

UNITED STATES CELLULAR CORP
Form 10-K/A
May 14, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

**FORM 10-K/A
(Amendment No. 2)**

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

62-1147325

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

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

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number: (773) 399-8900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Shares, \$1 par value

American Stock Exchange

Liquid Yield Option Notes

American Stock Exchange

Due 2015

8.75% Senior Notes Due 2032

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of June 30, 2003, the aggregate market value of registrant's Common Shares held by nonaffiliates was approximately \$381.6 million (based upon the closing price of the Common Shares on June 30, 2003, of \$25.45, as reported by the American Stock Exchange). For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of the voting power of U.S. Cellular is an affiliate.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 29, 2004, is 53,146,566 Common Shares, \$1 par value, and 33,005,877 Series A Common Shares, \$1 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant's 2003 Annual Report to Shareholders described in the cross reference sheet and table of contents attached hereto are incorporated by reference into Part II of this report.

Explanatory Note

United States Cellular Corporation ("U.S. Cellular") is filing this Amendment No. 2 to its Annual Report on Form 10-K for the year ended December 31, 2003, which was originally filed with the Securities and Exchange Commission ("SEC") on March 12, 2004 and amended on April 29, 2004, to amend Item 1 "Business", Item 6 "Selected Consolidated Financial Data," Item 7 "Management's Discussion and Analysis of Results of Operations and Financial Condition" ("MD&A"), Item 7A "Quantitative and Qualitative Disclosures About Market Risk," Item 8 "Financial Statements and Supplementary Data" and Item 15 "Exhibits, Financial Statement Schedules and Reports on Form 8-K."

U.S. Cellular filed a Current Report on Form 8-K on April 19, 2004 which disclosed that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2003 to restate financial statements and financial information for each of the years ended December 31, 2003 and 2002, including restated interim quarterly information for those years. This Amendment No. 2 includes the restated financial information for all such periods. U.S. Cellular did not amend its Annual Report on Form 10-K for the year ended December 31, 2002 or any of its Quarterly Reports on Form 10-Q for the interim periods in 2003 or 2002 to reflect the restated financial information included herein and, accordingly, only the restated financial information included in this Amendment No. 2 should be relied upon for such periods.

The restatement of U.S. Cellular's 2003 and 2002 financial statements relates 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 wireless license costs and goodwill. At that time, the accounting treatment for the U.S. Cellular's wireless license costs 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 wireless license costs 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 wireless license costs by a corresponding \$90.7 million. Following these adjustments, U.S. Cellular reperformed the impairment tests for its wireless license costs as of January 1, 2002, and recorded an impairment loss of \$12.7 million (\$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 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 wireless 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 wireless license costs 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.

Except as expressly stated herein, this amendment does not update any of the disclosures contained in the original filing or amendment No. 1 to reflect any events that occurred after the original filing dates of March 12, 2004 or April 29, 2004, respectively. The filing of this Form 10-K/A shall not be deemed an admission that the original filing, when made included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

**CROSS REFERENCE SHEET
AND
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- (1) Parenthetical references are to information incorporated by reference from Exhibit 13 to this document, which includes portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2003 ("Annual Report").
- (2) Annual Report section entitled "United States Cellular Stock and Dividend Information."
- (3) Annual Report section entitled "Selected Consolidated Financial Data."
- (4) Annual Report section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition."
- (5) Annual Report sections entitled "Consolidated Statements of Operations," "Consolidated Statements of Cash Flows," "Consolidated Balance Sheets," "Consolidated Statements of Changes in Common Shareholders' Equity," "Notes to Consolidated Financial Statements," "Consolidated Quarterly Income Information (Unaudited)," "Report of Independent Auditors" and "Copy of Previously Issued Report of Independent Accountants."

United States Cellular Corporation

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PART I

Item 1. Business

United States Cellular Corporation ("U.S. Cellular") provides wireless telephone service to 4,409,000 customers through the operations of 182 majority-owned ("consolidated") wireless licenses throughout the United States. Since 1985, when it began providing cellular service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover seven market areas in 28 states as of December 31, 2003. Through a 2003 exchange transaction, U.S. Cellular has rights to wireless licenses covering territories in two additional states and has the rights to commence service in those licensed areas in the future. The wireless licenses that U.S. Cellular currently includes in its consolidated operations cover a total population of more than one million in each market area.

U.S. Cellular's ownership interests in wireless licenses include interests in licenses covering 165 cellular metropolitan statistical areas (as designated by the U.S. Office of Management and Budget and used by the Federal Communications Commission ("FCC") in designating metropolitan cellular market areas) or rural service areas (as used by the FCC in designating non-metropolitan statistical area cellular market areas) ("cellular licenses") and 70 personal communication service basic trading areas (used by the FCC in dividing the United States into personal communication service market areas for licenses in Blocks C through F). Of those interests, U.S. Cellular owns controlling interests in 133 cellular licenses and 49 personal communication service basic trading areas. U.S. Cellular also owns rights to acquire controlling interests in 21 additional personal communication service licenses through an acquisition agreement with AT&T Wireless Services, Inc. ("AT&T Wireless"). See "Wireless Systems Development Asset Exchange with AT&T Wireless."

At December 31, 2003, U.S. Cellular has consolidated four interests in joint ventures in which it has a limited partnership interest because it is deemed to have a controlling financial interest. In January 2004, U.S. Cellular acquired the remaining partnership interests in three of these entities and now owns 100% of the interests in these licenses.

In November 2003, U.S. Cellular agreed to sell its controlling interests in six cellular licenses in southern Texas to AT&T Wireless Services, Inc. ("AT&T Wireless") for cash. This transaction was completed in February 2004. Subsequent to the completion of this transaction, in which one entire market area was divested, U.S. Cellular's operations will cover six market areas.

U.S. Cellular manages the operations of all but two of the licenses in which it owns a controlling interest; U.S. Cellular has contracted with another wireless operator to manage the operations of the other two licenses. U.S. Cellular also manages the operations of four additional licenses in which it does not own a controlling interest, through an agreement with the controlling interest holder or holders. U.S. Cellular manages or has the rights to manage the operations of all except one of the 70 personal communication service licenses in which it owns an interest. In the remaining personal communication service license in which U.S. Cellular owns a limited partner interest, the general partner has the authority to select the manager of this operation.

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The following table summarizes the status of U.S. Cellular's interests in wireless markets at December 31, 2003. Personal communication service markets are designated as "PCS".

	<u>Total</u>	<u>Cellular</u>	<u>PCS</u>
Consolidated markets (1)	182	133	49
Consolidated markets to be acquired pursuant to existing agreements (2)	21		21
Minority interests accounted for using equity method (3)	26	26	
Minority interests accounted for using cost method (4)	6	6	
Total markets currently owned	235	165	70
Consolidated markets to be divested pursuant to existing agreements (5)	(6)	(6)	
Total markets to be owned after completion of pending transactions	229	159	70

- (1) U.S. Cellular owns a controlling interest in each of the 133 cellular markets and 49 personal communication service markets. Included in the 49 consolidated personal communication service markets are four markets in which U.S. Cellular owns a limited partner interest, and U.S. Cellular includes the operations of these licenses in its consolidated results because it is considered to have the controlling financial interest for financial reporting purposes.
- (2) U.S. Cellular owns rights to acquire controlling interests in 21 additional personal communication service licenses through an acquisition agreement with AT&T Wireless which was closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire these licenses. See "Wireless Systems Development Asset Exchange with AT&T Wireless."
- (3) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the equity method. U.S. Cellular's investments in these licenses are included in investment in unconsolidated entities in its balance sheet and its proportionate share of the net income of these licenses is included in investment income in its statement of operations.
- (4) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the cost method. U.S. Cellular's investments in these licenses are included in investment in unconsolidated entities in its balance sheet.
- (5) U.S. Cellular had agreed to sell these markets, which are included in "Consolidated Markets," to AT&T Wireless as of December 31, 2003. The transaction was completed in February 2004.

Some of the territory covered by the personal communication service licenses U.S. Cellular operates overlaps with territory covered by the cellular licenses it operates. For the purpose of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. Only non-overlapping, incremental population counts are added to the reported amount of total population in the case of an acquisition of a licensed area that overlaps a previously owned licensed area. The incremental population counts that are added in such event are referred to throughout this Form 10-K as "incremental" population measurements. Amounts reported in this Form 10-K as "total market population" do not duplicate any population counts in the case of any overlapping licensed areas U.S. Cellular owns.

U.S. Cellular owns interests in consolidated wireless licenses which cover a total population of 46.3 million as of December 31, 2003. U.S. Cellular also owns investment interests in wireless licenses which represent 2.1 million population equivalents as of that date. "Population equivalents" represent the population of a wireless licensed area, based on 2002 Claritas estimates, multiplied by the percentage interest that U.S. Cellular owns in an entity licensed to operate such wireless license.

U.S. Cellular believes that it is the eighth largest wireless company in the United States, based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. In recent years, U.S. Cellular's focus has broadened to include exchanges and divestitures of consolidated and investment interests which are considered less

essential to its operating strategy.

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Wireless systems in U.S. Cellular's consolidated markets served 4,409,000 customers at December 31, 2003, and contained 4,184 cell sites. The average penetration rate in U.S. Cellular's consolidated markets was 9.53% at December 31, 2003, and the number of customers who discontinued service (the "churn rate") in these markets averaged 1.78% per month for the twelve months ended December 31, 2003.

U.S. Cellular was incorporated in Delaware in 1983. U.S. Cellular's executive offices are located at 8410 West Bryn Mawr, Chicago, Illinois 60631. Its telephone number is 773-399-8900. The Common Shares of U.S. Cellular are listed on the American Stock Exchange under the symbol "USM." U.S. Cellular's Liquid Yield Option Notes are also listed on the American Stock Exchange under the symbol "USM.B." U.S. Cellular's 8.75% Senior Notes are listed on the New York Stock Exchange under the symbol "UZG." U.S. Cellular is a majority-owned subsidiary of Telephone and Data Systems, Inc. (AMEX symbol "TDS"). TDS owns 82.1% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controls 96.0% of the combined voting power of both classes of common stock.

Available Information

U.S. Cellular's website is <http://www.uscellular.com>. Investors may access, free of charge, through the About Us / Investor Relations portion of the website, U.S. Cellular's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission.

Wireless Telephone Operations

The Wireless Telephone Industry. Wireless telephone technology provides high-quality, high-capacity communications services to hand-held portable and in-vehicle wireless telephones. Wireless telephone systems are designed for maximum mobility of the customer. Access is provided through system interconnections to local, regional, national and world-wide telecommunications networks. Wireless telephone systems also offer a full range of services, similar to those offered by conventional ("landline") telephone services. Data transmission capabilities offered by wireless telephone systems may be at slower speeds than those offered by landline telephone or other data service providers.

Wireless telephone systems divide each service area into smaller geographic areas or "cells." Each cell is served by radio transmitters and receivers which operate on discrete radio frequencies licensed by the FCC. All of the cells in a system are connected to a computer-controlled mobile telephone switching office. Each mobile telephone switching office is connected to the landline telephone network and potentially other mobile telephone switching offices. Each conversation on a wireless phone involves a transmission over a specific set of radio frequencies from the wireless phone to a transmitter/receiver at a cell site. The transmission is forwarded from the cell site to the mobile telephone switching office and from there may be forwarded to the landline telephone network or to another wireless phone to complete the call. As the wireless telephone moves from one cell to another, the mobile telephone switching office determines radio signal strength and transfers ("hands off") the call from one cell to the next. This hand-off is not noticeable to either party on the phone call.

The FCC currently grants two licenses to provide cellular telephone service in each cellular licensed area. Multiple licenses have been granted in each personal communication service licensed area, and these licensed areas overlap with cellular licensed areas. As a result, personal communication services license holders can and do compete with cellular license holders for customers. In addition, specialized mobile radio systems operators such as Nextel are providing wireless services similar to those offered by U.S. Cellular. Competition for customers also includes competing communications technologies, such as:

conventional landline telephone,

mobile satellite communications systems,

radio paging, and

voice over Internet Protocol.

Personal communication service licensees have initiated service in nearly all areas of the United States, including substantially all of U.S. Cellular's licensed areas, and U.S. Cellular expects other wireless operators to continue deployment in all of U.S. Cellular's operating regions throughout 2004 and beyond. Additionally, technologies such as enhanced specialized mobile radio are competitive with wireless service in many of U.S. Cellular's markets.

The services available to wireless customers and the sources of revenue available to wireless system operators are similar to those provided by landline telephone companies. Customers may be charged a separate fee for system access, airtime, long-distance calls and ancillary services. Wireless system operators also provide service to customers of other operators' wireless systems while the customers are temporarily located within the operators' service areas. Customers using service away from their home system are called "roamers." Roaming is available because technical standards require that analog wireless telephones be compatible in all market areas in the United States. Additionally, because U.S. Cellular has deployed digital radio technologies in substantially all of its service areas, its customers with digital, dual-mode (both analog and digital capabilities) or tri-mode (analog plus digital capabilities at both the cellular and personal communication service radio frequencies) wireless telephones can roam in other companies' service areas which have a compatible digital technology in place. Likewise, U.S. Cellular can provide roaming service to other companies' customers who have compatible digital wireless telephones. In all cases, the system that provides the service to roamers will generate usage revenue, at rates that have been negotiated between the serving carrier and the customer's carrier.

There have been a number of technical developments in the wireless industry since its inception. Currently, while substantially all companies' mobile telephone switching offices process information digitally, on certain cellular systems the radio transmission uses analog technology. All personal communication service systems utilize digital radio transmission. Several years ago, certain digital transmission techniques were approved for implementation by the wireless industry in the United States. Time Division Multiple Access ("TDMA") technology was selected as one industry standard by the wireless industry and has been deployed by many wireless operators, including U.S. Cellular's operations in a substantial portion of its markets. Another digital technology, Code Division Multiple Access ("CDMA"), was also deployed by U.S. Cellular in its remaining markets.

In late 2001, U.S. Cellular announced its plans to migrate to a single digital technology, CDMA for its customers, in all of its markets. U.S. Cellular believes that a single digital technology platform represents the best network strategy to foster its future growth. In 2002, U.S. Cellular began its plans to deploy CDMA 1XRTT technology, which improves capacity and allows for higher speed data transmission than basic CDMA, throughout all of its markets, over a three-year period ending in 2004. As of December 31, 2003, U.S. Cellular had deployed CDMA 1XRTT technology in a substantial portion of its licensed areas, including areas where it had previously deployed TDMA technology, as part of its technology conversion plans. Migration of U.S. Cellular's customers to CDMA handsets in these markets is expected to take a few years.

U.S. Cellular believes CDMA technology is the best digital radio technology choice for its operations for the following reasons:

TDMA technology may not be supported by manufacturers of future generations of wireless products due to limitations on the services it enables wireless companies to provide.

The lower long-term cost of CDMA in relation to the spectrum efficiency it provides compared to similar costs of other technologies.

Improved coverage provided by CDMA at most cell sites compared to other technologies.

A more efficient evolution through CDMA to a wireless network with higher data speeds, which will enable U.S. Cellular to provide enhanced data services.

The main disadvantage of U.S. Cellular's conversion to CDMA technology is that it is generally not used outside of the United States. A third digital technology, Global System for Mobile Communication ("GSM"), is the standard technology in Europe and most other areas outside the United States. GSM technology, which is used by certain wireless companies in the United States, has certain advantages over CDMA in that GSM phones can be used more widely outside of the

United States and GSM has a larger installed worldwide customer base. Also, TDMA technology is used in many parts of the United States and in other countries as well. Since CDMA technology is not compatible with GSM or TDMA technology, U.S. Cellular customers with CDMA-based handsets may not be able to use all of their handset features when traveling through GSM- and TDMA-based networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular's customers may access CDMA service in virtually all areas of the United States.

U.S. Cellular will continue to retain TDMA technology for the next several years in markets in which such technology is in use today. This will enable U.S. Cellular to provide TDMA-based service to its customers who still choose to use TDMA-based handsets and to roamers from other wireless providers who have TDMA-based networks. Also, since the TDMA equipment has analog capabilities embedded, U.S. Cellular will maintain the TDMA network in order to be able to meet the FCC mandate of retaining analog capability through 2008.

U.S. Cellular's Operations. Management anticipates further growth in wireless units in service and revenues in 2004 as it continues to expand through internal growth and as the licenses acquired in 2001, 2002 and 2003 become integrated into its operations.

Expenses associated with this customer and revenue growth may reduce the amount of cash flows from operating activities and operating income during 2004. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular's cash flows from operating activities and operating income to vary from quarter to quarter.

Changes in any of several factors may reduce U.S. Cellular's growth in operating income and net income over the next few years. These factors include but are not limited to:

the growth rate in U.S. Cellular's customer base;

the usage and pricing of wireless services;

the cost to begin or integrate operations of newly acquired licensed areas;

the churn rate;

the cost of providing wireless services, including the cost of attracting and retaining customers;

the impact of the ability of wireless customers to retain, subject to certain geographical limitations, their existing telephone numbers when switching from one telecommunications carrier to another ("wireless number portability") on U.S. Cellular's business;

the completion of U.S. Cellular's migration to a CDMA network platform, which will require capital expenditures;

continued competition from other wireless licensees and other telecommunication technologies; and

continuing technological advances which may provide wireless products/services and additional competitive alternatives to wireless service.

U.S. Cellular is building a substantial presence in selected geographic areas throughout the United States where it can efficiently integrate and manage wireless telephone systems. Its wireless interests included seven market areas as of December 31, 2003. See "U.S. Cellular's Wireless Interests."

Wireless Systems Development

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Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from grouping its licenses geographically. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum. Over the past few years, U.S. Cellular has completed exchanges of minority interests or controlling interests in its less strategic markets for controlling interests in markets which better complement its operating market areas, such as the 2003 Georgia and Florida exchange transaction with AT&T Wireless. U.S. Cellular has also completed outright sales of other less strategic licenses, such as

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the transaction completed in February 2004 pursuant to which U.S. Cellular sold certain licenses and operations in southern Texas to AT&T Wireless, and has purchased controlling interests in licenses which enhance its operating market areas. In 2001, U.S. Cellular began acquiring interests in personal communication service licenses. These licenses are in markets which are either adjacent to U.S. Cellular's current operations, thus expanding its current operating market areas, or are in territories in which U.S. Cellular currently operates, and will add spectrum capacity to those operations.

U.S. Cellular may continue to make opportunistic acquisitions or exchanges in markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also seeks to acquire minority interests in licenses where it already owns the majority interest and/or operates the license. There can be no assurance that U.S. Cellular will be able to negotiate additional acquisitions or exchanges on terms acceptable to it or that regulatory approvals, where required, will be received. U.S. Cellular plans to retain minority interests in certain wireless licenses which it believes will earn a favorable return on investment. Other minority interests may be exchanged for interests in licenses which enhance U.S. Cellular's operations or may be sold for cash or other consideration. U.S. Cellular also continues to evaluate the disposition of certain controlling interests in wireless licenses which are not essential to its corporate development strategy.

U.S. Cellular has an effective shelf registration for its Common Shares and Preferred Stock under the Securities Act of 1933 for issuance specifically in connection with acquisitions.

Asset Exchange with AT&T Wireless. On March 10, 2003, U.S. Cellular announced that it had entered into a definitive agreement with AT&T Wireless to exchange wireless properties. When this transaction is fully consummated, U.S. Cellular will receive 10 and 20 megahertz personal communication service licenses in 13 states contiguous to and that overlap existing properties in the Midwest and the Northeast; approximately \$34 million in cash; and minority interests in six licenses it currently controls. On August 1, 2003, U.S. Cellular completed the transfer of wireless assets and customers in 10 markets in Florida and Georgia, representing the majority of U.S. Cellular's operations in these states, to AT&T Wireless and the assignments to it from AT&T Wireless of a portion of the personal communication service licenses. The assignment and development of 21 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. On August 1, 2003, U.S. Cellular also received the \$34 million in cash and the minority interests. 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.

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 accounted for 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 accounted for in License rights on the consolidated balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation.

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 Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." A loss of \$23.9 million was recorded in 2003 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 the transaction.

Pending Divestiture of Markets to AT&T Wireless. On November 26, 2003, U.S. Cellular entered into an agreement with AT&T Wireless, pursuant to which U.S. Cellular would sell its majority interests and operations in six cellular markets to AT&T Wireless for \$95 million in cash, excluding a working capital adjustment. These six markets represent U.S. Cellular's entire southern Texas market area. As of the date of the agreement, U.S. Cellular accounted for the assets and liabilities to be sold as assets and liabilities of operations held for sale in accordance with SFAS No. 144

"Accounting for the Impairment or Disposal of Long-Lived Assets." The results of operations of the markets held for sale to AT&T Wireless at December 31, 2003 were included in results of operations through the transaction closing date in February 2004.

A loss of \$22.0 million was recorded in 2003 as a Loss on assets held for sale (included in operating expenses), representing the difference between the book value of the markets to be sold to AT&T Wireless and the cash to be received in the transaction.

Wireless Interests and Operating Market Areas

U.S. Cellular operates its adjacent wireless systems under an organization structure in which it groups its markets into geographic market areas to offer customers large local service areas which primarily utilize U.S. Cellular's network. Customers may make outgoing calls and receive incoming calls within each market area without special roaming arrangements. In addition to benefits to customers, its operating strategy also has provided to U.S. Cellular certain economies in its capital and operating costs. These economies are made possible through the elimination of outbound roaming costs and increased sharing of facilities, personnel and other costs, enabling U.S. Cellular to maintain a relatively low per customer cost of service. The extent to which U.S. Cellular benefits from these revenue enhancements and economies of operation is dependent on market conditions, population size of each market area and network engineering considerations.

The following section details U.S. Cellular's wireless interests, including those it owned or had the right to acquire as of December 31, 2003. The table presented therein lists the markets that U.S. Cellular manages or has the right to manage, grouped according to operating market area. U.S. Cellular's operating structure shows the areas in which U.S. Cellular is currently focusing its development efforts. These market areas have been devised with a long-term goal of allowing delivery of wireless service to areas of economic interest and along corridors of economic activity.

The table aggregates the total population of the consolidated licenses within each operating market area, regardless of U.S. Cellular's percentage ownership in the licenses included in such operating market areas. Those markets in which U.S. Cellular owns less than 100% of the license show U.S. Cellular's ownership percentage; in all others, U.S. Cellular owns 100% of the license. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular's ownership interest in each such license.

The total population and population equivalents measures are provided to enable comparison of the relative size of each operating market area to U.S. Cellular's consolidated operations and to enable comparison of the relative size of U.S. Cellular's consolidated markets to its investment interests, respectively. The total population of U.S. Cellular's consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems.

U.S. CELLULAR'S WIRELESS INTERESTS

The table below sets forth certain information with respect to the interests in wireless markets which U.S. Cellular owned or had the right to acquire pursuant to definitive agreements as of December 31, 2003.

Some of the territory covered by the personal communication service licenses U.S. Cellular owns overlaps with territory covered by the cellular licenses it owns. For the purpose of tracking amounts in the "2002 Total Population" column in the table below, when U.S. Cellular acquires or agrees to acquire a licensed area that overlaps a licensed area it already owns, it does not duplicate the total population for any overlapping licensed area. Only non-overlapping, incremental population amounts are added to the amounts in the "2002 Total Population" column in the table below, in the case of an acquisition of a licensed area that overlaps a previously owned licensed area.

<i>Market Area/Market</i>	<i>Current or Future Percentage Interest (1)</i>	<i>2002 Total Population (2)</i>
<i>Markets Currently Consolidated or Which Are Expected To Be Consolidated</i>		
MIDWEST MARKET AREA:		
Chicago Major Trading Area/Michigan		
Chicago, IL-IN-MI-OH 20MHz B Block MTA # (3) (4)		
Battle Creek, MI 20MHz A Block # (5)		
Jackson, MI 10MHz A Block # (5)		
Kalamazoo, MI 20MHz A Block # (5)		
Total Chicago Major Trading Area/Michigan		12,865,000
Wisconsin/Minnesota		
Milwaukee, WI		
Madison, WI	92.50%	
Columbia (WI 9)		
Appleton, WI		
Wood (WI 7)		
Rochester, MN 10MHz F Block #		
Vernon (WI 8)		
Green Bay, WI		
Racine, WI	92.15%	
Kenosha, WI	99.32%	
Janesville-Beloit, WI		
Door (WI 10)		
Sheboygan, WI		
La Crosse, WI	95.11%	
Trempealeau (WI 6) (3)		
Pierce (WI 5) (3)		
Milwaukee, WI 10MHz D Block #		
Madison, WI 10MHz F Block #		
Total Wisconsin/Minnesota		4,700,000
Iowa/Nebraska/South Dakota		
Des Moines, IA		
Davenport, IA-IL	97.37%	
Sioux City, IA-NE-SD 10MHz F Block # (5)		
Cedar Rapids, IA	96.43%	
Iowa (IA 6)		

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<i>Market Area/Market</i>	<i>Current or Future Percentage Interest (1)</i>	<i>2002 Total Population (2)</i>
Muscatine (IA 4)		
Waterloo-Cedar Falls, IA	93.03%	
Hardin (IA 11)		
Iowa City, IA		
Jackson (IA 5)		
Kossuth (IA 14)		
Lyon (IA 16)		
Dubuque, IA	95.51%	
Mitchell (IA 13)		
Audubon (IA 7)		
Union (IA 2)		
Fort Dodge, IA 10MHz D Block # (5)		
Des Moines, IA 10MHz D Block #		
Davenport, IA-IL 10MHz E Block #		
Clinton, IA-IL 10MHz E Block #		
Burlington, IA-IL-MO 10MHz E Block #		
Iowa City, IA 10MHz E Block #		
Ottumwa, IA 10MHz E Block #		
Total Iowa/Nebraska/South Dakota		2,727,000

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Markets Currently Consolidated or Which Are Expected To Be Consolidated

MIDWEST MARKET AREA(continued):

Illinois/Indiana

Indianapolis, IN 10MHz F Block # (5) (6)

Peoria, IL

Jo Daviess (IL 1)

Rockford, IL

Bloomington-Bedford, IN 10MHz B Block # (5)

Terre Haute, IN-IL 20MHz B Block #

Adams (IL 4) *

Carbondale-Marion, IL 10MHz A Block/10MHz D Block # (5)

Mercer (IL 3)

Miami (IN 4) * 85.71%

Muncie, IN 10MHz B Block # (5)

Anderson, IN 10MHz B Block # (5)

Lafayette, IN 10MHz B Block #

Columbus, IN 10MHz B Block # (5)

Warren (IN 5) * 33.33%

Mount Vernon-Centralia, IL 10MHz A Block #

Kokomo-Logansport, IN 10MHz B Block #

Richmond, IN 10MHz B Block # (5)

Vincennes-Washington, IN-IL 10MHz B Block # (5)

Marion, IN 10MHz B Block #

Alton, IL *

Rockford, IL 10MHz E Block #

Peoria, IL 10MHz C Block # (7) 85.00%

Peoria, IL 10MHz E Block #

Springfield, IL 10MHz E Block/10MHz F Block #

Decatur-Effingham, IL 10MHz E Block/10MHz F Block #

Bloomington, IL 10MHz E Block/10MHz F Block #

Champaign-Urbana, IL 10MHz E Block/F Block #

LaSalle-Peru-Ottawa-Streator, IL 10MHz C Block # (7) 85.00%

LaSalle-Peru-Ottawa-Streator, IL 10MHz F Block #

Danville, IL-IN 15MHz C Block # (7) 85.00%

Galesburg, IL 30MHz C Block #

Jacksonville, IL 10MHz F Block #

Mattoon, IL 10MHz E Block/10MHz F Block #

Total Illinois/Indiana 5,183,000

Nebraska/Iowa/Missouri/Kansas

Omaha, NE-IA 10 MHz A Block/10MHz E Block #

Lincoln, NE 10MHz F Block #

St. Joseph, MO-KS 10MHz E Block #

Mills (IA 1)

Total Nebraska/Iowa/Missouri/Kansas 1,558,000

Missouri/Illinois/Arkansas

St. Louis, MO/IL 10MHz A Block #

Springfield, MO 20MHz A Block #

Cape Girardeau-Sikeston, MO/IL 10MHz A Block/10MHz D Block # (5)

Moniteau (MO 11)

Columbia, MO *

Poplar Bluff, MO/AR 10MHz A Block # (5)

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Stone (MO 15)	
Jefferson City, MO 10MHz A Block #	
Laclede (MO 16)	
Rolla, MO 10MHz A Block #	
Washington (MO 13)	
Callaway (MO 6) *	
Sedalia, MO 10MHz C Block # (8)	
Schuyler (MO 3)	
Shannon (MO 17)	
Linn (MO 5) (3)	
Columbia, MO 10MHz A Block #	
Harrison (MO 2) (3)	
Total Missouri/Illinois/Arkansas	4,637,000
TOTAL MIDWEST MARKET AREA	31,670,000

*Markets Currently Consolidated or Which Are Expected To Be Consolidated***MID-ATLANTIC MARKET AREA:****Eastern North Carolina/South Carolina**

Harnett (NC 10)

Rockingham (NC 7)

Northampton (NC 8)

Greenville (NC 14)

Greene (NC 13)

Hoke (NC 11)

Wilmington, NC

98.83%

Chesterfield (SC 4)

Chatham (NC 6)

Jacksonville, NC

97.57%

Sampson (NC 12)

Camden (NC 9)

Total Eastern North Carolina/South Carolina

2,793,000

Virginia/North Carolina

Roanoke, VA

Giles (VA 3)

Bedford (VA 4)

Ashe (NC 3)

Lynchburg, VA

Charlottesville, VA

95.37%

Buckingham (VA 7)

Tazewell (VA 2) (3)

Bath (VA 5)

Total Virginia/North Carolina

1,457,000

West Virginia/Maryland/Pennsylvania/Ohio

Monongalia (WV 3) *

Raleigh (WV 7) *

Grant (WV 4) *

Tucker (WV 5) *

Hagerstown, MD *

Cumberland, MD *

Bedford (PA 10) * (3)

Garrett (MD 1) *

Total West Virginia/Maryland/Pennsylvania/Ohio

1,155,000

TOTAL MID-ATLANTIC MARKET AREA

5,405,000

TEXAS/OKLAHOMA/MISSOURI/KANSAS/ARKANSAS MARKET AREA:

Oklahoma City, OK 10MHz F Block #

Tulsa, OK * (8)

Wichita, KS 10MHz A Block # (5)

Fayetteville-Springdale, AR 10MHz A Block # (5)

Fort Smith, AR-OK 10MHz A Block # (5)

Seminole (OK 6) (8)

Garvin (OK 9)

Joplin, MO *

Elk (KS 15) *

75.00%

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Wichita Falls, TX *	78.46%
Lawton, OK *	78.46%
Nowata (OK 4) * (3) (8)	
Lawrence, KS 10MHz E Block # (5)	
Jackson (OK 8) *	78.46%
Enid, OK 10MHz C Block # (8)	
Haskell (OK 10)	
Stillwater, OK 10MHz F Block #	
Ponca City, OK 30MHz C Block #	
Hardeman (TX 5) * (3)	