in 2003 and 2002 were impacted by the losses on assets held for sale and the losses on investments, which have different tax rates than U.S. Cellular's overall operations. See Note 2 – Income Taxes in the Notes to Consolidated Financial Statements for further discussion of the effective tax rate.

TDS and U.S. Cellular are parties to a Tax Allocation Agreement, pursuant to which U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group.

For financial reporting purposes, U.S. Cellular computes federal income taxes as if it were filing a separate return as its own affiliated group and was not included in the TDS group.

Cumulative Effect of Accounting Changes

Cumulative effect of accounting changes, net of tax and minority interest, reduced income by \$14.3 million, net of taxes of \$9.7 million and minority interest of \$0.5 million, or \$0.17 per diluted share, in 2003, reflecting the implementation of SFAS No. 143, and \$8.6 million, or \$0.09 per diluted share, to income in 2002, reflecting an initial impairment upon adoption of SFAS No. 142 and U.S. Cellular's change in its application of SAB No. 101.

Effective January 1, 2003, U.S. Cellular implemented SFAS No. 143. The cumulative effect in 2003 represents the aggregate impact of this accounting change for periods prior to 2003.

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

Effective January 1, 2002, U.S. Cellular began deferring expense recognition of a portion of its commissions expenses, in the amount of deferred activation fees revenue. The cumulative effect in 2002, representing the aggregate impact of this accounting change for periods prior to 2002, was recorded in 2002 increasing net income by \$4.1 million, net of tax of \$3.0 million, or \$0.05 per diluted share.

Net Income (Loss)

Net income (loss) totaled income of \$42.7 million in 2003, a loss of \$26.9 million in 2002 and income of \$173.9 million in 2001. Diluted earnings (loss) per share was \$0.49 in 2003, (\$0.31) in 2002 and \$1.99 in 2001. In 2002, reduced operating income, primarily related to the launch of U.S. Cellular's brand in the Chicago market, and losses on marketable equity securities and other investments led to the decline in net income and diluted earnings per share from 2001. In 2003, losses on investments were significantly reduced, leading to the increase in net income and diluted earnings per share.

Inflation

Management believes that inflation affects U.S. Cellular's business to no greater extent than the general economy.

RECENT ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL RESOURCES

U.S. Cellular operates a capital- and marketing-intensive business. In recent years, U.S. Cellular has generated cash from its operations, received cash proceeds from divestitures, used its short-term credit facilities and used long-term debt financing to fund its network construction costs and operating expenses. U.S. Cellular anticipates further increases in wireless customers, revenues, operating expenses, cash flows from operating activities and fixed assets in the future. Cash flows may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

Cash flows from operating activities provided \$621.7 million in 2003, \$620.1 million in 2002 and \$440.3 million in 2001. Income excluding adjustments to reconcile income (loss) to net cash provided by operating activities, excluding noncash items and changes in assets and liabilities from operations ("noncash" items) totaled \$578.7 million in 2003, \$599.9 million in 2002 and \$505.0 million in 2001. Changes in assets and liabilities from operations provided \$42.9 million in 2003, provided \$20.2 million in 2002 and required \$64.7 million in 2001, reflecting primarily timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable. Income taxes and interest paid totaled \$22.3 million in 2003, \$69.9 million in 2002 and \$154.0 million in 2001.