

UNITED STATES CELLULAR CORP
Form 10-Q
November 07, 2012

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**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 September 30, 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

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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 September 30, 2012
Common Shares, \$1 par value	51,728,824 Shares
Series A Common Shares, \$1 par value	33,005,877 Shares

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United States Cellular Corporation
Quarterly Report on Form 10-Q
For the Quarterly Period Ended September 30, 2012

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Signatures

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating revenues				
Service	\$ 1,036,370	\$ 1,036,609	\$ 3,089,932	\$ 3,023,752
Equipment sales	103,987	73,830	246,946	219,961
Total operating revenues	1,140,357	1,110,439	3,336,878	3,243,713
Operating expenses				
System operations (excluding Depreciation, amortization and accretion reported below)	249,245	241,852	725,636	687,256
Cost of equipment sold	248,029	196,229	626,765	563,717
Selling, general and administrative (including charges from affiliates of \$25.6 million and \$23.8 million, respectively, for the three months, and \$77.6 million and \$75.7 million, respectively, for the nine months)	438,526	438,774	1,315,823	1,302,436
Depreciation, amortization and accretion	145,151	141,664	439,391	431,581
(Gain) loss on asset disposals and exchanges, net	11,327	(9,700)	11,819	(5,741)
Total operating expenses	1,092,278	1,008,819	3,119,434	2,979,249
Operating income	48,079	101,620	217,444	264,464
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	24,816	21,929	71,584	65,289
Interest and dividend income	935	869	2,823	2,466
Gain (loss) on investment	-	-	(3,728)	13,373
Interest expense	(9,501)	(11,522)	(35,272)	(51,905)
Other, net	200	(97)	173	(47)

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Total investment and other income (expense)	16,450	11,179	35,580	29,176
Income before income taxes	64,529	112,799	253,024	293,640
Income tax expense	22,389	43,292	82,624	102,771
Net income	42,140	69,507	170,400	190,869
Less: Net income attributable to noncontrolling interests, net of tax	(6,689)	(7,367)	(19,772)	(18,629)
Net income attributable to U.S. Cellular shareholders	\$ 35,451	\$ 62,140	\$ 150,628	\$ 172,240
Basic weighted average shares outstanding	84,737	84,547	84,671	84,984
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.42	\$ 0.73	\$ 1.78	\$ 2.03
Diluted weighted average shares outstanding	85,152	84,940	85,090	85,448
Diluted earnings per share attributable to U.S. Cellular shareholders	\$ 0.42	\$ 0.73	\$ 1.77	\$ 2.02

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)	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 170,400	\$ 190,869
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	439,391	431,581
Bad debts expense	51,293	44,718
Stock-based compensation expense	15,924	15,475
Deferred income taxes, net	52,865	145,687
Equity in earnings of unconsolidated entities	(71,584)	(65,289)
Distributions from unconsolidated entities	45,211	52,037
(Gain) loss on asset disposals and exchanges, net	11,819	(5,741)
(Gain) loss on investment	3,728	(13,373)
Noncash interest expense	1,331	9,582
Other operating activities	863	1,143
Changes in assets and liabilities from operations		
Accounts receivable	(67,302)	(57,564)
Inventory	(69,423)	(36,326)
Accounts payable - trade	(28,902)	41,733
Accounts payable - affiliate	(4,785)	1,185
Customer deposits and deferred revenues	26,687	30,695
Accrued taxes	99,556	9,679
Accrued interest	9,508	9,283
Other assets and liabilities	(77,821)	(66,553)
	608,759	738,821
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(611,431)	(462,327)
Cash paid for acquisitions and licenses	(57,957)	(23,773)
Cash received from divestitures	49,932	-
Cash paid for investments	(45,000)	(50,000)
Cash received for investments	50,000	85,250
Other investing activities	(5,030)	(210)
	(619,486)	(451,060)
Cash flows from financing activities		
Repayment of long-term debt	(343)	(330,106)
Issuance of long-term debt	-	342,000

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Common shares reissued for benefit plans, net of tax payments	(2,299)	1,755
Common shares repurchased	-	(62,294)
Payment of debt issuance costs	-	(11,394)
Distributions to noncontrolling interests	(1,491)	(1,176)
Other financing activities	284	169
	(3,849)	(61,046)
Cash classified as held for sale	-	(11,237)
Net increase (decrease) in cash and cash equivalents	(14,576)	215,478
Cash and cash equivalents		
Beginning of period	424,155	276,915
End of period	\$ 409,579	\$ 492,393

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)	September 30, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	\$ 409,579	\$ 424,155
Short-term investments	140,494	127,039
Accounts receivable		
Customers and agents, less allowances of \$24,784 and \$21,337, respectively	332,318	341,439
Roaming	47,216	36,557
Affiliated	119	621
Other, less allowances of \$3,127 and \$2,200, respectively	84,132	63,204
Inventory	196,523	127,056
Income taxes receivable	2,280	74,791
Prepaid expenses	60,631	55,980
Net deferred income tax asset	37,868	31,905
Other current assets	15,993	10,096
	1,327,153	1,292,843
Assets held for sale	-	49,647
Investments		
Licenses	1,531,873	1,470,769
Goodwill	494,737	494,737
Customer lists, net of accumulated amortization of \$96,776 and \$96,597, respectively	135	314
Investments in unconsolidated entities	162,012	138,096
Notes and interest receivable — long-term	-	1,921
Long-term investments	10,171	30,057
	2,198,928	2,135,894
Property, plant and equipment		
In service and under construction	7,341,632	7,008,449
Less: Accumulated depreciation	4,406,847	4,218,147
	2,934,785	2,790,302
Other assets and deferred charges	75,482	59,290
Total assets	\$ 6,536,348	\$ 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)

(Dollars and shares in thousands)	September 30, 2012	December 31, 2011
Current liabilities		
Current portion of long-term debt	\$ 127	\$ 127
Accounts payable		
Affiliated	7,398	12,183
Trade	250,681	303,779
Customer deposits and deferred revenues	208,042	181,355
Accrued taxes	60,695	34,095
Accrued compensation	52,200	69,551
Other current liabilities	92,957	121,190
	672,100	722,280
Liabilities held for sale	-	1,051
Deferred liabilities and credits		
Net deferred income tax liability	861,709	799,190
Other deferred liabilities and credits	259,499	248,213
Long-term debt	880,486	880,320
Commitments and contingencies	-	-
Noncontrolling interests with redemption features	759	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 84,735 shares (33,006 Series A Common and 51,729 Common Shares) and 84,557 shares (33,006 Series 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	1,406,617	1,387,341

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Treasury shares, at cost, 3,339 and 3,517 Common Shares, respectively	(145,859)	(152,817)
Retained earnings	2,438,760	2,297,363
Total U.S. Cellular shareholders' equity	3,787,592	3,619,961
Noncontrolling interests	74,203	55,956
Total equity	3,861,795	3,675,917
Total liabilities and equity	\$ 6,536,348	\$ 6,327,976

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

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United States Cellular Corporation

Consolidated Statement of Changes in Equity(Unaudited)

U.S. Cellular Shareholders

(Dollars in thousands)	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
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	-	-	-	150,628	150,628	-	150,628
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	19,766	19,766
Incentive and compensation plans	-	137	6,958	(9,231)	(2,136)	-	(2,136)
Stock-based compensation awards	-	15,761	-	-	15,761	-	15,761
Tax windfall (shortfall) from stock awards	-	471	-	-	471	-	471
Distributions to noncontrolling interests	-	-	-	-	-	(1,491)	(1,491)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	2,907	-	-	2,907	-	2,907
Other	-	-	-	-	-	(28)	(28)
Balance, September 30, 2012	\$ 88,074	\$ 1,406,617	\$ (145,859)	\$ 2,438,760	\$ 3,787,592	\$ 74,203	\$ 3,861,795

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

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Table of Contents**United States Cellular Corporation****Consolidated Statement of Changes in Equity****(Unaudited)****U.S. Cellular Shareholders**

	Series A	U.S. Cellular Shareholders			Total		
	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	-	-	-	172,240	172,240	-	172,240
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	18,561	18,561
Repurchase of Common Shares	-	-	(62,294)	-	(62,294)	-	(62,294)
Incentive and compensation plans	-	72	14,899	(13,185)	1,786	-	1,786
Stock-based compensation awards	-	15,475	-	-	15,475	-	15,475
Tax windfall (shortfall) from stock awards	-	(1,208)	-	-	(1,208)	-	(1,208)
Distributions to noncontrolling interests	-	-	-	-	-	(1,176)	(1,176)
Balance, September 30, 2011	\$ 88,074	\$ 1,382,826	\$ (153,011)	\$ 2,294,562	\$ 3,612,451	\$ 70,903	\$ 3,683,354

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

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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. Certain prior year amounts have been reclassified to conform to the 2012 presentation.

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 September 30, 2012 and December 31, 2011, and the results of operations for the three and nine months ended September 30, 2012 and 2011 and cash flows and changes in equity for the nine months ended September 30, 2012 and 2011. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and nine months ended September 30, 2012 and 2011 equaled net income. The results of operations for the three and nine months ended September 30, 2012 and 2011 and cash flows and changes in equity for the nine months ended September 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

On July 27, 2012, the FASB issued Accounting Standards Update 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (“ASU 2012-02”). ASU 2012-02 is intended to reduce the cost and complexity of the annual indefinite-lived intangible assets impairment testing by providing entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. As such, there is the possibility that quantitative assessments would not need to be performed if it is more likely than not that no impairment exists. U.S. Cellular is required to adopt the provisions of ASU 2012-02, which is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of ASU 2012-02 is not expected to have a significant 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 September 30, 2012 and December 31, 2011, U.S. Cellular had accrued \$48.4 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 \$32.3 million and \$102.2 million for the three and nine months ended September 30, 2012, respectively, and \$30.3 million and \$92.7 million for the three and nine months ended September 30, 2011, respectively.

Table of Contents**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, and are reflected in the financial information herein.

In accordance with SAB 108, the effects of the foregoing revision to the Consolidated Statement of Cash Flows were as follows:

Consolidated Statement of Cash Flows — Nine Months Ended September 30, 2011

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
Change in Accounts payable-trade	\$ 79,031	\$ (37,298)	\$ 41,733
Change in Other assets and liabilities	(65,048)	(1,505)	(66,553)
Cash flows from operating activities	777,624	(38,803)	738,821
Cash used for additions to property, plant and equipment	(506,082)	43,755	(462,327)
Cash flows from investing activities	(494,815)	43,755	(451,060)
Net increase (decrease) in cash and cash equivalents	210,526	4,952	215,478

(1) In Quarterly Report on Form 10-Q for the period ended September 30, 2011, filed on November 9, 2011.

3. Fair Value Measurements

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As of September 30, 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.

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 establish 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	September 30, 2012		December 31, 2011	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	\$ 409,579	\$ 409,579	\$ 424,155	\$ 424,155
Short-term investments (1)(2)					
Government-backed securities (3)	1	140,494	140,494	127,039	127,039
Long-term investments (1)(4)					
Government-backed securities (3)	1	10,171	10,190	30,057	30,140
Long-term debt (5)					
6.95% Senior Notes	1	342,000	374,422	342,000	364,162
6.7% Senior Notes	2	534,439	564,939	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 September 30, 2012, maturities range between 17 and 18 months.

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

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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 6.37% for the 6.7% Senior Notes, which are not publicly traded.

As of September 30, 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 and nine months ended September 30, 2012 was 34.7% and 32.7%, respectively, and for the three and nine months ended September 30, 2011 was 38.4% and 35.0%, respectively.

The effective tax rate for the three months ended September 30, 2012 was lower than the rate for the three months ended September 30, 2011 primarily as a result of a \$1.6 million tax benefit related to a correction of state deferred taxes in 2012. The correction related to a prior year and was recorded as an out-of-period adjustment in the quarter ended September 30, 2012. This benefit, along with other discrete items, decreased income tax expense for the three months ended September 30, 2012 by \$1.2 million; absent these benefits, the effective tax rate for such period would have been higher by 1.8 percentage points.

The effective tax rate for the nine months ended September 30, 2012 was lower than the rate for the nine months ended September 30, 2011 primarily as a result of tax benefits related to the expiration of the statutes of limitation for certain tax years and the correction of state deferred taxes in 2012. The benefits from these changes, along with other discrete items, decreased income tax expense for the nine months ended September 30, 2012 by \$9.6 million; absent

these benefits, the effective tax rate for such period would have been higher by 3.8 percentage points.

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. 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.

Table of Contents**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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Dollars and shares in thousands, except per share amounts)				
Net income attributable to U.S. Cellular shareholders	\$ 35,451	\$ 62,140	\$ 150,628	\$ 172,240
Weighted average number of shares used in basic earnings per share	84,737	84,547	84,671	84,984
Effects of dilutive securities:				
Stock options	57	86	63	124
Restricted stock units	358	307	356	340
Weighted average number of shares used in diluted earnings per share	85,152			