

UNITED STATES CELLULAR CORP
Form 10-Q
May 04, 2012

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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, 2012
Common Shares, \$1 par value	51,568,235 Shares
Series A Common Shares, \$1 par value	33,005,877 Shares

Table of Contents

United States Cellular Corporation

**Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 31, 2012**

Index

	Page No.
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statement of Operations</u>	
<u>Three Months Ended March 31, 2012 and 2011</u>	3
<u>Consolidated Statement of Cash Flows</u>	
<u>Three Months Ended March 31, 2012 and 2011</u>	4
<u>Consolidated Balance Sheet</u>	
<u>March 31, 2012 and December 31, 2011</u>	5
<u>Consolidated Statement of Changes in Equity</u>	
<u>Three Months Ended March 31, 2012 and 2011</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
<u>Management's Discussion and Analysis of Financial Condition and Results of</u>	
<u>Operations</u>	17
<u>Overview</u>	17
<u>Results of Operations</u>	20
<u>Recent Accounting Pronouncements</u>	25
<u>Financial Resources</u>	25
<u>Liquidity and Capital Resources</u>	27
<u>Application of Critical Accounting Policies and Estimates</u>	30
<u>Safe Harbor Cautionary Statement</u>	31
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4.</u>	
<u>Controls and Procedures</u>	35
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	36
<u>Item 1A.</u>	
<u>Risk Factors</u>	36
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 5.</u>	
<u>Other Information</u>	37
<u>Item 6.</u>	
<u>Exhibits</u>	38
<u>Signatures</u>	

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****United States Cellular Corporation**
Consolidated Statement of Operations**(Unaudited)**

(Dollars and shares in thousands, except per share amounts)	Three Months Ended	
	2012	March 31, 2011
Operating revenues		
Service	\$ 1,023,820	\$ 985,113
Equipment sales	68,301	71,979
Total operating revenues	1,092,121	1,057,092
Operating expenses		
System operations (excluding Depreciation, amortization and accretion reported below)	233,164	217,603
Cost of equipment sold	187,036	194,360
Selling, general and administrative (including charges from affiliates of \$26.0 million and \$26.2 million, respectively)	442,244	442,004
Depreciation, amortization and accretion	146,685	143,340
(Gain) loss on asset disposals, net	(2,210)	1,037
Total operating expenses	1,006,919	998,344
Operating income	85,202	58,748
Investment and other income (expense)		
Equity in earnings of unconsolidated entities	21,614	20,891
Interest and dividend income	1,043	849
Interest expense	(13,411)	(15,186)
Other, net	202	(125)
Total investment and other income (expense)	9,448	6,429
Income before income taxes	94,650	65,177
Income tax expense	25,638	24,747
Net income	69,012	40,430
Less: Net income attributable to noncontrolling interests, net of tax	(6,520)	(5,269)
Net income attributable to U.S. Cellular shareholders	\$ 62,492	\$ 35,161

Basic weighted average shares outstanding		84,570		85,484
Basic earnings per share attributable to U.S. Cellular shareholders	\$	0.74	\$	0.41
Diluted weighted average shares outstanding		85,133		86,101
Diluted earnings per share attributable to U.S. Cellular shareholders	\$	0.73	\$	0.41

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

Table of Contents**United States Cellular Corporation****Consolidated Statement of Cash Flows****(Unaudited)**

(Dollars in thousands)	Three Months Ended	
	2012	March 31, 2011
Cash flows from operating activities		
Net income	\$ 69,012	\$ 40,430
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	146,685	143,340
Bad debts expense	13,850	13,507
Stock-based compensation expense	5,391	5,792
Deferred income taxes, net	6,283	44,413
Equity in earnings of unconsolidated entities	(21,614)	(20,891)
Distributions from unconsolidated entities	2,822	8,323
(Gain) loss on asset disposals, net	(2,210)	1,037
Noncash interest expense	451	463
Other operating activities	449	601
Changes in assets and liabilities from operations		
Accounts receivable	36,621	4,950
Inventory	(4,410)	3,461
Accounts payable - trade	(17,689)	53,713
Accounts payable - affiliate	2,989	(2,041)
Customer deposits and deferred revenues	9,512	10,245
Accrued taxes	79,765	11,829
Accrued interest	9,167	9,205
Other assets and liabilities	(80,107)	(70,669)
	256,967	257,708
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(209,160)	(121,041)
Cash paid for acquisitions and licenses	(11,096)	—
Cash received from divestitures	49,786	—
Cash paid for investments	(10,000)	—
Cash received for investments	10,000	35,000
Other investing activities	296	2,200

	(170,174)	(83,841)
Cash flows from financing activities		
Common shares reissued for benefit plans, net of tax payments	357	1,305
Common shares repurchased	—	(17,357)
Distributions to noncontrolling interests	(218)	(186)
Other financing activities	(9)	17
	130	(16,221)
Net increase in cash and cash equivalents	86,923	157,646
Cash and cash equivalents		
Beginning of period	424,155	276,915
End of period	\$ 511,078	\$ 434,561

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

Table of Contents**United States Cellular Corporation****Consolidated Balance Sheet — Assets****(Unaudited)**

(Dollars in thousands)	March 31,	December 31,
	2012	2011
Current assets		
Cash and cash equivalents	\$ 511,078	\$ 424,155
Short-term investments	116,368	127,039
Accounts receivable		
Customers and agents, less allowances of \$20,611 and \$21,337, respectively	298,460	341,439
Roaming	34,816	36,557
Affiliated	9	621
Other, less allowances of \$2,131 and \$2,200, respectively	64,282	63,204
Inventory	131,510	127,056
Income taxes receivable	70	74,791
Prepaid expenses	57,655	55,980
Net deferred income tax asset	31,905	31,905
Other current assets	11,149	10,096
	1,257,302	1,292,843
Assets held for sale	—	49,647
Investments		
Licenses	1,481,865	1,470,769
Goodwill	494,737	494,737
Customer lists, net of accumulated amortization of \$96,689 and \$96,597, respectively	223	314
Investments in unconsolidated entities	154,431	138,096
Notes and interest receivable — long-term	81	1,921
Long-term investments	40,276	30,057
	2,171,613	2,135,894
Property, plant and equipment		
In service and under construction	7,126,220	7,008,449
Less: Accumulated depreciation	4,278,794	4,218,147
	2,847,426	2,790,302

Other assets and deferred charges		65,094		59,290
Total assets	\$	6,341,435	\$	6,327,976

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

Table of Contents

United States Cellular Corporation
Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

	March 31,	December 31,
(Dollars and shares in thousands)	2012	2011
Current liabilities		
Current portion of long-term debt	\$ 127	\$ 127
Accounts payable		
Affiliated	15,172	12,183
Trade	280,433	303,779
Customer deposits and deferred revenues	190,866	181,355
Accrued taxes	38,999	34,095
Accrued compensation	33,374	69,551
Other current liabilities	87,322	121,190
	646,293	722,280
Liabilities held for sale	—	1,051
Deferred liabilities and credits		
Net deferred income tax liability	812,929	799,190
Other deferred liabilities and credits	250,177	248,213
Long-term debt	880,486	880,320
Commitments and contingencies	—	—
Noncontrolling interests with redemption features	1,064	1,005
Equity		
U.S. Cellular shareholders' equity		
Series A Common and Common Shares		
Authorized 190,000 shares (50,000 Series A Common and 140,000 Common Shares)		
Issued 88,074 shares (33,006 Series A Common and 55,068 Common Shares)		
Outstanding 84,574 shares (33,006 Series A Common and 51,568 Common Shares) and 84,557 shares (33,006 Series		

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

A Common and 51,551 Common Shares), respectively		
Par Value (\$1 per share) (\$33,006 Series A Common and \$55,068 Common Shares)	88,074	88,074
Additional paid-in capital	1,392,845	1,387,341
Treasury shares, at cost, 3,500 and 3,517 Common Shares, respectively	(152,220)	(152,817)
Retained earnings	2,359,589	2,297,363
Total U.S. Cellular shareholders' equity	3,688,288	3,619,961
Noncontrolling interests	62,198	55,956
Total equity	3,750,486	3,675,917
Total liabilities and equity	\$ 6,341,435	\$ 6,327,976

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

Table of Contents

United States Cellular Corporation
Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders				Total		
	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity
(Dollars in thousands)							
Balance, December 31, 2011	\$ 88,074	\$ 1,387,341	\$ (152,817)	\$ 2,297,363	\$ 3,619,961	\$ 55,956	\$ 3,675,917
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	—	—	—	62,492	62,492	—	62,492
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	6,460	6,460
Incentive and compensation plans	—	189	597	(266)	520	—	520
Stock-based compensation awards	—	5,344	—	—	5,344	—	5,344
Tax windfall (shortfall) from stock awards	—	(29)	—	—	(29)	—	(29)
Distributions to noncontrolling interests	—	—	—	—	—	(218)	(218)
Balance, March 31, 2012	\$ 88,074	\$ 1,392,845	\$ (152,220)	\$ 2,359,589	\$ 3,688,288	\$ 62,198	\$ 3,750,486

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

7

Table of Contents

United States Cellular Corporation
Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders				Total		
	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders Equity	Noncontrolling Interests	Total Equity
(Dollars in thousands)							
Balance, December 31, 2010	\$ 88,074	\$ 1,368,487	\$ (105,616)	\$ 2,135,507	\$ 3,486,452	\$ 53,518	\$ 3,539,970
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	—	—	—	35,161	35,161	—	35,161
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	5,230	5,230
Repurchase of Common Shares	—	—	(17,357)	—	(17,357)	—	(17,357)
Incentive and compensation plans	—	32	2,498	(1,193)	1,337	—	1,337
Stock-based compensation awards	—	5,792	—	—	5,792	—	5,792
Tax windfall (shortfall) from stock awards	—	12	—	—	12	—	12
Distributions to noncontrolling interests	—	—	—	—	—	(186)	(186)
Balance, March 31, 2011	\$ 88,074	\$ 1,374,323	\$ (120,475)	\$ 2,169,475	\$ 3,511,397	\$ 58,562	\$ 3,569,959

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

Table of Contents

United States Cellular Corporation

Notes to Consolidated Financial Statements

1. Basis of Presentation

United States Cellular Corporation (“U.S. Cellular”), a Delaware Corporation, is an 84%-owned subsidiary of Telephone and Data Systems, Inc. (“TDS”).

The accounting policies of U.S. Cellular conform to accounting principles generally accepted in the United States of America (“GAAP”) as set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries, general partnerships in which U.S. Cellular has a majority partnership interest and certain entities in which U.S. Cellular has a variable interest that require consolidation under GAAP. 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 disclosures normally included in financial statements prepared in accordance with 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. These consolidated financial statements should 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 (“Form 10-K”) for the year ended December 31, 2011.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of March 31, 2012 and December 31, 2011, and the results of operations, cash flows and changes in equity for the three months ended March 31, 2012 and 2011. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three months ended March 31, 2012 and 2011 equaled net income. The results of operations, cash flows and changes in equity for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

As of March 31, 2012, there are no recent accounting pronouncements that are expected to have a material impact on U.S. Cellular's financial position or results of operations.

Agent Liabilities

U.S. Cellular has relationships with agents, which are independent businesses that obtain customers for U.S. Cellular. At March 31, 2012 and December 31, 2011, U.S. Cellular had accrued \$43.8 million and \$75.3 million, respectively, for amounts due to agents, including rebates and commissions. These amounts are included in Other current liabilities in the Consolidated Balance Sheet.

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$35.3 million for the three months ended March 31, 2012 and \$31.4 million for the three months ended March 31, 2011.

2. Revision of Prior Period Amounts

In preparing its Consolidated Statement of Cash Flows for the year ended December 31, 2011, U.S. Cellular discovered certain errors related to the classification of outstanding checks with the right of offset and the classification of Accounts payable-trade for Additions to property, plant and equipment. These errors resulted in the misstatement of Cash and cash equivalents and Accounts payable-trade as of December 31, 2010 and each quarterly period in 2011, and the misstatement of Cash flows from operating activities and Cash flows from investing activities for the years ended December 31, 2010 and 2009 and each of the quarterly periods in 2011 and 2010. In accordance with *SEC Staff Accounting Bulletin Nos. 99 and 108* ("SAB 99" and "SAB 108"), U.S. Cellular evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendment of previously filed reports was not required. However, in order to provide consistency in the Consolidated Statement of Cash Flows and as permitted by SAB 108, revisions for these immaterial amounts to previously reported amounts

were reflected in the financial information as of and for the periods ended December 31, 2011, are reflected in the financial information herein and will be reflected in future filings containing such financial information.

Table of Contents

In preparing its financial statements for the nine months ended September 30, 2011, U.S. Cellular discovered certain errors related to accounting for asset retirement obligations and asset retirement costs. These errors resulted in the overstatement of Total operating expenses, Property, plant and equipment, net and Other deferred liabilities and credits in the first and second quarter 2011 interim financial statements and in the 2010, 2009 and 2008 annual periods reported in the Company's December 31, 2010 financial statements. The December 31, 2007 Retained earnings balance presented in the December 31, 2010 annual financial statements also was overstated as a result of these errors. In accordance with SAB 99 and SAB 108, U.S. Cellular evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendments of previously filed reports were not required. However, if the adjustments to correct the cumulative errors had been recorded in the third quarter 2011, U.S. Cellular believes that the impact would have been significant to the third quarter results and would have impacted comparisons to prior periods. As permitted by SAB 108, revisions for these immaterial amounts to previously reported annual and quarterly results were reflected in the financial information as of and for the periods ended September 30, 2011 and December 31, 2011, are reflected in the financial information herein and will be reflected in future filings containing such financial information.

In accordance with SAB 108, the combined effects of the foregoing revisions to the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows were as follows:

Consolidated Statement of Operations -- Three Months Ended March 31, 2011

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
Depreciation, amortization and accretion \$	145,045	\$ (1,705)	\$ 143,340
Total operating expenses	1,000,049	(1,705)	998,344
Operating income	57,043	1,705	58,748
Income before income taxes	63,472	1,705	65,177
Income tax expense	24,092	655	24,747
Net income	39,380	1,050	40,430
Net income attributable to U.S. Cellular shareholders	34,111	1,050	35,161
Basic earnings per share attributable to U.S. Cellular shareholders	0.40	0.01	0.41
Diluted earnings per share attributable to U.S. Cellular shareholders	0.40	0.01	0.41

Consolidated Statement of Cash Flows -- Three Months Ended March 31, 2011

(Dollars in thousands)	As previously		Revised
	reported (1)	Adjustment	
Net income	\$ 39,380	\$ 1,050	\$ 40,430
Depreciation, amortization and accretion	145,045	(1,705)	143,340
Change in Accounts payable-trade	(2,244)	55,957	53,713
Change in Accrued taxes	11,174	655	11,829
Change in Other assets and liabilities	(70,598)	(71)	(70,669)
Cash flows from operating activities	201,822	55,886	257,708
Cash used for additions to property, plant and equipment	(95,933)	(25,108)	(121,041)
Cash flows from investing activities	(58,733)	(25,108)	(83,841)
Net increase (decrease) in cash and cash equivalents	126,868	30,778	157,646

(1) In Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed on May 6, 2011.

3. Fair Value Measurements

As of March 31, 2012 and December 31, 2011, U.S. Cellular did not have any financial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, U.S. Cellular has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

Table of Contents

Under the provisions of GAAP, fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). The provisions also established a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets.

	Level within the Fair Value Hierarchy	March 31, 2012		December 31, 2011	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	\$ 511,078	\$ 511,078	\$ 424,155	\$ 424,155
Short-term investments (1)(2)					
Certificates of deposit	1	—	—	—	—
Government-backed securities (3)	1	116,368	116,368	127,039	127,039
Long-term investments (1)(4)					
Government-backed securities (3)	1	40,276	40,324	30,057	30,140
Long-term debt (5)					
6.95% Senior Notes	1	342,000	356,774	342,000	364,162
6.7% Senior Notes	2	534,225	526,535	534,111	534,860

(1) Designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet.

(2) Maturities are less than twelve months from the respective balance sheet dates.

(3) Includes U.S. treasuries and corporate notes guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.

(4) At March 31, 2012, maturities range between 15 and 24 months.

(5) Excludes capital lease obligations and current portion of Long-term debt.

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair values of Long-term investments were estimated using quoted market prices for the individual issuances. The fair value of long-term debt, excluding capital lease obligations and the current portion of such long-term debt, was estimated using market prices for the 6.95% Senior Notes, which are publicly traded, and discounted cash flow analysis using an estimated yield to maturity of 6.99% for the 6.7% Senior Notes, which are not publicly traded.

As of March 31, 2012 and December 31, 2011, U.S. Cellular did not have nonfinancial assets or liabilities that required the application of fair value accounting for purposes of reporting such amounts in the Consolidated Balance Sheet.

4. Income Taxes

U.S. Cellular is included in a consolidated federal income tax return and in certain state income tax returns with other members of the TDS consolidated group. For financial statement purposes, U.S. Cellular and its subsidiaries compute their income tax expense as if they comprised a separate affiliated group and were not included in the TDS consolidated group.

U.S. Cellular's overall effective tax rate on Income before income taxes for the three months ended March 31, 2012 and March 31, 2011 was 27.1% and 38.0%, respectively. The effective tax rate for the three months ended March 31, 2012 was lower than the rate for the three months ended March 31, 2011 primarily as a result of tax benefits related to the expiration of the statute of limitations for certain tax years and the correction of deferred tax balances related to certain partnership investments. The amount of the correction was \$3.7 million and relates to the quarter ended December 31, 2011. The benefits from these changes, along with other discrete items, decreased income tax expense for the three months ended March 31, 2012 by \$9.1 million; absent these benefits, the effective tax rate for such period would have been higher by 9.6 percentage points.

Table of Contents

U.S. Cellular incurred a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. U.S. Cellular carried back this federal net operating loss to prior tax years, and received a \$58.1 million refund in the first quarter of 2012 for carrybacks related to 2009 and 2010 tax years. U.S. Cellular's future federal income tax liabilities associated with the benefits realized from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. The bonus depreciation rate for federal income tax purposes is 50% for 2012 and will expire at the end of the year. U.S. Cellular expects federal income tax payments to substantially increase beginning in 2013 and remain at a higher level for several years as the amount of U.S. Cellular's federal tax depreciation deduction substantially decreases.

5. Earnings Per Share

Basic earnings per share attributable to U.S. Cellular shareholders is computed by dividing Net income attributable to U.S. Cellular shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to U.S. Cellular shareholders is computed by dividing Net income attributable to U.S. Cellular shareholders by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities primarily include incremental shares issuable upon exercise of outstanding stock options and the vesting of restricted stock units.

The amounts used in computing Earnings per Common and Series A Common Share and the effects of potentially dilutive securities on the weighted average number of Common and Series A Common Shares are as follows:

	Three Months Ended	
	March 31,	
	2012	2011
(Dollars and shares in thousands, except per share amounts)		
Net income attributable to U.S. Cellular shareholders	\$ 62,492	\$ 35,161
Weighted average number of shares used in basic earnings per share	84,570	85,484
Effects of dilutive securities:		
Stock options	135	177
Restricted stock units	428	440
Weighted average number of shares used in diluted earnings per share	85,133	86,101
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.74	\$ 0.41

Table of Contents

In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for \$49.8 million in cash, net of preliminary working capital adjustments. In connection with the sale, a \$4.2 million gain was recorded in (Gain) loss on asset disposals, net in the Consolidated Statement of Operations. At December 31, 2011, assets and liabilities of \$49.6 million and \$1.1 million, respectively, related to this wireless market were classified in the Consolidated Balance Sheet as “held for sale.”

Acquisitions, divestitures and exchanges did not have a material impact in U.S. Cellular’s consolidated financial statements for the periods presented, and pro forma results, assuming acquisitions, divestitures and exchanges had occurred at the beginning of each period presented, would not be materially different from the results reported.

7. Intangible Assets

Changes in U.S. Cellular’s licenses for the three months ended March 31, 2012 and 2011 are presented below. There were no significant changes to Goodwill or Customer lists during the periods presented.

Licenses

	March 31,	March 31,
	2012	2011
(Dollars in thousands)		
Balance, beginning of period	\$ 1,470,769	\$ 1,452,101
Acquisitions	11,096	300
Balance, end of period	\$ 1,481,865	\$ 1,452,401

8. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless entities in which U.S. Cellular holds a noncontrolling interest. These investments are accounted for using either the equity or cost method.

Equity in earnings of unconsolidated entities totaled \$21.6 million and \$20.9 million in the three months ended March 31, 2012 and 2011, respectively; of those amounts, U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$17.1 million and \$13.0 million in the three months ended March 31, 2012 and 2011, respectively. U.S. Cellular held a 5.5% ownership interest in the LA Partnership during these periods.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of U.S. Cellular's equity method investments:

	Three Months Ended			
	2012		March 31,	
(Dollars in thousands)				2011
Revenues	\$	1,431,372	\$	1,324,459
Operating expenses		1,071,887		1,031,355
Operating income		359,485		293,104
Other income		916		1,427
Net income	\$	360,401	\$	294,531

9. Commitments, Contingencies and Other Liabilities

Indemnifications

U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. The terms of the indemnifications vary by agreement. The events or circumstances that would require U.S. Cellular to perform under these indemnities are transaction specific; however, these agreements may require U.S. Cellular to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. U.S. Cellular is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, U.S. Cellular has not made any significant indemnification payments under such agreements.

Table of Contents

Legal Proceedings

U.S. Cellular is involved or may be involved from time to time in legal proceedings before the Federal Communications Commission (“FCC”), other regulatory authorities, and/or various state and federal courts. If U.S. Cellular believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

U.S. Cellular has accrued \$1.8 million and \$1.7 million with respect to legal proceedings and unasserted claims as of March 31, 2012 and December 31, 2011, respectively. U.S. Cellular has not accrued any amount for legal proceedings if it cannot estimate the amount of the possible loss or range of loss. U.S. Cellular does not believe that the amount of any contingent loss in excess of the amounts accrued would be material.

10. Variable Interest Entities (VIEs)

Consolidated VIEs

As of March 31, 2012, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

- Aquinas Wireless L.P. (“Aquinas Wireless”);
- King Street Wireless L.P. (“King Street Wireless”) and King Street Wireless, Inc., the general partner of King Street Wireless;
- Barat Wireless L.P. (“Barat Wireless”) and Barat Wireless, Inc., the general partner of Barat Wireless; and
- Carroll Wireless L.P. (“Carroll Wireless”) and Carroll PCS, Inc., the general partner of Carroll Wireless.

The power to direct the activities of the VIEs that most significantly impact their economic performance is shared. Specifically, the general partner of each of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs consent of the limited partner, a U.S. Cellular subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, U.S. Cellular has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that U.S. Cellular is the primary beneficiary of the VIEs in accordance with GAAP. Accordingly, these VIEs are consolidated.

U.S. Cellular's capital contributions and advances made to these VIEs totaled \$6.8 million in the three months ended March 31, 2011. There were no capital contributions or advances made to these VIEs in 2012.

From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular participated in spectrum auctions indirectly through its interests in Aquinas Wireless, King Street Wireless, Barat Wireless and Carroll Wireless, collectively, the "limited partnerships." Each limited partnership participated in and was awarded spectrum licenses in one of four separate spectrum auctions (FCC Auctions 78, 73, 66, and 58). Each limited partnership qualified as a "designated entity" and thereby was eligible for bidding credits with respect to licenses purchased in accordance with the rules defined by the FCC for each auction. In most cases, the bidding credits resulted in a 25% discount from the gross winning bid.

The following table presents the classification of the consolidated VIEs' assets and liabilities in U.S. Cellular's Consolidated Balance Sheet.

		March 31,	December 31,
		2012	2011
(Dollars in thousands)			
Assets			
Cash	\$	4,115	\$ 12,086
Other current assets		173	47
Licenses		485,380	483,059
Property, plant and equipment		12,728	9,450
Other assets and deferred charges		70	153
Total assets	\$	502,466	\$ 504,795
Liabilities			
Current liabilities	\$	227	\$ 957
Deferred liabilities and credits		1,566	—
Total liabilities	\$	1,793	\$ 957

Table of Contents

Other Related Matters

U.S. Cellular may agree to make additional capital contributions and/or advances to the VIEs discussed above and/or to their general partners to provide additional funding for the development of licenses granted in the various auctions. U.S. Cellular may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or long-term debt. There is no assurance that U.S. Cellular will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

These VIEs are in the process of developing long-term business plans. These entities were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to the business risks described in the “Risk Factors” in U.S. Cellular’s Form 10-K for the year ended December 31, 2011.

U.S. Cellular began offering fourth generation Long-term Evolution (“4G LTE”) service in certain cities within its service areas during the first quarter of 2012 and has plans to expand the deployment of 4G LTE to cover over 50 percent of customers by the end of 2012. U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless.

11. Common Share Repurchases

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases, or otherwise, depending on market prices and other conditions. This authorization does not have an expiration date.

Share repurchases made under this authorization were as follows:

Three Months Ended

		March 31,		
	2012			2011
(Dollars and shares in thousands, except cost per share)				
Number of shares		—		357
Average cost per share	\$	—	\$	48.61
Total cost	\$	—	\$	17,357

12. Noncontrolling Interests

Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries

U.S. Cellular's consolidated financial statements include certain noncontrolling interests that meet the GAAP definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships and limited liability companies ("LLCs"), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and U.S. Cellular in accordance with the respective partnership and LLC agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2107.

The settlement value or estimate of cash that would be due and payable to settle these noncontrolling interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on March 31, 2012, net of estimated liquidation costs, is \$186.2 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. U.S. Cellular currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at March 31, 2012 was \$59.4 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is primarily due to the unrecognized appreciation of the noncontrolling interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders' share, nor U.S. Cellular's share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

Table of Contents**13. Supplemental Cash Flow Disclosures**

Following are supplemental cash flow disclosures regarding transactions related to stock-based compensation awards:

	Three Months Ended			
	2012	March 31,		2011
(Dollars and shares in thousands)				
Common Shares withheld (1)		—		14
Aggregate value of Common Shares withheld	\$	—	\$	675
Cash receipts upon exercise of stock options	\$	357	\$	1,396
Cash disbursements for payment of taxes (2)		—		(91)
Net cash receipts from exercise of stock options and vesting of other stock awards	\$	357	\$	1,305

(1) Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

(2) In certain situations, U.S. Cellular withholds shares that are issuable upon the exercise of stock options or the vesting of restricted shares to cover, and with a value equivalent to, the exercise price and/or the amount of taxes required to be withheld from the stock award holder at the time of the exercise or vesting. U.S. Cellular then pays the amount of the required tax withholdings to the taxing authorities in cash.

14. Subsequent Events

On April 17, 2012, U.S. Cellular entered into an agreement to acquire four 700 MHz licenses covering portions of Nebraska, Iowa, Missouri, Kansas and Oklahoma for \$34.0 million. The acquisition requires approval from the FCC

and, if approved, is expected to close in the third quarter of 2012.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

United States Cellular Corporation (“U.S. Cellular”) owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 84%-owned subsidiary of Telephone and Data Systems, Inc. (“TDS”) as of March 31, 2012.

U.S. Cellular provides wireless telecommunications services to approximately 5.8 million customers in five geographic market areas in 26 states. As of March 31, 2012, U.S. Cellular’s average penetration rate in its consolidated operating markets was 12.4%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network.

The following discussion and analysis should be read in conjunction with U.S. Cellular’s interim consolidated financial statements and notes included in Item 1 above, and with the description of U.S. Cellular’s business, its audited consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular’s Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2011.

OVERVIEW

The following is a summary of certain selected information contained in the comprehensive Management’s Discussion and Analysis of Financial Condition and Results of Operations that follows. The overview does not contain all of the information that may be important. You should carefully read the entire Management’s Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

Financial and operating highlights in the three months ended March 31, 2012 included the following:

- Total customers were 5,837,000 at March 31, 2012, including 5,570,000 retail customers.
- In late March 2012, U.S. Cellular, in conjunction with King Street Wireless L.P., began offering fourth generation Long-term Evolution (“4G LTE”) service; as of March 31, 2012, the 4G LTE network covered approximately 25 percent of U.S. Cellular’s customers. 4G LTE enhances the wireless experience by significantly increasing both the speed and data capacity available compared to 3G networks. See Note 10 – Variable Interest Entities (VIEs) in the Notes to the Consolidated Financial Statements for additional information about King Street Wireless.

- Retail customer net losses were 34,000 in 2012 compared to net losses of 31,000 in 2011. In the postpaid category, there was a net loss of 38,000 in 2012 compared to a net loss of 22,000 in 2011. Prepaid net additions were 4,000 in 2012 compared to net losses of 9,000 in 2011.
- Postpaid customers comprised approximately 94% of U.S. Cellular's retail customers as of March 31, 2012. The postpaid churn rate was 1.6% in 2012 compared to 1.4% in 2011.
- Postpaid customers on smartphone service plans increased to 34% as of March 31, 2012 compared to 20% as of March 31, 2011. In addition, smartphones represented 54% of all devices sold in 2012 compared to 42% in 2011.
- Service revenues of \$1,023.8 million increased \$38.7 million year-over-year, primarily due to continued growth in both data revenues from U.S. Cellular customers and inbound data roaming revenues.
- Cash flows from operating activities were \$257.0 million. At March 31, 2012, Cash and cash equivalents and Short-term investments totaled \$627.4 million and there were no outstanding borrowings under the revolving credit facility.
- Additions to Property, plant and equipment totaled \$201.3 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy 4G LTE equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service increased 3% year-over-year to 7,875.
- U.S. Cellular continued its efforts on a number of multi-year initiatives including the development of a Billing and Operational Support System ("B/OSS") with a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently and thereby build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and to manage their accounts online.

Table of Contents

- In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for \$49.8 million in cash net of working capital adjustments. In connection with the sale, a \$4.2 million gain was recorded in (Gain) loss on asset disposals, net in the Consolidated Statement of Operations.
- Operating income increased \$26.5 million, or 45%, to \$85.2 million in 2012 from \$58.7 million in 2011. An increase in system operations expense partly offset the impact of higher revenues.
- Net income attributable to U.S. Cellular shareholders increased \$27.3 million, or 78%, to \$62.5 million in 2012 compared to \$35.2 million in 2011, primarily due to higher operating income as well as a lower effective tax rate. Basic earnings per share was \$0.74 in 2012, which was \$0.33 higher than in 2011, and Diluted earnings per share was \$0.73, which was \$0.32 higher than in 2011.

U.S. Cellular anticipates that its future results will be affected by the following factors:

- The impact of the Belief Project on long-term profitability. Under the Belief Project, U.S. Cellular offers several innovative services, including no contract after the first contract; simplified national rate plans; a loyalty rewards program; overage protection, caps and forgiveness; a phone replacement program; and discounts for paperless billing and automatic payment. U.S. Cellular believes that offering these services will increase postpaid gross additions over the next several years and contribute to incremental growth in average revenue per customer and improvement in the postpaid churn rate. As of March 31, 2012, 3.3 million new and existing customers had subscribed to Belief Plans;
- Continued uncertainty related to current economic conditions and their impact on customer purchasing and payment behaviors;
- Relative ability to attract and retain customers, including the ability to reverse recent customer net losses, in a competitive marketplace in a cost effective manner;

- Effects of industry competition on service and equipment pricing and roaming revenues as well as the impacts associated with the expanding presence of carriers and other retailers offering low-priced, unlimited prepaid service;
- Potential increases in prepaid customers, who generally generate lower ARPU, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;
- A change in the nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers rather than by adding customers that are new to wireless service;
- Continued growth in revenues and costs related to data products and services and lower growth or declines in revenues from voice services;
- Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in network capacity;
- Costs of developing and enhancing office and customer support systems, including costs and risks associated with the completion and potential benefits of the multi-year initiatives described above;
- Continued enhancements to U.S. Cellular's wireless networks;
- Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC"), including uncertainty relating to the impacts on universal service funding, intercarrier compensation and other matters of the *Connect America Fund & Intercarrier Compensation Reform Order and Further Notice of Proposed Rulemaking* issued by the FCC on October 27, 2011;
- The FCC's adoption of mandatory 4G roaming rules which will be of assistance in the negotiation of data roaming agreements with other wireless operators in the future; and
- Exclusive arrangements between manufacturers of wireless devices and other carriers, or other economic or competitive factors, that restrict U.S. Cellular's access to devices desired by customers.

Table of Contents

Cash Flows and Investments

U.S. Cellular believes that existing cash and investments balances, expected future cash flows from operating activities and sources of external financing provide substantial liquidity and financial flexibility and are sufficient to permit U.S. Cellular to finance its contractual obligations and anticipated capital expenditures for the foreseeable future. U.S. Cellular continues to seek to maintain a strong balance sheet and an investment grade credit rating.

See “Financial Resources” and “Liquidity and Capital Resources” below for additional information related to cash flows and investments.

2012 Estimates

U.S. Cellular’s estimates of full-year 2012 results are shown below. Such estimates represent U.S. Cellular’s views as of the date of filing of U.S. Cellular’s Quarterly Report on Form 10-Q (“Form 10-Q”) for the quarterly period ended March 31, 2012. Such forward looking statements should not be assumed to be current 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. There can be no assurance that final results will not differ materially from such estimated results.

The following is unchanged from guidance as disclosed in U.S. Cellular’s Annual Report on Form 10-K for the year ended December 31, 2011.

	2012 Estimated Results (1)
Service revenues	\$4,050-\$4,150 million
Operating income	\$200-\$300 million
Depreciation, amortization and accretion expenses, and net gain or loss on asset disposals and exchanges and impairment of assets (2)	Approx. \$600 million
Adjusted OIBDA (2)(3)	\$800-\$900 million
Capital expenditures	Approx. \$850 million

(1) These estimates are based on U.S. Cellular’s current plans, which include a multi-year deployment of 4G LTE technology which commenced in 2011. New developments or changing conditions (such as customer net growth,

customer demand for data services or possible acquisitions, dispositions or exchanges) could affect U.S. Cellular's plans and, therefore, its 2012 estimated results.

(2) The 2012 Estimated Results do not include any estimate for unrecognized net gains or losses related to disposals and exchanges of assets or losses on impairments of assets (since such transactions and their effects are uncertain).

(3) Adjusted OIBDA is defined as operating income excluding the effects of depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals and exchanges (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and exchanges (if any) and loss on impairment of assets (if any) in order to show operating results on a more comparable basis from period to period. U.S. Cellular does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future. U.S. Cellular believes this measure provides useful information to investors regarding U.S. Cellular's financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities.

U.S. Cellular management currently believes that the foregoing estimates represent a reasonable view of what is achievable considering actions that U.S. Cellular has taken and will be taking. However, the current general economic and competitive conditions in the markets served by U.S. Cellular have created a challenging environment that could continue to significantly impact actual results. U.S. Cellular expects to continue its focus on customer satisfaction by delivering a high quality network, attractively priced service plans, a broad line of wireless devices and other products, and outstanding customer service in its company-owned and agent retail stores and customer care centers. U.S. Cellular believes that future growth in its revenues will result primarily from selling additional products and services, including data products and services, to its existing customers, increasing the number of multi-device users among its existing customers, and attracting wireless users switching from other wireless carriers, rather than by adding users that are new to wireless service. U.S. Cellular is focusing on opportunities to increase revenues, pursuing cost reduction initiatives in various areas and implementing a number of initiatives to enable future growth. The initiatives are intended, among other things, to allow U.S. Cellular to accelerate its introduction of new products and services, better segment its customers for new services and retention, sell additional services such as data, expand its distribution channels, enhance its Internet sales and customer service capabilities, improve its prepaid products and services and reduce operational expenses over the long term.

Table of Contents**RESULTS OF OPERATIONS****Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011**

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

As of March 31, (1)	2012	2011
<u>Customers</u>		
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ("postpaid customers")	5,261,000	5,394,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ("prepaid customers")	309,000	304,000
Total retail customers	5,570,000	5,698,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	267,000	335,000
Total customers	5,837,000	6,033,000
Total market population of consolidated operating markets (2)	46,966,000	46,774,000
Market penetration in consolidated operating markets (2)	12.4%	12.9%
Total market population of consolidated operating and non-operating markets (2)	92,684,000	91,090,000
Market penetration in consolidated operating and non-operating markets (2)	6.3%	6.6%
<u>Employees</u>		
Full-time employees	7,651	8,247
Part-time employees	1,026	1,066
Total employees	8,677	9,313
Cell sites in service	7,875	7,663

Smartphone penetration (3)(4)		34.4%		20.3%
<u>For the Three Months Ended March 31, (5)</u>				
		2012		2011
Net retail customer additions (losses) (6)		(34,000)		(31,000)
Net customer additions (losses) (6)		(49,000)		(39,000)
<u>Average monthly service revenue per customer (7)</u>				
Service revenues per Consolidated Statement of Operations (000s)	\$	1,023,820	\$	985,113
Divided by total average customers during period (000s)		5,863		6,048
Divided by number of months in each period		3		3
Average monthly service revenue per customer	\$	58.21	\$	54.29
Postpaid churn rate (8)		1.6%		1.4%
Smartphones sold as a percent of total devices sold (3)		54.1%		42.5%

(1) Amounts include results for U.S. Cellular's consolidated markets as of March 31.

(2) Calculated using 2011 and 2010 Claritas population estimates for 2012 and 2011, respectively. "Total market population of consolidated operating markets" is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

Table of Contents

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. The total market population and penetration measures for consolidated operating and non-operating markets apply to all consolidated markets in which U.S. Cellular owns an interest.

- (3) Smartphones represent wireless devices which run on an Android™, BlackBerry® or Windows Mobile® operating system, excluding tablets.
- (4) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.
- (5) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through March 31; operating markets acquired during a particular period are included as of the acquisition date.
- (6) "Net retail customer additions (losses)" represents the number of net customers added to (deducted from) U.S. Cellular's retail customer base through its marketing distribution channels; this measure excludes activity related to reseller customers and customers transferred through acquisitions, divestitures or exchanges. "Net customer additions (losses)" represents the number of net customers added to (deducted from) U.S. Cellular's overall customer base through its marketing distribution channels; this measure includes activity related to reseller customers but excludes activity related to customers transferred through acquisitions, divestitures or exchanges.
- (7) Management uses these measurements to assess the amount of revenue that U.S. Cellular generates each month on a per customer basis. Average monthly revenue per customer is calculated as shown in the table above. Average customers during the period is calculated by adding the number of total customers at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.
- (8) Postpaid churn rate represents the percentage of the postpaid customer base that disconnects service each month. This amount represents the average postpaid churn rate for the three months of the respective year.

Components of Operating Income

Three Months Ended March 31, (Dollars in thousands)	2012	2011	Change	Percentage Change
Retail service	\$ 888,527	\$ 864,602	\$ 23,925	3%
Inbound roaming	80,132	64,386	15,746	24%
Other	55,161	56,125	(964)	(2)%
Service revenues	1,023,820	985,113	38,707	4%
Equipment sales	68,301	71,979	(3,678)	(5)%
Total operating revenues	1,092,121	1,057,092	35,029	3%
System operations (excluding Depreciation, amortization and accretion reported below)	233,164	217,603	15,561	7%
Cost of equipment sold	187,036	194,360	(7,324)	(4)%
Selling, general and administrative	442,244	442,004	240	—
Depreciation, amortization and accretion	146,685	143,340	3,345	2%
(Gain) loss on asset disposals, net	(2,210)	1,037	(3,247)	>(100)%
Total operating expenses	1,006,919	998,344	8,575	1%
Operating income	\$ 85,202	\$ 58,748	\$ 26,454	45%

Operating Revenues

Service revenues

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data products and services, provided to U.S. Cellular's retail customers and to end users through third party resellers ("retail service"); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming, including long-distance roaming ("inbound roaming"); and (iii) amounts received from the Federal Universal Service Fund ("USF").

Table of Contents

Retail service revenues

Retail service revenues increased by \$23.9 million, or 3%, in 2012 to \$888.5 million as the impact of an increase in billed ARPU was partially offset by a decrease in U.S. Cellular's average customer base.

Billed ARPU increased to \$50.52 in 2012 from \$47.65 in 2011. This overall increase reflects an increase in Postpaid ARPU to \$54.00 in 2012 from \$51.21 in 2011, reflecting increases in revenues from data products and services.

The average number of customers decreased to 5,863,000 in 2012 from 6,048,000 in 2011, driven primarily by reductions in postpaid and reseller customers.

U.S. Cellular expects continued pressure on revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings.

As discussed in the Overview section above, U.S. Cellular's Belief Project allows customers selecting Belief Plans to earn loyalty reward points. U.S. Cellular accounts for loyalty reward points under the deferred revenue method. Under this method, U.S. Cellular allocates a portion of the revenue billed to customers under the Belief Plans to the loyalty reward points. The revenue allocated to these points is initially deferred in the Consolidated Balance Sheet and is recognized in future periods when the loyalty reward points are redeemed or used. Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of \$6.4 million and \$7.7 million in the three months ended March 31, 2012 and 2011, respectively. These amounts are included in the Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Inbound roaming revenues

Inbound roaming revenues increased by \$15.7 million, or 24%, in 2012 to \$80.1 million. The growth was driven primarily by increased data usage by customers of other carriers who used U.S. Cellular's networks when roaming. U.S. Cellular expects continued growth in Inbound roaming revenue but expects that the rate of growth in the future will be less than recent growth rates.

Other revenues

Other revenues decreased by \$1.0 million, or 2%, in 2012 to \$55.2 million, primarily due to a decrease in amounts received from the Federal USF. Such revenues recorded in 2012 were \$39.7 million compared to \$41.8 million in 2011, reflecting revisions to amounts received in prior years as determined by the Universal Service Administrative Company.

On November 18, 2011 the FCC released a Report and Order and Further Notice of Proposed Rulemaking (“Reform Order”) adopting reforms of its universal service and intercarrier compensation mechanisms, and proposing further rules to advance reform. The Reform Order substantially revises the current USF high cost program and intercarrier compensation regime. The current USF program, which supports voice services, is to be phased out over time and replaced with the Connect America Fund (“CAF”), a new Mobility Fund and a Remote Area Fund, which will collectively support broadband-capable networks. Mobile wireless carriers such as U.S. Cellular are eligible to receive funds in both the CAF and the Mobility Fund, although some areas that U.S. Cellular currently serves may be declared ineligible for support if they are already served, or are subject to certain rights of first refusal by incumbent carriers.

U.S. Cellular is contemplating participating in the Mobility Fund proceedings, and the CAF, but it is uncertain whether U.S. Cellular will obtain support through any of these mechanisms. If U.S. Cellular is successful in obtaining support, it will be required to meet certain regulatory conditions to obtain and retain the right to receive support including, for example, allowing other carriers to collocate on U.S. Cellular’s towers, allowing voice and data roaming on U.S. Cellular’s network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the Commission’s Further Notice of Proposed Rulemaking.

U.S. Cellular’s current USF support is scheduled to be phased down. Support for 2012 (excluding certain adjustments) was frozen on January 1, 2012 using support for 2011 as a baseline and will be reduced by 20% starting in July, 2012. Support will be reduced by 20% in July of each subsequent year; however, if the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time with a 40% reduction in support, until such time as the Phase II Mobility Fund is operational.

At this time, U.S. Cellular cannot predict the net effect of the FCC’s changes to the USF high cost support program in the Reform Order or whether reductions in support will be offset with additional support from the CAF or the Mobility Fund. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular’s business, financial condition or results of operations.

Table of Contents

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices (handsets, modems and tablets) and related accessories to both new and existing customers, as well as revenues from sales of devices and accessories to agents. All Equipment sales revenues are recorded net of rebates.

U.S. Cellular strives to offer a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new devices to customers at discounted prices; in addition, customers on the Belief Plans receive loyalty reward points that may be used to purchase a new device or accelerate the timing of a customer's eligibility for a device upgrade at promotional pricing. U.S. Cellular also continues to sell devices to agents; this practice enables U.S. Cellular to provide better control over the quality of devices sold to its customers, establish roaming preferences and earn volume discounts from device manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell devices to agents in the future.

The decrease in 2012 Equipment sales revenues of \$3.7 million, or 5%, to \$68.3 million was driven by a decrease of 5% in average revenue per device sold as well as a decrease of 3% in total devices sold. Average revenue per device sold decreased due to more aggressive promotional customer equipment pricing.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses (excluding Depreciation, amortization, and accretion) include charges from telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for cell site rent and maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third party data product and platform developers.

Key components of the \$15.6 million, or 7%, increase in System operations expenses to \$233.2 million were as follows:

- Maintenance, utility and cell site expenses increased \$10.8 million, or 12%, driven in part by an increase in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,875 at March 31, 2012 and 7,663 at March 31, 2011, as U.S. Cellular continued to expand and enhance coverage in its existing markets. Expenses also increased to support rapidly growing demand for data services and the deployment of 4G LTE networks.
- Customer usage expenses increased by \$2.5 million, or 3%, primarily due to an increase in data usage and increases in network capacity.
- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$2.3 million, or 4%, primarily due to higher data roaming expenses offset by a decline in voice roaming expenses.

U.S. Cellular expects total system operations expenses to increase on a year-over-year basis in the foreseeable future to support the continued growth in cell sites and other network facilities as it continues to add capacity, enhance quality and deploy new technologies to support increases in total customer usage, particularly data usage.

Cost of equipment sold

Cost of equipment sold decreased by \$7.3 million, or 4%, in 2012 to \$187.0 million. The decrease was driven by a 3% decrease in the average cost per device sold as well as a decrease of 3% in total devices sold. Average cost per device sold decreased due primarily to competitive pricing conditions and the introduction of lower cost smartphones into the portfolio. The impact of lower acquisition costs across all categories of devices was partially offset by a shift in the mix of sales to smartphones.

U.S. Cellular's loss on equipment, defined as Equipment sales revenues less Cost of equipment sold, was \$118.7 million and \$122.4 million for 2012 and 2011, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices such as smartphones and tablets to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers.

Table of Contents***Selling, general and administrative expenses***

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising expenses. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Selling, general and administrative expenses in 2012 of \$442.2 million remained flat in comparison to 2011.

For the full year 2012, U.S. Cellular expects Selling, general and administrative expenses to be relatively flat on a year-over-year basis.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased \$3.3 million, or 2%, in 2012 to \$146.7 million due to an increase in Property, plant and equipment reflecting significant capital expenditures in 2011 and 2012.

See “Financial Resources” and “Liquidity and Capital Resources” for a discussion of U.S. Cellular’s capital expenditures.

Components of Other Income (Expense)

				Percentage	
Three Months Ended March 31, (Dollars in thousands, except per share amounts)	2012	2011	Change	Change	
Operating income	\$ 85,202	\$ 58,748	\$ 26,454	45%	

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

Equity in earnings of unconsolidated entities	21,614	20,891	723	3%
Interest and dividend income	1,043	849	194	23%
Interest expense	(13,411)	(15,186)	1,775	12%
Other, net	202	(125)	327	>(100)%
Total investment and other income (expense)	9,448	6,429	3,019	47%
Income before income taxes	94,650	65,177	29,473	45%
Income tax expense	25,638	24,747	891	4%
Net income	69,012	40,430	28,582	71%
Less: Net income attributable to noncontrolling interests, net of tax	(6,520)	(5,269)	(1,251)	(24)%
Net income attributable to U.S. Cellular shareholders	\$ 62,492	\$ 35,161	\$ 27,331	78%
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.74	\$ 0.41	\$ 0.33	80%
Diluted earnings per share attributable to U.S. Cellular shareholders	\$ 0.73	\$ 0.41	\$ 0.32	78%

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from entities accounted for by the equity method of accounting. U.S. Cellular generally follows the equity method of accounting for unconsolidated entities in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

U.S. Cellular's investment in the LA Partnership contributed \$17.1 million to Equity in earnings of unconsolidated entities in 2012 compared to \$13.0 million in 2011. The remaining change resulted from decreases in net income from other equity interests.

Interest expense

Interest expense decreased year-over-year due primarily to the capitalization of interest for multi-year projects.

Table of Contents***Income tax expense***

See Note 4 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of income tax expense and the overall effective tax rate on Income before income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements are not expected to have a significant effect on U.S. Cellular's financial condition or results of operations. See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for additional details.

FINANCIAL RESOURCES

U.S. Cellular operates a capital and marketing intensive business. U.S. Cellular utilizes cash from its operating activities, cash proceeds from divestitures, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and Common Share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize U.S. Cellular's cash flow activities in the three months ended March 31, 2012 compared to the three months ended March 31, 2011.

	2012	2011
(Dollars in thousands)		
Cash flows from (used in):		
Operating activities (1)	\$ 256,967	\$ 257,708
Investing activities (1)	(170,174)	(83,841)
Financing activities	130	(16,221)
Net increase in cash and cash equivalents	\$ 86,923	\$ 157,646

(1) In preparing its Consolidated Statement of Cash Flows for the year ended December 31, 2011, U.S. Cellular discovered certain errors related to the classification of outstanding checks with the right of offset and the classification of Accounts payable for Additions to property, plant and equipment. These errors resulted in the misstatement of Cash flows from operating activities and Cash flows used in investing activities for the three months ended March 31, 2011. The amounts herein have been revised to reflect the proper amounts. See Note 2 — Revision of Prior Period Amounts in the Notes to Consolidated Financial Statements for additional information.

Cash Flows from Operating Activities

The following table presents Adjusted OIBDA and is included for purposes of analyzing changes in operating activities. U.S. Cellular believes this measure provides useful information to investors regarding U.S. Cellular's financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on Cash flows from operating activities:

(Dollars in thousands)		2012		2011
Operating income	\$	85,202	\$	58,748
Non-cash items				
Depreciation, amortization and accretion		146,685		143,340
Loss on impairment of intangible assets		—		—
(Gain) loss on asset disposals, net		(2,210)		1,037
Adjusted OIBDA (1)	\$	229,677	\$	203,125

(1) Adjusted OIBDA is defined as Operating income excluding the effects of depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals (if any); and the loss on impairment of assets (if any). This measure may commonly be referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and loss on impairment of assets (if any) in order to show operating results on a more comparable basis from period to period. U.S. Cellular does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future.

Table of Contents

Cash flows from operating activities in 2012 were \$257.0 million, a decrease of \$0.7 million from 2011. Significant changes included the following:

- Adjusted OIBDA, as shown in the table above, increased by \$26.6 million primarily due to an increase in operating income. See discussion in the “Results of Operations” for factors that affected operating income.
- Income tax refunds, net of \$57.1 million were recorded in 2012 compared to income tax refunds, net of \$34.9 million in 2011. Federal tax refunds of \$58.1 million were received in March 2012 primarily for carrybacks related to the 2009 and 2010 tax years. U.S. Cellular incurred a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. U.S. Cellular’s future federal income tax liabilities associated with the current benefits realized from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. U.S. Cellular expects federal income tax payments to substantially increase beginning in 2013 and remain at a higher level for several years as the amount of U.S. Cellular’s federal tax depreciation deduction substantially decreases as a result of having accelerated depreciation in earlier years. This expectation assumes that federal bonus depreciation provisions are not enacted in future periods. To the extent further federal bonus depreciation provisions are enacted, this expectation will change.
- Changes in Accounts receivable provided \$36.6 million and \$5.0 million in 2012 and 2011, respectively, resulting in a year-over-year increase in cash flows of \$31.7 million. Accounts receivable balances fluctuate based on the timing of customer payments, promotions and other factors.
- Changes in Accounts payable required \$14.7 million in 2012 and provided \$51.7 million in 2011, causing a year-over-year decrease in cash flows of \$66.4 million. Changes in Accounts payable were primarily driven by payment timing differences related to operating expenses and device purchases.
- Changes in Inventory required \$4.4 million in 2012 and provided \$3.5 million in 2011, causing a year-over-year decrease in cash flows of \$7.9 million. This change was primarily due to higher inventory levels at March 31, 2012.
- Changes in other assets and liabilities required \$80.1 million and \$70.7 million in 2012 and 2011, respectively, causing a year-over-year net decrease in cash flows of \$9.4 million. This was primarily due to changes in accrued

payroll costs.

Cash Flows from Investing Activities

U.S. Cellular makes substantial investments to construct and upgrade modern high-quality wireless telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades of U.S. Cellular's networks. Cash flows used for investing activities also represent cash required for the acquisition of wireless properties or licenses.

The primary purpose of U.S. Cellular's construction and expansion expenditures is to provide for customer and usage growth, to upgrade service and to take advantage of service enhancing and cost-reducing technological developments.

Capital expenditures (i.e. additions to property, plant and equipment and system development expenditures) totaled \$201.3 million in 2012 and \$95.9 million in 2011. Cash used for capital expenditures totaled \$209.2 million in 2012 and \$121.0 million in 2011. These expenditures were made to construct new cell sites, increase capacity in existing cell sites and switches, develop new and enhance existing office systems, and construct new and remodel existing retail stores.

Cash payments for acquisitions of licenses in 2012 were \$11.1 million. There were no cash payments for acquisitions of licenses in 2011.

In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for \$49.8 million in cash. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to this sale.

In 2012, U.S. Cellular invested \$10.0 million in U.S. treasuries and corporate notes with maturities of greater than three months from the acquisition date. U.S. Cellular did not make temporary cash investments in the first quarter of 2011. U.S. Cellular realized proceeds of \$10.0 million and \$35.0 million in 2012 and 2011, respectively, related to the maturities of its investments in U.S. treasuries and corporate notes. Accordingly, the net impact of this activity was to decrease Cash flows from investing activities by \$35.0 million on a year-over-year basis.

Cash Flows from Financing Activities

Cash flows from financing activities primarily reflect changes in short-term and long-term debt balances, distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from reissuance of Common Shares pursuant to stock-based compensation plans. U.S. Cellular has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from the sale of non-strategic wireless and other investments, from time to time, have been used to reduce short-term debt.

Table of Contents

There were no short-term or long-term borrowings or repayments during the first quarter of 2012 or 2011.

U.S. Cellular did not repurchase any Common Shares in the first quarter of 2012, whereas it repurchased Common Shares at an aggregate cost of \$17.4 million in the first quarter of 2011. See Note 11 — Common Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

Free Cash Flow

The following table presents Free cash flow. U.S. Cellular believes that Free cash flow as reported by U.S. Cellular may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations, after Cash used for additions to property, plant and equipment.

Three Months Ended March 31, (Dollars in thousands)	2012		2011	
Cash flows from operating activities	\$	256,967	\$	257,708
Cash used for additions to property, plant and equipment		(209,160)		(121,041)
Free cash flow (1)	\$	47,807	\$	136,667

(1) Free cash flow is defined as Cash flows from operating activities less Cash used for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure.

See Cash Flows from Operating Activities and Cash Flows from Investing Activities for details on the changes to the components of Free cash flow.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012, U.S. Cellular had Cash and cash equivalents of \$511.1 million, Short-term investments of \$116.4 million, Long-term investments of \$40.3 million and available funds under its revolving credit facility of \$299.8 million, as discussed in more detail below. U.S. Cellular believes that existing cash and investments balances, funds available under its revolving credit facility and expected cash flows from operating activities provide substantial

liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs (including working capital, construction and development expenditures, and share repurchases under its approved program) for the foreseeable future. In addition, U.S. Cellular may have access to public and private capital markets to help meet its financing needs.

Consumer spending significantly impacts U.S. Cellular's operations and performance. Factors that influence levels of consumer spending include: unemployment rates, increases in fuel and other energy costs, conditions in residential real estate and mortgage markets, labor and health care costs, access to credit, consumer confidence and other macroeconomic factors. Changes in these and other economic factors could have a material adverse effect on demand for U.S. Cellular's products and services and on U.S. Cellular's financial condition and results of operations.

U.S. Cellular cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets or other factors could restrict U.S. Cellular's liquidity and availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development, acquisition or share repurchase programs. Such reductions could have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Cash and Cash Equivalents

At March 31, 2012, U.S. Cellular had \$511.1 million in Cash and cash equivalents, which included cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of U.S. Cellular's Cash and cash equivalents investment activities is to preserve principal. At March 31, 2012, the majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury securities with original maturities of less than three months or in repurchase agreements fully collateralized by such obligations. U.S. Cellular monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Table of Contents

Short-term and Long-term Investments

At March 31, 2012, U.S. Cellular had \$116.4 million in Short-term investments and \$40.3 million in Long-term investments. Short-term and Long-term investments consist of certificates of deposit (short-term only), U.S. treasuries and corporate notes, all of which are designated as held-to-maturity investments and are recorded at amortized cost in the Consolidated Balance Sheet. The corporate notes are guaranteed by the Federal Deposit Insurance Corporation. For these investments, U.S. Cellular's objective is to earn a higher rate of return on cash balances that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk. See Note 3 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional details on Short-term and Long-term investments.

Revolving Credit Facility

U.S. Cellular has a revolving credit facility available for general corporate purposes.

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At March 31, 2012, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

U.S. Cellular's interest cost on its revolving credit facility is subject to increase if its current credit rating from nationally recognized credit rating agencies is lowered, and is subject to decrease if the rating is raised. The credit facility would not cease to be available nor would the maturity date accelerate solely as a result of a downgrade in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew the credit facility or obtain access to other credit facilities in the future.

As of March 31, 2012, U.S. Cellular's credit rating from nationally recognized credit rating agencies remained at investment grade.

The following table summarizes the terms of U.S. Cellular's revolving credit facility as of March 31, 2012:

(Dollars in millions)

Maximum borrowing capacity	\$	300.0
Letter of credit outstanding	\$	0.2
Amount borrowed	\$	—
Amount available for use	\$	299.8
Agreement date		December 2010
Maturity date		December 2015

The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. The covenants also prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries. There were no intercompany loans at March 31, 2012 or 2011. U.S. Cellular believes it was in compliance as of March 31, 2012 with all of the covenants and requirements set forth in its revolving credit facility.

Long-Term Financing

U.S. Cellular had the following debt outstanding as of March 31, 2012:

				Aggregate
(Dollars in thousands)	Issuance date	Maturity date	Call date (1)	Principal Amount
Unsecured Senior Notes				
	December 2003		December	
6.7%	and June 2004	December 2033	2003	\$ 544,000
6.95%	May 2011	May 2060	May 2016	342,000

(1) U.S. Cellular may redeem the 6.7% Senior Notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued and unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points. U.S. Cellular may redeem the 6.95% Senior Notes, in whole or in part at any time after the call date, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

Table of Contents

U.S. Cellular's long-term debt indenture does not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to obtain long-term debt financing in the future. U.S. Cellular believes it was in compliance as of March 31, 2012 with all covenants and other requirements set forth in its long-term debt indenture. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indenture.

The long-term debt principal payments due for the remainder of 2012 and the next four years represent less than 1% of the total long-term debt obligation at March 31, 2012. Refer to Market Risk — Long-Term Debt in U.S. Cellular's Form 10-K for the year ended December 31, 2011 and Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk for additional information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt.

U.S. Cellular, at its discretion, may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

U.S. Cellular has an effective shelf registration statement on Form S-3 that it can use to issue senior debt securities that can be used for general corporate purposes, including to finance the redemption of any of the above existing debt. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time senior debt securities in one or more offerings up to an aggregate principal amount of \$500 million. The ability of U.S. Cellular to complete an offering pursuant to such shelf registration statement is subject to market conditions and other factors at the time.

Capital Expenditures

U.S. Cellular's capital expenditures for 2012 are expected to be approximately \$850 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance U.S. Cellular's network coverage in its service areas, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- Deploy 4G LTE technology in certain markets;

- Enhance U.S. Cellular's retail store network;
- Develop and enhance office systems; and
- Develop new billing and other customer management related systems and platforms.

U.S. Cellular plans to finance its capital expenditures program for 2012 using cash flows from operating activities, existing cash balances, short-term investments and, if necessary, debt.

Acquisitions, Divestitures and Exchanges

U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those wireless interests that are not strategic to its long-term success. U.S. Cellular also may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for details on significant transactions.

Variable Interest Entities

U.S. Cellular consolidates certain entities because they are “variable interest entities” under accounting principles generally accepted in the United States of America (“GAAP”). See Note 10 — Variable Interest Entities (VIEs) in the Notes to Consolidated Financial Statements for the details of these variable interest entities. U.S. Cellular may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Program

U.S. Cellular has repurchased, and expects to continue to repurchase, its Common Shares subject to its repurchase program. For additional information related to the current repurchase authorization and repurchases made during 2012 and 2011, see Note 11 — Common Share Repurchases in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Table of Contents

Contractual and Other Obligations

There was no material change between December 31, 2011 and March 31, 2012 to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Form 10-K for the year ended December 31, 2011 other than the material commitments described below.

Since December 31, 2011, future minimum rental payments under operating leases increased by the following amounts due to lease extensions signed in the first quarter of 2012: Total: \$161.3 million; Less Than 1 Year from December 31, 2011: \$0.3 million; 2 – 3 Years from December 31, 2011: \$6.0 million; 4 – 5 Years from December 31, 2011: \$14.1 million; and More than 5 Years from December 31, 2011: \$140.9 million.

Off-Balance Sheet Arrangements

U.S. Cellular had no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by Securities and Exchange Commission ("SEC") rules, that had or are reasonably likely to have a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

U.S. Cellular prepares its consolidated financial statements in accordance with GAAP. U.S. Cellular's significant accounting policies are discussed in detail in Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements and U.S. Cellular's Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in U.S. Cellular's Form 10-K for the year ended December 31, 2011. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the three months ended March 31, 2012.

Goodwill and Licenses Impairment Assessment

U.S. Cellular has significant amounts recorded as Licenses and Goodwill in its Consolidated Balance Sheet. Licenses and Goodwill must be assessed for impairment annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. U.S. Cellular performs annual impairment testing of Licenses and Goodwill, as required by GAAP, in the fourth quarter of its fiscal year, based on fair values and net carrying values determined as of November 1. The continuing weak macroeconomic conditions and financial markets and/or the performance of U.S. Cellular's stock price in the second quarter of 2012 could require an interim impairment test of Licenses and Goodwill as of June 30, 2012. In such event, it is possible that U.S. Cellular could be required to recognize an impairment of its Licenses and/or Goodwill in the second quarter of 2012. The amount of any possible impairment is uncertain at this time, but could be material depending on conditions at June 30, 2012.

Table of Contents

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that U.S. Cellular intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully described under “Risk Factors” in U.S. Cellular’s Form 10-K for the year ended December 31, 2011. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in U.S. Cellular’s Form 10-K for the year ended December 31, 2011, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to U.S. Cellular’s business.

- *Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular's revenues or increase its costs to compete.*
- *A failure by U.S. Cellular to successfully execute its business strategy or allocate resources or capital could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *A failure by U.S. Cellular's service offerings to meet customer expectations could limit U.S. Cellular's ability to attract and retain customers and could have an adverse effect on U.S. Cellular's operations.*

- *U.S. Cellular's system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*
- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to U.S. Cellular could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular currently receives a significant amount of roaming revenues. Further consolidation within the wireless industry and/or continued network build-outs by other wireless carriers could cause roaming revenues to decline from current levels, which would have an adverse effect on U.S. Cellular's business, financial condition and results of operations.*
- *A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular's business and operations.*
- *To the extent conducted by the Federal Communications Commission ("FCC"), U.S. Cellular is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on U.S. Cellular.*
- *Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular's financial condition, results of operations or ability to do business.*
- *Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have a material adverse impact on U.S. Cellular's financial condition or results of operations.*
- *An inability to attract and/or retain highly competent management, technical, sales and other personnel could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular's assets are concentrated in the U.S. wireless telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.*

- *The completion of acquisitions by other companies has led to increased consolidation in the wireless telecommunications industry. U.S. Cellular's lower scale relative to larger wireless carriers has in the past and could in the future prevent or delay its access to new products including wireless devices, new technology and/or new content and applications which could adversely affect U.S. Cellular's ability to attract and retain customers and, as a result, could adversely affect its business, financial condition or results of operations.*

Table of Contents

- *U.S. Cellular's inability to manage its supply chain or inventory successfully could have an adverse effect on its business, financial condition or results of operations.*
- *Changes in general economic and business conditions, both nationally and in the markets in which U.S. Cellular operates, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in various business factors could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol ("VoIP"), High-Speed Packet Access ("HSPA"), WiMAX or Long-Term Evolution ("LTE"), could render certain technologies used by U.S. Cellular obsolete, could put U.S. Cellular at a competitive disadvantage, could reduce U.S. Cellular's revenues or could increase its costs of doing business.*
- *Complexities associated with deploying new technologies, such as U.S. Cellular's ongoing upgrade to 4G LTE technology, present substantial risk.*
- *U.S. Cellular is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.*
- *Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its license costs, goodwill and/or physical assets.*
- *Costs, integration problems or other factors associated with developing and enhancing business support systems, acquisitions/divestitures of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

- *A significant portion of U.S. Cellular's revenues is derived from customers who buy services through independent agents who market U.S. Cellular's services on a commission basis. If U.S. Cellular's relationships with these agents are seriously harmed, its business, financial condition or results of operations could be adversely affected.*
- *U.S. Cellular's investments in technologies which are unproven may not produce the benefits that U.S. Cellular expects.*
- *A failure by U.S. Cellular to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network and support systems could have an adverse effect on its operations.*
- *Financial difficulties (including bankruptcy proceedings) or other operational difficulties of any of U.S. Cellular's key suppliers or vendors, termination or impairment of U.S. Cellular's relationships with such suppliers or vendors, or a failure by U.S. Cellular to manage its supply chain effectively could result in delays or termination of U.S. Cellular's receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.*
- *A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.*

Table of Contents

- *Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission (“SEC”). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.*
- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on U.S. Cellular’s financial condition or results of operations.*
- *Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events, could, among other things, impede U.S. Cellular’s access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular’s financial condition or results of operations.*
- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular’s credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs.*
- *Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular’s financial condition, results of operations or ability to do business.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an*

adverse effect on U.S. Cellular's business, financial condition or results of operations.

- *Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent U.S. Cellular from using necessary technology to provide services or subject U.S. Cellular to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *There are potential conflicts of interests between TDS and U.S. Cellular.*
- *Certain matters, such as control by TDS and provisions in the U.S. Cellular Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.*
- *Any of the foregoing events or other events could cause customer net additions, revenues, operating income, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.*

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Refer to the disclosure under Market Risk in U.S. Cellular's Form 10-K for the year ended December 31, 2011 for additional information, including information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt. There have been no material changes to such information since December 31, 2011.

See Note 3 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair market value of U.S. Cellular's Long-term debt as of March 31, 2012.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

U.S. Cellular maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (“SEC”) rules and forms, and that such information is accumulated and communicated to U.S. Cellular’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), U.S. Cellular carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of U.S. Cellular’s disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, U.S. Cellular’s Chief Executive Officer and Chief Financial Officer concluded that U.S. Cellular’s disclosure controls and procedures were effective as of March 31, 2012, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in U.S. Cellular’s internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular’s internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings.

U.S. Cellular is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If U.S. Cellular believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in U.S. Cellular’s Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect U.S. Cellular’s business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2011 may not be the only risks that could affect U.S. Cellular. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect U.S. Cellular’s business, financial condition and/or operating results. Subject to the foregoing, U.S. Cellular has not identified for disclosure any material changes to the risk factors as previously disclosed in U.S. Cellular’s Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases, or otherwise, depending on market prices and other conditions. This authorization does not have an expiration date.

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

The following table provides certain information with respect to all purchases made by or on behalf of U.S. Cellular, and any open market purchases made by any “affiliated purchaser” (as defined by the SEC) of U.S. Cellular, of U.S. Cellular Common Shares during the quarter covered by this Form 10-Q.

Period	(a)	(b)	(c)	(d)
	Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs
January 1 – 31, 2012		-\$	—	2,598,522
February 1 – 29, 2012		—	—	2,598,522
March 1 – 31, 2012		—	—	2,598,522
Total for or as of the end of the quarter ended March 31, 2012		-\$	—	2,598,522

The following is additional information with respect to the foregoing authorization:

- i. The date the program was announced was November 20, 2009 by Form 8-K.
- ii. The amount approved was up to 1,300,000 U.S. Cellular Common shares on an annual basis in 2009 and continuing each year thereafter on a cumulative basis.
- iii. There is no expiration date for the program.
- iv. The authorization did not expire during the first quarter of 2012.

v. U.S. Cellular did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the first quarter of 2012.

Table of Contents

Item 5. Other Information.

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

U.S. Cellular did not borrow or repay any amounts under its revolving credit facility in the first quarter of 2012. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of March 31, 2012.

A description of U.S. Cellular's revolving credit facility is included under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated December 17, 2010 and is incorporated by reference herein.

Table of Contents

Item 6. Exhibits.

Exhibit 3.2 — Amended and Restated Bylaws are hereby incorporated by reference to Exhibit 3.1 to U.S. Cellular's Current Report on Form 8-K dated April 6, 2012.

Exhibit 4.2 — Amended and Restated Bylaws are hereby incorporated by reference to Exhibit 3.1 to U.S. Cellular's Current Report on Form 8-K dated April 6, 2012.

Exhibit 10.1 — Amendment to U.S. Cellular Compensation Plan for Non-Employee Directors, is hereby incorporated by reference to Item 5.02 to U.S. Cellular's Current Report on Form 8-K dated March 6, 2012.

Exhibit 10.2 — Amendment to Telephone and Data Systems, Inc. Supplemental Executive Retirement Plan, is hereby incorporated by reference to Exhibit 10.2 to Telephone and Data Systems, Inc.'s Current Report on Form 8-K dated March 15, 2012.

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 5 — Earnings Per Share in the Notes to Consolidated Financial Statements.

Exhibit 12 — Statement regarding computation of ratio of earnings to fixed charges.

Exhibit 31.1 — Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 — Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

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

Exhibit 32.1 — Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 — Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 101.INS — XBRL Instance Document

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE — XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL — XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB — XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in U.S. Cellular's Form 10-K for the year ended December 31, 2011. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2011 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED STATES CELLULAR CORPORATION
(Registrant)

Date: May 4, 2012

/s/ Mary N. Dillon
Mary N. Dillon

President and Chief Executive
Officer

(principal executive officer)

Date: May 4, 2012

/s/ Steven T. Campbell
Steven T. Campbell

Executive Vice
President-Finance,

Chief Financial Officer and
Treasurer

(principal financial officer)

Date: May 4, 2012

/s/ Douglas D. Shuma
Douglas D. Shuma

Chief Accounting Officer

(principal accounting officer)

Date: May 4, 2012

/s/ Ljubica A. Petrich
Ljubica A. Petrich

Vice President and Controller

Signature page for the U.S. Cellular 2012 First Quarter Form 10-Q