NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

United States Cellular Corporation ("U.S. Cellular"), a Delaware Corporation, is an 82.1%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

Nature of Operations

U.S. Cellular owns, manages and invests in wireless systems throughout the United States. U.S. Cellular owned interests in 235 wireless markets, representing a total population of approximately 46.3 million, as of December 31, 2003. U.S. Cellular's 182 majority-owned markets served 4.4 million customers in 28 states as of December 31, 2003. U.S. Cellular operates as one reportable segment.

Restatement

On April 19, 2004, U.S. Cellular announced that it would restate its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets," which was adopted on January 1, 2002. Prior to January 1, 2002, U.S. Cellular allocated the excess of purchase price over tangible assets and liabilities acquired to investment in licenses and goodwill. At that time, the accounting treatment for U.S. Cellular's investment in licenses and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based upon a subsequent review of goodwill, U.S. Cellular has restated the allocation of $138.9 million of purchase price recorded as goodwill to investment in licenses as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of $90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of U.S. Cellular's investment in licenses by a corresponding $90.7 million. Following these adjustments, U.S. Cellular reperformed the impairment tests for its investment in licenses as of January 1, 2002, and recorded an impairment loss of $12.7 million, net of taxes ($20.9 million before income taxes of $8.2 million). This impairment has been recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS No. 142.

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

In addition, as a result of the restatement discussed above, U.S. Cellular also reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before income taxes of $19.6 million. This additional loss has been recorded in the second quarter of 2003. A summary of the changes to the affected captions in the 2003 and 2002 statement of operations and balance sheets are included below:

Year Ended or at December 31, 2003	As Originally Reported	Effects of 2003 Accounting Changes	As Restated
(Dollars in thousands, except per share amounts)			
Statement of Operations:			
Operating Expenses			
(Loss) on assets held for sale	$ (47,847)	$ 1,939	$ (45,908)
(Loss) on impairment of intangible assets	—	(49,595)	(49,595)
Operating Income	166,639	(47,656)	118,983
Income (Loss) Before Income Taxes and Minority Interest	153,806	(47,656)	106,150
Income tax expense (benefit)			
Tax effect of changes to loss on assets held for sale		(9,952)	
Tax effect of impairments		(19,590)	
	66,774	(29,542)	37,232
Income (loss) before cumulative effect of accounting change	75,120	(18,114)	57,006
Cumulative effect of accounting change, net of tax	(14,346)	—	(14,346)
Net income (loss)	$ 60,774	$ (18,114)	$ 42,660
Basic earnings (loss) per share			
Income (loss) before cumulative effect of accounting change	$ 0.88	$ (0.21)	$ 0.67
Cumulative effect of accounting change	(0.17)	—	(0.17)
Net income (loss)	$ 0.71	$ (0.21)	$ 0.50
Diluted earnings (loss) per share			
Income (loss) before cumulative effect of accounting change	$ 0.87	$ (0.21)	$ 0.66
Cumulative effect of accounting change	(0.17)	—	(0.17)
Net income (loss)	$ 0.70	$ (0.21)	$ 0.49
Balance Sheet:			
Investment in licenses			
Restatement from goodwill		$ 138,885	
Increase in deferred tax liability on restatement of investment in licenses		90,677	
2002 impairment		(20,921)	
2003 impairment		(49,595)	
Adjustment to amount transferred to Assets of operations held for sale		(21,759)	
	$1,052,039	137,287	$1,189,326
Goodwill			
Restatement to investment in licenses		(138,885)	
Adjustment to amount transferred to Assets of operations held for sale		23,698	
	545,443	(115,187)	430,256
Total Assets	$4,923,647	$ 22,100	$4,945,747

Year Ended or at December 31, 2003	As Originally Reported	Effects of 2003 Accounting Changes	As Restated
(Dollars in thousands)			
Balance Sheet (continued):			
Net deferred income tax liability			
Increase in deferred tax liability on restatement to investment in licenses		$ 90,677	
Tax on 2002 impairment		(8,264)	
Tax on 2003 impairment		(19,590)	
Tax effect of changes to loss on assets held for sale		(9,952)	
	$ 443,033	52,871	$ 495,904
Retained Earnings			
2002 cumulative effect impact		(12,657)	
2003 impact		(18,114)	
	1,187,526	(30,771)	1,156,755
Total Liabilities and Shareholders' Equity	$4,923,647	$ 22,100	$4,945,747

Year Ended or at December 31, 2002	As Originally Reported	Effects of 2002 Accounting Changes	As Restated
(Dollars in thousands, except per share amounts)			
Statement of Operations:			
Income (loss) before cumulative effect of accounting change	$ (18,385)	$ —	$ (18,385)
Cumulative effect of accounting change	4,097	(12,657)	(8,560)
Net income (loss)	$ (14,288)	$ (12,657)	$ (26,945)
Basic earnings (loss) per share			
Continuing Operations	$ (0.22)	$ —	$ (0.22)
Cumulative effect of accounting change	0.05	(0.14)	(0.09)
Net income (loss)	$ (0.17)	$ (0.14)	$ (0.31)
Diluted earnings (loss) per share			
Continuing Operations	$ (0.22)	$ —	$ (0.22)
Cumulative effect of accounting change	0.05	(0.14)	(0.09)
Net income (loss)	$ (0.17)	$ (0.14)	$ (0.31)
Balance Sheet:			
Investment in licenses			
Restatement from goodwill		$ 138,885	
Increase in deferred tax liability on restatement to investment in licenses		90,677	
2002 impairment		(20,921)	
	$1,038,556	208,641	$1,247,197
Goodwill			
Restatement to investment in licenses	643,629	(138,885)	504,744
Total Assets	$4,699,841	$ 69,756	$4,769,597
Net deferred income tax liability			
Increase in deferred tax liability on restatement to investment in licenses		$ 90,677	
Tax on 2002 impairment		(8,264)	
	$ 359,401	82,413	$ 441,814
Retained Earnings	1,126,752	(12,657)	1,114,095
Total Liabilities and Stockholders' Equity	$4,699,841	$ 69,756	$4,769,597

Principles of Consolidation

The accounting policies of U.S. Cellular conform to accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries since acquisition, and general partnerships in which U.S. Cellular has a majority partnership interest or has a controlling financial interest. All material intercompany accounts and transactions have been eliminated.

Business Combinations

U.S. Cellular uses the purchase method of accounting for business combinations. U.S. Cellular includes as investments in subsidiaries the value of the consideration given and all direct and incremental costs relating to acquisitions. All costs relating to unsuccessful negotiations for acquisitions are charged to expense.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in prior years have been reclassified to conform to current period presentation. The reclassifications had no impact on previously reported net income and shareholders' equity.

Prior to the fourth quarter of 2003, U.S. Cellular separately disclosed marketing and selling expenses and general and administrative expenses in its statements of operations. In the fourth quarter of 2003, U.S. Cellular combined the marketing and selling expense and general administrative expense captions into one caption designated as selling, general and administrative expense. Previously, costs for equipment sold to retain current customers were included in selling, general and administrative expense. Prior to the fourth quarter of 2003 and in part of 2002, these costs were partially offset by equipment sales revenues received from these customers. In part of 2002 and all of 2001, equipment sales revenues related to retaining current customers were included in equipment sales revenue. In the fourth quarter of 2003, U.S. Cellular changed its policy for classifying retention costs and has reclassified the equipment sales revenue and cost of equipment sold related to the retention of current customers out of selling, general and administrative expenses and into equipment sales revenues and cost of equipment sold, respectively, for each of the years presented. These reclassifications increased equipment sales revenues by $27.3 million and $13.1 million in 2003 and 2002, respectively, and increased cost of equipment sold by $106.6 million, $57.2 million and $42.7 million in 2003, 2002 and 2001, respectively. Selling, general and administrative expenses were reduced by $79.3 million, $44.1 million and $42.7 million in 2003, 2002, and 2001, respectively, to reflect the amounts reclassified to equipment sales revenues and cost of equipment sold. These reclassifications did not have any impact on income from operations, net income, earnings per share, financial position or cash flows of U.S. Cellular for any of the years presented.

Statement of Financial Accounting Standards ("SFAS") No. 145 "Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS No. 13, and

Technical Corrections" was issued in April 2002, and is effective for fiscal years beginning after May 15, 2002, with early application encouraged. The provisions of SFAS No. 145 preclude gains and losses on the extinguishment of debt from being classified as extraordinary. U.S. Cellular elected to adopt SFAS No. 145 early and as a result no longer reports the retirement of debt as extraordinary. Loss on extinguishment of debt of $7.0 million for the year ended December 31, 2001, previously recorded as an extraordinary item, has been reclassified to the Investment and Other Income (Expense) section of U.S. Cellular's statements of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly-liquid investments with original maturities of three months or less.

Outstanding checks totaled $22.3 million and $14.2 million at December 31, 2003 and 2002, respectively, and are classified as Accounts payable in the consolidated balance sheets.

Marketable Equity Securities

Marketable equity securities are classified as available-for-sale, and are stated at fair market value. Net unrealized holding gains and losses are included in Accumulated other comprehensive income. Realized gains and losses are determined on the basis of specific identification.

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

Factors that management considers in determining whether a decrease in the market value of its securities is an other than temporary decline include if there has been a significant change in the financial condition, operational structure or near-term prospects of the issuer; how long and how much the security has been below carrying value; and whether U.S. Cellular has the intent and ability to retain its investment in the issuer's securities to allow the market value to return to the accounting cost basis.

During 2002, U.S. Cellular began utilizing derivative financial instruments to reduce market risks due to fluctuations in market prices of its Vodafone marketable equity securities. At December 31, 2003 and 2002, U.S. Cellular had forward contracts maturing in 2007 in connection with all of its Vodafone marketable equity security portfolio, hedging the market price risk with respect to the contracted securities. The downside risk is hedged at or above the accounting cost basis thereby eliminating the risk of an other than temporary loss being recorded on these contracted securities.

Derivative Instruments

U.S. Cellular utilizes derivative financial instruments to reduce marketable equity security market value risk. U.S. Cellular does not hold or issue derivative financial instruments for trading purposes. U.S. Cellular recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of those instruments are reported in the statements of operations or Accumulated other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements depends on the derivative's hedge designation and whether the hedge is anticipated to be highly effective in achieving offsetting changes in the fair value of the hedged item or cash flows of the asset hedged.

Investment in Licenses

Investment in licenses consists of costs incurred in acquiring Federal Communications Commission ("FCC") licenses to provide wireless service. These costs include amounts paid to license applicants and owners of interests in entities awarded licenses and all direct and incremental costs relating to acquiring the licenses. Licenses are intangible assets with indefinite useful lives, and beginning January 1, 2002, with the implementation of SFAS No. 142 "Goodwill and Other Intangible Assets", are not amortized. Prior to 2002, licenses were amortized over 40 years.

Management has determined that wireless licenses are intangible assets with indefinite useful lives, based on the following factors:

- Radio spectrum is not a depleting asset.
- The ability to use radio spectrum is not limited to any one technology.
- U.S. Cellular and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.
- U.S. Cellular and its consolidated subsidiaries are required to renew their FCC licenses every ten years. To date, all of U.S. Cellular's license renewal applications, filed for unique cellular licenses in every year from 1994 to the present, have been granted by the FCC. Generally, license renewal applications filed by wireless licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged, either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a "renewal expectancy." Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided "substantial service" during their license term and have "substantially complied" with FCC rules and policies. U.S. Cellular believes that it could demonstrate its entitlement to a renewal expectancy in any of its markets in the unlikely event any of its license renewal applications were challenged and therefore believes that it is probable that its future license renewal applications will be granted.

An intangible asset that is not subject to amortization is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

License Rights

In accordance with the exchange agreement with AT&T Wireless, U.S. Cellular has deferred the assignment and development of certain licenses for a period of up to five years from the closing date, August 1, 2003. The 21 licenses that have not yet been assigned to U.S. Cellular, with fair value totaling $42.0 million, are included in License rights on the balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation. See Note 11 – Acquisitions, Divestitures and Exchanges for a discussion of the AT&T Wireless exchange.

Goodwill

U.S. Cellular has goodwill as a result of the acquisition of wireless licenses and markets. Included in goodwill is the portion of the purchase price of acquisitions of interests in operating wireless markets that was not assigned to the fair values of the other acquired assets, including wireless licenses. No deferred taxes have been provided on this goodwill. U.S. Cellular adopted SFAS No. 142 on January 1, 2002, and no longer amortizes goodwill. Prior to 2002, goodwill was amortized over 40 years. Goodwill is tested for impairment annually. The impairment test consists of a comparison of the implied fair value of the goodwill with its carrying amount. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

Investments in Unconsolidated Entities

Investments in unconsolidated entities consists of investments where U.S. Cellular holds a less than 50% non-controlling ownership interest. U.S. Cellular follows the equity method of accounting, which recognizes U.S. Cellular's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where U.S. Cellular's ownership interest equals or exceeds 20% for corporations and 3% to 5% for partnerships and limited liability companies. The cost method of accounting is followed for certain minority interests where U.S. Cellular's ownership interest is less than 20% for corporations and 3% to 5% for partnerships and limited liability companies, or where U.S. Cellular does not have the ability to exercise significant influence.

Accounts Receivable

Accounts receivable consists of amounts owed by customers for both service provided and equipment sales, by agents for equipment sales, by other wireless carriers whose customers have used U.S. Cellular's wireless systems, and by unaffiliated third party partnerships or corporations pursuant to equity distribution declarations.

Inventory

Inventory is stated at the lower of cost or market with cost determined using the first-in, first-out method.

Property, Plant and Equipment

U.S. Cellular's property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes, payroll-related expenses and estimated costs to remove the assets in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations."

Renewals and betterments of units of property are recorded as additions to plant in service. The original cost of depreciable property retired (along with the related accumulated depreciation) is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Deferred Charges

Costs of developing new information systems are capitalized in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," ("SOP 98-1") and amortized over a three- or seven-year period, starting when each new system is placed in service.

Other deferred charges primarily represent legal and other charges incurred relating to the preparation of the agreements related to U.S. Cellular's various borrowing instruments, and are amortized over the respective financing periods of each instrument.

Assets and Liabilities of Operations Held for Sale

U.S. Cellular accounts for the disposal of long-lived assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". When long-lived assets meet the held for sale criteria set forth in SFAS No. 144, the balance sheet reflects the assets and liabilities of the properties to be disposed of as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale are presented separately in the asset and liability sections of the balance sheet. The revenues and expenses of the properties to be disposed of are included in operations until the transaction is completed. See Note 9 - Operations Held for Sale for the discussion of the sale and exchange of long-lived assets.

Asset Retirement Obligation

Statement of Financial Accounting Standards ("SFAS") No. 143 "Accounting for Asset Retirement Obligations" was issued in June 2001, and became effective for U.S. Cellular beginning January 1, 2003. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligations, any difference between the cost to retire an asset and the liability recorded is recognized in the statements of operations as a gain or loss.

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

U.S. Cellular determined that it had an obligation to remove long-lived assets in its cell sites, retail sites and office locations as described by SFAS No. 143, and has recorded a liability and related asset retirement obligation accretion expense. The change in asset retirement obligation during 2003 was as follows:

(Dollars in thousands)	
Beginning balance - January 1, 2003	$54,438
Additional liabilities accrued	5,641
Accretion expense	4,422
Ending balance - December 31, 2003	$64,501

Revenue Recognition

Revenues from wireless operations primarily consist of charges for access, airtime, roaming and value added services provided for U.S. Cellular's retail customers; charges to carriers whose customers use U.S. Cellular's systems when roaming; charges for long-distance calls made on U.S. Cellular's systems; end user equipment sales; and sales of accessories. Revenues are recognized as services are rendered. Unbilled revenues, resulting from wireless service provided from the billing cycle date to the end of each month and from other wireless carriers' customers using U.S. Cellular's systems for the last half of each month, are estimated and recorded.

Equipment sales represent a separate earnings process. Revenues from equipment and accessory sales are recognized upon delivery to the customer. In order to provide better control over handset quality, U.S. Cellular began selling handsets to agents beginning in the second quarter of 2002 at a price approximately equal to cost. In most cases, the agents receive rebates from U.S. Cellular at the time the agents sign up new customers or retain current customers. U.S. Cellular accounts for the sale of equipment to agents in accordance with Emerging Issues Task Force ("EITF") Statement 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." This standard requires that equipment sales revenue be reduced by the anticipated rebates to be paid to the agents at the time the agent purchases the handsets rather than at the time the agent signs up a new customer or retains a current customer.

Activation fees charged with the sale of service only are deferred and recognized over the average customer service period.

Effective January 1, 2002, U.S. Cellular adopted EITF Statement 00-21 "Accounting for Multiple Element Arrangements." Under this pronouncement, activation fees charged with the sale of equipment and service are allocated to the equipment and service based upon the relative fair values of each item. Due to the subsidy provided on customer handsets, this generally results in the recognition of the activation fee as additional handset revenue at the time of sale. Upon the initial adoption of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" in 2000, had U.S. Cellular deferred activation fees associated with the sales of equipment and service at the time of activation, with subsequent recognition over the expected customer service period, the financial results for all periods presented would not have been materially different from those originally reported. The effect of adopting EITF 00-21 did not have a material impact on any of the periods as originally reported.

During December 2003, the SEC issued SAB 104, "Revenue Recognition," which revised and rescinded portions of SAB 101. The issuance of SAB 104 did not impact U.S. Cellular's revenue recognition policies.

Cumulative Effect of Accounting Changes

Effective January 1, 2003, U.S. Cellular adopted SFAS No. 143 "Accounting for Asset Retirement Obligations," and recorded the initial liability for legal obligations associated with an asset retirement. The cumulative effect of the implementation of this accounting standard on periods prior to 2003 was recorded in the first quarter of 2003, decreasing net income by $14.3 million, net of taxes of $9.7 million and minority interest of $0.5 million, or $0.17 per basic and diluted share.

The following pro forma amounts show the effect of the retroactive application of the change in accounting principle for the adoption of SFAS No. 143:

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars in thousands, except per share amounts)			
Actual			
Net income (loss)	$42,660	$(26,945)	$173,876
Basic earnings (loss) per share	$ 0.50	$ (0.31)	$ 2.02
Diluted earnings (loss) per share	$ 0.49	$ (0.31)	$ 1.99
Pro forma			
Net income (loss)	$57,006	$(30,047)	$171,481
Basic earnings (loss) per share	$ 0.67	$ (0.34)	$ 1.99
Diluted earnings (loss) per share	$ 0.66	$ (0.34)	$ 1.97

	December 31, 2002	December 31, 2001	January 1, 2001
(Dollars in thousands)			
Pro forma - Balance Sheet data			
Asset retirement obligation	$54,438	$45,246	$36,806

Effective January 1, 2002, U.S. Cellular adopted SFAS No. 142 and determined that wireless licenses have indefinite lives. Upon initial adoption, U.S. Cellular reviewed its investment in licenses and determined there was an impairment loss on certain licenses. The cumulative effect of the initial impairment upon the adoption of SFAS No. 142 reduced net income in 2002 by $12.7 million, net of taxes of $8.2 million, or $(0.14) per diluted share.

Effective January 1, 2002, U.S. Cellular changed its method of accounting for commissions expenses related to customer activations and began deferring expense recognition of a portion of commissions expenses in the amount of deferred activation fees revenue. U.S. Cellular believes this change is a preferable method of accounting for such costs primarily due to the fact that the new method of accounting provides for better matching of revenue from customer activations to direct incremental costs associated with these activations within each reporting period. The cumulative effect of this accounting change on periods prior to 2002 was recorded in 2002 increasing net income by $4.1 million, net of taxes of $3.0 million and minority interest of $0.4 million, or $0.05 per diluted share. Upon the initial adoption of SAB 101, had U.S. Cellular deferred expense recognition for a portion of commission expenses in the amount of deferred activation fees revenue, Net Income and Basic and Diluted Earning per Share would have been $174.4 million, $2.02 and $2.00, respectively, for the year ended December 31, 2001.

Advertising Costs

U.S. Cellular expenses advertising costs as incurred. Advertising costs totaled $130.0 million, $91.6 million and $66.0 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Bad Debt Expense

Bad debt expense totaled $61.1 million, $63.7 million and $28.7 million in 2003, 2002 and 2001, respectively.

Income Taxes

U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. TDS and U.S. Cellular are parties to a Tax Allocation Agreement. The Tax Allocation Agreement provides that U.S. Cellular and its subsidiaries be included with the TDS affiliated group in a consolidated federal income tax return and in state income or franchise tax returns in certain situations. U.S. Cellular and its subsidiaries calculate their income and credits as if they comprised a separate affiliated group. Under the Tax Allocation Agreement, U.S. Cellular remits its applicable income tax payments to TDS. U.S. Cellular had a tax receivable balance with TDS of $5.4 million and $28.0 million as of December 31, 2003 and 2002.

Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Both deferred tax assets and liabilities are measured using tax rates expected to be in effect when the temporary differences reverse. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation

U.S. Cellular accounts for stock options and employee stock purchase plans under Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees," as allowed by SFAS No. 123 "Accounting for Stock-Based Compensation."

No compensation costs have been recognized for the stock option and employee stock purchase plans. Had compensation cost for all plans been determined consistent with SFAS No. 123, U.S. Cellular's net income (loss) and earnings per share would have been reduced to the following pro forma amounts:

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars in thousands, except per share amounts)			
Net Income (Loss):			
As Reported	$42,660	$(26,945)	$173,876
Pro Forma Expense	(8,391)	(5,324)	(1,746)
Pro Forma	34,269	(32,269)	172,130
Basic Earnings Per Share:			
As Reported	0.50	(0.31)	2.02
Pro Forma Expense	(0.10)	(0.06)	(0.02)
Pro Forma	0.40	(0.37)	2.00
Diluted Earnings Per Share:			
As Reported	0.49	(0.31)	1.99
Pro Forma Expense	(0.10)	(0.06)	(0.02)
Pro Forma	$ 0.39	$ (0.37)	$ 1.97

Pension Plan

U.S. Cellular participates in a qualified noncontributory defined contribution pension plan sponsored by TDS. It 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 $7.0 million, $5.0 million and $3.4 million in 2003, 2002 and 2001, respectively.

Asset Impairment

U.S. Cellular reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. U.S. Cellular evaluates the asset for possible impairment based on an estimate of related undiscounted cash flows over the remaining asset life. If an impairment is identified, a loss is recognized for the difference between the fair value of the asset (less cost to sell) and the carrying value of the asset.

Recent Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," was issued in January 2003. It is effective for all variable interests in variable interest entities created after January 31, 2003 and is effective October 1, 2003 for variable interests in variable interest entities created before February 1, 2003. This Interpretation modifies the requirements for consolidation of investments previously contained in Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Under FIN 46 certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties are considered variable interest entities and are potentially subject to consolidation by an investor other than the investor with the majority equity interest. In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities," which among other things, deferred the application of FIN 46 by public entities with interest in variable interest entities referred to as special purpose entities until periods ending after December 15, 2003 and by public entities for all other types of variable interest entities until periods ending after March 15, 2004. U.S. Cellular has reviewed the provisions of FIN 46R and does not anticipate that the adoption of FIN 46R will have a material impact on U.S. Cellular's future financial position or results of operations.

NOTE 2 INCOME TAXES

Income tax provisions charged to Income (loss) before cumulative effect of accounting change are summarized as follows:

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
Federal income taxes			
Current	$ 1,097	$ 444	$ 88,345
Deferred	28,560	(4,674)	36,974
State income taxes			
Current	15,066	3,758	17,009
Deferred	(7,491)	(7,069)	4,987
Total income tax expense (benefit)	$37,232	$(7,541)	$147,315

Included in cumulative effect of accounting changes were deferred tax benefits of $9.7 million in 2003 and $5.3 million in 2002.

A reconciliation of U.S. Cellular's expected income tax expense (benefit) computed at the statutory rate to the reported income tax expense (benefit), and the statutory federal income tax expense (benefit) rate to U.S. Cellular's effective income tax expense (benefit) rate is as follows:

Year Ended December 31,	2003 (as restated)		2002		2001	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in millions)						
Statutory federal income tax expense (benefit)	$37.1	35.0%	$(4.3)	(35.0)%	$116.0	35.0%
State income taxes, net of federal benefit	1.2	1.2	(2.4)	(19.1)	14.3	4.3
Amortization of license acquisition costs	—	—	—	—	3.6	1.1
Effects of minority share of income excluded from consolidated federal income tax return	(5.0)	(4.5)	(4.5)	(36.3)	(2.9)	(0.9)
Effects of gains (losses) on marketable equity securities, other investments and assets held for sale	2.2	2.0	2.9	23.6	—	—
Resolution of prior period tax issues	1.8	1.6	9.7	78.0	13.0	3.9
Loss on extinguishment of debt	—	—	—	—	2.4	0.7
Deferred tax rate change(1)	—	—	(8.4)	(68.2)	—	—
Other	(0.1)	(0.1)	(0.5)	(3.9)	0.9	0.4
Effective income tax expense (benefit)	$37.2	35.2%	$(7.5)	(60.9)%	$147.3	44.5%

(1) Represents a reassessment of the rate at which U.S. Cellular provides for deferred taxes.

U.S. Cellular had current deferred tax assets totaling $16.8 million and $10.8 million at December 31, 2003 and 2002, respectively, resulting primarily from the allowance for customer receivables.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities are as follows:

December 31,	2003 (as restated)	2002 (as restated)
(Dollars in thousands)		
Deferred Tax Asset		
Net operating loss carryforward	$ 30,671	$ 43,291
Unearned revenue	1,772	7,099
Derivative accounting	22,015	3,527
Other	5,222	2,040
	59,680	55,957
Less valuation allowance	(10,480)	(13,224)
Total Deferred Tax Asset	49,200	42,733
Deferred Tax Liability		
Property, plant and equipment	222,213	202,314
Licenses	206,129	223,654
Marketable equity securities	86,251	56,925
Partnership investments	30,511	1,654
Total Deferred Tax Liability	545,104	484,547
Net Deferred Income Tax Liability	$495,904	$441,814

U.S. Cellular and certain subsidiaries had $62.0 million of federal net operating loss carryforwards (generating a $15.2 million deferred tax asset) at December 31, 2003 expiring between 2004 and 2023. In addition, U.S. Cellular and certain subsidiaries had $264.2 million of state net operating loss ("NOL") carryforward (generating a $15.5 million deferred tax asset) at December 31, 2003. The state NOL carryforward, available to offset future taxable income, is primarily from the individual subsidiaries which generated the loss, and expires between 2004 and 2023. A valuation allowance has been provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

NOTE 3 EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using net income (loss) and weighted average common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and conversion of debentures.

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

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars and shares in thousands)			
Basic Earnings per Share			
Income (Loss) used in			
Basic Earnings per Share	$ 57,006	$(18,385)	$173,876
Cumulative effect of accounting change	(14,346)	(8,560)	—
	$ 42,660	$(26,945)	$173,876
Diluted Earnings per Share			
Income (Loss) used in			
Basic Earnings per Share	$ 57,006	$(18,385)	$173,876
Interest expense eliminated as a result of the pro forma conversion of Convertible Debentures, net of tax	—	—	5,507
Income (Loss) used in			
Diluted Earnings per Share	57,006	(18,385)	179,383
Cumulative effect of accounting change	(14,346)	(8,560)	—
	$ 42,660	$(26,945)	$179,383
Weighted Average			
Number of Common Shares used in			
Basic Earnings per Share	86,136	86,086	86,200
Effect of Dilutive Securities:			
Stock options and			
stock appreciation rights(1)	466	—	233
Conversion of convertible debentures(2)	—	—	3,544
Weighted Average Number of Common Shares used in Diluted Earnings per Share	86,602	86,086	89,977
Basic Earnings per Share			
Income (Loss) before cumulative effect of accounting change	$ 0.67	$ (0.22)	$ 2.02
Cumulative effect of accounting change	(0.17)	(0.09)	—
	$ 0.50	$ (0.31)	$ 2.02
Diluted Earnings per Share			
Income (Loss) before cumulative effect of accounting change	$ 0.66	$ (0.22)	$ 1.99
Cumulative effect of accounting change	(0.17)	(0.09)	—
	$ 0.49	$ (0.31)	$ 1.99

(1) Stock options and restricted stock convertible into 1,322,132 Common Shares in 2003, 1,753,950 Common Shares in 2002 and 185,580 Common Shares in 2001 were not included in computing Diluted Earnings per Share because their effects were anti-dilutive.

(2) Convertible debentures convertible into 2,944,347 Common Shares in 2003 and 2,945,256 Common Shares in 2002 were not included in computing Diluted Earnings per Share because their effects were anti-dilutive.

NOTE 4 INVESTMENT IN LICENSES AND GOODWILL

Changes in investment in licenses and goodwill are primarily the result of the acquisition or divestiture of wireless markets by U.S. Cellular. See Note 11 – Acquisitions, Divestitures and Exchanges for the details of the changes in investment in licenses and goodwill.

A schedule of investment in licenses activity follows:

Year Ended December 31,	2003 (as restated)	2002 (as restated)
(Dollars in thousands)		
Balance, beginning of year	$1,247,197	$ 858,791
Restatements under SFAS No. 142	—	229,562
Acquisitions (1)	178,609	181,510
Divestitures	(76,905)	—
Allocation to assets of operations held for sale	(63,569)	—
Impairment loss(2)	(53,095)	(20,921)
Other	(874)	(1,745)
Balance, end of year (1)	$1,231,363	$1,247,197

(1) Includes $42.0 million of License rights from the AT&T Wireless transaction in 2003.

(2) Upon adoption of SFAS No. 142 on January 1, 2002, U.S. Cellular recorded a $20.9 million impairment loss on intangible assets related to its investment in licenses. The loss was recorded as a cumulative effect of accounting change. In 2003, U.S. Cellular recorded an additional impairment loss of $49.6 million on its investment in licenses in two reporting units and a $3.5 million loss on impairment of its investment in a non-operating wireless license.

A schedule of investment in goodwill activity follows:

Year Ended December 31,	2003 (as restated)	2002 (as restated)
(Dollars in thousands)		
Balance, beginning of year	$504,744	$473,975
Restatements under SFAS No. 142	—	(138,885)
Additions	7,516	172,263
Divestitures	(69,961)	—
Allocation to assets of operations held for sale	(7,565)	—
Other	(4,478)	(2,609)
Balance, end of year	$430,256	$504,744

Pursuant to SFAS No. 142, U.S. Cellular ceased amortization of licenses and goodwill as of January 1, 2002. Net income (loss) and Basic and Diluted earnings per share adjusted to exclude license and goodwill amortization expense, net of tax, recorded in the year ended December 31, 2001, is summarized below, together with the actual amounts of such measures in 2003 and 2002, for comparison purposes.

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars in thousands)			
Net Income (Loss)	$42,660	$(26,945)	$173,876
Amortization, net of tax and minority interest effect of			
Licenses	—	—	16,104
Goodwill	—	—	9,744
Goodwill for equity method investments	—	—	513
Adjusted Net Income (Loss)	$42,660	$(26,945)	$200,237
Basic earnings per share:			
Net Income (Loss)	$ 0.50	$ (0.31)	$ 2.02
Amortization, net of tax and minority interest	—	—	0.31
Adjusted Earnings per Share	$ 0.50	$ (0.31)	$ 2.33
Diluted earnings per share:			
Net Income (Loss)	$ 0.49	$ (0.31)	$ 1.99
Amortization, net of tax and minority interest	—	—	0.29
Adjusted Earnings per Share	$ 0.49	$ (0.31)	$ 2.28

NOTE 5 CUSTOMER LISTS

The customer lists, intangible assets from the acquisition of wireless properties, are being amortized based on average customer retention periods using the declining balance method. Amortization expense was $15.6 million for the year ended December 31, 2003 and $6.6 million for the year ended December 31, 2002. Amortization expense for the years 2004 through 2008 is expected to be $9.5 million, $5.8 million, $3.5 million, $2.1 million and $1.3 million, respectively.

NOTE 6 MARKETABLE EQUITY SECURITIES

Information regarding U.S. Cellular's marketable equity securities is summarized as follows:

December 31,	2003	2002
(Dollars in thousands)		
Vodafone Group Plc		
10,245,370 American Depositary Receipts	$256,544	$185,646
Rural Cellular Corporation		
370,882 Common Shares	2,949	315
Other	695	—
Aggregate Fair Value	260,188	185,961
Accounting Cost, as adjusted	160,161	160,362
Gross Unrealized Holding Gains (Losses)	100,027	25,599
Tax Effect	(39,518)	(10,111)
Net Unrealized Holding Gains (Losses)	60,509	15,488
Derivative Accounting, net of tax	(33,720)	(5,181)
Accumulated Other Comprehensive Income	$ 26,789	$ 10,307

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

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

NOTE 7 INVESTMENTS IN 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, as shown in the following table:

December 31,	2003	2002
(Dollars in thousands)		
Equity method investments:		
Capital contributions, loans and advances	$ 27,032	$ 15,647
Goodwill	16,389	23,397
Cumulative share of income	360,728	313,827
Cumulative share of distributions	(235,953)	(195,626)
	168,196	157,245
Cost method investments:		
Capital contributions, net of		
partnership distributions and impairments	1,888	2,603
Goodwill	485	1,603
	2,373	4,206
Total investments in unconsolidated entities	$ 170,569	$ 161,451

As of December 31, 2003, U.S. Cellular followed the equity method of accounting for minority interests in 26 markets where U.S. Cellular's ownership interest is 20% or greater for corporations or greater than 3% to 5% for partnerships and limited liability companies. This method recognizes, on a current basis, U.S. Cellular's proportionate share of the income and losses accruing to it under the terms of the respective partnership and shareholder agreements. Income and losses from the entities are reflected in the consolidated statements of operations on a pretax basis as Investment income. Investment income totaled $52.1 million, $42.1 million and $41.9 million in 2003, 2002 and 2001, respectively. As of December 31, 2003, U.S. Cellular followed the cost method of accounting for its investments in 6 markets where U.S. Cellular's ownership interest is less than 20% for corporations or less than 3% for partnerships and limited liability companies, or where U.S. Cellular does not have the ability to exercise significant influence.

Investments in unconsolidated entities include goodwill and costs in excess of the underlying book value of certain investments. At December 31, 2003, $153.7 million represented the investment in underlying equity and $16.9 million represented goodwill. At December 31, 2002, $136.4 million represented the investment in underlying equity and $25.0 million represented goodwill. In 2001, goodwill related to investments for which U.S. Cellular follows the equity method of accounting were being amortized over 40 years. U.S. Cellular adopted SFAS No. 142 on January 1, 2002, and no longer amortizes its goodwill related to equity method investments. Amortization expense related to these investments amounted to $0.7 million in 2001.

During 2003, U.S. Cellular reduced the carrying value of one of its cost method investments by $1.7 million, to its underlying equity value. This charge was included in Loss on marketable equity securities and other investments on the statements of operations.

U.S. Cellular's most significant investments in unconsolidated entities consist of the following:

December 31,	Percentage Ownership 2003	2002
Cellular investments		
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership	8.0%	8.0%
Midwest Wireless Communications, LLC	15.7%	15.7%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

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

December 31,	2003	2002
(Dollars in thousands)		
Assets		
Current	$ 225,000	$ 213,000
Due from affiliates	522,000	249,000
Property and other	1,625,000	1,506,000
	$2,372,000	$1,968,000
Liabilities and Equity		
Current liabilities	$ 181,000	$ 172,000
Due to affiliates	—	3,000
Deferred credits	82,000	85,000
Long-term debt	17,000	21,000
Partners' capital and shareholders' equity	2,092,000	1,687,000
	$2,372,000	$1,968,000

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Results of Operations			
Revenues	$2,488,000	$2,162,000	$2,086,000
Operating expenses	1,839,000	1,685,000	1,490,000
Operating income	649,000	477,000	596,000
Other income (expense), net	8,000	17,000	(7,000)
Net income	$ 657,000	$ 494,000	$ 589,000

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in service and under construction, net of accumulated depreciation, consists of:

December 31,	2003	2002
(Dollars in thousands)		
Cell site-related equipment	$ 1,777,251	$ 1,664,154
Land, buildings and leasehold improvements	621,070	552,087
Switching-related equipment	460,165	399,086
Office furniture and equipment	203,139	183,285
Other operating equipment	127,542	113,975
Work in process	252,010	172,996
Less accumulated depreciation	(1,267,293)	(1,051,792)
	$ 2,173,884	$ 2,033,791

Useful lives range from four to twenty-five years for cell site-related equipment, ten to twenty years for buildings and leasehold improvements, three to eight years for switching-related equipment, three to five years for office furniture and equipment, and ten years for other operating equipment.

NOTE 9 OPERATIONS HELD FOR SALE

On November 26, 2003, U.S. Cellular announced that it had entered into a definitive agreement to sell its southern Texas wireless markets to AT&T Wireless for $95 million in cash plus a working capital adjustment, subject to certain closing provisions. The U.S. Cellular markets to be sold to AT&T Wireless include 25 megahertz metropolitan statistical area and rural service area licenses representing 1.3 million population equivalents, approximately 150 cell sites and 76,000 customers. The transaction is subject to regulatory approvals. The closing of the sale is expected to occur in the first quarter of 2004. Total revenues from the markets to be sold totaled $60.6 million for the year ended December 31, 2003, while operating income totaled $17.1 million. Operating income does not include shared services costs that have been allocated to the markets from the U.S. Cellular corporate office.

The sale is being accounted for in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The balance sheet as of December 31, 2003 reflects assets and liabilities of the wireless properties to be sold as assets and liabilities of operations held for sale from the date of the sale agreement until the close of the transaction. The revenues and expenses of the markets continue to be included in operations until the completion of the sale.

The following table summarizes the recorded value of the assets and liabilities of the markets that U.S. Cellular will be transferring.

December 31, 2003	
(Dollars in thousands)	
Current assets	$ 5,363
Property, plant and equipment, net	45,710
Other assets	316
Licenses	63,569
Goodwill	7,565
Loss on assets held for sale	(22,000)
Total assets	$100,523
Current liabilities	$ 2,189
Non-current liabilities	238
Total liabilities	$ 2,427
Net assets to be transferred	$ 98,096

U.S. Cellular has recorded a loss of $22.0 million as a "Loss on assets held for sale" (included in operating expenses) representing the difference between the carrying value of the markets to be sold to AT&T Wireless and the cash to be received in the transaction.

NOTE 10 SUPPLEMENTAL CASH FLOW DISCLOSURES

Following are supplemental cash flow disclosures regarding interest and income taxes paid and certain noncash transactions:

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Interest paid	$ 51,954	$ 36,431	$ 24,592
Income taxes paid (refunds received)	(29,621)	33,446	129,430
Noncash interest expense	10,743	9,526	10,176
Net change to equity for conversion of debt	—	—	29,642
9% Series A Notes issued for Chicago acquisition	$ —	$175,000	$ —

NOTE 11 ACQUISITIONS, DIVESTITURES AND EXCHANGES

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

2003 Activity

During 2003, U.S. Cellular completed an exchange with AT&T Wireless along with the acquisition of two minority interests.

On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the wireless licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately $34.0 million in cash and minority interests in six wireless markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. The assignment and development of certain licenses has been deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the agreement. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with the service requirements of the FCC. The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale. U.S. Cellular capitalized $2.8 million of costs associated with the AT&T Wireless transaction.

The 15 licenses that have been transferred to U.S. Cellular as of December 31, 2003, with a fair value totaling $136.6 million, are included in Investment in licenses on the consolidated balance sheet. The 21 licenses that have not yet been assigned to U.S. Cellular, with a fair value totaling $42.0 million, are included in License rights on the balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation. U.S. Cellular has included the results of operations in the Florida and Georgia markets in the statements of operations until the date of transfer, August 1, 2003.

Prior to the close of the AT&T Wireless exchange, U.S. Cellular allocated $70.0 million of goodwill related to the properties transferred to AT&T Wireless to Assets of operations held for sale in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets." A loss of $23.9 million was recorded as a Loss on assets held for sale (included in operating expenses), representing the difference between the book value of the markets transferred to AT&T Wireless and the fair value of the assets received or to be received in this transaction.

In addition, in 2003, U.S. Cellular acquired the minority interest in two entities which held wireless licenses for $2.3 million.

2002 Activity

On August 7, 2002, U.S. Cellular completed the acquisition of the assets and certain liabilities of Chicago 20MHz, LLC now known as United States Cellular Operating Company of Chicago, LLC ("USCOC of Chicago" or the "Chicago Market") from PrimeCo Wireless Communications LLC ("PrimeCo"). USCOC of Chicago operates a wireless system in the Chicago major trading area. USCOC of Chicago is the holder of certain FCC licenses, including a 20 megahertz personal communication service license in the Chicago major trading area (excluding Kenosha County, Wisconsin) covering 13.2 million population equivalents.

The purchase price was $617.8 million including working capital and other adjustments. U.S. Cellular financed the purchase using $327.3 million of revolving lines of credit, $175.0 million in 30 year notes issued to PrimeCo, a $105.0 million loan from TDS, and a $10.5 million accrued payable. U.S. Cellular has included USCOC of Chicago results of operations in the statements of operations, subsequent to the purchase date.

The tangible fixed assets were recorded at fair value. The personal communication service licenses were valued at $163.5 million. The customer list was assigned a value of $43.4 million and is being amortized based on a 30 month average customer retention period using the declining balance method.

Total goodwill attributed to the Chicago acquisition aggregated $168.4 million. In January 2003, U.S. Cellular repurchased the $45.2 million 9% Series A Notes that remained outstanding at December 31, 2002, at 90% of face value. The $4.5 million gain on retirement of the 9% Series A Notes was credited to goodwill, reducing the aggregate goodwill attributed to the Chicago acquisition to $163.9 million. Such goodwill is deductible for tax purposes and will be amortized over 15 years for tax purposes.

In addition, during 2002, U.S. Cellular completed the acquisition of majority interests in licenses in three personal communication service markets and three minority interests in other personal communication service markets, representing approximately 1.4 million population equivalents, for consideration totaling $21.1 million.

2001 Activity

During 2001, U.S. Cellular, on its own behalf and through joint ventures, acquired majority interests in licenses in one cellular market and 26 personal communication service markets, representing a total population of 6.8 million, for $182.3 million in cash. The interests U.S. Cellular acquired through joint ventures are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes.

Assets Acquired and Liabilities Assumed

In conjunction with these acquisitions and exchanges, the following assets were acquired and liabilities assumed/(transferred):

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
Cash received	$ 33,953	$ —	$ —
Current assets, excluding $6,984 cash acquired in 2002	(13,083)	34,081	—
Property, plant and equipment, net	(88,313)	235,953	13,443
Other assets	(797)	815	—
Customer list	—	43,400	—
Licenses	101,703	181,510	112,068
Goodwill	(64,563)	172,263	53,610
Increase (Decrease) in investment in unconsolidated entities	—	—	1,701
Current liabilities	9,203	(38,018)	—
Long-term debt	—	(175,000)	—
Other assets and liabilities, excluding cash acquired	3,114	(2,068)	5,447
Loss recorded on exchange	23,908	—	—
Decrease in cash due to acquisitions	$ 5,125	$452,936	$186,269

Pro Forma Operations

Assuming the exchanges and acquisitions accounted for as purchases during the period January 1, 2002 to December 31, 2003, had taken place on January 1, 2002; and the acquisitions during the period January 1, 2001 to December 31, 2001 had taken place on January 1, 2001, unaudited pro forma results of operations would have been as follows:

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Unaudited, dollars in thousands, except per share amounts)			
Service revenues	$2,356,476	$2,103,287	$1,830,443
Equipment sales revenues	130,018	89,103	69,345
Interest expense (including cost to finance acquisitions)	64,607	62,431	35,164
Income (Loss) before cumulative effect of accounting change	$ 52,244	$ (69,014)	$ 163,871
Net Income (Loss)	37,898	(77,574)	163,871
Earnings per share - basic	$ 0.44	$ (0.90)	$ 1.90
Earnings per share - diluted	$ 0.44	$ (0.90)	$ 1.88

NOTE 12 LOSS ON MARKETABLE EQUITY SECURITIES AND OTHER INVESTMENTS

In 2003, U.S. Cellular recorded a license cost impairment loss of $3.5 million related to the investment in a non-operating market in Florida that remained with U.S. Cellular upon completion of the exchange with AT&T Wireless. See Note 11 – Acquisitions, Divestitures and Exchanges for further information regarding the exchange transaction with AT&T Wireless.

In 2003, U.S. Cellular reduced the carrying value of one of its cost method investments by $1.7 million to its underlying equity value based on a cash flow analysis. Both charges were included in Loss on marketable equity securities and other investments on the statements of operations.

In 2002, management determined that a decline in the value of marketable equity securities relative to their respective accounting cost basis was other than temporary and charged an aggregate $244.7 million loss to the statements of operations and reduced the accounting cost basis of such marketable equity securities by a corresponding amount.

U.S. Cellular had certain notes receivable from Kington Management Corporation ("Kington"). The notes related to the purchase by Kington of certain U.S. Cellular minority interests in 2000. The values of the notes were directly related to the values of the minority cellular market interests. During 2002, management reviewed the fair market value of the cellular interests, including a third party fair value analysis, and concluded that the notes receivable were impaired, and reduced the carrying value of the notes by $34.2 million. Subsequent to this review, Kington decided to withdraw from the partnership effective January 1, 2003. Upon withdrawal, the withdrawing partner is entitled to receive its partner's capital account in cash totaling $7.8 million. An additional loss of $3.9 million was recorded to reduce the carrying value of the receivable to the estimated partner capital amount.

U.S. Cellular recorded additional losses in 2002 of $8.4 million related to the withdrawal from a partnership in which it had owned an investment interest and $4.2 million related to the reduction in value of a land purchase option.

NOTE 13 NOTES PAYABLE

On December 19, 2003, U.S. Cellular amended its $325 million revolving credit facility with a group of banks to increase the size of the facility to $700 million. At December 31, 2003, $0.2 million of letters of credit were outstanding against this facility leaving $699.8 million available for use. The terms of the credit facility provide for borrowings with interest at the London InterBank Offered Rate ("LIBOR") rate plus a margin percentage based on U.S. Cellular's credit rating. At December 31, 2003, the margin percentage was 55 basis points (for a rate of 1.67% based on the one month LIBOR rate at December 31, 2003). Interest and principal are due the last day of the borrowing period, as selected by U.S. Cellular, of either seven days or one, two, three or six months. U.S. Cellular pays facility and administration fees at an aggregate annual rate of 0.21% of the total facility. These payments totaled $0.7 million in 2003 and $0.5 million in 2002. The credit facility expires in June 2007.

At December 31, 2002, and up until December 23, 2003, U.S. Cellular had a $500 million revolving credit facility with a group of banks. This credit facility was terminated on December 23, 2003 in connection with the amendment of U.S. Cellular's $325 million credit facility to $700 million. The terms of the revolving credit facility provided for borrowings with interest at the LIBOR plus a margin percentage based on U.S. Cellular's credit rating. Interest and principal were due the last day of the borrowing period, as selected by U.S. Cellular, of either seven days or one, two, three or six months. U.S. Cellular paid facility and administration fees at an aggregated annual rate of 0.10% of the total

$500 million facility. These payments totaled $0.5 million, $0.5 million and $0.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Information concerning notes payable is shown in the table that follows.

Year Ended December 31,	2003	2002
(Dollars in thousands)		
Balance at end of year	$ —	$460,000
Weighted average interest rate at end of year	—%	1.6%
Maximum amount outstanding during the year	$627,000	$460,000
Average amount outstanding during the year (1)	$490,667	$262,167
Weighted average interest rate during the year (1)	1.5%	2.0%

(1) The average was computed based on month-end balances.

The financial covenants associated with U.S. Cellular's revolving credit facilities require that U.S. Cellular and subsidiaries maintain certain debt to capital and interest coverage ratios. The covenants may prescribe certain terms associated with intercompany loans from TDS to certain subsidiaries.

The restatements discussed in Note 1 – Summary of Significant Accounting Policies resulted in defaults under the revolving credit agreement between U.S. Cellular and certain lenders. U.S. Cellular has not failed to make nor expects to fail to make any scheduled payment of principal or interest under such revolving credit agreement. U.S. Cellular has received waivers from the lenders under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements.

NOTE 14 LONG-TERM DEBT

Zero Coupon Convertible Debentures

U.S. Cellular unsecured 6% yield to maturity zero coupon convertible redeemable notes are due in 2015. This 20-year fixed rate debt, in the form of Liquid Yield Option Notes, is legally or effectively subordinated to all other liabilities of U.S. Cellular.

Each Liquid Yield Option Note is convertible at the option of the holder at any time at a conversion rate of 9.475 U.S. Cellular Common Shares per $1,000 of Liquid Yield Option Notes. Upon notice of conversion, U.S. Cellular may elect to deliver its Common Shares or cash equal to the market value of the Common Shares. U.S. Cellular may redeem the Liquid Yield Option Notes for cash at the issue price plus accrued original issue discount through the date of redemption. Holders have the right to exercise their conversion option prior to the redemption date. There were no Liquid Yield Option Notes retired in 2003 and 2002. In 2001, retirements of such notes totaled $126.2 million face value ($55.1 million carrying value). U.S. Cellular paid $32.0 million in cash and issued 644,000 Common Shares to satisfy these conversions. The Liquid Yield Option Notes converted for cash resulted in a loss of $7.0 million in 2001, reported as (Loss) on extinguishment of debt in the statements of operations.

Unsecured Notes

The $105 million long-term debt-affiliated is an 8.1% note due to TDS on August 7, 2008. Interest is paid quarterly on March 31, June 30, September 30, and December 31. The note may be prepaid at any time without penalty and was subordinated to the $325 million Revolving Credit Facility until December 19, 2003. On January 9, 2004, U.S. Cellular notified TDS of its intent to repay this note on February 9, 2004. Consequently, U.S. Cellular has classified this note as a current liability as of December 31, 2003. The proceeds were used in connection with the acquisition of USCOC of Chicago.

In December 2003, U.S. Cellular sold $444 million of 6.7% Senior Notes due December 15, 2033, priced to yield 6.83% to maturity. Interest is paid semi-annually. U.S. Cellular may redeem the notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus .30%. The proceeds were used to repay a portion of short-term debt.

During 1997, U.S. Cellular sold $250.0 million of 7.25% Senior Notes due on August 15, 2007 priced to yield 7.33% to maturity. Interest is payable on February 15 and August 15 of each year. The notes will be redeemable, in whole or in part, at the option of U.S. Cellular at any time on or after August 15, 2004, at a redemption price equal to 100% of the principal amount of such notes to be redeemed, plus accrued interest thereon, if any, to the date of redemption.

In November 2002, U.S. Cellular sold $130.0 million of 8.75% Senior Notes due November 7, 2032. Interest is paid quarterly. U.S. Cellular may redeem the notes beginning in 2007 at the principal amount plus accrued interest. The $129.8 million net proceeds from the sale of the notes (after reimbursement of expenses) were used to purchase a portion of the 9% Series A Notes.

U.S. Cellular issued $175.0 million of 9% Series A Notes due 2032 to PrimeCo in connection with the acquisition of the Chicago market on August 7, 2002. Interest was payable quarterly. The notes were callable by U.S. Cellular after five years at the principal amount plus accrued but unpaid interest. U.S. Cellular repurchased $129.8 million of the notes in 2002. U.S. Cellular repurchased the remaining $45.2 million notes in January 2003 using funds from its revolving credit facilities, and classified these notes as current liabilities at December 31, 2002. As a result of these repurchases, the 9% Series A Notes have been cancelled.

The covenants of long-term debt obligations of U.S. Cellular, among other things, restrict its subsidiaries' ability, subject to certain exclusions, to incur additional liens; enter into sale and leaseback transactions; and sell, consolidate, or merge assets. As of December 31, 2003, U.S. Cellular was in compliance with all of the covenants of its debt obligations.

The annual requirements for principal payments on long-term debt, excluding the $105 million long-term debt-affiliated and the forward contracts, are approximately $3.0 million in 2004 and $250.0 million in 2007.

Forward Contracts

During 2002, U.S. Cellular entered into variable prepaid forward contracts ("forward contracts") in connection with its 10,245,370 Vodafone Group Plc American Depositary Receipts. 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.

The forward contracts mature in May 2007. The forward contracts require quarterly interest payments at LIBOR plus 50 basis points (for a rate of 1.65% based on the three month LIBOR rate at December 31, 2003).

The restatements discussed in Note 1 – Summary of Significant Accounting Policies resulted in defaults under certain forward contracts between a subsidiary of U.S. Cellular and a counterparty. U.S. Cellular has not failed to make nor expects to fail to make any scheduled payment of principal or interest under such forward contracts. U.S. Cellular and its subsidiary have received a waiver from the counterparty under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements.

The 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 a range of $15.07 to $16.07 per share, which is at or above the accounting cost basis, thereby eliminating the risk of an other than temporary loss being recorded on these contracted securities. The upside potential is a range of $21.56 to $23.20 per share.

Under the terms of the forward contracts, U.S. Cellular continues to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts mature May 2007 and, 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 adjusted for any changes in dividends on the contracted shares. 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 lenders which provide assurance to the lenders that all principal and interest amounts will be paid by its consolidated subsidiaries upon settlement of the contracts.

NOTE 15 FINANCIAL INSTRUMENTS AND DERIVATIVES

Financial instruments are as follows:

December 31,	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)				
Cash and Cash Equivalents	$ 9,848	$ 9,848	$ 14,864	$ 14,864
Current portion of long-term debt	3,000	3,000	45,200	45,200
Current portion of long-term debt-affiliated	105,000	105,000	—	—
Notes Payable	—	—	460,000	460,000
Long-term Debt				
6.7% notes	436,829	456,654	—	—
6% zero coupon debentures	157,659	150,434	148,604	113,229
7.25% notes	250,000	277,003	250,000	260,226
8.75% notes	130,000	148,304	130,000	135,408
Variable prepaid forward contracts	159,856	156,804	159,856	156,827
Long-term debt-affiliated	—	—	105,000	113,344
Other	$ 10,000	$ 12,086	$ 13,000	$ 14,132

The carrying amounts of cash and cash equivalents and notes payable approximates fair value due to the short-term nature of these financial instruments. The fair value of U.S. Cellular's long-term debt was estimated using market prices for the 6% zero coupon convertible debentures and 8.75% notes and discounted cash flow analysis for the remaining debt.

Derivatives

During 2002, U.S. Cellular entered into forward contracts in connection with its 10,245,370 Vodafone American Depositary Receipts. The 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. The forward contracts reduce the downside limit to a range of $15.07 to $16.07 per share and upside potential to a range of $21.56 to $23.20 per share.

The forward contracts for the forecasted transactions and hedged items are designated as cash flow hedges and recorded as assets or liabilities on the balance sheet at their fair value. The fair value of the derivative instruments is determined using the Black-Scholes model.

The forward contracts are designated as cash flow hedges, where changes in the forward contract's fair value are recognized in Accumulated other comprehensive income until they are recognized in earnings when the forward contract is settled. If the delivery of the contracted shares does not occur, or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is recognized in earnings at that time. No components of the forward contracts are excluded in the measurement of hedge effectiveness. The critical terms of the forward contracts are the same as the underlying forecasted transactions; therefore, changes in the fair value of the forward contracts are anticipated to be effective in offsetting changes in the expected cash flows from the forecasted transactions. No gains or losses related to ineffectiveness of cash flow hedges were recognized in earnings for the years ended December 31, 2003 and 2002.

Management has evaluated the expected timing of the hedged forecasted transactions to deliver the underlying shares to settle the forward contracts, and believes that these forecasted transactions are probable of occurring in the periods specified in the related hedge documentation or within an additional two-month period of time thereafter.

U.S. Cellular reported a derivative liability of $55.7 million and $8.7 million at December 31, 2003 and 2002, respectively. These amounts are included in the balance sheet caption Deferred Liabilities and Credits.

NOTE 16 MINORITY INTEREST IN SUBSIDIARIES

Under SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," certain minority interests in consolidated entities with finite lives may meet the standard's definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity's organization agreement, assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the "settlement value"). U.S. Cellular's consolidated financial statements include such minority interests that meet the standard's definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies ("LLCs"), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and U.S. Cellular in accordance with the respective partnership and LLC agreements. The termination dates of U.S. Cellular's mandatorily redeemable minority interests range from 2042 to 2100.

On November 7, 2003, the FASB issued FASB Staff Position ("FSP") No. FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests" under FASB Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." The FSP indefinitely deferred the classification and measurement provisions of SFAS No. 150 related to the mandatorily redeemable minority interests associated with finite-lived subsidiaries, but retained the related disclosure provisions. The settlement value of U.S. Cellular's mandatorily redeemable minority interests is estimated to be $104.7 million at December 31, 2003. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on December 31, 2003, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP FAS 150-3; U.S. Cellular has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at December 31, 2003 is $35.2 million, and is included in the balance sheet caption Minority Interest. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $69.5 million is primarily due to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders' share, nor U.S. Cellular's share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements under 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.

The FASB plans to reconsider certain implementation issues and perhaps the classification or measurement guidance for mandatorily redeemable minority interests during the deferral period. The outcome of their deliberations cannot be determined at this point. Accordingly, it is possible that the FASB could require the recognition and measurement of mandatorily redeemable minority interests at their settlement value at a later date.

NOTE 17 COMMON SHAREHOLDERS' EQUITY

Employee Benefit Plans

The following table summarizes Common Shares issued, including reissued Treasury Shares, for the employee benefit plans described as follows:

Year Ended December 31,	2003	2002
Employee stock options and awards	13,917	42,207
Employee Stock Purchase Plan	11,437	26,222
	25,354	68,429

Tax-Deferred Savings Plan

U.S. Cellular has reserved 67,215 Common Shares for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions in a U.S. Cellular Common Share fund, a TDS Common Share fund, or seven nonaffiliated funds.

Stock-based Compensation Plans

U.S. Cellular accounts for stock options, restricted stock awards and employee stock purchase plans under APB Opinion No. 25. No compensation costs have been recognized for the stock option and employee stock purchase plans. Compensation costs were recognized for restricted stock awards as expenses in the statements of operations.

A summary of the status of U.S. Cellular's stock option plans at December 31, 2003, 2002 and 2001 and changes during the years then ended is presented in the table and narrative as follows:

	Weighted Number of Shares	Weighted Average Option Price	Weighted Average Black-Scholes Values of Option Grants
Stock Options			
Outstanding			
December 31, 2000			
(127,012 exercisable)	525,180	$40.32	
Granted	498,431	$54.90	$33.65
Exercised	(80,831)	$24.31	
Canceled	(58,542)	$38.38	
Outstanding			
December 31, 2001			
(199,875 exercisable)	884,238	$50.42	
Granted	869,637	$38.80	$19.74
Exercised	(9,456)	$29.45	
Canceled	(200,985)	$47.17	
Outstanding			
December 31, 2002			
(335,972 exercisable)	1,543,434	$ 45.15	
Granted	**1,435,100**	**$23.85**	**$10.99**
Exercised	**(1,750)**	**$24.37**	
Canceled	**(448,082)**	**$40.18**	
Outstanding			
December 31, 2003			
(496,463 exercisable)	**2,528,702**	**$33.87**	

U.S. Cellular has established Stock Option plans that provide for the grant of stock options to officers and employees and has reserved 6,510,650 Common Shares at December 31, 2003, for options granted and to be granted to key employees. The options under the plan are exercisable from the date of vesting through 2004 to 2013, or 30 days following the date of the employee's termination of employment, if earlier. Under the plan, 496,463 stock options were exercisable at December 31, 2003, have exercise prices between $23.91 and $73.31 and a weighted average exercise price of $46.22 per share.

The following table provides certain details concerning U.S. Cellular stock options outstanding at December 31, 2003:

Range of Exercise Price	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)
$23.20-36.99	1,478,267	$24.34	9.0
$37.00-49.99	810,289	$41.83	8.0
$50.00-73.31	240,146	$65.73	5.8

The following table provides certain details concerning U.S. Cellular stock options exercisable at December 31, 2003:

Range of Exercise Price	Stock Options Exercisable	Weighted Average Exercise Price
$23.91-36.99	76,290	$29.80
$37.00-49.99	303,725	$42.59
$50.00-73.31	116,448	$66.45

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003, 2002 and 2001, respectively: risk-free interest rates of 3.7%, 4.6% and 5.0%; expected dividend yields of zero for all years; expected lives of 9.3 years, 9.4 years and 8.2 years; and expected volatility of 29.4%, 39.4% and 31.7%.

U.S. Cellular has granted key employees restricted shares of stock that fully vest after three years. The number of shares granted were 141,648, 86,826 and 65,671 in the years 2003, 2002 and 2001, respectively. The weighted-average values of the shares granted were $23.70, $39.71 and $60.92 in 2003, 2002 and 2001, respectively. The expenses included in operating income due to grants of restricted shares were $2.8 million, $1.6 million and $3.6 million in 2003, 2002 and 2001, respectively.

Employee Stock Purchase Plan

U.S. Cellular had 148,563 Common Shares reserved under the 2003 Employee Stock Purchase Plan, which will terminate on December 31, 2008. The plan became effective April 1, 2003, and provides for eligible employees of U.S. Cellular and its subsidiaries to purchase a limited number of USM Common Shares on a quarterly basis. The per share cost to each participant is at 85% of the market value of the Common Shares as of the issuance date.

Series A Common Shares

Series A Common Shares are convertible on a share-for-share basis into Common Shares. In matters other than the election of directors, each Series A Common Share is entitled to ten votes per share, compared to one vote for each Common Share. The Series A Common Shares are entitled to elect 75% of the directors (rounded down), and the Common Shares elect 25% of the directors (rounded up). As of December 31, 2003, a majority of U.S. Cellular's Common Shares and all of U.S. Cellular's outstanding Series A Common Shares were held by TDS.

Common Share Repurchase Program

The Board of Directors of U.S. Cellular from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. In 2000, U.S. Cellular authorized the repurchase of up to 4.2 million Common Shares through three separate 1.4 million share programs. U.S. Cellular may use repurchased shares to fund acquisitions and for other corporate purposes. The final 1.4 million share authorization expired in December 2003.

In 2003, no U.S. Cellular Common Shares were repurchased and 32,068 treasury shares were issued pursuant to certain employee and non-employee benefit plans.

In 2002, no U.S. Cellular Common Shares were repurchased and 69,000 treasury shares were issued pursuant to certain employee and non-employee benefit plans.

In 2001, U.S. Cellular paid $29.9 million to repurchase 643,100 of its Common Shares and an additional $11.0 million in January 2001 related to December 2000 repurchases. U.S. Cellular issued 818,000 treasury shares to satisfy retirements of convertible debt securities and pursuant to certain employee benefit plans.

The Board of Directors of U.S. Cellular has also authorized the repurchase of a limited amount of common shares on a quarterly basis, primarily for use in the employee benefit plans.

Accumulated Other Comprehensive Income

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

Year Ended December 31,	2003	2002
(Dollars in thousands)		
Balance, beginning of year	$ 10,307	$ (78,997)
Add (Deduct):		
Unrealized gains (losses) on marketable equity securities	74,227	(86,428)
Income (tax) benefit	(29,327)	35,326
Net unrealized gains (losses)	44,900	(51,102)
Deduct (Add):		
Recognized (losses) on marketable equity securities	(200)	(244,699)
Income tax benefit	79	99,112
Net recognized gains (losses) from Marketable Equity Securities included in Net Income	(121)	(145,587)
	45,021	94,485
Unrealized loss on derivative instruments	(28,539)	(5,181)
Net change in unrealized gains (losses) included in Comprehensive Income	16,482	89,304
Balance, end of year	$ 26,789	$ 10,307
Accumulated Unrealized Loss on Derivative Instruments		
Balance, beginning of year	$ (5,181)	$ —
Add (Deduct):		
Unrealized (loss) on derivative instruments	(28,539)	(5,181)
Balance, end of year	$(33,720)	$ (5,181)

NOTE 18 RELATED PARTIES

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 arms-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 on a basis which is representative of what they would have been if U.S. Cellular operated on a stand-alone basis. Billings to U.S. Cellular from TDS totaled $65.8 million, $56.8 million and $55.7 million in 2003, 2002 and 2001, respectively.

In August 2002, U.S. Cellular entered into a loan agreement with TDS under which it borrowed $105 million, which was used to purchase USCOC of Chicago. The loan bears interest at an annual rate of 8.1%, payable quarterly, and becomes due in August 2008, with prepayments optional. The loan was subordinated to the 2002 Revolving Credit Facility until December 19, 2003. The terms of the loan do not contain restrictive covenants that are greater than those included in U.S. Cellular's senior debt, except that the loan agreement provides that U.S. Cellular may not incur senior debt in an aggregate principal amount in excess of $325 million unless it obtains the consent of TDS as a lender. U.S. Cellular's Board of Directors, including independent directors, approved the terms of this loan and determined that such terms were fair to U.S. Cellular and all of its shareholders. On January 9, 2004, U.S. Cellular notified TDS of its intent to repay this note on February 9, 2004.

U.S. Cellular has a Cash Management Agreement with TDS under which U.S. Cellular may from time to time deposit its excess cash with TDS for investment under TDS's cash management program. Deposits made under the agreement are available to U.S. Cellular on demand and bear interest each month at the 30-day Commercial Paper Rate as reported in The Wall Street Journal, plus 1/4%, or such higher rate as TDS may at its discretion offer on such deposits. Interest income from such deposits was $94,000, $209,000 and $1.5 million in 2003, 2002 and 2001, respectively.

NOTE 19 COMMITMENTS AND CONTINGENCIES

Construction and Expansion

U.S. Cellular's anticipated capital expenditures requirements for 2004 primarily reflect plans for construction, system expansion, the buildout of certain of its personal communication service licensed areas and additional expenditures related to its plans to migrate to a single digital equipment platform. U.S. Cellular's estimated capital spending for 2004 is $610 million to $630 million. These expenditures primarily address the following needs:

- Expand and enhance U.S. Cellular's coverage in its service areas.
- Provide additional capacity to accommodate increased network usage by current customers.
- Build out certain licensed areas acquired in 2001, 2002 and 2003.
- Addition of digital service capabilities to its systems, including completing the migration toward a single digital equipment platform, Code Division Multiple Access ("CDMA"), from a mixture of CDMA and another digital technology, Time Division Multiple Access.
- Enhance U.S. Cellular's retail store network and office systems.

U.S. Cellular's overlay of existing technologies with CDMA is largely completed, and when the project is fully completed in 2004 it anticipates total expenditures related to the project to be no more than $300 million. U.S. Cellular will utilize CDMA technology in building out the licenses it has acquired and expects to acquire in the future from AT&T Wireless.

The cost estimates for the CDMA migration project have been revised from the original estimate of $400 million to $450 million to reflect divestitures of markets, more favorable pricing than expected and additional efficiencies in the conversion process. U.S. Cellular has contracted with multiple infrastructure vendors to provide a substantial portion of the equipment related to the conversion.

U.S. Cellular expects capital expenditures related to the buildout of the licensed areas it acquired in 2001 through 2003, including those in the AT&T Wireless exchange transaction, to be substantial. U.S. Cellular plans to build networks to serve these licensed areas and launch commercial service in these areas over the next several years. Approximately $100 million of the estimated capital spending for 2004 is allocated to the buildout of certain of these licenses, and U.S. Cellular expects a significant portion of its capital spending over the next few years to be related to the buildout of its wireless licensed areas.

Lease Commitments

U.S. Cellular and certain of its majority-owned partnerships and subsidiaries lease certain office and cell site locations under operating leases. Future minimum rental payments required under operating leases that have noncancelable lease terms in excess of one year as of December 31, 2003 are as follows:

	Minimum Future Rentals
(Dollars in thousands)	
2004	$62,227
2005	54,735
2006	45,939
2007	34,346
2008	22,354
Thereafter	$65,856

Rent expense totaled $52.2 million, $57.2 million and $35.4 million in 2003, 2002 and 2001, respectively.

Guarantees

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34." This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including certain indemnifications. It requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if that amount is reasonably estimable, and must disclose that information in its interim and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. The initial adoption of this statement on January 1, 2003, did not have a material impact on results of operations, financial position or cash flows. Guarantees issued or modified after January 1, 2003, are recognized at their fair value in the financial statements.

Indemnifications

U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The terms of the 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 legal proceedings before the Federal Communications Commission and various state and federal courts from time to time. Management does not believe that any of such proceedings will have a materially adverse impact on the financial position, results of operations or cash flows of U.S. Cellular.

NOTE 20 SUBSEQUENT EVENTS

U.S. Cellular completed the sale of its southern Texas wireless markets to AT&T Wireless and received $97.6 million including a preliminary working capital adjustment on February 18, 2004.

On February 9, 2004, U.S. Cellular paid in full, the $105 million 8.1% intercompany note due in 2008 to Telephone and Data Systems, Inc. The payment was funded using U.S. Cellular's $700 million revolving credit facility.