UNITED STATES CELLULAR CORP
Form 10-Q
May 03, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from to

Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	**62-1147325**
(State or other jurisdiction of incorporation or organization)	(IRS 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	**Yes**	**No**
• 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.	x	o
• 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	x	o

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

• 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	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o x

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, 2013
Common Shares, $1 par value	50,685,294 Shares
Series A Common Shares, $1 par value	33,005,877 Shares

United States Cellular Corporation

Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 31, 2013

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Part I. Financial Information
Item 1. Financial Statements

United States Cellular Corporation

Consolidated Statement of Operations

(Unaudited)

		Three Months Ended March 31,		
(Dollars and shares in thousands, except per share amounts)		**2013**		**2012**
Operating revenues				
Service	$	996,349	$	1,023,820
Equipment sales		85,397		68,301
Total operating revenues		1,081,746		1,092,121
Operating expenses				
System operations (excluding Depreciation, amortization and accretion reported below)		216,299		233,164
Cost of equipment sold		241,691		187,036
Selling, general and administrative (including charges from affiliates of $23.5 million and $26.0 million, respectively)		420,080		442,244
Depreciation, amortization and accretion		189,845		146,685
Loss on asset disposals, net		5,434		2,003
(Gain) loss on sale of business and other exit costs, net		6,931		(4,213)
Total operating expenses		1,080,280		1,006,919
Operating income		1,466		85,202
Investment and other income (expense)				
Equity in earnings of unconsolidated entities		26,835		21,614
Interest and dividend income		903		1,043
Interest expense		(10,910)		(13,411)
Other, net		(215)		202
Total investment and other income (expense)		16,613		9,448
Income before income taxes		18,079		94,650
Income tax expense		7,369		25,638
Net income		10,710		69,012
		(5,796)		(6,520)

Less: Net income attributable to noncontrolling interests, net of tax				
Net income attributable to U.S. Cellular shareholders	$	4,914	$	62,492
Basic weighted average shares outstanding		83,838		84,570
Basic earnings per share attributable to U.S. Cellular shareholders	$	0.06	$	0.74
Diluted weighted average shares outstanding		84,403		85,133
Diluted earnings per share attributable to U.S. Cellular shareholders	$	0.06	$	0.73

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

United States Cellular Corporation

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)	Three Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income	$ 10,710	$ 69,012
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	189,845	146,685
Bad debts expense	16,910	13,850
Stock-based compensation expense	5,036	5,391
Deferred income taxes, net	7,048	6,283
Equity in earnings of unconsolidated entities	(26,835)	(21,614)
Distributions from unconsolidated entities	5,836	2,822
Loss on asset disposals, net	5,434	2,003
(Gain) loss on sale of business and other exit costs, net	6,931	(4,213)
Noncash interest expense	262	451
Other operating activities	250	449
Changes in assets and liabilities from operations		
Accounts receivable	33,611	36,621
Inventory	16,750	(4,410)
Accounts payable - trade	4,644	(17,689)
Accounts payable - affiliate	(1,933)	2,989
Customer deposits and deferred revenues	8,862	9,512
Accrued taxes	6,175	79,765
Accrued interest	9,201	9,167
Other assets and liabilities	(75,122)	(80,107)
	223,615	256,967
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(151,024)	(209,160)
Cash paid for acquisitions and licenses	(14,150)	(11,096)
Cash received from divestitures	-	49,786
Cash paid for investments	-	(10,000)
Cash received for investments	-	10,000
Other investing activities	3,654	296
	(161,520)	(170,174)
Cash flows from financing activities		
Repayment of long-term debt	(61)	(12)
Common shares reissued for benefit plans, net of tax payments	123	357
Common shares repurchased	(18,425)	-
Distributions to noncontrolling interests	(2,396)	(218)

Other financing activities		2		3
		(20,757)		130
Net increase in cash and cash equivalents		41,338		86,923
Cash and cash equivalents				
Beginning of period		378,358		424,155
End of period	$	419,696	$	511,078

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

United States Cellular Corporation

Consolidated Balance Sheet — Assets

(Unaudited)

(Dollars in thousands)	**March 31, 2013**	**December 31, 2012**
Current assets		
Cash and cash equivalents	$ 419,696	$ 378,358
Short-term investments	110,585	100,676
Accounts receivable		
Customers and agents, less allowances of $24,106 and $24,290, respectively	314,463	349,424
Roaming	29,132	31,782
Affiliated	44	375
Other, less allowances of $1,692 and $2,612, respectively	51,062	63,639
Inventory	139,136	155,886
Income taxes receivable	2,776	1,612
Prepaid expenses	64,365	62,560
Net deferred income tax asset	36,302	35,419
Other current assets	17,111	16,745
	1,184,672	1,196,476
Assets held for sale	213,593	216,763
Investments		
Licenses	1,470,944	1,456,794
Goodwill	421,743	421,743
Customer lists, net of accumulated amortization of $96,843 and $96,809, respectively	68	102
Investments in unconsolidated entities	165,529	144,531
Long-term investments	40,142	50,305
	2,098,426	2,073,475
Property, plant and equipment		
In service and under construction	7,562,931	7,478,428
Less: Accumulated depreciation	4,614,423	4,455,840
	2,948,508	3,022,588
Other assets and deferred charges	78,436	78,148
Total assets	$ 6,523,635	$ 6,587,450

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

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United States Cellular Corporation

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in thousands)	March 31, 2013	December 31, 2012
Current liabilities		
Current portion of long-term debt	$ 93	$ 92
Accounts payable		
Affiliated	8,792	10,725
Trade	281,762	310,936
Customer deposits and deferred revenues	202,209	192,113
Accrued taxes	43,357	35,834
Accrued compensation	50,698	90,418
Other current liabilities	98,657	114,881
	685,568	754,999
Liabilities held for sale	18,360	19,594
Deferred liabilities and credits		
Net deferred income tax liability	857,439	849,818
Other deferred liabilities and credits	292,687	288,441
Long-term debt	878,975	878,858
Commitments and contingencies	-	-
Noncontrolling interests with redemption features	466	493
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 83,691 shares (33,006 Series A Common and 50,685 Common Shares) and 84,168 shares (33,006 Series A Common and 51,162 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	1,417,308	1,412,453
Treasury shares, at cost, 4,383 and 3,906 Common Shares, respectively	(183,385)	(165,724)
Retained earnings	2,403,325	2,399,052

Total U.S. Cellular shareholders' equity		3,725,322		3,733,855
Noncontrolling interests		64,818		61,392
Total equity		3,790,140		3,795,247
Total liabilities and equity	$	6,523,635	$	6,587,450

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

United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders						
(Dollars in thousands)	**Series A Common and Common Shares**	**Additional Paid-In Capital**	**Treasury Shares**	**Retained Earnings**	**Total U.S. Cellular Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
Balance, December 31, 2012	$ 88,074	$ 1,412,453	$ (165,724)	$ 2,399,052	$ 3,733,855	$ 61,392	$ 3,795,247
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	-	-	-	4,914	4,914	-	4,914
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	5,822	5,822
Repurchase of Common Shares	-	-	(18,425)	-	(18,425)	-	(18,425)
Incentive and compensation plans	-	-	764	(641)	123	-	123
Stock-based compensation awards	-	5,036	-	-	5,036	-	5,036
Tax windfall (shortfall) from stock awards	-	(181)	-	-	(181)	-	(181)
Distributions to noncontrolling interests	-	-	-	-	-	(2,396)	(2,396)
Balance, March 31, 2013	$ 88,074	$ 1,417,308	$ (183,385)	$ 2,403,325	$ 3,725,322	$ 64,818	$ 3,790,140

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

United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders						
(Dollars in thousands)	**Series A Common and Common Shares**	**Additional Paid-In Capital**	**Treasury Shares**	**Retained Earnings**	**Total U.S. Cellular Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
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.

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 85%-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, 2012.

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, 2013 and December 31, 2012, and the results of operations, cash flows and changes in equity for the three months ended March 31, 2013 and 2012. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three months ended March 31, 2013 and 2012 equaled net income. These results are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

As of March 31, 2013, 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, 2013 and December 31, 2012, U.S. Cellular had accrued $63.9 million and $88.2 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 $32.1 million for the three months ended March 31, 2013, and $35.3 million for the three months ended March 31, 2012.

2.   Fair Value Measurements

As of March 31, 2013 and December 31, 2012, 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.

	Level within the Fair Value Hierarchy	March 31, 2013		December 31, 2012	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 419,696	$ 419,696	$ 378,358	$ 378,358
Short-term investments					
Government-backed securities	1	110,585	110,585	100,676	100,676
Long-term investments					
Government-backed securities	1	40,142	40,175	50,305	50,339
Long-term debt					
6.95% Senior Notes	1	342,000	363,067	342,000	376,610
6.7% Senior Notes	2	532,256	585,423	532,194	582,744

Short-term investments and Long-term investments are both designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. Long-term investment maturities are 20 months at March 31, 2013. Government-backed securities include U.S. treasuries and corporate notes guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program. Long-term debt 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 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, and discounted cash flow analysis using an estimated yield to maturity of 6.05% for the 6.7% Senior Notes at March 31, 2013.

As of March 31, 2013 and December 31, 2012, 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.

3. 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, 2013 and March 31, 2012 was 40.8% and 27.1%, respectively. The effective tax rate for the three months ended March 31, 2013 was higher than the rate for the three months ended March 31, 2012 primarily as a result of tax benefits related to the expiration of the statute of limitations for certain tax years and the adjustment of deferred tax balances related to certain partnership investments in 2012.

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 $66.8 million federal income tax refund in 2012 for carrybacks to 2009 and 2010 tax years. Of this amount, $58.1 million of the refund was received in the three months ended March 31, 2012.

4. 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 were as follows:

	Three Months Ended March 31,			
		2013		2012
(Dollars and shares in thousands, except per share amounts)				
Net income attributable to U.S. Cellular shareholders	$	4,914	$	62,492
Weighted average number of shares used in basic earnings per share		83,838		84,570
Effects of dilutive securities:				
Stock options		44		135
Restricted stock units		521		428
Weighted average number of shares used in diluted earnings per share		84,403		85,133
Basic earnings per share attributable to U.S. Cellular shareholders	$	0.06	$	0.74
Diluted earnings per share attributable to U.S. Cellular shareholders	$	0.06	$	0.73

Certain Common Shares issuable upon the exercise of stock options or vesting of restricted stock units were not included in average diluted shares outstanding for the calculation of Diluted earnings per share attributable to U.S. Cellular shareholders because their effects were antidilutive. The number of such Common Shares excluded, if any, is shown in the table below.

	Three Months Ended March 31,	
	2013	2012
(Shares in thousands)		
Stock options	2,468	1,444

5. 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 operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those interests that are not strategic to its long-term success.

Divestiture Transaction

On November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Nextel Corporation (“Sprint”). The Purchase and Sale Agreement provides that U.S. Cellular will transfer customers and certain PCS licensed spectrum to Sprint in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets (“Divestiture Markets”) in consideration for $480 million in cash at closing, subject to pro-rations of certain assets and liabilities. The Purchase and Sale Agreement also contemplates certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the “Divestiture Transaction.” The transaction was approved by the FCC in March 2013 and the closing is expected to occur in the second quarter of 2013.

U.S. Cellular will retain other assets and liabilities related to the Divestiture Markets, including network assets, retail stores and related equipment, and other buildings and facilities. The transaction does not affect spectrum licenses held by U.S. Cellular or variable interest entities (“VIEs”) that are not currently used in the operations of the Divestiture Markets. The Purchase and Sale Agreement also contemplates certain other agreements, including customer and network transition services agreements, which will require that U.S. Cellular provide customer, billing and network services to Sprint for a period of up to 24 months after the closing date. Sprint will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular's cost, including applicable overhead allocations. In addition, these agreements will require Sprint to reimburse U.S. Cellular up to $200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees.

Financial impacts of the Divestiture Transaction are classified in the Consolidated Statement of Operations within Operating income. The table below describes the amounts U.S. Cellular has recognized, and expects to recognize, in the Consolidated Statement of Operations between the date the Purchase and Sale Agreement was signed and the end of the transition services period, as a result of the transaction.

(Dollars in thousands)	**Expected Period of Realization/ Incurrence**	**Projected Range**		**Cumulative Amount Incurred as of March 31, 2013**	**Actual Amount Incurred Three Months Ended March 31, 2013**
(Gain) loss on sale of business and other exit costs, net					
Proceeds from Sprint					
Purchase price	2013	$ (480,000)	$ (480,000)	$ -	$ -
Sprint Cost Reimbursement	2013-2014	(150,000)	(200,000)	-	-
Net assets transferred	2013	210,000	230,000	-	-
Non-cash charges for the write-off and write-down of property under construction and related assets	2012-2013	11,000	15,000	10,894	222
Employee related costs including severance, retention and outplacement	2012-2014	16,000	25,000	15,659	3,050
Contract termination costs	2012-2014	125,000	175,000	2,959	2,900
Transaction costs	2012-2013	4,000	6,000	2,055	918
Total (Gain) loss on sale of business and other exit costs, net		$ (264,000)	$ (229,000)	$ 31,567	$ 7,090
Depreciation, amortization and accretion expense					
Incremental depreciation, amortization and accretion, net of salvage values	2012-2013	175,000	210,000	58,104	38,046
Other Operating expenses					
Non-cash charges for the write-off and	2013	-	10,000	-	-

write-down of various operating assets and liabilities				
(Increase) decrease in Operating income	$ (89,000)	$ (9,000)	$ 89,671	$ 45,136

Incremental depreciation, amortization and accretion, net of salvage values represents anticipated amounts to be recorded in the specified time periods as a result of revising the useful life of certain assets and revising the settlement dates of certain asset retirement obligations in conjunction with the Divestiture Transaction. Specifically, for the years indicated, this is estimated depreciation, amortization and accretion recorded on assets and liabilities of the Divestiture Markets after the November 6, 2012 transaction date less depreciation, amortization and accretion that would have been recorded on such assets and liabilities in the normal course, absent the Divestiture Transaction.

As a result of the transaction, U.S. Cellular recognized the following amounts in the Consolidated Balance Sheet:

	Three Months Ended March 31, 2013					
(Dollars in thousands)	**Balance December 31, 2012**	**Costs Incurred**	**Cash Settlements (1)**	**Non-cash Settlements**	**Adjustments**	**Balance March 31, 2013**
Accrued compensation						
Employee related costs including severance, retention, outplacement	$ 12,305	$ 3,050	$ (1,607)	$ -	$ -	$ 13,748
Other current liabilities						
Contract termination costs	$ 30	$ 2,900	$ (784)	$ -	$ -	$ 2,146

(1) Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities on the Consolidated Statement of Cash Flows.

At March 31, 2013 and December 31, 2012, the following assets and liabilities were classified in the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale":

(Dollars in thousands)	Licenses	Goodwill	Property, Plant and Equipment	Total Assets Held for Sale	Liabilities Held for Sale (1)
March 31, 2013					
Divestiture Transaction	$ 140,599	$ 72,994	$ -	$ 213,593	$ 18,360
December 31, 2012					
Divestiture Transaction	$ 140,599	$ 72,994	$ -	$ 213,593	$ 19,594
Bolingbrook Customer Care Center (2)	-	-	3,170	3,170	-
Total	$ 140,599	$ 72,994	$ 3,170	$ 216,763	$ 19,594

(1) Liabilities held for sale primarily consisted of Customer deposits and deferred revenues.
(2) Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.

6. Intangible Assets

Changes in U.S. Cellular's Licenses for the three months ended March 31, 2013 and 2012 are presented below. There were no significant changes to Goodwill or Customer lists during the periods presented.

Licenses

(Dollars in thousands)	March 31, 2013	March 31, 2012
Balance, beginning of period	$ 1,456,794	$ 1,470,769
Acquisitions	14,150	11,096
Balance, end of period	$ 1,470,944	$ 1,481,865

7. 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 $26.8 million and $21.6 million in the three months ended March 31, 2013 and 2012, respectively; of those amounts, U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $20.6 million and $17.1 million in the three months ended March 31, 2013 and 2012, 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 March 31,	
	2013	**2012**
(Dollars in thousands)		
Revenues	$ 1,492,726	$ 1,431,372
Operating expenses	1,066,967	1,071,887
Operating income	425,759	359,485
Other income	588	916
Net income	$ 426,347	$ 360,401

8. Commitments, Contingencies and Other Liabilities

Agreements

As previously disclosed, on August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited ("Amdocs") entered into a Software License and Maintenance Agreement ("SLMA") and a Master Service Agreement ("MSA") (collectively, the "Amdocs Agreements") to develop a Billing and Operational Support System ("B/OSS"). Pursuant to an updated Statement of Work dated June 29, 2012, the implementation of B/OSS is expected to take until the end of 2013 to complete and total payments to Amdocs are estimated to be approximately $179.0 million (subject to certain potential adjustments) over the period from commencement of the SLMA in 2010 through the second half of 2013. As of March 31, 2013, $114.0 million had been paid to Amdocs.

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.

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.

U.S. Cellular has accrued $1.7 million with respect to legal proceedings and unasserted claims as of both March 31, 2013 and December 31, 2012. U.S. Cellular has not accrued any amount for legal proceedings if it cannot reasonably 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.

Apple iPhone Products Purchase Commitment

In March 2013, U.S. Cellular entered into an agreement with Apple to purchase an estimated $1.2 billion of Apple iPhone products over a three-year period beginning later in 2013.

9. Variable Interest Entities (VIEs)

Consolidated VIEs

As of March 31, 2013, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities that most significantly impact the economic performance of Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner 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.

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

(Dollars in thousands)		March 31, 2013	December 31, 2012
Assets			
	Cash and cash equivalents	$ 3,465	$ 5,849
	Other current assets	178	120
	Licenses	308,091	308,091
	Property, plant and equipment, net	15,899	16,443
	Other assets and deferred charges	1,449	887
	Total assets	$ 329,082	$ 331,390
Liabilities			
	Current liabilities	$ 82	$ 1,013
	Deferred liabilities and credits	3,015	3,024
	Total liabilities	$ 3,097	$ 4,037

<u>Other Related Matters</u>

Aquinas Wireless and King Street Wireless 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, 2012.

U.S. Cellular may agree to make additional capital contributions and/or advances to Aquinas Wireless and King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in 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.

There were no capital contributions or advances made to Aquinas Wireless and King Street Wireless and/or their general partners in the three months ended March 31, 2013 and 2012.

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 continue the deployment of 4G LTE. U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless. Aquinas Wireless is still in the process of developing long-term business plans.

10. 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,			
		2013		**2012**
(Dollars and shares in thousands, except cost per share)				
Number of shares		496		-
Average cost per share	$	37.16	$	-
Total cost	$	18,425	$	-

11. Noncontrolling Interests

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, 2013, net of estimated liquidation costs, is $167.9 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, 2013 was $61.3 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.

12. Supplemental Cash Flow Disclosures

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

	Three Months Ended March 31,	
	2013	**2012**
(Dollars and shares in thousands)		

Common Shares withheld		9		-
Aggregate value of Common Shares withheld	$	328	$	-
Cash receipts upon exercise of stock options	$	129	$	357
Cash disbursements for payment of taxes		(6)		-
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$	123	$	357

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13. Subsequent Event

On April 3, 2013, U.S. Cellular entered into an agreement relating to the Partnerships (as defined below) with Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). U.S. Cellular holds a 60.00% interest in St. Lawrence Seaway RSA Cellular Partnership ("NY1") and a 57.14% interest in New York RSA 2 Cellular Partnership ("NY2" and, together with NY1, the "Partnerships"). The remaining interests are held by Verizon Wireless. The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. Because U.S. Cellular owns a greater than 50% interest in each of these markets and based on U.S. Cellular's rights under the Partnership Agreements, prior to April 3, 2013, U.S. Cellular consolidated the financial results of these markets in accordance with GAAP. The agreement amends the Partnership Agreements in several ways, which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, effective April 3, 2013, U.S. Cellular will deconsolidate the Partnerships and thereafter will report them as equity method investments in its consolidated financial statements (the "Deconsolidation"). After the Deconsolidation, U.S. Cellular will continue to record only its share of the net income of the Partnerships in Net income attributable to U.S. Cellular shareholders. In accordance with GAAP, U.S. Cellular will recognize a non-cash pre-tax gain in the range of $16 million to $32 million in the second quarter of 2013.

Amounts recorded in U.S. Cellular's consolidated financial statements related to the Partnerships as of or for the three months ended March 31, 2013 are shown below:

(Dollars in thousands)		**NY1 & NY2**
Total assets	$	117,142
Total liabilities		10,847
Operating revenues		43,302
Total operating expenses		31,690
Net income		11,619
Net income attributable to U.S. Cellular shareholders		6,824

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 85%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS") as of March 31, 2013.

U.S. Cellular provides wireless telecommunications services to approximately 5.7 million customers in five geographic market areas in 26 states. As of March 31, 2013, U.S. Cellular's average penetration rate in its consolidated operating markets was 12.1%. 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, 2012.

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, 2013 included the following:

- Total consolidated customers were 5,736,000 at March 31, 2013, including 5,506,000 retail customers (96% of total).

- Retail customer net losses were 51,000 in 2013 compared to net losses of 34,000 in 2012. In the postpaid category, there were net losses of 74,000 in 2013, compared to net losses of 38,000 in 2012. Prepaid net additions were 23,000 in 2013 compared to net additions of 4,000 in 2012.

- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of March 31, 2013. The postpaid churn rate was 1.7% in 2013 compared to 1.6% in 2012. The prepaid churn rate was 6.2% in 2013 compared to 6.4% in 2012.

- Postpaid customers on smartphone service plans increased to 43% as of March 31, 2013 compared to 34% as of March 31, 2012. In addition, smartphones represented 62% of all devices sold in 2013 compared to 54% in 2012.

- Retail service revenues of $884.0 million decreased $4.5 million year-over-year, due to a lower average number of postpaid customers, partially offset by a higher average number of prepaid customers. Total service revenues of $996.3 million decreased $27.5 million year-over-year, primarily due to the net loss of retail customers and decreases in inbound roaming and eligible telecommunications carriers ("ETC") revenues.

- Billed ARPU increased to $51.13 in 2013 from $50.52 in 2012 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU decreased to $57.63 in 2013 from $58.21 in 2012 primarily due to decreases in inbound roaming and ETC revenues.

- Cash flows from operating activities were $223.6 million. At March 31, 2013, Cash and cash equivalents and Short-term investments totaled $530.3 million and there were no outstanding borrowings under the revolving credit facility.

- U.S. Cellular continued its efforts on a number of multi-year initiatives including the development of a new Billing and Operational Support System ("B/OSS") which will include a new point-of-sale system and consolidate billing on one platform.

- Total additions to Property, plant and equipment were $118.4 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy fourth generation Long-term Evolution ("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 2% year-over-year to 8,027.

- Operating income decreased $83.7 million, or 98%, to $1.5 million in 2013. The decrease was due primarily to lower service revenues, higher cost of equipment sold, and accelerated depreciation and losses related to the

Divestiture Transaction described below.

- Net income attributable to U.S. Cellular shareholders decreased $57.6 million, or 92%, to $4.9 million in 2013 compared to $62.5 million in 2012, primarily due to lower operating income. Basic earnings per share was $0.06 in 2013, which was $0.68 lower than in 2012, and Diluted earnings per share was $0.06, which was $0.67 lower than in 2012.

- In March 2013, U.S. Cellular entered into an agreement with Apple to purchase Apple iPhone products over three years beginning later in 2013.

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

- Impacts of the Divestiture Transaction (described below) including, but not limited to, successfully completing the transaction and the actual financial impacts of such transaction;

- Impacts of selling Apple iPhone products;

- Relative ability to attract and retain customers 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;

- Expanded distribution of products and services in third-party national retailers such as Walmart and Sam’s Club;

- Potential increases in prepaid customers, who generally generate lower average revenue per user (“ARPU”), as a percentage of U.S. Cellular’s customer base in response to changes in customer preferences and industry dynamics;

- 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;

- Continued growth in revenues and costs related to data products and services and 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;

- Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;

- Costs of enhancements to U.S. Cellular's wireless networks;

- Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC");

- The ability to negotiate satisfactory data roaming agreements, including 4G LTE, with other wireless operators;

- Economic or competitive factors that restrict U.S. Cellular's access to devices desired by customers; and

- Possible effects of industry litigation relating to patents, other intellectual property or otherwise, that may restrict U.S. Cellular's access to devices for sale to customers.

- On April 3, 2013, U.S. Cellular entered into an agreement relating to St. Lawrence Seaway RSA Cellular Partnership ("NY1") and New York RSA 2 Cellular Partnership ("NY2" and, together with NY1, the "Partnerships") with Cellco Partnership d/b/a Verizon Wireless, which will require U.S. Cellular to deconsolidate the Partnerships and thereafter account for them as equity method investments. See Note 13 – Subsequent Event in the Notes to the Consolidated Financial Statements and refer to U.S. Cellular's Form 8-K filed May 3, 2013 for more information regarding this transaction.

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FCC Reform Order

In 2011, the FCC released an order ("Reform Order") to reform its universal service and intercarrier compensation mechanisms, establish a new, broadband-focused support mechanism, and propose further rules to advance reform. Appeals of the Reform Order are pending.

There have been no significant changes to the Reform Order since December 31, 2012 that are expected to affect U.S. Cellular. U.S. Cellular cannot predict the outcome of future rulemaking, reconsideration and legal challenges and, as a consequence, the impacts that such potential developments may have on U.S. Cellular's business, financial condition or results of operations.

Cash Flows and Investments

See "Financial Resources" and "Liquidity and Capital Resources" below for additional information.

DIVESTITURE TRANSACTION

On November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Nextel Corporation ("Sprint"). The Purchase and Sale Agreement provides that U.S. Cellular will transfer customers and certain PCS licensed spectrum to Sprint in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets ("Divestiture Markets") in consideration for $480 million in cash at closing, subject to pro-rations of certain assets and liabilities. The Purchase and Sale Agreement also contemplates certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the "Divestiture Transaction." The transaction was approved by the FCC in March 2013 and the closing is expected to occur in the second quarter of 2013.

Selected information related to Divestiture Markets and Core Markets is as follows:

		Divestiture	Core
(Dollars in millions)	**As Reported**	**Markets**	**Markets**
For the Quarter ended March 31, 2013			

U.S. Cellular Service revenues	$	996	$	97	$	899
U.S. Cellular Capital expenditures	$	118	$	5	$	113
For the Quarter ended March 31, 2012						
U.S. Cellular Service revenues	$	1,024	$	111	$	913
U.S. Cellular Capital expenditures	$	201	$	22	$	179

The As-Reported amounts of Service revenues and Capital expenditures represent GAAP financial measures and the Divestiture Markets and Core Markets amounts represent non-GAAP financial measures. Divestiture Markets are comprised of U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets. Core Markets are comprised of all other markets in which U.S. Cellular conducts business including Peoria, Rockford and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the sale and other retained assets from the Divestiture Markets. U.S. Cellular believes that the amounts under Divestiture Markets and Core Markets may be useful to investors and other users of its financial information in evaluating the separate amounts for the Core Markets.

See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information regarding (i) the amounts U.S. Cellular expects to recognize in the Consolidated Statement of Operations between the date the Purchase and Sale Agreement was signed and the end of the transition services period, (ii) the cumulative amounts incurred as of March 31, 2013 and (iii) the actual amounts incurred during the quarter ended March 31, 2013 as a result of the transaction. The Divestiture Transaction resulted in a net reduction of $45.1 million in U.S. Cellular's Operating income for the quarter ended March 31, 2013.

2013 ESTIMATES

U.S. Cellular's estimates of full-year 2013 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Form 10-Q for the quarter ended March 31, 2013. 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.

2013 Estimated Results (1)			
Core Markets (2)		Divestiture Markets (2)(3)	U.S. Cellular Consolidated (2)(3)
Previous	Current		