period	41,062	10,029
End of period	$ 17,645	$ 346,800

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

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UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

	June 30, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 17,645	$ 41,062
Accounts Receivable		
Customers, less allowance of $9,345 and $10,820, respectively	260,708	248,383
Roaming	27,701	26,421
Other	35,730	41,632
Inventory	55,127	76,918
Prepaid expenses	29,721	31,764
Deferred tax asset	35,936	73,216
Other current assets	16,035	24,951
	478,603	564,347
INVESTMENTS		
Licenses	1,362,434	1,228,801
Goodwill	445,352	445,212
Customer lists, net of accumulated amortization of $39,214 and $34,630, respectively	20,952	24,915
Marketable equity securities	251,115	282,829
Investments in unconsolidated entities	161,239	155,519
Notes and interest receivable long-term	4,753	4,885
	2,245,845	2,142,161
PROPERTY, PLANT AND EQUIPMENT		
In service and under construction	4,356,357	4,133,471
Less accumulated depreciation	1,905,050	1,692,751
	2,451,307	2,440,720
OTHER DEFERRED CHARGES	31,164	32,807
TOTAL ASSETS	$ 5,206,919	$ 5,180,035

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

	June 30, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
CURRENT LIABILITIES		
Notes payable	$ 50,000	$ 30,000
Accounts payable		
Affiliated	5,111	5,314
Trade	214,726	259,167
Customer deposits and deferred revenues	109,131	104,394
Accrued taxes	88,623	80,512
Accrued compensation	29,740	49,116
Other current liabilities	24,045	20,829
	521,376	549,332
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	663,615	670,250
Derivative liability	46,616	70,796
Other deferred liabilities and credits	110,506	99,222
	820,737	840,268
LONG-TERM DEBT	1,161,014	1,160,786
MINORITY INTEREST IN SUBSIDIARIES	43,773	40,052
COMMON SHAREHOLDERS EQUITY		
Common Shares, par value $1 per share; authorized 140,000,000 shares; issued 55,045,684 shares	55,046	55,046
Series A Common Shares, par value $1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares	33,006	33,006
Additional paid-in capital	1,288,595	1,305,249
Treasury Shares, at cost, 1,238,263 and 1,716,658 Common Shares, respectively	(65,428)	(99,627)
Accumulated other comprehensive income	28,038	32,803
Retained earnings	1,320,762	1,263,120
	2,660,019	2,589,597
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 5,206,919	$ 5,180,035

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The 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, general partnerships in which U.S. Cellular has a majority partnership interest and any entity in which U.S. Cellular has a variable interest that requires U.S. Cellular to absorb a majority of the entity s expected gains or losses, or both. 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 included herein 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. (See discussion of Restatement below).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly U.S. Cellular s financial position as of June 30, 2005, its results of operations for the three and six months ended June 30, 2005 and 2004, and its cash flows for the six months ended June 30, 2005 and 2004. The results of operations for the three and six months ended June 30, 2005 and the cash flows for the six months ended June 30, 2005, are not necessarily indicative of the results to be expected for the full year.

Certain amounts reported in the prior year have been reclassified to conform to current period presentation. The capitalized costs of developing information systems, system development costs, and the related accumulated amortization have been reclassified from Deferred Charges to Property, Plant and Equipment in the Consolidated Balance Sheets. The reclassifications had no impact on previously reported net income, financial condition or cash flows.

Restatement

U.S. Cellular and its audit committee concluded on November 9, 2005, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

On November 11, 2005, U.S. Cellular announced that the staff of the Midwest Regional Office of the Securities and Exchange Commission (SEC) had advised U.S. Cellular that it was conducting an investigation into the restatement of financial statements announced by U.S. Cellular on November 10, 2005. U.S. Cellular intends to cooperate fully with the SEC staff in this investigation.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred and, correct the timing of the reversal of certain tax liabilities and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first and second quarters of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, U.S. Cellular has adjusted previously reported USF contributions expense to reflect the estimated liability incurred during the period.

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Other items In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

The table below summarizes the impact on income before income taxes and minority interest as a result of the restatement.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(Increase (decrease) dollars in thousands)			
Income Before Income Taxes and Minority Interest, as previously reported	$ 66,220	$ 63,860	$ 98,425	$ 86,865
Federal universal service fund contributions	(1,224)	(1,704)	(2,655)	(113)
Customer contract termination fees	124	(84)	3,592	(235)
Leases and contracts	(133)	(628)	2,105	(1,314)
Promotion rebates			(446)	
Operations of consolidated partnerships managed by a third party	935	(1,064)	481	(794)
Investment income from entities accounted for by the equity method	1,667	(2,064)	2,189	(2,568)
Other items	(9)	(86)	(78)	(367)
Total adjustment	1,360	(5,630)	5,188	(5,391)
Income Before Income Taxes and Minority Interest, as restated	$ 67,580	$ 58,230	$ 103,613	$ 81,474

The table below summarizes the impact on net income and earnings per share as a result of the restatement.

	Three Months Ended June 30, 2005 Net Income (loss)	Three Months Ended June 30, 2005 Diluted Earnings Per Share	Three Months Ended June 30, 2004 Net Income (loss)	Three Months Ended June 30, 2004 Diluted Earnings Per Share	Six Months Ended June 30, 2005 Net Income (loss)	Six Months Ended June 30, 2005 Diluted Earnings Per Share	Six Months Ended June 30, 2004 Net Income (loss)	Six Months Ended June 30, 2004 Diluted Earnings Per Share
	(Increase (decrease) dollars in thousands, except per share amounts)							
As previously reported	$ 37,936	$ 0.43	$ 37,984	$ 0.44	$ 54,834	$ 0.63	$ 47,216	$ 0.54
Federal universal service fund contributions	(709)	(0.01)	(994)	(0.01)	(1,538)	(0.02)	(66)	
Customer contract termination fees	69		(46)		2,011	0.02	(131)	
Leases and contracts	(75)		(367)		1,281	0.01	(770)	(0.01)
Promotion rebates					(250)			
Operations of consolidated partnerships managed by a third party	413	0.01	(474)	(0.01)	213		(354)	
Investment income from entities accounted for by the equity method	1,008	0.02	(1,249)	(0.02)	1,324	0.02	(1,554)	(0.02)
Income taxes	(551)	(0.01)	(372)		(181)		(296)	
Other items	(14)		(52)		(52)		(211)	
Total adjustment	141	0.01	(3,554)	(0.04)	2,808	0.03	(3,382)	(0.03)
As restated	$ 38,077	$ 0.44	$ 34,430	$ 0.40	$ 57,642	$ 0.66	$ 43,834	$ 0.51

The effect of the restatement on the previously reported Consolidated Statements of Operations is as follows:

	Three Months Ended			
	June 30, 2005		June 30, 2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Service	$ 691,574	$ 691,746	$ 662,658	$ 655,782
Equipment sales	50,348	50,219	49,567	49,808
Total Operating Revenues	741,922	741,965	712,225	705,590
OPERATING EXPENSES				
System operations (excluding depreciation amortization and accretion shown separately below)	147,738	147,238	144,887	145,337
Cost of equipment sold	116,977	116,811	110,182	110,605
Selling, general and administrative	283,676	284,209	269,619	265,623
Depreciation, amortization and accretion	126,467	126,784	122,249	122,228
Gain on assets of operations held for sale			(582)	(582)
Total Operating Expenses	674,858	675,042	646,355	643,211
OPERATING INCOME	67,064	66,923	65,870	62,379
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	16,157	17,825	18,361	16,297
Interest and dividend income	4,359	4,347	2,118	2,108
Interest (expense)	(21,444)	(21,444)	(20,951)	(20,951)
Loss on investments			(1,830)	(1,830)
Other income, net	84	(71)	292	227
Total Investment and Other Income (Expense)	(844)	657	(2,010)	(4,149)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	66,220	67,580	63,860	58,230
Income tax expense	26,021	27,040	23,094	21,365
INCOME BEFORE MINORITY INTEREST	40,199	40,540	40,766	36,865
Minority share of income	(2,263)	(2,463)	(2,782)	(2,435)
NET INCOME	$ 37,936	$ 38,077	$ 37,984	$ 34,430
Basic Earnings per Share:				
Net Income (Loss)	$ 0.44	$ 0.44	$ 0.44	$ 0.40
Diluted Earnings per Share:				
Net Income (Loss)	$ 0.43	$ 0.44	$ 0.44	$ 0.40

	Six Months Ended			
	June 30, 2005		June 30, 2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Service	$ 1,360,366	$ 1,363,385	$ 1,282,040	$ 1,270,733
Equipment sales	89,991	89,651	87,835	88,032
Total Operating Revenues	1,450,357	1,453,036	1,369,875	1,358,765
OPERATING EXPENSES				
System operations (excluding depreciation, amortization and accretion shown separately below)	287,804	285,709	282,410	284,945
Cost of equipment sold	243,870	244,059	230,070	230,423
Selling, general and administrative	561,665	562,539	527,825	516,416
Depreciation, amortization and accretion	253,717	254,277	236,143	236,246
Gain on assets of operations held for sale			(725)	(725)
Total Operating Expenses	1,347,056	1,346,584	1,275,723	1,267,305
OPERATING INCOME	103,301	106,452	94,152	91,460
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	30,076	32,265	32,648	30,081
Interest and dividend income	6,395	6,372	2,496	2,478
Interest (expense)	(42,182)	(42,182)	(41,266)	(41,266)
Gain (loss) on investments	551	551	(1,830)	(1,830)
Other income, net	284	155	665	551
Total Investment and Other Income (Expense)	(4,876)	(2,839)	(7,287)	(9,986)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	98,425	103,613	86,865	81,474
Income tax expense	38,824	40,974	34,755	33,018
INCOME BEFORE MINORITY INTEREST	59,601	62,639	52,110	48,456
Minority share of income	(4,767)	(4,997)	(4,894)	(4,622)
NET INCOME	$ 54,834	$ 57,642	$ 47,216	$ 43,834
Basic Earnings per Share:				
Net Income (Loss)	$ 0.63	$ 0.67	$ 0.55	$ 0.51
Diluted Earnings per Share:				
Net Income (Loss)	$ 0.63	$ 0.66	$ 0.54	$ 0.51

The effect of the restatement on the previously reported Consolidated Statements of Cash Flows is as follows:

	Six Months Ended June 30,			
	2005 As Previously Reported	2005 As Restated	2004 As Previously Reported	2004 As Restated
	(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 54,834	$ 57,642	$ 47,216	$ 43,834
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	253,717	254,277	236,143	236,246
Bad debts expense	15,950	14,296	34,903	22,328
Deferred income taxes	32,669	34,819	33,574	31,836
Investment income	(30,076)	(32,265)	(32,648)	(30,081)
Distributions from unconsolidated entities		27,956		7,221
Minority share of income	4,767	4,997	4,894	4,622
(Gain) on assets held for sale			(725)	(725)
(Gain) Loss on investments	(551)	(551)	1,830	1,830
Other noncash expense	4,236	4,423	8,260	8,376
Changes in assets and liabilities				
Change in accounts receivable	(21,752)	(22,444)	(51,375)	(36,617)
Change in inventory	21,791	21,791	24,397	24,397
Change in accounts payable	(45,424)	(44,643)	(92,530)	(88,412)
Change in accrued interest	(123)	(123)	1,310	1,310
Change in accrued taxes	10,418	10,871	3,647	3,647
Change in customer deposits and deferred revenues	4,475	4,737	8,518	8,373
Change in other assets and liabilities	(6,349)	(8,559)	1,227	(1,451)
	298,582	327,224	228,641	236,734
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(255,986)	(256,557)	(263,114)	(263,903)
Cash received from sale of assets			96,932	96,932
Acquisitions, excluding cash acquired	(125,482)	(125,482)	(40,367)	(40,367)
Distributions from unconsolidated entities	27,956		7,221	
Other investing activities	(1,373)	(1,358)	(1,011)	(842)
	(354,885)	(383,397)	(200,339)	(208,180)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of notes payable	310,000	310,000	270,000	270,000
Issuance of long-term debt			412,484	412,484
Repayment of notes payable	(290,000)	(290,000)	(270,000)	(270,000)
Repayment of long-term debt affiliated			(105,000)	(105,000)
Common shares reissued	14,199	14,012	1,855	1,739
Other financing activities	(1,256)	(1,256)	(1,006)	(1,006)
	32,943	32,756	308,333	308,217
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,360)	(23,417)	336,635	336,771
Beginning of period	40,922	41,062	9,848	10,029

End of period	$	17,562	$	17,645	$	346,483	$	346,800

The effect of the restatement on the previously reported Consolidated Balance Sheets is as follows:

	June 30, 2005 As Previously Reported	June 30, 2005 As Restated	December 31, 2004 As Previously Reported	December 31, 2004 As Restated
	(Dollars in thousands)			
CURRENT ASSETS				
Cash and cash equivalents	$ 17,562	$ 17,645	$ 40,922	$ 41,062
Accounts Receivable				
Customers	260,117	260,708	251,943	248,383
Roaming	27,701	27,701	26,421	26,421
Other	35,185	35,730	39,285	41,632
Inventory	55,127	55,127	76,918	76,918
Prepaid expenses	29,351	29,721	31,507	31,764
Deferred tax asset	46,461	35,936	83,741	73,216
Other current assets	18,056	16,035	28,214	24,951
	489,560	478,603	578,951	564,347
INVESTMENTS				
Licenses	1,362,434	1,362,434	1,228,801	1,228,801
Goodwill	426,058	445,352	425,918	445,212
Customer lists, net of accumulated amortization	20,952	20,952	24,915	24,915
Marketable equity securities	251,115	251,115	282,829	282,829
Investments in unconsolidated entities	166,310	161,239	162,764	155,519
Notes and interest receivable long-term	4,753	4,753	4,885	4,885
	2,231,622	2,245,845	2,130,112	2,142,161
PROPERTY, PLANT AND EQUIPMENT				
In service and under construction	4,352,889	4,356,357	4,130,551	4,133,471
Less accumulated depreciation	1,902,593	1,905,050	1,690,832	1,692,751
	2,450,296	2,451,307	2,439,719	2,440,720
OTHER DEFERRED CHARGES	31,372	31,164	33,145	32,807
TOTAL ASSETS	$ 5,202,850	$ 5,206,919	$ 5,181,927	$ 5,180,035

	June 30, 2005 As Previously Reported	June 30, 2005 As Restated	December 31, 2004 As Previously Reported	December 31, 2004 As Restated
	(Dollars in thousands)			
CURRENT LIABILITIES				
Notes payable	$ 50,000	$ 50,000	$ 30,000	$ 30,000
Accounts payable				
Affiliated	5,111	5,111	5,314	5,314
Trade	209,704	214,726	254,926	259,167
Customer deposits and deferred revenues	109,054	109,131	104,578	104,394
Accrued taxes	87,342	88,623	78,624	80,512
Accrued compensation	29,740	29,740	49,116	49,116
Other current liabilities	27,078	24,045	24,308	20,829
	518,029	521,376	546,866	549,332
DEFERRED LIABILITIES AND CREDITS				
Net deferred income tax liability	671,148	663,615	680,278	670,250
Derivative liability	46,616	46,616	70,796	70,796
Other deferred liabilities and credits	106,271	110,506	94,738	99,222
	824,035	820,737	845,812	840,268
LONG-TERM DEBT	1,161,014	1,161,014	1,160,786	1,160,786
MINORITY INTEREST IN SUBSIDIARIES	43,863	43,773	40,373	40,052
COMMON SHAREHOLDERS EQUITY				
Common Shares, par value $1 per share	55,046	55,046	55,046	55,046
Series A Common Shares, par value $1 per share	33,006	33,006	33,006	33,006
Additional paid-in capital	1,285,843	1,288,595	1,302,496	1,305,249
Treasury Shares, at cost	(65,428)	(65,428)	(99,627)	(99,627)
Accumulated other comprehensive income	26,832	28,038	31,393	32,803
Retained earnings	1,320,610	1,320,762	1,265,776	1,263,120
	2,655,909	2,660,019	2,588,090	2,589,597
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 5,202,850	$ 5,206,919	$ 5,181,927	$ 5,180,035

2. Summary of Significant Accounting Policies

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 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 $1.7 million and $3.5 million for the three and six months ended June 30, 2005, respectively, and $1.3 million and $2.6 million for the three and six months ended June 30, 2004, 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.

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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 June 30,		Six Months Ended June 30,	
	2005 (As Restated)	2004 (As Restated)	2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands, except per share amounts)			
Net Income				
As reported	$ 38,077	$ 34,430	$ 57,642	$ 43,834
Pro forma expense	(2,997)	(3,148)	(4,920)	(5,170)
Pro forma net income	$ 35,080	$ 31,282	$ 52,722	$ 38,664
Basic Earnings per Share				
As reported	$ 0.44	$ 0.40	$ 0.67	$ 0.51
Pro forma expense per share	(0.03)	(0.04)	(0.06)	(0.06)
Pro forma basic earnings per share	$ 0.41	$ 0.36	$ 0.61	$ 0.45
Diluted Earnings per Share				
As reported	$ 0.44	$ 0.40	$ 0.66	$ 0.51
Pro forma expense per share	(0.03)	(0.04)	(0.06)	(0.06)
Pro forma diluted earnings per share	$ 0.41	$ 0.36	$ 0.60	$ 0.45

Recent Accounting Pronouncements

Share-Based Payment

Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, was issued in December 2004. In April 2005, the SEC postponed the effective date of SFAS 123R until the issuer s first fiscal year beginning after June 15, 2005. As a result, U.S. Cellular will be required to adopt SFAS 123R in the first quarter of 2006. The statement requires that compensation cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement may reduce net cash flows from operating activities and increase net cash flows from financing activities in periods after adoption. In addition, in March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. U.S. Cellular has reviewed the provisions of these statements and expects to record additional compensation expense for certain share-based payment transactions, primarily related to stock options, in the Consolidated Statements of Operations upon adoption of SFAS 123R. See the Stock-Based Compensation disclosure above for a discussion of the pro forma impact on net income and earnings per share under current accounting requirements.

Accounting Changes and Error Corrections

SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154) which replaces Accounting Principles Board Opinions No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28 was issued in May 2005. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specifically, this statement requires retrospective application of the direct effect of a voluntary change in accounting principle to prior periods financial statements, if it is practicable to do so. SFAS 154 also strictly redefines the term restatement to mean the correction of an error by revising previously issued financial statements. SFAS 154 replaces APB No. 20, which requires that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Unless adopted early, SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. U.S. Cellular does not expect the adoption of SFAS 154 to have a material impact on its financial position or results of operations except to the extent that the statement requires retrospective application in circumstances that would previously have been effected in the period of the change under APB No. 20.

Conditional Asset Retirement Obligation

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations was issued in March 2005. It is effective no later than December 31, 2005. This Interpretation clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FASB Interpretation No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. U.S. Cellular is currently reviewing the requirement of this Interpretation and has not yet determined the impact, if any, on U.S. Cellular s financial position or results of operations.

3. Income Taxes

The following table summarizes the effective income tax rates in each of the periods.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005 (As Restated)	**2004 (As Restated)**	**2005 (As Restated)**	**2004 (As Restated)**
Effective Tax Rate From				
Operations excluding loss on investments, and gain on assets held for sale	40.0%	36.7%	39.6%	37.3%
Loss on investments and gain on assets held for sale (1)	%	(35.6)%	37.5%	NM
Income before income taxes and minority interest	40.0%	36.7%	39.5%	40.5%

NM Not meaningful

(1) The effective tax rate in the six months ended June 30, 2004, related to the provision for loss on investments and gain on assets held for sale is not meaningful. Because of the impact on the income tax provision of the completion of the sale of assets to AT&T Wireless Services, Inc. (AT&T Wireless), now Cingular Wireless LLC, in February 2004, it was necessary for U.S. Cellular to record a tax provision of $2.9 million at the time of this sale. However, book pretax income in the six months ended June 30, 2004 reflected a $725,000 increase attributable to a working capital adjustment on assets held for sale, which was an adjustment of the $22.0 million loss on assets held for sale recorded in the fourth quarter of 2003 when the sale transaction was announced.

4. Gain (Loss) on Investments

U.S. Cellular reported a loss on investments of $1.8 million in the second quarter of 2004. The loss was recorded to reflect an impairment in the carrying value of a license held in a non-operational market in Florida that was sold in December 2004.

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5. 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.

Net income used in computing earnings per share and the effect on income and the weighted average number of shares and earnings per share of potentially dilutive securities are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (As Restated)	2004 (As Restated)	2005 (As Restated)	2004 (As Restated)
	(Dollars and shares in thousands, except earnings per share)			
Basic and Diluted Earnings per Share				
Net income used in basic and diluted earnings per share	$ 38,077	$ 34,430	$ 57,642	$ 43,834
Weighted average number of common shares used in basic earnings per share	86,708	86,199	86,558	86,176
Effect of Dilutive Securities:				
Stock options (1)	667	454	699	506
Conversion of convertible debentures(2)				
Weighted average number of common shares used in diluted earnings per share	87,375	86,653	87,257	86,682
Basic Earnings per Share	$ 0.44	$ 0.40	$ 0.67	$ 0.51
Diluted Earnings per Share	$ 0.44	$ 0.40	$ 0.66	$ 0.51

(1) Stock options convertible into 185,010 common shares were not included in computing diluted earnings per share in the three and six months ended June 30, 2005 because their effects were antidilutive. Stock options convertible into 1,510,082 and 1,554,132 common shares were not included in computing diluted earnings per share in the three and six months ended June 30, 2004 because their effects were antidilutive.

(2) 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 2004 because their effects were antidilutive.

6. 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 U.S. Cellular 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 Consolidated Statements of Operations.

A subsidiary of U.S. Cellular has entered into a number of forward contracts related to the marketable equity securities that it holds. 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 (See Note 10 Revolving Credit Facility and Forward Contracts).

Information regarding the fair value of U.S. Cellular s marketable equity securities is summarized below.

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Marketable Equity Securities		
Vodafone Group Plc 10,245,370 American Depositary Receipts	$ 249,167	$ 280,518
Rural Cellular Corporation 370,882 Common Shares	1,948	2,311
Aggregate fair value	251,115	282,829
Accounting cost, as adjusted	160,161	160,161
Gross unrealized holding gains	90,954	122,668
Deferred income tax (expense)	(33,437)	(45,095)
Net unrealized holding gains	57,517	77,573
Derivative instruments, net of tax	(29,479)	(44,770)
Accumulated other comprehensive income	$ 28,038	$ 32,803

7. Goodwill

U.S. Cellular has substantial amounts of goodwill as a result of the acquisition of wireless markets. The changes in goodwill for the six months ended June 30, 2005 and 2004 were as follows:

	June 30, 2005 (As Restated)	June 30, 2004 (As Restated)
	(Dollars in thousands)	
Balance, beginning of period	$ 445,212	$ 449,550
Acquisitions	150	3,649
Other adjustments	(10)	(651)
Balance, end of period	$ 445,352	$ 452,548

8. Unconsolidated Entities

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.

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

	June 30, 2005	June 30, 2004
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership (1)		8.0%

Midwest Wireless Communications, LLC	15.2%	15.2%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

(1) As a result of an agreement with ALLTEL, U.S. Cellular s investment in this partnership was sold to ALLTEL on November 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 June 30,		Six Months Ended June 30,	
	2005 (as restated)	2004 (as restated)	2005 (as restated)	2004 (as restated)
	(Dollars in thousands)			
Results of Operations				
Revenues	$ 824,000	$ 802,000	$ 1,604,000	$ 1,501,000
Operating expenses	572,000	558,000	1,114,000	1,051,000
Operating income	252,000	244,000	490,000	450,000
Other income (expense), net	7,000	(8,000)	15,000	(7,000)
Net Income	$ 259,000	$ 236,000	$ 505,000	$ 443,000

9. Customer Lists

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 the six months ended June 30, 2005 and 2004 added $0.6 million and $12.9 million, respectively, to the gross balance of customer lists. Customer list amortization expense was $2.3 million and $4.6 million for the three and six months ended June 30, 2005, respectively, and $3.7 and $6.7 million for the three and six months ended June 30, 2004, respectively. Amortization expense for the remainder of 2005 and for the years 2006-2009 is expected to be $3.7 million, $5.5 million, $3.6 million, $2.4 million and $1.7 million, respectively.

10. Revolving Credit Facility and Forward Contracts

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At June 30, 2005, this credit facility had $649.8 million available for use, net of borrowings of $50.0 million and outstanding letters of credit of $0.2 million. This credit facility expires in December 2009. Generally, borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular s credit rating. At June 30, 2005, the contractual spread was 30 basis points (the one-month LIBOR was 3.34% at June 30, 2005). Under certain circumstances, with less than two days notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 6.25% at June 30, 2005).

On July 11, 2005, Moody s Investor Service downgraded U.S. Cellular from a Baa1 rating with a negative outlook to Baa2 with a stable outlook. As a result of the downgrade, the contractual spread applied to LIBOR in determining the interest rate applicable to borrowings under the revolving credit facility has increased to 45 basis points from 30 basis points. In addition, the facility fee has increased to 15 basis points from 10 basis points.

As disclosed in Note 1, U.S. Cellular and its audit committee concluded on November 9, 2005 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2004 and the first and second quarters of 2005. 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 credit agreement or forward contract. U.S. Cellular received waivers from the lenders associated with the 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.

11. 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 certain leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also required to return certain 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, which is included in Other deferred liabilities and credits in the Consolidated Balance Sheets, and related asset retirement obligation expense, which is reflected in Depreciation, amortization and accretion expense in the Consolidated Statements of Operations.

During the second quarter of 2005, U.S. Cellular reviewed the assumptions related to its asset retirement obligations and made certain changes to those assumptions as a result. Such changes did not have a material impact on U.S. Cellular s financial condition or results of operations.

The table below summarizes the change in asset retirement obligation during the six months ended June 30, 2005 and 2004.

	June 30, 2005 (As Restated)	June 30, 2004 (As Restated)
	(Dollars in thousands)	
Balance, beginning of period	$ 72,575	$ 64,540
Additional liabilities accrued	3,223	1,013
Accretion expense	2,282	2,438
Disposition of assets (1)		(1,635)
Balance, end of period	$ 78,080	$ 66,356

(1) This change in the asset retirement obligation relates to those obligations which were associated with the properties sold to AT&T Wireless in February 2004 and are no longer obligations of U.S. Cellular.

12. 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. On February 9, 2004, U.S. Cellular repaid this note in full, including $921,000 of accrued interest.

13. 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 2103.

The settlement value of U.S. Cellular s mandatorily redeemable minority interests was estimated to be $144.0 million at June 30, 2005. 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 June 30, 2005, 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 June 30, 2005 was $39.8 million and is included in the Consolidated 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 $104.2 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. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

14. Common Share Repurchase Program

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. No U.S. Cellular Common Shares were repurchased in the first six months of 2005 or 2004.

15. Acquisitions, Divestitures and Exchanges

2005 Activity

U.S. Cellular is a limited partner in Carroll Wireless, L.P. (Carroll Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. The aggregate amount paid to the FCC for the 17 licenses was $129.9 million, net of all bidding credits to which Carroll Wireless was entitled as a designated entity. These 17 licensed areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

In March 2005, Carroll Wireless filed an application with the FCC seeking a grant of the subject licenses. U.S. Cellular expects that the FCC will grant the licenses in the third quarter of 2005. The $129.9 million deposited with the FCC is included in licenses in the Consolidated Balance Sheet as of June 30, 2005. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial reporting purposes, pursuant to the guidelines of Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of June 30, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $130 million. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner; however, U.S. Cellular has not entered into any commitments to provide Carroll Wireless with any financing beyond the $130 million it has provided to date.

In the first quarter of 2005, U.S. Cellular adjusted the previously reported gain related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment increased the total gain on investment from this transaction by $0.6 million due to a working capital adjustment which was finalized in the first quarter of 2005 related to the entities sold in which U.S. Cellular previously owned a non-controlling investment interest.

2004 Activity

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, subject to 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 held for sale in the fourth quarter of 2003 and subsequent $0.1 million and $0.6 million reductions of the loss in the first and second quarters of 2004, respectively) was recorded as a loss on assets 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 results of operations of the markets sold to AT&T Wireless were included in results of operations through February 17, 2004.

In addition in the first six months of 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.

16. 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:

	Six Months Ended June 30, 2005		2004	
		(Dollars in thousands)		
Marketable Equity Securities				
Balance, beginning of period	$	77,573	$	63,307
Add (deduct):				
Unrealized gains (losses) on marketable equity securities		(31,714)		(30,476)
Income tax (expense) benefit		11,658		11,188
Net change in unrealized gains (losses) on marketable equity securities in comprehensive income		(20,056)		(19,288)
Balance, end of period	$	57,517	$	44,019
Derivative Instruments				
Balance, beginning of period	$	(44,770)	$	(35,275)
Add (deduct):				
Unrealized gain on derivative instruments		24,179		23,769
Income tax (expense)		(8,888)		(8,725)
Net change in unrealized gains (losses) on derivative instruments included in comprehensive income		15,291		15,044
Balance, end of period	$	(29,479)	$	(20,231)
Accumulated Other Comprehensive Income				
Balance, beginning of period	$	32,803	$	28,032
Net change in marketable equity securities		(20,056)		(19,288)
Net change in derivative instruments		15,291		15,044
Net change in unrealized gains (losses) included in comprehensive income		(4,765)		(4,244)

Balance, end of period	$	28,038	$	23,788

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (As Restated)	2004 (As Restated)	2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)			
Comprehensive Income				
Net income	$ 38,077	$ 34,430	$ 57,642	$ 43,834
Net change in unrealized gains (losses) on marketable equity securities and derivative instruments	(1,758)	(4,566)	(4,765)	(4,244)
	$ 36,319	$ 29,864	$ 52,877	$ 39,590

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17. 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 a number of legal proceedings before the FCC and various state and federal courts. If U.S. Cellular believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of the accruals and related financial statement disclosure. The ultimate settlement of proceedings may differ materially from amounts accrued in the financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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 81.5%-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 notes thereto included herein, and with its audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K/A for the year ended December 31, 2004.

Restatement

U.S. Cellular and its audit committee concluded on November 9, 2005, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

On November 11, 2005, U.S. Cellular announced that the staff of the Midwest Regional Office of the Securities and Exchange Commission (SEC) had advised U.S. Cellular that it was conducting an investigation into the restatement of financial statements announced by U.S. Cellular on November 10, 2005. U.S. Cellular intends to cooperate fully with the SEC staff in this investigation.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred and, correct the timing of the reversal of certain tax liabilities and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first and second quarters of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, U.S. Cellular has adjusted previously reported USF contributions expense to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, U.S. Cellular made adjustments to properly reflect revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts U.S. Cellular has entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, U.S. Cellular made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and to recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates From time to time, U.S. Cellular s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, U.S. Cellular has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, U.S. Cellular has corrected its financial statements to recognize investment income in the appropriate period based on the entities actual net income (loss) reported for such periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Other items In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

The table below summarizes the impact on income before income taxes and minority interest as a result of the restatement.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Increase (decrease) dollars in thousands)			
Income Before Income Taxes and Minority Interest, as previously reported	$ 66,220			