

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 2006 OR

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

For the transition period from _____ to _____

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

62-1147325

(I.R.S. Employer Identification No.)

8410 West Bryn Mawr, Suite 700, Chicago, Illinois 60631
(Address of principal executive offices) (Zip Code)

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

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

Yes No

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

Large accelerated filer Accelerated filer Accelerated filer

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

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Yes No

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

Class	Outstanding at June 30, 2006
Common Shares, \$1 par value	54,197,834 Shares
Series A Common Shares, \$1 par value	33,005,877 Shares

Explanatory Note

United States Cellular Corporation (U.S. Cellular) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, which was originally filed with the Securities and Exchange Commission (SEC) on August 25, 2006 (Original Form 10-Q), to amend Part I Financial Information Item 1 Financial Statements, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Item 3 Quantitative and Qualitative Disclosures About Market Risk, and Item 4 Controls and Procedures, and Part II Other Information Item 6 Exhibits and Financial Statement Schedules.

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

The restatement adjustments are described below.

- **Forward contracts and related derivative instruments** - In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.
 - **Contracts with maintenance and support services** - U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
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- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset.
- **Income taxes** U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts. These individual adjustments were not material.

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

For the convenience of the reader, this Form 10-Q/A sets forth the Original Form 10-Q, as amended hereby, in its entirety. However, this Form 10-Q/A amends and restates only Items 1, 2, 3, and 4 of Part I and Item 6 of Part II of the Original Form 10-Q, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying consolidated financial statements, and no other information in the Original Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-Q/A represented management's views as of the date of filing of the Original Form 10-Q for the quarterly period ended March 31, 2006 on August 25, 2006. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise.

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

UNITED STATES CELLULAR CORPORATION

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE PERIOD ENDED MARCH 31, 2006

INDEX

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited) — As Restated</u>	
<u>Consolidated Statements of Operations — As Restated</u> <u>Three Months Ended March 31, 2006 and 2005</u>	3
<u>Consolidated Statements of Cash Flows — As Restated</u> <u>Three Months Ended March 31, 2006 and 2005</u>	4
<u>Consolidated Balance Sheets — As Restated</u> <u>March 31, 2006 and December 31, 2005</u>	5
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of</u> <u>Financial Condition and Results of Operations</u> <u>Three Months Ended March 31, 2006 and 2005</u>	29
<u>Recent Accounting Pronouncements</u>	34
<u>Financial Resources</u>	42
<u>Liquidity and Capital Resources</u>	43
<u>Application of Critical Accounting Policies and Estimates</u>	44
<u>Certain Relationships and Related Transactions</u>	49
<u>Safe Harbor Cautionary Statement</u>	55
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	59
<u>Part II. Other Information</u>	61
<u>Item 1. Legal Proceedings</u>	65
<u>Item 1A. Risk Factors</u>	65
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
<u>Item 5. Other Information</u>	66
<u>Item 6. Exhibits</u>	66
<u>Signatures</u>	

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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Unaudited

	Three Months Ended	
	March 31,	
	2006	2005
	(As Restated)	
	(Dollars in thousands, except per share amounts)	
OPERATING REVENUES		
Service	\$ 769,222	\$ 670,493
Equipment sales	67,154	39,556
Total Operating Revenues	836,376	710,049
OPERATING EXPENSES		
System operations (excluding Depreciation, amortization and accretion shown separately below)	153,318	139,542
Cost of equipment sold	143,316	127,248
Selling, general and administrative (including charges from affiliates of \$24.3 million and \$19.4 million for the three months ended March 30, 2006 and 2005, respectively)	327,704	278,953
Depreciation, amortization and accretion	142,025	127,886
Total Operating Expenses	766,363	673,629
OPERATING INCOME	70,013	36,420
INVESTMENT AND OTHER INCOME (EXPENSE)		
Equity in earnings of unconsolidated entities	19,483	14,437
Interest and dividend income	588	1,857
Fair value adjustment of derivative instruments	4,815	3,996
Gain on investments		551
Interest expense	(23,208)	(20,738)
Other income, net	202	226
Total Investment and Other Income (Expense)	1,880	329
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	71,893	36,749
Income tax expense	28,710	14,208
INCOME BEFORE MINORITY INTEREST	43,183	22,541
Minority share of income	(3,737)	(2,247)
NET INCOME	\$ 39,446	\$ 20,294
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	87,213	86,405
BASIC EARNINGS PER SHARE (Note 6)	\$ 0.45	\$ 0.23
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	87,807	87,125
DILUTED EARNINGS PER SHARE (Note 6)	\$ 0.45	\$ 0.23

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended	
	March 31,	
	2006	2005
	(As Restated)	(As Restated)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 39,446	\$ 20,294
Add (deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	142,025	127,886
Bad debts expense	7,394	6,445
Stock-based compensation expense	7,325	1,171
Deferred income taxes, net	(1,441)	11,779
Equity in earnings of unconsolidated entities	(19,483)	(14,437)
Distributions from unconsolidated entities	5,547	1,394
Minority share of income	3,737	2,247
Unrealized fair value adjustment for derivative instruments	(4,815)	(3,996)
Gain on investments		(551)
Noncash interest expense	445	445
Changes in assets and liabilities from operations		
Change in accounts receivable	(7,712)	4,996
Change in inventory	7,629	7,167
Change in accounts payable	(47,568)	(55,358)
Change in customer deposits and deferred revenues	2,376	4,670
Change in accrued taxes	31,209	8,725
Change in accrued interest	9,363	8,678
Change in other assets and liabilities	(18,583)	(19,472)
	156,894	112,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(117,209)	(111,985)
Cash paid for acquisitions		(120,924)
Other investing activities	(1,697)	(1,042)
	(118,906)	(233,951)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	55,000	165,000
Repayment of notes payable	(105,000)	(60,000)
Common shares reissued	3,858	6,836
Capital (distributions) to minority partners	(4,146)	
Other financing activities	342	(61)
	(49,946)	111,775
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,958)	(10,093)
CASH AND CASH EQUIVALENTS		
Beginning of period	29,003	41,062
End of period	\$ 17,045	\$ 30,969

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

	March 31, 2006 (As Restated) (Dollars in thousands)	December 31, 2005 (As Restated)
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,045	\$ 29,003
Accounts receivable		
Customers, less allowance of \$8,299 and \$11,410, respectively	280,797	278,170
Roaming	35,819	27,178
Other	45,867	57,011
Inventory	85,118	92,748
Prepaid expenses	39,013	32,068
Deferred income tax asset	8,052	8,218
Other current assets	17,893	15,489
	529,604	539,885
INVESTMENTS		
Licenses	1,362,036	1,362,263
Goodwill	481,553	481,235
Customer lists, net of accumulated amortization of \$50,313 and \$44,616, respectively	41,952	47,649
Marketable equity securities	219,584	225,387
Investments in unconsolidated entities	187,672	172,093
Notes and interest receivable long-term	4,865	4,707
	2,297,662	2,293,334
PROPERTY, PLANT AND EQUIPMENT		
In service and under construction	4,713,848	4,615,234
Less accumulated depreciation	2,176,725	2,062,205
	2,537,123	2,553,029
OTHER ASSETS AND DEFERRED CHARGES		
	29,178	29,985
TOTAL ASSETS	\$ 5,393,567	\$ 5,416,233

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

Unaudited

	March 31, 2006 (As Restated) (Dollars in thousands)	December 31, 2005 (As Restated)
CURRENT LIABILITIES		
Notes payable	\$ 85,000	\$ 135,000
Accounts payable		
Affiliated	8,804	7,239
Trade	251,925	301,058
Customer deposits and deferred revenues	113,782	111,407
Accrued taxes	62,298	36,748
Accrued compensation	28,462	42,865
Other current liabilities	51,768	28,404
	602,039	662,721
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	642,086	647,086
Derivative liability	21,003	25,818
Asset retirement obligation	93,490	90,224
Other deferred liabilities and credits	52,866	46,234
	809,445	809,362
LONG-TERM DEBT		
Long-term debt	1,001,498	1,001,385
Forward Contracts	159,856	159,856
	1,161,354	1,161,241
COMMITMENTS AND CONTINGENCIES (SEE NOTE 19)		
MINORITY INTEREST		
	41,462	41,871
COMMON SHAREHOLDERS' EQUITY		
Common Shares, par value \$1 per share; authorized 140,000,000 shares; issued 55,045,685 shares	55,046	55,046
Series A Common Shares, par value \$1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares	33,006	33,006
Capital in excess of par value	1,282,926	1,286,964
Treasury Shares, at cost, 847,851 and 962,863 Common Shares, respectively	(40,594)	(47,088)
Accumulated other comprehensive income	40,449	44,122
Retained earnings	1,408,434	1,368,988
	2,779,267	2,741,038
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,393,567	\$ 5,416,233

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of United States Cellular Corporation (U.S. Cellular) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries since acquisition, general partnerships in which U.S. Cellular has a majority partnership interest and any entity in which U.S. Cellular has a variable interest that requires U.S. Cellular to recognize a majority of the entity's expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by U.S. Cellular, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular's Annual Report on Form 10-K/A for the year ended December 31, 2005 (Form 10-K/A).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of March 31, 2006, the results of operations for the three months ended March 31, 2006 and 2005, and the cash flows for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

Restatement

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

The restatement adjustments are described below.

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

- **Contracts with maintenance and support services** U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$1.5 million and \$0.7 million in the three months ended March 31, 2006 and 2005, respectively.
- **Income taxes** U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by \$9.6 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts. These individual adjustments were not material.

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

	Three Months Ended March 31, 2006 (Increase (decrease) dollars in thousands)		2005
Income Before Income Taxes and Minority Interest, as previously reported	\$	68,786	\$ 36,033
Forward contracts and related derivative instruments		4,815	3,996
Contracts with maintenance and support services		141	(197)
Property, plant and equipment		1,600	(240)
Other items		(3,449)	(2,843)
Total adjustment		3,107	716
Income Before Income Taxes and Minority Interest, as restated	\$	71,893	\$ 36,749

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

	Three Months Ended March 31, 2006		2005	
	Net Income (Increase (decrease) dollars in thousands, except per share amounts)	Diluted Earnings Per Share	Net Income (Increase (decrease) dollars in thousands, except per share amounts)	Diluted Earnings Per Share
As previously reported	\$ 37,492	\$ 0.43	\$ 19,565	\$ 0.22
Forward contracts and related derivative instruments	3,048	0.03	2,527	0.03
Contracts with maintenance and support services	92		(103)	
Income taxes				
Property, plant and equipment	925	0.01	(134)	
Other items	(2,111)	(0.02)	(1,561)	(0.02)
Total adjustment	1,954	0.02	729	0.01
As restated	\$39,446	\$0.45	\$20,294	\$0.23

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

	Three Months Ended March 31, 2006		2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
OPERATING REVENUES				
Service	\$ 770,082	\$ 769,222	\$ 671,639	\$ 670,493
Equipment Sales	67,154	67,154	39,432	39,556
Total Operating Revenues	837,236	836,376	711,071	710,049
OPERATING EXPENSES				
System Operations (exclusive of depreciation, amortization and accretion shown separately below)	154,855	153,318	138,471	139,542
Cost of equipment sold	143,316	143,316	127,248	127,248
Selling, general and administrative expense	325,618	327,704	278,330	278,953
Depreciation, amortization and accretion expense	141,726	142,025	127,493	127,886
Total Operating Expenses	765,515	766,363	671,542	673,629
Operating Income	71,721	70,013	39,529	36,420
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	19,483	19,483	14,440	14,437
Interest and dividend income	588	588	2,025	1,857
Fair value adjustment of derivative instruments		4,815		3,996
Gain on investments			551	551
Interest expense	(23,208)	(23,208)	(20,738)	(20,738)
Other income, net	202	202	226	226
Total Investment and Other Income (Expense)	(2,935)	1,880	(3,496)	329
Income Before				
Income Taxes and Minority Interest	68,786	71,893	36,033	36,749
Income tax expense (benefit)	27,649	28,710	13,934	14,208
Income Before				
Minority Interest	41,137	43,183	22,099	22,541
Minority share of income	(3,645)	(3,737)	(2,534)	(2,247)
Net Income	\$ 37,492	\$ 39,446	\$ 19,565	\$ 20,294
Basic Earnings per Share				
	\$ 0.43	\$ 0.45	\$ 0.23	\$ 0.23
Diluted Earnings per Share				
	\$ 0.43	\$ 0.45	\$ 0.22	\$ 0.23

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

	Three Months Ended			
	March 31,			
	2006	2006	2005	2005
	As	As	As	As
	Previously	Restated	Previously	Restated
	(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 37,492	\$ 39,446	\$ 19,565	\$ 20,294
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	141,726	142,025	127,493	127,886
Bad Debts expense	7,394	7,394	6,445	6,445
Stock-based compensation expense	5,804	7,325	1,171	1,171
Deferred income taxes, net	(2,501)	(1,441)	11,506	11,779
Equity in earnings of unconsolidated entities	(19,483)	(19,483)	(14,440)	(14,437)
Distributions from unconsolidated entities	5,547	5,547	1,394	1,394
Minority share of income	3,645	3,737	2,534	2,247
Fair value adjustment of derivative instruments		(4,815)		(3,996)
Gain on investments			(551)	(551)
Noncash interest expense	445	445	445	445
Changes in assets and liabilities from operations				
Change in accounts receivable	(7,712)	(7,712)	4,713	4,996
Change in inventory	7,629	7,629	7,167	7,167
Change in accounts payable	(47,568)	(47,568)	(55,387)	(55,358)
Change in customer deposits and deferred revenues	1,515	2,376	3,603	4,670
Change in accrued taxes	31,209	31,209	8,725	8,725
Change in accrued interest	9,363	9,363	8,678	8,678
Change in other assets and liabilities	(15,025)	(18,583)	(20,188)	(19,472)
	159,480	156,894	112,873	112,083
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(119,795)	(117,209)	(112,775)	(111,985)
Cash paid for acquisitions			(120,924)	(120,924)
Other investing activities	(1,697)	(1,697)	(1,042)	(1,042)
	(121,492)	(118,906)	(234,741)	(233,951)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of notes payable	55,000	55,000	165,000	165,000
Repayment of notes payable	(105,000)	(105,000)	(60,000)	(60,000)
Common shares reissued	3,858	3,858	6,836	6,836
Capital (distributions) to minority partners	(4,146)	(4,146)		
Other financing activities	342	342	(61)	(61)
	(49,946)	(49,946)	111,775	111,775
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(11,958)	(11,958)	(10,093)	(10,093)
CASH AND CASH EQUIVALENTS				
Beginning of period	29,003	29,003	41,062	41,062
End of period	\$ 17,045	\$ 17,045	\$ 30,969	\$ 30,969

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

	March 31, 2006 As Previously Reported (Dollars in thousands)	2006 As Restated	December 31, 2005 As Previously Reported	2005 As Restated
CURRENT ASSETS				
Cash and cash equivalents	\$ 17,045	\$ 17,045	\$ 29,003	\$ 29,003
Accounts Receivable				
Customers	284,523	280,797	281,896	278,170
Roaming	35,819	35,819	27,178	27,178
Other	47,293	45,867	58,436	57,011
Inventory	85,118	85,118	92,748	92,748
Prepaid expenses	37,539	39,013	31,026	32,068
Deferred tax asset	8,052	8,052	8,218	8,218
Other current assets	17,549	17,893	15,145	15,489
	532,938	529,604	543,650	539,885
INVESTMENTS				
Licenses	1,362,036	1,362,036	1,362,263	1,362,263
Goodwill	471,935	481,553	471,617	481,235
Customer lists, net of accumulated amortization	46,286	41,952	49,318	47,649
Marketable equity securities	219,584	219,584	225,387	225,387
Investments in unconsolidated entities	185,915	187,672	170,337	172,093
Notes and interest receivable long-term	4,865	4,865	4,707	4,707
	2,290,621	2,297,662	2,283,629	2,293,334
PROPERTY, PLANT AND EQUIPMENT				
In service and under construction	4,753,058	4,713,848	4,653,292	4,615,234
Less accumulated depreciation	2,193,509	2,176,725	2,076,528	2,062,205
	2,559,549	2,537,123	2,576,764	2,553,029
OTHER DEFERRED CHARGES				
	29,178	29,178	29,985	29,985
TOTAL ASSETS	\$ 5,412,286	\$ 5,393,567	\$ 5,434,028	\$ 5,416,233

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	March 31, 2006	2006	December 31, 2005	2005
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(Dollars in thousands)			
CURRENT LIABILITIES				
Notes payable	\$ 85,000	\$ 85,000	\$ 135,000	\$ 135,000
Accounts payable				
Affiliated	8,804	8,804	7,239	7,239
Trade	249,265	251,925	298,397	301,058
Customer deposits and deferred revenues	107,696	113,782	106,180	111,407
Accrued taxes	64,176	62,298	38,627	36,748
Accrued compensation	28,462	28,462	42,865	42,865
Other current liabilities	49,311	51,768	25,952	28,404
	592,714	602,039	654,260	662,721
DEFERRED LIABILITIES AND CREDITS				
Net deferred income tax liability	656,375	642,086	660,667	647,086
Derivative liability	21,003	21,003	25,818	25,818
Asset retirement obligation	93,490	93,490	90,224	90,224
Other deferred liabilities and credits	52,866	52,866	44,636	46,234
	823,734	809,445	821,345	809,362
LONG-TERM DEBT				
Long-term debt	1,001,498	1,001,498	1,001,385	1,001,385
Forward Contracts	159,856	159,856	159,856	159,856
	1,161,354	1,161,354	1,161,241	1,161,241
COMMITMENTS AND CONTINGENCIES				
MINORITY INTEREST	45,939	41,462	46,442	41,871
COMMON SHAREHOLDERS' EQUITY				
Common Shares, par value \$1 per share	55,046	55,046	55,046	55,046
Series A Common Shares, par value \$1 per share	33,006	33,006	33,006	33,006
Additional paid-in capital	1,281,408	1,282,926	1,286,964	1,286,964
Treasury Shares, at cost	(40,594)	(40,594)	(47,088)	(47,088)
Accumulated other comprehensive income	24,319	40,449	24,944	44,122
Retained earnings	1,435,360	1,408,434	1,397,868	1,368,988
	2,788,545	2,779,267	2,750,740	2,741,038
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,412,286	5,393,567	\$ 5,434,028	5,416,233

2. Summary of Significant Accounting Policies

Change in Accounting Principle - Stock-Based Compensation

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan and an employee stock purchase plan. U.S. Cellular employees are also eligible to participate in the Telephone and Data Systems, Inc. (TDS) employee stock purchase plan. These plans are described more fully in Note 3 - Stock-Based Compensation. Prior to January 1, 2006, U.S. Cellular accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation .