

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No.1

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

For the quarterly period ended March 31, 2005 OR

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

For the transition period from _____ to _____

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(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)

Edgar Filing: UNITED STATES CELLULAR CORP - Form 10-Q/A

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Yes No

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

Class	Outstanding at March 31, 2005
Common Shares, \$1 par value	53,604,615 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, 2005, which was originally filed with the Securities and Exchange Commission (SEC) on May 4, 2005 (Original Form 10-Q), to amend Part I Financial Information Item 1 Financial Statements, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and Item 4 Controls and Procedures, and Part II Other Information Item 6 Exhibits and Financial Statement Schedules.

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

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

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

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC's established procedures. However, U.S. Cellular's actual liability for USF is based upon its actual revenues and USAC's established procedures provide a method to adjust U.S. Cellular's estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular's actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular's annual report filings. Such additional

amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, U.S. Cellular has adjusted previously reported USF contributions expense to reflect the estimated liability incurred during the period.

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

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

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

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

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

net income (loss) reported for such periods.

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

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

Edgar Filing: UNITED STATES CELLULAR CORP - Form 10-Q/A

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, 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 financial statements, and no other information in the Original Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-Q/A represented management's views as of the date of filing of the Original Form 10-Q for the quarter ended March 31, 2005 on May 4, 2005. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise.

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

UNITED STATES CELLULAR CORPORATION

1ST QUARTER REPORT ON FORM 10-Q/A

AMENDMENT NO.1

INDEX

<u>Part I.</u>	<u>Financial Information</u>	<u>Page No.</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited) - As Restated</u>	
	<u>Consolidated Statements of Operations - As Restated Three Months Ended March 31, 2005 and 2004</u>	<u>3</u>
	<u>Consolidated Statements of Cash Flows - As Restated Three Months Ended March 31, 2005 and 2004</u>	<u>4</u>
	<u>Consolidated Balance Sheets - As Restated March 31, 2005 and December 31, 2004</u>	<u>5-6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7-22</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23-27</u>
	<u>Three Months Ended March 31, 2005 and 2004</u>	<u>28-37</u>
	<u>Recent Accounting Pronouncements</u>	<u>37</u>
	<u>Financial Resources</u>	<u>37-38</u>
	<u>Liquidity and Capital Resources</u>	<u>39-42</u>
	<u>Application of Critical Accounting Policies and Estimates</u>	<u>43-47</u>
	<u>Certain Relationships and Related Transactions</u>	<u>47</u>
	<u>Safe Harbor Cautionary Statement</u>	<u>49-50</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51-52</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>53-55</u>
<u>Part II.</u>	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>56</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>57</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>57</u>
<u>Signatures</u>		

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

	Three Months Ended March 31,	
	2005 (As Restated) (Dollars in thousands, except per share amounts)	2004 (As Restated)
OPERATING REVENUES		
Service	\$ 671,639	\$ 614,951
Equipment sales	39,432	38,224
Total Operating Revenues	711,071	653,175
OPERATING EXPENSES		
System operations (excluding depreciation, amortization and accretion expense shown separately below)	138,471	139,608
Cost of equipment sold	127,248	119,818
Selling, general and administrative expense	278,330	250,793
Depreciation, amortization and accretion expense	127,493	114,018
Gain on assets held for sale		(143)
Total Operating Expenses	671,542	624,094
OPERATING INCOME	39,529	29,081
INVESTMENT AND OTHER INCOME (EXPENSE)		
Investment income	14,440	13,784
Interest and dividend income	2,025	370
Interest (expense)	(20,738)	(20,315)
Gain on investments	551	
Other income, net	226	324
Total Investment and Other Income (Expense)	(3,496)	(5,837)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	36,033	23,244
Income tax expense	13,934	11,653
INCOME BEFORE MINORITY INTEREST	22,099	11,591
Minority share of income	(2,534)	(2,187)
NET INCOME	\$ 19,565	\$ 9,404
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	86,405	86,153
BASIC EARNINGS PER SHARE (Note 4)	\$ 0.23	\$ 0.11
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	87,125	86,704
DILUTED EARNINGS PER SHARE (Note 4)	\$ 0.22	\$ 0.11

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