

UNITED STATES CELLULAR CORP  
Form 10-Q/A  
February 23, 2007

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2006 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**

(State or other jurisdiction of  
incorporation or organization)

**62-1147325**

(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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

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Large accelerated filer  Accelerated filer  Accelerated filer

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

Yes  No

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

<b>Class</b>	<b>Outstanding at August 31, 2006</b>
Common Shares, \$1 par value	54,197,834 Shares
Series A Common Shares, \$1 par value	33,005,877 Shares

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### 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, 2006, which was originally filed with the Securities and Exchange Commission ( SEC ) on October 10, 2006 ( 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 ), Item 3 Quantitative and Qualitative Disclosures About Market Risk, and Item 4 Controls and Procedures, and Item 6 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004 and certain selected financial data for 2002. 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, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- **Forward contracts and related derivative instruments -** In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.
- **Contracts with maintenance and support services -** U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows -** The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations ( ARO ) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset.
- **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 adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the

2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.

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- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts. These individual adjustments were not material.

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 forth the Original Form 10-Q, as amended hereby, in its entirety. However, this Form 10-Q/A amends and restates only Items 1, 2, 3, and 4 of Part I and Item 6 of Part II of the Original Form 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 consolidated 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 quarterly period ended June 30, 2006 on October 10, 2006. 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.

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UNITED STATES CELLULAR CORPORATION

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE PERIOD ENDED JUNE 30, 2006

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PART I. FINANCIAL INFORMATIONITEM I. FINANCIAL STATEMENTSUNITED STATES CELLULAR CORPORATION AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONSUnaudited

	Three Months Ended June 30, 2006 (As Restated)		Six Months Ended June 30, 2006 (As Restated)	
	2005 (As Restated)	2005 (As Restated)	2005 (As Restated)	2005 (As Restated)
	(Dollars in thousands, except per share amounts)			
<b>OPERATING REVENUES</b>				
Service	\$ 791,705	\$ 689,734	\$ 1,560,927	\$ 1,360,227
Equipment sales	54,432	50,643	121,586	90,199
Total Operating Revenues	846,137	740,377	1,682,513	1,450,426
<b>OPERATING EXPENSES</b>				
System operations (excluding Depreciation, amortization and accretion shown separately below)	150,555	147,401	303,873	286,943
Cost of equipment sold	133,416	116,811	276,732	244,059
Selling, general and administrative (including charges from affiliates of \$25.3 million and \$21.8 million for the three months ended June 30, 2006 and 2005, respectively, and \$49.6 million and \$41.2 million for the six months ended 2006 and 2005, respectively)	342,769	284,789	670,473	563,742
Depreciation, amortization and accretion	140,486	126,120	282,511	254,006
Total Operating Expenses	767,226	675,121	1,533,589	1,348,750
<b>OPERATING INCOME</b>	<b>78,911</b>	<b>65,256</b>	<b>148,924</b>	<b>101,676</b>
<b>INVESTMENT AND OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated entities	21,957	17,378	41,440	31,815
Interest and dividend income	9,807	4,643	10,395	6,500
Fair value adjustment of derivative instruments	(922)	20,183	3,893	24,179
Gain on investments				551
Interest expense	(23,007)	(21,444)	(46,215)	(42,182)
Other income, net	(140)	(71)	62	155
Total Investment and Other Income (Expense)	7,695	20,689	9,575	21,018
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>				
INTEREST	86,606	85,945	158,499	122,694
Income tax expense	33,683	33,781	62,393	47,989
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>52,923</b>	<b>52,164</b>	<b>96,106</b>	<b>74,705</b>
Minority share of income	(2,859)	(2,349)	(6,596)	(4,596)
<b>NET INCOME</b>	<b>\$ 50,064</b>	<b>\$ 49,815</b>	<b>\$ 89,510</b>	<b>\$ 70,109</b>
<b>BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)</b>				
	87,281	86,708	87,247	86,558
<b>BASIC EARNINGS PER SHARE (Note 6)</b>				
	\$ 0.57	\$ 0.57	\$ 1.03	\$ 0.81
	88,083	87,375	87,994	87,257



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DILUTED WEIGHTED AVERAGE SHARES  
OUTSTANDING (000s)

DILUTED EARNINGS PER SHARE (Note 6)	\$ 0.57	\$ 0.57	\$ 1.02	\$ 0.80
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The accompanying notes to consolidated financial statements are an integral part of these statements.

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UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited

	<b>Six Months Ended June 30, 2006 (As Restated) (Dollars in thousands)</b>		<b>2005 (As Restated)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$	89,510	\$ 70,109
Add (deduct) adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion		282,511	254,006
Bad debts expense		23,089	14,296
Stock-based compensation expense		10,457	3,533
Deferred income taxes, net		(978)	41,834
Equity in earnings of unconsolidated entities		(41,440)	(31,815)
Distributions from unconsolidated entities		37,176	27,660
Minority share of income		6,596	4,596
Fair value adjustment for derivative instruments		(3,893)	(24,179)
Gain on investments			(551)
Noncash interest expense		890	890
Changes in assets and liabilities from operations			
Change in accounts receivable		(51,819)	(22,584)
Change in inventory		10,770	21,791
Change in accounts payable		(33,462)	(44,594)
Change in customer deposits and deferred revenues		2,978	7,815
Change in accrued taxes		6,416	10,871
Change in accrued interest		749	(123)
Change in other assets and liabilities		(19,326)	(9,353)
		320,224	324,202
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(268,607)	(253,535)
Cash received from divestitures			551
Cash paid for acquisitions		(18,546)	(126,033)
Other investing activities		(3,083)	(1,358)
		(290,236)	(380,375)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of notes payable		195,000	310,000
Repayment of notes payable		(225,000)	(290,000)
Common shares reissued		3,856	14,012
Capital (distributions) to minority partners		(11,220)	(1,060)
Other financing activities		342	(196)
		(37,022)	32,756
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(7,034)</b>	<b>(23,417)</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of period		29,003	41,062
End of period	\$	21,969	\$ 17,645

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



UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETSASSETSUnaudited

	<b>June 30, 2006 (As Restated)</b>	<b>December 31, 2005 (As Restated)</b>
	<b>(Dollars in thousands)</b>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 21,969	\$ 29,003
Accounts receivable		
Customers, less allowance of \$10,494 and \$11,410, respectively	291,453	278,170
Roaming	40,102	27,178
Other	60,079	57,011
Marketable equity securities	218,226	
Inventory	82,239	92,748
Prepaid expenses	44,024	32,068
Deferred income tax asset		8,218
Other current assets	21,763	15,489
	779,855	539,885
<b>INVESTMENTS</b>		
Licenses	1,367,569	1,362,263
Goodwill	485,543	481,235
Customer lists, net of accumulated amortization of \$56,309 and \$44,616, respectively	37,998	47,649
Marketable equity securities	4,076	225,387
Investments in unconsolidated entities	176,653	172,093
Notes and interest receivable	4,847	4,707
	2,076,686	2,293,334
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
In service and under construction	4,862,357	4,615,234
Less accumulated depreciation	2,292,799	2,062,205
	2,569,558	2,553,029
<b>OTHER ASSETS AND DEFERRED CHARGES</b>		
	30,125	29,985
<b>TOTAL ASSETS</b>	<b>\$ 5,456,224</b>	<b>\$ 5,416,233</b>

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETSLIABILITIES AND SHAREHOLDERS EQUITYUnaudited

	<b>June 30, 2006 (As Restated) (Dollars in thousands)</b>	<b>December 31, 2005 (As Restated)</b>
<b>CURRENT LIABILITIES</b>		
Forward contracts	\$ 159,856	\$
Notes payable	105,000	135,000
Accounts payable		
Affiliated	10,881	7,239
Trade	264,488	301,058
Customer deposits and deferred revenues	114,947	111,407
Accrued taxes	47,785	36,748
Accrued compensation	35,757	42,865
Derivative liability	21,925	
Deferred income tax liability	43,015	
Other current liabilities	41,865	28,404
	845,519	662,721
<b>DEFERRED LIABILITIES AND CREDITS</b>		
Net deferred income tax liability	588,716	647,086
Derivative liability		25,818
Asset retirement obligation	98,319	90,224
Other deferred liabilities and credits	51,074	46,234
	738,109	809,362
<b>LONG-TERM DEBT</b>		
Long-term debt	1,001,612	1,001,385
Forward contracts		159,856
	1,001,612	1,161,241
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTE 19)</b>		
<b>MINORITY INTEREST</b>	37,247	41,871
<b>COMMON SHAREHOLDERS EQUITY</b>		
Common Shares, par value \$1 per share; authorized 140,000,000 shares; issued 55,045,685 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
Capital in excess of par value	1,285,611	1,286,964
Treasury Shares, at cost, 847,851 and 962,863 Common Shares, respectively	(40,594 )	(47,088 )
Accumulated other comprehensive income	42,170	44,122
Retained earnings	1,458,498	1,368,988
	2,833,737	2,741,038
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 5,456,224</b>	<b>\$ 5,416,233</b>

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 recognize 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 disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the information and 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 Annual Report on Form 10-K/A for the year ended December 31, 2005 ( Form 10-K/A ).

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 June 30, 2006 and December 31, 2005, the results of operations for the three and six months ended June 30, 2006 and 2005, and the cash flows for the three and six months ended June 30, 2006 and 2005. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

**Restatement**

U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. 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, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- Forward contracts and related derivative instruments - In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.

- **Contracts with maintenance and support services** U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations ( ARO ) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$3.4 million and \$2.3 million in the six months ended June 30, 2006 and 2005, respectively.
- **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 adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by \$9.6 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts. These individual adjustments were not material.



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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, 2006		Six Months Ended June 30, 2006	
	(Increase (decrease) dollars in thousands)			
Income Before Income Taxes and Minority Interest, as previously reported	\$ 88,170	\$ 67,580	\$ 156,956	\$ 103,613
Forward contracts and related derivative instruments	(922 )	20,183	3,893	24,179
Contracts with maintenance and support services	198	(138 )	339	(335 )
Property, plant and equipment	1,511	317	3,111	77
Other items	(2,351)	(1,997)	(5,800)	(4,840)
Total adjustment	(1,564)	18,365	1,543	19,081
Income Before Income Taxes and Minority Interest, as restated	\$ 86,606	\$ 85,945	\$ 158,499	\$ 122,694

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

	Three Months Ended June 30, 2006		2005		Six Months Ended June 30, 2006		2005	
	Net Income (Increase (decrease) dollars in thousands, except per share amounts)	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share
As previously reported	\$ 51,086	\$ 0.58	\$ 38,077	\$ 0.44	\$ 88,578	\$ 1.01	\$ 57,642	\$ 0.66
Forward contracts and related derivative instruments	(584 )	(0.01 )	12,764	0.15	2,464	0.03	15,291	0.18
Contracts with maintenance and support services	125		(69 )		217		(172 )	
Income taxes								
Property, plant and equipment	875	0.01	186		1,800	0.02	52	
Other items	(1,438)	(0.01)	(1,143)	(0.02)	(3,549)	(0.04)	(2,704)	(0.04)
Total adjustment	(1,022)	(0.01)	11,738	0.13	932	0.01	12,467	0.14
As restated	\$ 50,064	\$ 0.57	\$ 49,815	\$ 0.57	\$ 89,510	\$ 1.02	\$ 70,109	\$ 0.80

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

	Three Months Ended June 30, 2006		June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
<b>OPERATING REVENUES</b>				
Service	\$ 791,272	\$ 791,705	\$ 691,746	\$ 689,734
Equipment sales	54,432	54,432	50,219	50,643
Total Operating Revenues	845,704	846,137	741,965	740,377
<b>OPERATING EXPENSES</b>				
System operations (excluding depreciation amortization and accretion shown separately below)	150,555	150,555	147,238	147,401
Cost of equipment sold	133,416	133,416	116,811	116,811
Selling, general and administrative	342,162	342,769	284,209	284,789
Depreciation, amortization and accretion	140,018	140,486	126,784	126,120
Total Operating Expenses	766,151	767,226	675,042	675,121
<b>OPERATING INCOME</b>	<b>79,553</b>	<b>78,911</b>	<b>66,923</b>	<b>65,256</b>
<b>INVESTMENT AND OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated entities	21,957	21,957	17,825	17,378
Interest and dividend income	9,807	9,807	4,347	4,643
Interest (expense)	(23,007 )	(23,007 )	(21,444 )	(21,444 )
Fair value adjustment of derivative instruments		(922 )		20,183
Other income, net	(140 )	(140 )	(71 )	(71 )
Total Investment and Other Income (Expense)	8,617	7,695	657	20,689
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>				
	88,170	86,606	67,580	85,945
Income tax expense	34,301	33,683	27,040	33,781
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>53,869</b>	<b>52,923</b>	<b>40,540</b>	<b>52,164</b>
Minority share of income	(2,783 )	(2,859 )	(2,463 )	(2,349 )
<b>NET INCOME</b>	<b>\$ 51,086</b>	<b>\$ 50,064</b>	<b>\$ 38,077</b>	<b>\$ 49,815</b>
Basic Earnings per Share	\$ 0.59	\$ 0.57	\$ 0.44	\$ 0.57
Diluted Earnings per Share	\$ 0.58	\$ 0.57	\$ 0.44	\$ 0.57

	Six Months Ended June 30, 2006		June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
(Dollars in thousands, except per share amounts)				
<b>OPERATING REVENUES</b>				
Service	\$ 1,561,354	\$ 1,560,927	\$ 1,363,385	\$ 1,360,227
Equipment sales	121,586	121,586	89,651	90,199
Total Operating Revenues	1,682,940	1,682,513	1,453,036	1,450,426
<b>OPERATING EXPENSES</b>				
System operations (excluding depreciation, amortization and accretion shown separately below)	305,410	303,873	285,709	286,943
Cost of equipment sold	276,732	276,732	244,059	244,059
Selling, general and administrative	667,780	670,473	562,539	563,742
Depreciation, amortization and accretion	281,744	282,511	254,277	254,006
Total Operating Expenses	1,531,666	1,533,589	1,346,584	1,348,750
<b>OPERATING INCOME</b>	151,274	148,924	106,452	101,676
<b>INVESTMENT AND OTHER INCOME (EXPENSE)</b>				
Equity in earnings of unconsolidated entities	41,440	41,440	32,265	31,815
Interest and dividend income	10,395	10,395	6,372	6,500
Interest (expense)	(46,215 )	(46,215 )	(42,182 )	(42,182 )
Fair value adjustment of derivative instruments		3,893		24,179
Gain (loss) on investments			551	551
Other income, net	62	62	155	155
Total Investment and Other Income (Expense)	5,682	9,575	(2,839 )	21,018
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>				
Income tax expense	156,956	158,499	103,613	122,694
	61,950	62,393	40,974	47,989
<b>INCOME BEFORE MINORITY INTEREST</b>	95,006	96,106	62,639	74,705
Minority share of income	(6,428 )	(6,596 )	(4,997 )	(4,596 )
<b>NET INCOME</b>	\$ 88,578	\$ 89,510	\$ 57,642	\$ 70,109
Basic Earnings per Share	\$ 1.02	\$ 1.03	\$ 0.67	\$ 0.81
Diluted Earnings per Share	\$ 1.01	\$ 1.02	\$ 0.66	\$ 0.80

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

	<b>Six Months Ended</b>			
	<b>June 30,</b>			
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>As Previously</b>	<b>As</b>	<b>As Previously</b>	<b>As</b>
	<b>Reported</b>	<b>Restated</b>	<b>Reported</b>	<b>Restated</b>
	<b>(Dollars in thousands)</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 88,578	\$ 89,510	\$ 57,642	\$ 70,109
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	281,744	282,511	254,277	254,006
Bad debts expense	23,089	23,089	14,296	14,296
Stock-based compensation expense	8,936	10,457	3,533	3,533
Deferred income taxes, net	(1,420 )	(978 )	34,819	41,834
Equity in earnings of unconsolidated entities	(41,440 )	(41,440 )	(32,265 )	(31,815 )
Distributions from unconsolidated entities	37,176	37,176	27,956	27,660
Minority share of income	6,428	6,596	4,997	4,596
Fair value adjustment of derivative instruments		(3,893 )		(24,179 )
Gain on investments			(551 )	(551 )
Noncash interest expense	890	890	890	890
Changes in assets and liabilities from operations				
Change in accounts receivable	(51,819 )	(51,819 )	(22,444 )	(22,584 )
Change in inventory	10,770	10,770	21,791	21,791
Change in accounts payable	(33,462 )	(33,462 )	(44,643 )	(44,594 )
Change in customer deposits and deferred revenues	2,551	2,978	4,737	7,815
Change in accrued taxes	6,416	6,416	10,871	10,871
Change in accrued interest	749	749	(123 )	(123 )
Change in other assets and liabilities	(14,413 )	(19,326 )	(8,559 )	(9,353 )
	324,773	320,224	327,224	324,202
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	(273,156 )	(268,607 )	(256,557 )	(253,535 )
Cash received from divestitures			551	551
Cash paid for acquisitions	(18,546 )	(18,546 )	(126,033 )	(126,033 )
Other investing activities	(3,083 )	(3,083 )	(1,358 )	(1,358 )
	(294,785 )	(290,236 )	(383,397 )	(380,375 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of notes payable	195,000	195,000	310,000	310,000
Repayment of notes payable	(225,000 )	(225,000 )	(290,000 )	(290,000 )
Common shares reissued	3,856	3,856	14,012	14,012
Capital (distributions) to minority partners	(11,220 )	(11,220 )	(1,060 )	(1,060 )
Other financing activities	342	342	(196 )	(196 )
	(37,022 )	(37,022 )	32,756	32,756
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
	(7,034 )	(7,034 )	(23,417 )	(23,417 )
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning of period	29,003	29,003	41,062	41,062
End of period	\$ 21,969	\$ 21,969	\$ 17,645	\$ 17,645



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

	<b>June 30, 2006 As Previously Reported (Dollars in thousands)</b>	<b>2006 As Restated</b>	<b>December 31, 2005 As Previously Reported</b>	<b>2005 As Restated</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 21,969	\$ 21,969	\$ 29,003	\$ 29,003
Accounts Receivable				
Customers, less allowance	295,180	291,453	281,896	278,170
Roaming	40,102	40,102	27,178	27,178
Other	61,505	60,079	58,436	57,011
Marketable equity securities	218,226	218,226		
Inventory	82,239	82,239	92,748	92,748
Prepaid expenses	43,082	44,024	31,026	32,068
Deferred income tax asset			8,218	8,218
Other current assets	21,418	21,763	15,145	15,489
	783,721	779,855	543,650	539,885
<b>INVESTMENTS</b>				
Licenses	1,367,569	1,367,569	1,362,263	1,362,263
Goodwill	475,925	485,543	471,617	481,235
Customer lists, net of accumulated amortization	45,117	37,998	49,318	47,649
Marketable equity securities	4,076	4,076	225,387	225,387
Investments in unconsolidated entities	174,896	176,653	170,337	172,093
Notes and interest receivable	4,847	4,847	4,707	4,707
	2,072,430	2,076,686	2,283,629	2,293,334
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
In service and under construction	4,901,700	4,862,357	4,653,292	4,615,234
Less accumulated depreciation	2,311,957	2,292,799	2,076,528	2,062,205
	2,589,743	2,569,558	2,576,764	2,553,029
<b>OTHER DEFERRED CHARGES</b>				
	30,125	30,125	29,985	29,985
<b>TOTAL ASSETS</b>	<b>\$ 5,476,019</b>	<b>\$ 5,456,224</b>	<b>\$ 5,434,028</b>	<b>\$ 5,416,233</b>

	<b>June 30, 2006 As Previously Reported (Dollars in thousands)</b>	<b>2006 As Restated</b>	<b>December 31, 2005 As Previously Reported</b>	<b>2005 As Restated</b>
<b>CURRENT LIABILITIES</b>				
Forward contracts	\$ 159,856	\$ 159,856	\$	\$
Notes payable	105,000	105,000	135,000	135,000
Accounts payable				
Affiliated	10,881	10,881	7,239	7,239
Trade	261,827	264,488	298,397	301,058
Customer deposits and deferred revenues	109,294	114,947	106,180	111,407
Accrued taxes	49,663	47,785	38,627	36,748
Accrued compensation	35,757	35,757	42,865	42,865
Derivative liability	21,925	21,925		
Deferred income tax liability	43,015	43,015		
Other current liabilities	39,410	41,865	25,952	28,404
	836,628	845,519	654,260	662,721
<b>DEFERRED LIABILITIES AND CREDITS</b>				
Net deferred income tax liability	603,283	588,716	660,667	647,086
Derivative liability			25,818	25,818
Asset retirement obligation	98,319	98,319	90,224	90,224
Other deferred liabilities and credits	51,074	51,074	44,636	46,234
	752,676	738,109	821,345	809,362
<b>LONG-TERM DEBT</b>				
Long-term debt	1,001,612	1,001,612	1,001,385	1,001,385
Forward contracts			159,856	159,856
	1,001,612	1,001,612	1,161,241	1,161,241
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>MINORITY INTEREST</b>	41,650	37,247	46,442	41,871
<b>COMMON SHAREHOLDERS EQUITY</b>				
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
Capital in excess of par value	1,284,093	1,285,611	1,286,964	1,286,964
Treasury Shares, at cost	(40,594 )	(40,594 )	(47,088 )	(47,088 )
Accumulated other comprehensive income	25,457	42,170	24,944	44,122
Retained earnings	1,486,445	1,458,498	1,397,868	1,368,988
	2,843,453	2,833,737	2,750,740	2,741,038
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 5,476,019</b>	<b>\$ 5,456,224</b>	<b>\$ 5,434,028</b>	<b>\$ 5,416,233</b>

## 2. Summary of Significant Accounting Policies

### Change in Accounting Principle Stock-Based Compensation

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan, an employee stock purchase plan and a non-employee director compensation plan. Also, U.S. Cellular employees are also eligible to participate in the Telephone and Data Systems, Inc. (TDS) employee stock purchase plan; TDS is U.S. Cellular's parent organization. These plans are described more fully in Note 3 - Stock-Based Compensation. Prior to January 1, 2006, U.S. Cellular accounted for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ), and related interpretations, as permitted by Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation . Total stock-based employee compensation cost recognized in the Consolidated Statements of Operations under APB 25 was \$2.4 million and \$3.5 million for the three and six months ended June 30, 2005, respectively, primarily for restricted stock unit and deferred compensation stock unit awards. No compensation cost was recognized in the Consolidated Statements of Operations under APB 25 for stock option awards for the three and six months ended June 30, 2005, because all outstanding options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The employee stock purchase plans qualified as non-compensatory plans under APB 25; therefore, no compensation cost was recognized for these plans during the three and six months ended June 30, 2005.

Effective January 1, 2006, U.S. Cellular adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment ( SFAS 123(R) ), using the modified prospective transition method. In addition, U.S. Cellular applied the provisions of Staff Accounting Bulletin No. 107 ( SAB 107 ), issued by the SEC in March 2005 in its adoption of SFAS 123(R). Under the modified prospective transition method, compensation cost recognized during the three and six months ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

Under SFAS 123(R), the long-term incentive plan is considered a compensatory plan; therefore, recognition of compensation cost for grants made under this plan is required.

Under SFAS 123(R), the employee stock purchase plan is considered a compensatory plan; therefore, recognition of compensation cost for grants made under this plan is required. However, due to restrictions on activity under this plan that were in place during the six months ended June 30, 2006, no compensation cost was recognized during this period.

Upon adoption of SFAS 123(R), U.S. Cellular elected to continue to value its share-based payment transactions using a Black-Scholes valuation model, which was previously used by U.S. Cellular for purposes of preparing the pro forma disclosures under SFAS 123. Under the provisions of SFAS 123(R), stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation cost recognized in 2006 has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. U.S. Cellular believes that its historical experience is the best estimate of future expected life. In U.S. Cellular's pro forma information required under SFAS 123, U.S. Cellular also reduced stock-based compensation cost for estimated forfeitures. The expected life assumption was determined based on U.S. Cellular's historical experience. For purposes of both SFAS 123 and SFAS 123(R), the expected volatility assumption was based on the historical volatility of U.S. Cellular's common stock. The dividend yield assumption was zero because U.S. Cellular has never paid a dividend and has expressed its intention to retain all future earnings in the business. The risk-free interest rate assumption was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.



Compensation cost for stock option awards granted after January 1, 2006 will be recognized over the respective requisite service period of the awards, which is generally the vesting period, on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method), which is the same attribution method that was used by U.S. Cellular for purposes of its pro forma disclosures under SFAS 123.

Certain employees were eligible for retirement at the time that compensatory stock options were granted. Under the terms of the U.S. Cellular option agreements, options granted to these individuals will fully vest upon their retirement if they have reached the age of 65. Similarly, under the terms of U.S. Cellular's restricted stock unit agreements, restricted stock units vest upon retirement if the employee has reached the age of 65. Prior to the adoption of SFAS 123(R), U.S. Cellular used the nominal vesting method to recognize the pro forma stock-based compensation cost related to options and restricted stock units awarded to retirement-eligible employees. This method does not take into account the effect of early vesting due to the retirement of eligible employees. Upon adoption of SFAS 123(R), U.S. Cellular adopted the non-substantive vesting method, which requires recognition of the cost of options and restricted stock units granted to retirement-eligible employees over the period from the date of grant to the date such employees reach age 65. If the non-substantive vesting method had been applied in prior periods, the effect on previously disclosed pro forma stock-based compensation cost would not have been material.

On March 7, 2006, the U.S. Cellular Compensation Committee approved amendments to stock option award agreements. The amendments modify current and future options to extend the exercise period until 30 days following (i) the lifting of a suspension if options otherwise would expire or be forfeited during the suspension period and (ii) the lifting of a blackout if options otherwise would expire or be forfeited during a blackout period. U.S. Cellular temporarily suspended issuances of shares under the 2005 Long Term Incentive Plan between March 17, 2006 and October 10, 2006 as a consequence of late SEC filings. As required under the provisions of SFAS 123(R), U.S. Cellular evaluated the impact of this plan modification and originally determined that the adjustment to stock based compensation was not material. However, in connection with the restatement discussed above, U.S. Cellular further reviewed the accounting for the plan modification. Upon such further review, U.S. Cellular determined that it should have recognized stock-based compensation expense of \$1.5 million in the three months ended March 31, 2006 as a result of this modification. U.S. Cellular recognized \$0.0 and \$1.5 million in stock-based compensation expense in the three and six months ended June 30, 2006, respectively, as a result of this modification.

#### Pension Plan

U.S. Cellular participates in a qualified noncontributory defined contribution pension plan sponsored by TDS. 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 \$2.5 million and \$4.3 million for the three and six months ended June 30, 2006, respectively, and for \$1.7 million and \$3.5 million for the three and six months ended June 30, 2005, respectively.

#### Recent Accounting Pronouncements

The Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108), in September 2006. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on either method in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB 108 is effective for U.S. Cellular's opening balance sheet in 2007. U.S. Cellular is currently evaluating the impact this Bulletin might have on its financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ) and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is to be effective for U.S. Cellular's financial statements issued in 2008; however, earlier application is encouraged. U.S. Cellular is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

Also in September 2006, the FASB released Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). Under the new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The recognition and disclosure provisions of SFAS 158 will be required to be adopted for U.S. Cellular as of December 31, 2006. U.S. Cellular is currently reviewing the requirements of SFAS 158 to determine the impact on its financial position or results of operations.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), was issued in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. U.S. Cellular is currently reviewing the requirements of FIN 48 to determine the impact on its financial position or results of operations.

### 3. Stock-Based Compensation

#### Stock-Based Compensation Plans

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan, an employee stock purchase plan, and a non-employee director compensation plan.

Under the U.S. Cellular 2005 Long-Term Incentive Plan, U.S. Cellular may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. At June 30, 2006, the only types of awards outstanding are fixed non-qualified stock options, restricted stock units and deferred compensation stock units.

At June 30, 2006, U.S. Cellular had reserved 5,403,000 Common Shares for equity awards granted and to be granted under the long-term incentive plan, and also had reserved 110,000 Common Shares for issuance to employees under an employee stock purchase plan. The maximum number of U.S. Cellular Common Shares that may be issued to employees under all stock-based compensation plans in effect at June 30, 2006 was 5,513,000 shares. U.S. Cellular currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards.

U.S. Cellular also has created a Non-Employee Director Compensation Plan under which it has reserved 4,900 Common shares of U.S. Cellular stock for issuance as compensation to members of the board of directors who are not employees of U.S. Cellular.

*Long-Term Incentive Plan* Stock Options Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at June 30, 2006 expire between 2006 and 2016. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement.

Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of the option generally equals the market value of U.S. Cellular Common Shares on the date of grant.

U.S. Cellular granted 551,000 and 16,000 stock options during the three months ended June 30, 2006 and June 30, 2005, respectively. U.S. Cellular granted 551,000 and 757,000 stock options during the six months ended June 30, 2006 and June 30, 2005, respectively. U.S. Cellular estimates the fair value of stock options granted using the Black-Scholes valuation model. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards, which is the same attribution method that was used by U.S. Cellular for purposes of its pro forma disclosures under SFAS 123. U.S. Cellular used the assumptions shown in the table below in valuing the options granted in 2006:

Expected Life	3.0	years
Expected Volatility	25.2	%
Dividend Yield	0.0	%
Risk-free Interest Rate	4.7	%
Estimated Annual Forfeiture Rate	4.4	%

A summary of U.S. Cellular stock options outstanding (total and portion exercisable) at June 30, 2006 and changes during the six months then ended is presented in the table below:

	Number of Options	Weighted Average Exercise Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005 (877,000 exercisable)	2,701,000	\$ 38.80	7.5 years	\$ 58,871,000
Granted	551,000	59.46		629,000
Exercised	107,000	34.51		2,259,000
Forfeited	29,000	39.60		615,000
Expired	1,000	32.23		34,000
Outstanding at June 30, 2006 (1,528,000 exercisable)	3,115,000	\$ 42.61	7.6 years	\$ 56,044,000

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between U.S. Cellular's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2006. This amount will change in future periods based on the market price of U.S. Cellular's stock. U.S. Cellular received \$0 and \$3.7 million in cash from the exercise of stock options during the three and six months ended June 30, 2006.

A summary of U.S. Cellular nonvested stock options at June 30, 2006 and changes during the six months then ended is presented in the table that follows:

	Number of Stock Options	Weighted Average Fair Values of Stock Options
Nonvested at December 31, 2005	1,824,000	\$ 14.19
Granted	551,000	14.06
Vested	761,000	14.47
Forfeited	26,000	14.22
Nonvested at June 30, 2006	1,588,000	\$ 14.01

*Long-Term Incentive Plan* Restricted Stock Units U.S. Cellular grants restricted stock unit awards to key employees, which generally vest after three years.

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U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant, which is not adjusted for any dividends foregone during the vesting period because U.S. Cellular has never paid a dividend and has expressed its intention to retain all future earnings in the business. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Awards granted under this plan prior to 2005 were classified as liability awards due to a plan provision which allowed participants to elect tax withholding in excess of minimum statutory tax rates. In 2005, this provision was removed from the plan and awards after 2005 have been classified as equity awards.

A summary of U.S. Cellular nonvested restricted stock units at June 30, 2006 and changes during the six months then ended is presented in the tables that follow:

#### Liability Classified Awards

	<b>Number of Restricted Stock Units</b>	<b>Weighted Average Grant-Date Fair Values of Restricted Stock Units</b>
Nonvested at December 31, 2005	193,000	\$ 30.71
Granted	3,000	59.43
Vested	108,000	23.73
Forfeited	1,000	33.96
Nonvested at June 30, 2006	87,000	\$ 40.36

#### Equity Classified Awards

	<b>Number of Restricted Stock Units</b>	<b>Weighted Average Grant-Date Fair Values of Restricted Stock Units</b>
Nonvested at December 31, 2005	189,000	\$ 45.63
Granted	125,000	59.43
Vested		
Forfeited	5,000	45.63
Nonvested at June 30, 2006	309,000	\$ 51.21

*Long-Term Incentive Plan* **Deferred Compensation Stock Units** Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. Upon vesting and distribution of such stock units, participants will receive U.S. Cellular Common Shares. The amount of U.S. Cellular's matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units. The matching contribution stock units vest ratably at a rate of one-third per year over three years. Upon vesting and distribution of such matching contribution stock units, participants will receive U.S. Cellular Common Shares.

U.S. Cellular estimates the fair value of deferred compensation matching contribution stock units based on the closing market price of U.S. Cellular Common Shares on the date of match. The fair value of such matching contribution stock units is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

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A summary of U.S. Cellular nonvested deferred compensation stock units at June 30, 2006 and changes during the six months ended is presented in the table below:

	Number of Stock Units	Weighted Average Fair Values of Stock Units
Nonvested at December 31, 2005	7,700	\$ 41.08
Granted	1,700	56.71
Vested	3,700	37.31
Forfeited		
Nonvested at June 30, 2006	5,700	\$ 45.48

*Employee Stock Purchase Plan* Under the 2003 Employee Stock Purchase Plan, eligible employees of U.S. Cellular and its subsidiaries may purchase a limited number of U.S. Cellular Common Shares on a quarterly basis. U.S. Cellular had reserved 110,000 Common Shares at June 30, 2006 for issuance under this plan. The plan became effective on April 1, 2003 and will terminate on December 31, 2008. U.S. Cellular employees are also eligible to participate in the TDS Employee Stock Purchase Plan. The per share cost to each participant in these plans is 85% of the market value of the Common Shares or Special Common Shares as of the issuance date. Under SFAS 123(R), the employee stock purchase plans are considered compensatory plans; therefore, recognition of compensation costs for stock issued under these plans is required. Compensation cost is measured as the difference between the cost of the shares to plan participants and the fair market value of the shares on the date of issuance. However, due to restrictions on activity under these plans in place during the three and six months ended June 30, 2006, no compensation expense was recognised during this period for either plan.

*Compensation of Non-Employee Directors* U.S. Cellular issued 0 and 40 shares under its Non-Employee Director Compensation Plan in the three and six months ended June 30, 2006.

### Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense recognized during the three months and six months ended June 30, 2006:

	Three Months Ended June 30, 2006 (As Restated) (Dollars in thousands)	Six Months Ended June 30, 2006 (As Restated)
Stock option awards	\$ 2,939	\$ 7,452
Restricted stock unit awards	1,575	3,663
Deferred compensation matching stock unit awards	(1,382 )	(660 )
Awards under non-employee director compensation plan		2
Awards under employee stock purchase plan		
Total stock-based compensation, before income taxes	3,132	10,457
Income tax benefit	(1,218 )	(4,123 )
Total stock-based compensation expense, net of income taxes	\$ 1,914	\$ 6,334

All stock-based compensation expense recognized during the three and six months ended June 30, 2006 was recorded in Selling, general and administrative expense.

As a result of adopting SFAS 123(R) on January 1, 2006, U.S. Cellular's income before income taxes for the three and six months ended June 30, 2006 was \$2.9 million and \$7.5 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Similarly, as a result of adopting SFAS 123(R) on January 1, 2006, U.S. Cellular's net income for the three and six months ended June 30, 2006 was \$1.8 million and \$4.5 million lower, basic earnings per share for the three and six months ended June 30, 2006 was \$0.02 and \$0.05 lower, and diluted earnings per share for the three and six months ended June 30, 2006 was \$0.02 and \$0.05 lower, respectively, than if U.S. Cellular had continued to account for stock-based compensation expense under APB 25.



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For comparison, the following table illustrates the pro forma effect on net income and earnings per share had U.S. Cellular applied the fair value recognition provisions of SFAS 123(R) to its stock-based employee compensation plans for the three and six months ended June 30, 2005:

	<b>Three Months Ended June 30, 2005 (As Restated) (Dollars in thousands, except per share amounts)</b>	<b>Six Months Ended June 30, 2005 (As Restated) (Dollars in thousands, except per share amounts)</b>
Net income, as reported	\$ 49,815	\$ 70,109
Add: Stock-based compensation expense included in reported net income, net of related tax effects and minority interest	1,415	2,130
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects and minority interest	(4,383 )	(7,034 )
Pro forma net income	\$ 46,847	\$ 65,205
<b>Earnings per share:</b>		
Basic as reported	\$ 0.57	\$ 0.81
Basic pro forma	0.54	0.75
Diluted as reported	0.57	0.80
Diluted pro forma	\$ 0.54	\$ 0.75

At June 30, 2006, unrecognized compensation cost for all U.S. Cellular stock-based compensation awards was \$22.0 million. The unrecognized compensation cost for stock-based compensation awards at June 30, 2006 is expected to be recognized over a weighted average period of 1.0 years.

Prior to the adoption of SFAS 123(R), U.S. Cellular presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. SFAS 123(R) requires that excess tax benefits be classified as cash flows from financing activities in the Consolidated Statements of Cash Flows. For this purpose, the excess tax benefits are tax benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the six months ended June 30, 2006, excess tax benefits of \$0.3 million were included in cash flows from financing activities in the Consolidated Statements of Cash Flows pursuant to this requirement of SFAS 123(R).

#### 4. Income Taxes

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

	<b>Three Months Ended June 30, 2006 (As Restated)</b>		<b>2005 (As Restated)</b>		<b>Six Months Ended June 30, 2006 (As Restated)</b>		<b>2005 (As Restated)</b>	
<b>Effective Tax Rate From</b>								
Operations excluding gain on sale of assets and fair value adjustment of derivative instruments	38.9	%	40.1	%	39.4	%	39.7	%
Gain on sale of assets and fair value adjustment of derivative instruments	36.7	%	36.8	%	36.7	%	36.8	%
Income before income taxes and minority interest	38.9	%	39.3	%	39.4	%	39.1	%

In June of 2006, the Internal Revenue Service commenced its audit of the 2002-2004 consolidated federal tax returns of TDS and subsidiaries. U.S. Cellular is included in the TDS consolidated federal tax return. The audit is in its preliminary stages.



## 5. Fair Value Adjustment of Derivative Instruments

Fair value adjustment of derivative instruments totaled a loss of \$0.9 million and a gain of \$3.9 million in the three and six months ended June 30, 2006 and a gain of \$20.2 million and \$24.2 million in the three and six months ended June 30, 2005. Fair value adjustment of derivative instruments reflects the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Vodafone marketable equity securities not designated as a hedge. The changes in fair value of the embedded collars during cash flow hedge designation are recorded to other comprehensive income. When the collars were de-designated in the cash flow hedge, subsequent changes in fair value are recognized in the Consolidated Statements of Operations, along with the related income tax effects. The accounting for the embedded collars as derivative instruments not designated in a hedging relationship results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the Consolidated Statements of Operations.

## 6. 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 by dividing net income by the weighted average number of 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.

The net income amounts used in computing earnings per share and the effects on the weighted average number of common shares and earnings per share of potentially dilutive stock options are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006 (As Restated)	2005 (As Restated)	2006 (As Restated)	2005 (As Restated)
	(Dollars and shares in thousands, except earnings per share)			
Net income	\$ 50,064	\$ 49,815	\$ 89,510	\$ 70,109
Weighted average number of common shares used in basic earnings per share	87,281	86,708	87,247	86,558
Effect of dilutive stock options(1)	802	667	747	699
Weighted average number of common shares used in diluted earnings per share	88,083	87,375	87,994	87,257
Basic Earnings per Share	\$ 0.57	\$ 0.57	\$ 1.03	\$ 0.81
Diluted Earnings per Share	\$ 0.57	\$ 0.57	\$ 1.02	\$ 0.80

(1) Stock options convertible into 144,244 and 712,909 Common Shares were not included in computing diluted earnings per share in the three and six months ended June 30, 2006, because their effects were antidilutive. 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.

## 7. Marketable Equity Securities and Forward Contracts

U.S. Cellular holds a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. U.S. Cellular does not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets.



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

	<b>June 30, 2006 (As Restated) (Dollars in thousands)</b>	<b>December 31, 2005 (As Restated)</b>
<b>Marketable Equity Securities – Current Assets</b>		
Vodafone Group Plc 10,245,370 and 0 American Depositary Receipts, respectively(1)	\$ 218,226	\$
<b>Marketable Equity Securities – Investments</b>		
Vodafone Group Plc 0 and 10,245,370 American Depositary Receipts, respectively(1)		219,968
Rural Cellular Corporation		
370,882 Common Shares	4,076	5,419
Total aggregate fair value	222,302	225,387
Accounting cost basis	160,161	160,161
Gross unrealized holding gains	62,141	65,226
Deferred income tax liability	(22,806 )	(23,939 )
Net unrealized holding gains	39,335	41,287
Derivative instruments, net of tax	2,835	2,835
Accumulated other comprehensive income	\$ 42,170	\$ 44,122

(1) See Note 21 – Subsequent Events for a discussion of the Share Consolidation and Special Distribution related to the Vodafone ADRs that was effected on July 28, 2006. As a result of the Share Consolidation, the aggregate number of shares underlying ADRs was reduced from 10,245,370 to 8,964,698.

The investment in Vodafone Group Plc (Vodafone) resulted from certain dispositions of non-strategic wireless 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 wireless partnerships, in which U.S. Cellular subsidiaries held interests, into Rural Cellular and the distribution of Rural Cellular stock in exchange for these interests.

U.S. Cellular has entered into a number of forward contracts related to over 97% of the market value of the marketable equity securities that it holds. The economic hedge 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 of the securities.

The forward contracts related to the Vodafone ADRs mature in May 2007. Accordingly, the Vodafone ADRs are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheets at June 30, 2006.

See Note 14 – Long-Term Debt and Forward Contracts for additional information related to U.S. Cellular's forward contracts.

## 8. Licenses and Goodwill

U.S. Cellular has substantial amounts of licenses and goodwill as a result of the acquisition of wireless markets. Changes in licenses and goodwill result primarily from acquisitions, divestitures and impairments.

A summary of activity in goodwill for the six months ended June 30, 2006 and 2005 is provided below:

	<b>June 30, 2006 (As Restated) (Dollars in thousands)</b>	<b>June 30, 2005 (As Restated)</b>
<b>Goodwill</b>		
Balance, beginning of period	\$ 481,235	\$ 454,830
Acquisitions	3,990	150
Other adjustments	318	(10 )
Balance, end of period	\$ 485,543	\$ 454,970

See Note 17 Acquisitions, Divestitures and Exchanges below for additional information related to transactions which affected licenses and goodwill.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. U.S. Cellular performs the annual impairment review on licenses and goodwill during the second quarter of its fiscal year. Accordingly, the annual impairment tests for licenses and goodwill for 2006 and 2005 were performed in the second quarter of 2006 and 2005. Such impairment tests indicated that there was not impairment of licenses or goodwill in 2006 or 2005.

## 9. 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:

	<b>June 30, 2006</b>		<b>June 30, 2005</b>	
Los Angeles SMSA Limited Partnership	5.5	%	5.5	%
Midwest Wireless Communications, L.L.C.(1)	14.2	%	14.2	%
North Carolina RSA 1 Partnership	50.0	%	50.0	%
Oklahoma City SMSA Limited Partnership	14.6	%	14.6	%

(1) In addition, as of June 30, 2006, U.S. Cellular owned a 49% interest in an entity which owns approximately a 2.9% interest in Midwest Wireless Holdings, L.L.C., the parent company of Midwest Wireless Communications, L.L.C. See Note 21- Subsequent Events, for information about the disposition of this interest.

Based primarily on data furnished to U.S. Cellular by third parties, the following summarizes the combined results of operations of U.S. Cellular's equity method investments:

	<b>Three Months Ended June 30, 2006 (Dollars in thousands)</b>		<b>Six Months Ended June 30, 2006</b>	
		<b>2005</b>		<b>2005</b>
<b>Results of Operations</b>				
Revenues	\$ 1,019,000	\$ 824,000	\$ 2,006,000	\$ 1,604,000
Operating expenses	698,000	572,000	1,381,000	1,114,000
Operating income	321,000	252,000	625,000	490,000
Other income (expense), net(1)	15,000	7,000	23,000	15,000

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Net Income	\$ 336,000	\$ 259,000	\$ 648,000	\$ 505,000
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(1) Includes income tax related to small corporations.

See Note 21 Subsequent Events for additional information related to U.S. Cellular's investment in Midwest Wireless Communications, L.L.C.

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## 10. Customer Lists

Customer lists acquired in connection with purchases and exchanges of wireless markets are being amortized based on average customer retention periods using the double declining balance method in the first year, switching to straight-line over the remaining estimated life. The acquisition of certain minority interests in the six months ended June 30, 2006 and 2005 added \$2.0 million and \$0.6 million, respectively, to the gross balance of customer lists. Customer list amortization expense was \$6.0 million and \$11.7 million for the three and six months ended June 30, 2006, respectively, and \$2.3 and \$5.2 million for the three and six months ended June 30, 2005, respectively. Amortization expense for the remainder of 2006 and for the years 2007-2011 is expected to be \$11.8 million, \$9.8 million, \$7.2 million, \$5.4 million, \$3.7 million and \$0.1 million, respectively.

## 11. Property, Plant and Equipment

In accordance with FASB SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, U.S. Cellular reviews its long-lived assets, including property, plant and equipment, for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. U.S. Cellular performed impairment tests of property, plant and equipment during the second quarter of 2006 and the second quarter of 2005. Such impairment tests indicated that there was no impairment of property, plant and equipment in 2006 or 2005.

## 12. Revolving Credit Facility

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At June 30, 2006, outstanding borrowings and letters of credit were \$105.0 million and \$0.5 million, respectively, leaving \$594.5 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular's credit rating. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. At June 30, 2006, the one month LIBOR was 5.33% and the contractual spread was 60 basis points. If U.S. Cellular provides less than two days' notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 8.25% at June 30, 2006). This credit facility expires in December 2009.

U.S. Cellular's interest cost on its revolving credit facility would increase if its current credit ratings from either Standard & Poor's or Moody's were lowered. However, the credit facility would not cease to be available or accelerate solely as a result of a decline in U.S. Cellular's credit rating. A downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future. At June 30, 2006, U.S. Cellular's credit ratings are as follows:

Moody's Investor Service	Baa3	under review for possible further downgrade
Standard & Poor's	A-	on credit watch with negative implications
Fitch	BBB+	on ratings watch negative

The maturity date of U.S. Cellular's revolving credit facility would accelerate in the event of a change in control. The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and represent certain matters at the time of each borrowing. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements which caused U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under the revolving credit facility. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and late filings.

As disclosed in Note 1, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. 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, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under the revolving credit facility. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such revolving credit facility. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

On October 26, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB+ from A-. The outlook was stable. On November 7, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB from BBB+. The ratings were placed on credit watch with negative implications. On February 13, 2007, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB- from BBB. The ratings remain on Credit Watch with negative implications. The credit ratings by Moody's Investors Service remain Baa3 under review for possible further downgrade. The credit ratings by Fitch remain BBB+ on ratings watch negative.

### 13. Asset Retirement Obligations

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

U.S. Cellular accounts for its asset retirement obligations in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, ( SFAS 143 ) and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations ( FIN 47 ), which require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. At the time the liability is incurred, U.S. Cellular records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligations, any difference between the cost to retire an asset and the recorded liability (including accretion of discount) is recognized in the Consolidated Statements of Operations as a gain or loss.

The table below summarizes the changes in asset retirement obligations during the six months ended June 30, 2006 and 2005.

	June 30, 2006 (Dollars in thousands)	June 30, 2005
Beginning balance	\$ 90,224	\$ 72,575
Additional liabilities accrued	3,414	2,282
Acquisition of assets	1,237	
Disposition of assets (1)	(37 )	
Accretion expense	3,481	3,223
Ending balance	\$ 98,319	\$ 78,080

(1) Represents the asset retirement obligation related to the decommission of 4 cell sites.

14. Long-Term Debt and Forward Contracts

There were no significant changes in long-term debt during the three months ended June 30, 2006.

The late filing of U.S. Cellular's Form 10-K for the year ended December 31, 2005 and Forms 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 and the failure to deliver such Forms 10-K and 10-Q to the trustee of the U.S. Cellular debt indenture on a timely basis, resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default. U.S. Cellular believes that non-compliance was cured upon the filing of its Form 10-K for the year ended December 31, 2005 and its Forms 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indenture.

As discussed in Note 1, U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2005. 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, 2006 and June 30, 2006 to restate the financial statements and financial information included therewith. U.S. Cellular requires additional time to complete its Form 10-Q for the quarterly period ended September 30, 2006 to complete the restatement. The late filing of U.S. Cellular's Form 10-Q for the quarterly period ended September 30, 2006 and the failure to deliver such Form 10-Q to the trustees of the U.S. Cellular debt indenture on a timely basis, resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default. U.S. Cellular believes that non-compliance will be cured upon the filing of its Form 10-Q for the quarterly period ended September 30, 2006. U.S. Cellular has not failed to make and does not expect to fail to make any scheduled payment of principal or interest under such indenture.

Except as noted above, U.S. Cellular believes it was in compliance as of June 30, 2006 with all covenants and other requirements set forth in its long-term debt indenture. Such indenture does not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to obtain long-term debt financing in the future.

Forward Contracts

U.S. Cellular has forward contracts related to its 10,245,370 Vodafone Group Plc American Depositary Receipts. The Vodafone securities are pledged as collateral for the forward contracts. See Note 21 - Subsequent Events for additional information related to U.S. Cellular's investment in Vodafone ADRs.

The \$159.9 million principal amount of the forward contracts is accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. Because the forward contracts mature in May 2007, the associated debt and derivative liability balances are classified as Current Liabilities at June 30, 2006. The forward contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 5.48% at June 30, 2006).

The economic hedge risk management objective of the forward contracts is to hedge the value of the Vodafone securities from losses due to decreases in the market prices of the securities ( downside limit ) while retaining a share of gains from increases in the market prices of such securities ( upside potential ). The downside limit is hedged at or above the accounting cost basis of the securities.



Under the terms of the forward contracts, a subsidiary of U.S. Cellular continues to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts, at U.S. Cellular's option, may be settled in shares of the security or in cash, pursuant to formulas that collar the price of the shares. The collars effectively reduce U.S. Cellular's downside limit and upside potential on the contracted shares. The collars are typically contractually adjusted for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential is typically reduced. If the dividend decreases, the collar's upside potential is typically increased. If U.S. Cellular elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities and the net amount realized through maturity. If U.S. Cellular elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula. U.S. Cellular has provided guarantees to the counterparties which provide assurance that all principal and interest amounts will be paid by its subsidiary upon settlement of the contracts.

U.S. Cellular is required to comply with certain covenants under the forward contracts. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements which caused U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under one of the forward contracts. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received a waiver from the counterparty associated with the forward contract, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements and late filings.

As disclosed in Note 1, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. 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, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under certain of the forward contracts. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such forward contracts. U.S. Cellular received waivers from the counterparty to such forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

#### 15. 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 (L.L.C.s), where the terms of the underlying partnership or L.L.C. 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 L.L.C. 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 \$181.8 million at June 30, 2006. 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 L.L.C.s on June 30, 2006, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of 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 . U.S. Cellular has no current plans or intentions to liquidate any of the finite-lived partnerships or L.L.C.s prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and L.L.C.s at June 30, 2006 was \$37.8 million and is included in the Consolidated Balance Sheet caption Minority Interest. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of \$144.0 million is primarily due to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and L.L.C.s. Neither the minority interest holders' share, nor U.S. Cellular's share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements under U.S. GAAP. The estimate of settlement value was based on certain factors and assumptions. A change in those factors and assumptions could result in a materially larger or smaller settlement amount.

#### 16. Common Share Repurchase Program

The Board of Directors of U.S. Cellular has authorized the repurchase of 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 2006 or 2005.

#### 17. Acquisitions, Divestitures and Exchanges

U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long term return on investment. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those markets and wireless interests that are not strategic to its long-term success.

On April 21, 2006, U.S. Cellular purchased the remaining ownership interest in a Tennessee wireless market in which it had previously owned a 16.7% interest for approximately \$18.8 million in cash, subject to a working capital adjustment. This acquisition increased investments in licenses, goodwill and customer lists by \$5.5 million, \$4.0 million and \$2.0 million, respectively.

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 Federal Communications Commission ( 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.

On January 6, 2006, the FCC granted Carroll Wireless' applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly, in 2006, Carroll Wireless received a full refund of the \$228,000 previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of June 30, 2006, U.S. Cellular made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$129.9 million; \$129.7 million of this amount is included in Licenses in the Consolidated Balance Sheets. For financial reporting purposes, U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, pursuant to the guidelines of FASB Interpretation No. 46R ( FIN 46R ), as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of \$1.4 million of which \$0.1 million was provided to Carroll Wireless through June 30, 2006.

In the first quarter of 2005, U.S. Cellular adjusted the gain on investments related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment of the gain, which resulted from a working capital adjustment that was finalized in the first quarter of 2005, increased the total gain on the sale by \$0.6 million to \$38.6 million.

In addition, in 2005, U.S. Cellular purchased one new wireless market and certain minority interests in other wireless markets in which it already owned a controlling interest for \$6.9 million in cash.

#### 18. Accumulated Other Comprehensive Income

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

	<b>Six Months Ended June 30, 2006 (As Restated) (Dollars in thousands)</b>	<b>2005 (As Restated)</b>
<b>Marketable Equity Securities</b>		
Balance, beginning of period	\$ 41,287	\$ 77,573
Add (deduct):		
Unrealized gains (losses) on marketable equity securities	(3,084 )	(31,714 )
Income tax (expense) benefit	1,132	11,658
Net change in unrealized gains (losses) on marketable equity securities in comprehensive income	(1,952 )	(20,056 )
Balance, end of period	\$ 39,335	\$ 57,517
<b>Derivative Instruments</b>		
Balance, beginning of period	\$ 2,835	\$ 2,832
Add (deduct):		
Unrealized gain on derivative instruments		
Income tax (expense)		
Net change in unrealized gains (losses) on derivative instruments included in comprehensive income		
Balance, end of period	\$ 2,835	\$ 2,832
<b>Accumulated Other Comprehensive Income</b>		
Balance, beginning of period	\$ 44,122	\$ 80,405
Net change in marketable equity securities	(1,952 )	(20,056 )
Net change in derivative instruments		
Net change in unrealized gains (losses) included in comprehensive income	(1,952 )	(20,056 )
Balance, end of period	\$ 42,170	\$ 60,349



## 19. Commitments and Contingencies

Contingent obligations, including indemnities, litigation and other possible commitments are accounted for in accordance with SFAS No. 5, Accounting for Contingencies, which requires that an estimated loss be recorded if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, those contingencies that are deemed to be probable and where the amount of the loss is reasonably estimable are accrued in the financial statements. 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. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been or will be incurred, even if the amount is not estimable. The assessment of contingencies is a highly subjective process that requires judgments about future events. Contingencies are reviewed at least quarterly to determine the adequacy of the accruals and financial statement disclosure. The ultimate outcome of contingencies could materially impact the Consolidated Statements of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows.

### Indemnifications

U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. These agreements include certain asset sales and financings with other parties. The terms of the indemnification 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 outcome of legal proceedings could differ materially from amounts accrued in the financial statements.

## 20. Related Party Transactions

U.S. Cellular is billed for all services it receives from TDS, pursuant to the terms of various agreements between U.S. Cellular and TDS. The majority of these billings are included in U.S. Cellular's selling, general and administrative expenses. Some of these agreements were established at a time prior to U.S. Cellular's initial public offering when TDS owned more than 90% of U.S. Cellular's outstanding capital stock and may not reflect terms that would be obtainable from an unrelated third party through arm's-length negotiations. Such billings are based on expenses specifically identified to U.S. Cellular and on allocations of common expenses. Such allocations are based on the relationship of U.S. Cellular's assets, employees, investment in plant and expenses to the total assets, employees, investment in plant and expenses of TDS. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular are reflected in the accompanying financial statements. Billings to U.S. Cellular from TDS totaled \$49.6 million and \$41.2 million for the six months ended June 30, 2006 and 2005, respectively and \$25.3 million and \$21.8 million for the three months ended June 30, 2006 and 2005, respectively.

## 21. Subsequent Events

### Midwest Wireless

As of June 30, 2006, U.S. Cellular owned approximately 14% of Midwest Wireless Communications, L.L.C., which interest was convertible into an interest of approximately 11% in Midwest Wireless Holdings, L.L.C., a privately-held wireless telecommunications company that controlled Midwest Wireless Communications. Midwest Wireless Holdings, through subsidiaries, held FCC licenses and operated certain wireless markets in southern Minnesota, northern and eastern Iowa and western Wisconsin. On November 18, 2005, ALLTEL Corporation ( ALLTEL ) announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for \$1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the members of Midwest Wireless Holdings. These conditions were satisfied and the closing of this agreement occurred on October 3, 2006. As a result, U.S. Cellular became entitled to receive approximately \$106.0 million in cash in consideration with respect to its interest in Midwest Wireless Communications. Of this amount, \$95.1 million was received on October 6, 2006; the remaining balance is being held in reserve and in escrow to secure true-up, indemnification and other adjustments and, subject to such adjustments, will be distributed in installments over a period of four to fifteen months following the closing. In addition, as of June 30, 2006, U.S. Cellular owned 49% of an entity, accounted for under the equity method, which owned approximately 2.9% of Midwest Wireless Holdings. As a result of the closing of the transaction, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately \$11.8 million in cash, subject to the previously referenced discussion regarding adjustments and installments. The net aggregate carrying value of U.S. Cellular's investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately \$28.3 million at June 30, 2006.

### Barat Wireless

U.S. Cellular is a limited partner in Barat Wireless, L.P. ( Barat Wireless ), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% discount available to designated entities. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its designated entity discount. The balance of Barat Wireless' payment due for those licenses with respect to which Barat Wireless was the high bidder is approximately \$47.2 million and is expected to be due before October 19, 2006. Although it has no current commitment to do so, U.S. Cellular expects that it will agree to make additional capital contributions and advances to Barat Wireless and/or its general partner. While the bidding in Auction 66 has ended, the FCC has not yet awarded any of the licenses to winning bidders, nor is there any prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of October 6, 2006, U.S. Cellular made capital contributions and advances to Barat Wireless and/or its general partner of \$79.9 million to provide initial funding of Barat Wireless' participation in Auction 66. For financial reporting purposes, U.S. Cellular will consolidate Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of Financial Accounting Standards Board Interpretation No. 46 (R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless' expected gains or losses. Pending finalization of Barat Wireless' permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

**Vodafone Special Distribution**

At an Extraordinary General Meeting held on July 25, 2006, shareholders of Vodafone approved a Return of Capital ( Special Distribution ) of £0.15 per share (£1.50 per American Depositary Receipt ( ADR )) and a Share Consolidation under which every 8 ADRs of Vodafone were consolidated into 7 ADRs.

The Share Consolidation was effective July 28, 2006 and the Special Distribution was paid on August 18, 2006. As a result of the Share Consolidation, U.S. Cellular's previous 10,245,370 Vodafone ADRs were consolidated into 8,964,698 Vodafone ADRs. Also, U.S. Cellular received approximately \$28.6 million from the Special Distribution.

Pursuant to terms of the Vodafone forward contracts, the Vodafone contract collars were adjusted to reflect the Special Distribution and the Share Consolidation. After adjustment, the collars had downside limits (floor) ranging from \$17.22 to \$18.37 and upside potentials (ceiling) ranging from \$17.22 to \$19.11. In the case of one forward contract, U.S. Cellular made a dividend substitution payment in the amount of \$0.2 million to the counterparty in lieu of further adjustments to the collars of such forward contract.

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

United States Cellular Corporation ( U.S. Cellular ) owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 81.2%-owned subsidiary of Telephone and Data Systems, Inc. ( TDS ).

The following discussion and analysis should be read in conjunction with U.S. Cellular's interim consolidated financial statements included in Item 1 above, and with its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K/A ( Form 10-K/A ) for the year ended December 31, 2005.

**Restatement**

U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. 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, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- **Forward contracts and related derivative instruments** - In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.
- **Contracts with maintenance and support services** - U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** - The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations ( ARO ) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$3.4 million and \$2.3 million in the six months ended June 30, 2006 and 2005, respectively.





- **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 adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by \$9.6 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts. These individual adjustments were not material.

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

	Three Months Ended		Six Months Ended	
	June 30, 2006	2005	June 30, 2006	2005
Income Before Income Taxes and Minority Interest, as previously reported	\$ 88,170	\$ 67,580	\$ 156,956	\$ 103,613
Forward contracts and related derivative instruments	(922 )	20,183	3,893	24,179
Contracts with maintenance and support services	198	(138 )	339	(335 )
Property, plant and equipment	1,511	317	3,111	77
Other items	(2,351 )	(1,997)	(5,800)	(4,840)
Total adjustment	(1,564 )	18,365	1,543	19,081
Income Before Income Taxes and Minority Interest, as restated	\$ 86,606	\$ 85,945	\$ 158,499	\$ 122,694

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

	Three Months Ended		2005		Six Months Ended		2005	
	June 30, 2006	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share	June 30, 2006	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share
As previously reported	\$ 51,086	\$ 0.58	\$ 38,077	\$ 0.44	\$ 88,578	\$ 1.01	\$ 57,642	\$ 0.66
Forward contracts and related derivative instruments	(584 )	(0.01 )	12,764	0.15	2,464	0.03	15,291	0.18
Contracts with maintenance and support services	125		(69 )		217		(172 )	
Income taxes								
Property, plant and equipment	875	0.01	186		1,800	0.02	52	
Other items	(1,438)	(0.01)	(1,143 )	(0.02 )	(3,549 )	(0.04 )	(2,704 )	(0.04)
Total adjustment	(1,022)	(0.01)	11,738	0.13	932	0.01	12,467	0.14
As restated	\$ 50,064	\$ 0.57	\$ 49,815	\$ 0.57	\$ 89,510	\$ 1.02	\$ 70,109	\$ 0.80

**SUMMARY OF HOLDINGS**

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, interests in 241 wireless markets at June 30, 2006. A summary of the number of markets U.S. Cellular owned or had rights to acquire as of June 30, 2006 follows:

	<b>Number of Markets</b>
Consolidated markets (1)	201
Consolidated markets acquirable pursuant to existing agreements (2)	17
Minority interests accounted for using equity method	18
Minority interests accounted for using cost method	5
Total markets to be owned after completion of pending transactions	241

(1) Includes majority interests in 190 markets and other interests in 11 licenses acquired through Carroll Wireless, L.P. ( Carroll Wireless ). 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 FASB Interpretation No. 46R, as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless' expected gains or losses.

Carroll Wireless was the winning bidder of 17 wireless licenses in the auction of wireless spectrum designated by the Federal Communications Commission ( FCC ) as Auction 58. On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it was the winning bidder and dismissed one application relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. In March 2006, Carroll Wireless received a full refund of the amount paid to the FCC with respect to the Walla Walla license. Of the 16 licenses which were granted to Carroll Wireless, 11 licenses represent markets which are incremental to U.S. Cellular's currently owned or acquirable markets and 5 represent markets in which U.S. Cellular currently owns spectrum. Only licenses which add incremental territory to U.S. Cellular's consolidated operating markets are included in the number of consolidated markets so as to avoid duplicate reporting of overlapping markets.

U.S. Cellular's consolidated markets also include interests acquired in 15 licenses and exclude interests transferred in two licenses pursuant to the exchange transaction with ALLTEL Corporation ( ALLTEL ) that was completed on December 19, 2005.

(2) U.S. Cellular owns rights to acquire majority interests in 17 wireless licenses resulting from an exchange transaction with AT&T Wireless Services, Inc. ( AT&T Wireless ), now Cingular Wireless LLC ( Cingular ), which closed in August 2003. Pursuant to the exchange transaction, U.S. Cellular also has rights to acquire 4 additional licenses. However, those 4 additional licenses are in markets where U.S. Cellular currently owns spectrum. Only licenses which add incremental territory to U.S. Cellular's consolidated operating markets are included in the number of consolidated markets so as to avoid duplicate reporting of overlapping markets.

## **OVERVIEW**

The following is a summary of certain selected information from the complete Management Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) that follows below. This Overview does not contain all of the information that may be important and, therefore, you should carefully read the entire MD&A and not rely solely on this 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 acquire, develop and 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.

U.S. Cellular delivered solid results for the six months ended June 30, 2006. Highlights included the following:

- Total customers increased 9% year-over-year to 5,704,000 and average monthly service revenue per customer increased 4% to \$46.38;
- The postpay churn rate was 1.5%, which compares favorably to the industry average;
- Total plant and equipment expenditures totaled \$268.6 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores and continue the development of U.S. Cellular's office systems. Total cell sites in service increased 11% to 5,583; and
- On April 21, 2006, U.S. Cellular completed the purchase of the remaining majority interest in Tennessee RSA No. 3 Limited Partnership, a wireless market in which it had previously owned a 16.7% interest for approximately \$18.8 million in cash.

Service Revenues increased \$200.7 million, or 15%, to \$1,560.9 million in the six months ended June 30, 2006 from \$1,360.2 million in 2005. Revenues from data products and services increased 52.7% to \$91.2 million in the first six months of 2006 from \$59.7 million in the first six months of 2005 as U.S. Cellular continued to enhance its **easyedge**SM products and introduce new offerings such as **Speedtalk** SM, a push-to-talk service, and **Blackberry**® handsets and service.

Operating income in the six months ended June 30, 2006 increased \$47.2 million, or 46%, to \$148.9 million from \$101.7 million in 2005. The increase in Operating Income reflected both higher operating revenues and a higher operating income margin (as a percent of service revenues), which was 9.5% in 2006 compared to 7.5% in 2005. Investment and Other Income (Expense) totaled \$9.6 million in 2006 and \$21.0 million in 2005.

Net Income in the six months ended June 30, 2006 increased 28% to \$89.5 million compared to \$70.1 million in the six months ended June 30, 2005. Basic Earnings per Share was \$1.03 in 2006, which was \$0.22 higher than last year and Diluted Earnings per Share was \$1.02, which was \$0.22 higher than last year. The increases in Net Income and Earnings per Share in 2006 compared to 2005 were attributable to higher Operating Income.

## Cash Flows and Investments

U.S. Cellular had cash and cash equivalents totaling \$22.0 million and had available borrowing capacity of \$594.5 million under its revolving credit facility as of June 30, 2006. Also, during the six months ended June 30, 2006, U.S. Cellular generated cash flows from operating activities of \$320.2 million. U.S. Cellular believes that cash on hand, expected future cash flows from operating activities and 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 for the foreseeable future. U.S. Cellular continues to seek to maintain a strong balance sheet and an investment grade credit rating.

U.S. Cellular is a limited partner in Barat Wireless, L.P. ( Barat Wireless ), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% discount available to designated entities. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its designated entity discount. The balance of Barat Wireless' payment due for those licenses with respect to which Barat Wireless was the high bidder is approximately \$47.2 million and is expected to be due before October 19, 2006. Although it has no current commitment to do so, U.S. Cellular expects that it will agree to make additional capital contributions and advances to Barat Wireless and/or its general partner. While the bidding in Auction 66 has ended, the FCC has not yet awarded any of the licenses to winning bidders, nor is there any prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of October 6, 2006, U.S. Cellular made capital contributions and advances of \$79.9 million to Barat Wireless and/or its general partner to provide initial funding of Barat Wireless' participation in Auction 66. For financial reporting purposes, U.S. Cellular will consolidate Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of Financial Accounting Standards Board ( FASB ) Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51 ( FIN 46(R) ), as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless' expected gains or losses. Pending finalization of Barat Wireless' permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

See Financial Resources and Liquidity and Capital Resources. Also, see Note 21 Subsequent Events of Notes to Financial Statement included in Item 1 above for information related to cash proceeds received from the sale of Midwest Wireless (approximately \$95.1 million) and the Vodafone Special Distribution (approximately \$28.6 million).

**RESULTS OF OPERATIONS****Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005.**

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

	2006	2005	
As of June 30, (1a)			
Total market population (2)	55,543,000	44,690,000	
Customers (3)	5,704,000	5,227,000	
Market penetration (4)	10.30	% 11.70	%
Total full-time equivalent employees	7,458	7,000	
Cell sites in service	5,583	5,034	
For the Six Months Ended June 30, (1b)			
Net customer additions (5)	199,000		