

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)

- 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

- 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

(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

• 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

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

United States Cellular Corporation
Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 31, 2013

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Signatures

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 | |
|--|---------------------------|--------------|
| | 2013 | 2012 |
| | March 31, | |
| 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) |

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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.

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United States Cellular Corporation

Consolidated Statement of Cash Flows(Unaudited)

| (Dollars in thousands) | Three Months Ended | |
|--|--------------------|-----------|
| | 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, | December 31, |
|---|------------------|---------------------|
| | 2013 | 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.

United States Cellular Corporation

Consolidated Balance Sheet — Liabilities and Equity**(Unaudited)**

| (Dollars and shares in thousands) | March 31, | December 31, |
|---|------------------|---------------------|
| | 2013 | 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 |

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| | | |
|--|---------------------|---------------------|
| 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.

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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 | |
|------------------------------|---------------------------------|-------------|
| | 2013 | 31, |
| | | 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 | | | | | | Balance March 31, 2013 |
|--------------------------------------|-----------------------------------|-------------------|----------------------------|-------------------------|-------------|----|---------------------------|
| | Balance December 31, 2012 | Costs Incurred | Cash Settlements (1) | Non-cash Settlements | Adjustments | | |
| (Dollars in thousands) | | | | | | | |
| 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":

| | Licenses | Goodwill | Property, Plant and Equipment | Total Assets Held for Sale | Liabilities Held for Sale (1) |
|--------------------------------------|-----------------|-----------------|--|---|--|
| (Dollars in thousands) | | | | | |
| 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

| | March 31, 2013 | March 31, 2012 |
|-------------------------------|-----------------------|-----------------------|
| (Dollars in thousands) | | |
| 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, | | December 31, | |
|------------------------------------|------------------|---------|---------------------|---------|
| | 2013 | | 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 |

Other Related Matters

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) | | |

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| | | | | |
|--|----|-----|----|-----|
| 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.

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 | | | |

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| | | | | | | |
|------------------------------------|----|-----|----|----|----|-----|
| 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.

| (Dollars in millions) | 2013 Estimated Results (1) | | | | | |
|---|----------------------------|-------------------|----------------------------|---------------|-----------------------------------|-------------------|
| | Core Markets (2) | | Divestiture Markets (2)(3) | | U.S. Cellular Consolidated (2)(3) | |
| | Previous | Current | Previous | Current | Previous | Current |
| Service revenues | \$3,600 - \$3,700 | \$3,475 - \$3,575 | \$165 - \$185 | \$145 - \$165 | \$3,765 - \$3,885 | \$3,620 - \$3,740 |
| Adjusted income before income taxes (4) | | | | | | |
| (5) | \$765 - \$865 | \$560 - \$660 | \$15 - \$35 | \$35 - \$55 | \$780 - \$900 | \$595 - \$715 |
| Capital expenditures | Approx. \$600 | Approx. \$730 | — | \$5 | Approx. \$600 | Approx. \$735 |

(1) These estimates are based on U.S. Cellular's current plans, which include an expansion of the multi-year deployment of 4G LTE technology which commenced in 2011; such expansion includes deployment in additional markets as well as deployment on the 850 MHz band to provide additional capacity for future growth in data usage, enable potential future 4G LTE roaming, and support the sale of Apple products. These estimates also reflect the estimated impacts of selling Apple products and the deconsolidation of certain partnerships that will be accounted for as equity method investments effective April 3, 2013. New developments or changing conditions (such as, but not limited to, regulatory developments, customer net growth, customer demand for data services or possible acquisitions, dispositions or exchanges) could affect U.S. Cellular's plans and, therefore, its 2013 estimated results.

(2) The U.S. Cellular Consolidated amounts represent GAAP financial measures and include the results of both the Core Markets and the Divestiture Markets. The amounts for the Core Markets and Divestiture Markets represent non-GAAP financial measures. U.S. Cellular believes that the amounts for the Core Markets and Divestiture Markets may be useful to investors and other users of its financial information in evaluating the separate results for the Core Markets. 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.

(3) These estimates assume the Divestiture Transaction closes in the second quarter of 2013. Actual effects could vary significantly from these estimates as a result of a change in the expected timing of the Divestiture Transaction or changes in other terms and conditions of the sale. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information on the Divestiture Transaction.

(4) Adjusted income before income taxes is a non-GAAP financial measure defined as Income before income taxes, adjusted for: Depreciation, amortization and accretion, net Gain or loss on sale of business and other exit costs (if any), and Interest expense. Adjusted income before income taxes is not a measure of financial performance under GAAP and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to Cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. U.S. Cellular believes Adjusted income before income taxes is a meaningful measure of U.S. Cellular's operating results before significant recurring non-cash charges, gains and losses and financing charges (Interest expense) 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; such amounts may occur in the future. The following tables provide a reconciliation of Income (loss) before income taxes to Adjusted income before income taxes for 2013 Estimated Results and 2012 actual results:

2013 Estimated Results

| | Core Divestiture Markets | Markets | U.S. Cellular Consolidated |
|--|-------------------------------------|-----------------|---------------------------------------|
| | (2) | (2)(3) | (2)(3) |
| (Dollars in millions) | | | |
| Income (loss) before income taxes | (\$30)-\$70 | (\$215)-(\$195) | (\$245)-(\$125) |
| Depreciation, amortization and accretion expense | Approx. (6) \$540 | Approx. \$250 | Approx. \$790 |
| Interest expense | Approx. \$50 | — | Approx. \$50 |
| Adjusted income before income taxes | \$560-\$660 | \$35-\$55 | \$595-\$715 |

**U.S. Cellular Consolidated
Actual Results
Three
Months
Ended Year Ended**

**March 31, December 31,
2013 2012**

| | | | | |
|---|----|-----|----|-----|
| Income before income taxes | \$ | 18 | \$ | 205 |
| Depreciation, amortization and accretion expense (6) | | 190 | | 609 |
| (Gain) loss on sale of business and other exit costs, net | | 7 | | 21 |

| | | |
|-------------------------------------|--------|--------|
| Interest expense | 11 | 42 |
| Adjusted income before income taxes | \$ 226 | \$ 877 |

- (5) This amount does not include any estimate for (Gain) loss on sale of business and other exit costs, net, as the timing of such amount is not readily estimable.
- (6) The 2013 estimated amounts for depreciation, amortization and accretion expense in the Divestiture Markets include approximately \$185 million of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction. Actual results for the three months ended March 31, 2013 and the year ended December 31, 2012 include \$38 million and \$20 million, respectively, of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction.

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 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. 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. 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.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Following is a table of summarized operating data for U.S. Cellular's Consolidated Markets.

| <u>As of or for Three Months Ended March 31,</u> | 2013 | 2012 |
|--|-------------------|-------------------|
| Retail Customers | | |
| Postpaid | | |
| Total at end of period(1) | 5,060,000 | 5,261,000 |
| Gross additions | 191,000 | 210,000 |
| Net additions (losses) | (74,000) | (38,000) |
| ARPU(2) | \$ 54.85 | \$ 54.00 |
| Churn rate(3) | 1.7% | 1.6% |
| Smartphone penetration(4)(5) | 43.5% | 34.4% |
| Prepaid | | |
| Total at end of period | 446,000 | 309,000 |
| Gross additions | 104,000 | 63,000 |
| Net additions (losses) | 23,000 | 4,000 |
| ARPU(2) | \$ 33.31 | \$ 33.17 |
| Churn rate(3) | 6.2% | 6.4% |
| Total customers at end of period(1) | 5,736,000 | 5,837,000 |
| Billed ARPU(2) | \$ 51.13 | \$ 50.52 |
| Service revenue ARPU(2) | \$ 57.63 | \$ 58.21 |
| Smartphones sold as a percent of total devices sold | 61.7% | 54.1% |
| Total Population | | |
| | 93,943,000 | 92,684,000 |
| Consolidated markets(6) | | |
| | 47,440,000 | 46,966,000 |
| Consolidated operating markets(6) | | |
| Market penetration at end of period | | |
| Consolidated markets(7) | 6.1% | 6.3% |
| Consolidated operating markets(7) | 12.1% | 12.4% |
| Capital expenditures (000s) | \$ 118,410 | \$ 201,337 |
| Total cell sites in service | 8,027 | 7,875 |
| Owned towers in service | 4,411 | 4,318 |

Following is a table of summarized operating data for U.S. Cellular's Core Markets. 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>As of or for Three Months Ended March 31,</u> | 2013 | 2012 |
|--|-------------------|-------------------|
| Retail Customers | | |
| Postpaid | | |
| Total at end of period(1) | 4,639,000 | 4,736,000 |
| Gross additions | 184,000 | 182,000 |
| Net additions (losses) | (32,000) | (21,000) |
| ARPU(2) | \$ 54.23 | \$ 53.25 |
| Churn rate(3) | 1.5% | 1.4% |
| Smartphone penetration(4)(5) | 43.0% | 34.3% |
| Prepaid | | |
| Total at end of period | 373,000 | 223,000 |
| Gross additions | 92,000 | 42,000 |
| Net additions (losses) | 31,000 | 5,000 |
| ARPU(2) | \$ 32.92 | \$ 32.69 |
| Churn rate(3) | 5.7% | 5.6% |
| Total customers at end of period(1) | 5,225,000 | 5,210,000 |
| Billed ARPU (2) | \$ 50.65 | \$ 49.91 |
| Service revenue ARPU(2) | \$ 57.37 | \$ 58.20 |
| Smartphones sold as a percent of total devices sold | 62.1% | 54.1% |
| Total Population | | |
| | 84,625,000 | 82,763,000 |
| Consolidated markets(6) | 32,422,000 | 31,590,000 |
| Consolidated operating markets(6) | | |
| Market penetration at end of period | | |
| Consolidated markets(7) | 6.2% | 6.3% |
| Consolidated operating markets(7) | 16.1% | 16.5% |
| Capital expenditures (000s) | \$ 113,337 | \$ 179,720 |
| Total cell sites in service | 6,277 | 6,146 |
| Owned towers in service | 3,846 | 3,761 |

(1) Includes 176,000 and 168,000 postpaid customers at March 31, 2013 and 2012, respectively, related to NY1 and NY2. See Note 13 — Subsequent Event in the Notes to the Consolidated Financial Statements for details regarding the deconsolidation of the Partnerships effective April 3, 2013.

(2) ARPU metrics are calculated by dividing a revenue base by an average number of customers by the number of months in the period. These revenue bases and customer populations are shown below:

- a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
- b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.
- c. Billed ARPU consists of total retail service revenues and postpaid, prepaid and reseller customers.
- d. Service revenue ARPU consists of total retail service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

(3) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnect service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.

(4) Smartphones represent wireless devices which run on an Android™, BlackBerry® or Windows Mobile® operating system, excluding tablets.

(5) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.

(6) Used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (7) below.

(7) Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas®.

Components of Operating Income

| Three Months Ended March 31, | 2013 | 2012 | Change | Percentage Change |
|------------------------------|------|------|--------|-------------------|
|------------------------------|------|------|--------|-------------------|

(Dollars in thousands)

| | | | | | | | |
|---|----|-----------|----|-----------|----|----------|--------|
| Retail service | \$ | 883,991 | \$ | 888,527 | \$ | (4,536) | (1) % |
| Inbound roaming | | 65,874 | | 80,132 | | (14,258) | (18) % |
| Other | | 46,484 | | 55,161 | | (8,677) | (16) % |
| Service revenues | | 996,349 | | 1,023,820 | | (27,471) | (3) % |
| Equipment sales | | 85,397 | | 68,301 | | 17,096 | 25 % |
| Total operating revenues | | 1,081,746 | | 1,092,121 | | (10,375) | (1) % |
| System operations (excluding Depreciation, amortization and accretion reported below) | | | | | | | |
| Cost of equipment sold | | 241,691 | | 187,036 | | 54,655 | 29 % |
| Selling, general and administrative | | 420,080 | | 442,244 | | (22,164) | (5) % |
| Depreciation, amortization and accretion | | 189,845 | | 146,685 | | 43,160 | 29 % |
| Loss on asset disposals, net | | 5,434 | | 2,003 | | 3,431 | >100 % |
| (Gain) loss on sale of business and other exit costs, net | | 6,931 | | (4,213) | | 11,144 | >100 % |
| Total operating expenses | | 1,080,280 | | 1,006,919 | | 73,361 | 7 % |
| Operating income | \$ | 1,466 | \$ | 85,202 | \$ | (83,736) | (98) % |

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 USF.

Retail service revenues

Retail service revenues decreased by \$4.5 million, or 1%, in 2013 to \$884.0 million due to a decrease in U.S. Cellular's average customer base partially offset by an increase in billed ARPU.

The average number of customers decreased to 5,763,000 in 2013 from 5,863,000 in 2012. Average postpaid customers were 5,095,000 and 5,280,000 in 2013 and 2012, respectively. Average prepaid customers were 434,000 and 307,000 in 2013 and 2012, respectively.

Billed ARPU increased to \$51.13 in 2013 from \$50.52 in 2012. This overall increase reflects primarily an increase in postpaid ARPU to \$54.85 in 2013 from \$54.00 in 2012, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

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 offset to some degree by continued adoption of smartphones and data usage.

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 with applicable 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 \$4.5 million and \$6.4 million in the three months ended March 31, 2013 and 2012, respectively. Deferred revenues related to loyalty reward points are included in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Inbound roaming revenues

Inbound roaming revenues decreased by \$14.3 million, or 18%, in 2013 to \$65.9 million. The decrease was due to lower rates. Data volume increased significantly year-over-year but the impact of this increase was offset by the combined impacts of lower volume for voice and lower rates for both data and voice. U.S. Cellular expects continued growth in data volume but also expects that the revenue impact of this growth will be offset by the impacts of decreases in data rates and voice volume.

Other revenues

Pursuant to the FCC's Reform Order (see "Overview – FCC Reform Order" above), ETC support was frozen on January 1, 2012 at the 2011 level and is being phased down at the rate of 20% per year beginning July 1, 2012. As a result, Other revenues decreased by \$8.7 million, or 16%, in 2013 compared to 2012.

If the Phase II Mobility Fund is not operational by July 2014, the aforementioned phase down will halt at that time and U.S. Cellular will receive 60% of its baseline support until 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. 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.

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices 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 offers 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 wireless devices to customers at discounted prices; in addition, customers on currently offered rate plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers. U.S. Cellular anticipates that it will continue to sell wireless devices to agents in the future.

The increase in 2013 Equipment sales revenues of \$17.1 million, or 25%, to \$85.4 million was driven primarily by an increase of 24% in average revenue per device sold and an increase in equipment activation fees. Average revenue per device sold increased due to general customer preference for higher-priced smartphones.

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 \$16.9 million, or 7%, decrease in System operations expenses to \$216.3 million were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$13.4 million, or 23%, primarily due to lower rates. Data roaming usage increased; however, the impact of the increase was more than offset by lower rates.
- Customer usage expenses decreased by \$5.0 million, or 7%, driven by decreases in intercarrier charges and certain data expenses offset by increases due to network costs for 4G LTE.
- Maintenance, utility and cell site expenses increased \$1.5 million, or 2%, driven in part by an increase in the number of cell sites within U.S. Cellular's network and 4G LTE deployment and operation. The number of cell sites totaled 8,027 at March 31, 2013 and 7,875 at March 31, 2012, as U.S. Cellular continued to expand and enhance coverage in its existing markets.

U.S. Cellular expects system operations expenses to increase in the 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 as well as to support increases in total customer usage, particularly data usage. However, these increases are expected to be offset to some extent by cost savings generated by shifting data traffic to the 4G LTE network from the 3G network, containment of roaming expense through lower rates and initiatives designed to reduce overall customer usage.

Cost of equipment sold

Cost of equipment sold increased by \$54.7 million, or 29%, in 2013 to \$241.7 million. The increase was driven by a 28% increase in the average cost per device sold. Average cost per device sold increased primarily due to a shift in customer preference to higher cost devices, such as high-end smartphones.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$156.3 million and \$118.7 million for 2013 and 2012, 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 smartphones 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. Smartphones sold as a percentage of total devices sold were 61.7% and 54.1% in the three months ended March 31, 2013 and 2012, respectively.

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.

Key components of the \$22.2 million, or 5%, decrease to \$420.1 million were as follows:

- Selling and marketing expense decreased by \$16.5 million, or 8%, primarily from more cost-effective advertising spending.
- General and administrative expense decreased by \$5.7 million, or 2%, driven by corporate cost containment and reduction initiatives partially offset by an increase in bad debts expense.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased \$43.2 million, or 29%, in 2013 to \$189.8 million primarily due to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was \$38.0 million in 2013.

(Gain) loss on sale of business and other exit costs, net

The net loss in 2013 was related to agent termination agreements and other items in the Divestiture Markets. The net gain in 2012 resulted from the sale of a wireless market.

Components of Other Income (Expense)

| Three Months Ended March 31, (Dollars in thousands, except per share amounts) | 2013 | | 2012 | | Change | Percentage Change |
|--|-------------|----------|-------------|----------|---------------|------------------------------|
| Operating income | \$ | 1,466 | \$ | 85,202 | \$ (83,736) | (98) % |
| Equity in earnings of unconsolidated entities | | 26,835 | | 21,614 | 5,221 | 24 % |
| Interest and dividend income | | 903 | | 1,043 | (140) | (13) % |
| Interest expense | | (10,910) | | (13,411) | 2,501 | 19 % |
| Other, net | | (215) | | 202 | (417) | >(100) % |
| Total investment and other income | | 16,613 | | 9,448 | 7,165 | 76 % |
| Income before income taxes | | 18,079 | | 94,650 | (76,571) | (81) % |
| Income tax expense | | 7,369 | | 25,638 | (18,269) | (71) % |
| Net income | | 10,710 | | 69,012 | (58,302) | (84) % |
| Less: Net income attributable to noncontrolling | | | | | | |
| interests, net of tax | | (5,796) | | (6,520) | 724 | 11 % |
| Net income attributable to U.S. Cellular shareholders | \$ | 4,914 | \$ | 62,492 | \$ (57,578) | (92) % |
| Basic earnings per share attributable to | | | | | | |
| U.S. Cellular shareholders | \$ | 0.06 | \$ | 0.74 | \$ (0.68) | (92) % |
| Diluted earnings per share attributable to | | | | | | |
| U.S. Cellular shareholders | \$ | 0.06 | \$ | 0.73 | \$ (0.67) | (92) % |

Equity in earnings of unconsolidated entities

U.S. Cellular's investment in the LA Partnership contributed \$20.6 million to Equity in earnings of unconsolidated entities in 2013 compared to \$17.1 million in 2012. The remaining change resulted from an increase in net income from other equity interests.

On April 3, 2013, U.S. Cellular will deconsolidate NY1 and NY2 and thereafter will report them as equity method investments in its consolidated financial statements. See Note 13 – Subsequent Event in the Notes to Consolidated Financial Statements for more information regarding this transaction.

Interest expense

The decrease in interest expense was due primarily to an increase in capitalized interest on projects related to network and system enhancements in 2013. Capitalized interest was \$4.7 million and \$2.4 million for 2013 and 2012, respectively.

Income tax expense

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in 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.

FINANCIAL RESOURCES

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, 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 for the three months ended March 31, 2013 and 2012.

| | 2013 | 2012 |
|---|------------|------------|
| (Dollars in thousands) | | |
| Cash flows from (used in): | | |
| Operating activities | \$ 223,615 | \$ 256,967 |
| Investing activities | (161,520) | (170,174) |
| Financing activities | (20,757) | 130 |
| Net increase in cash and cash equivalents | \$ 41,338 | \$ 86,923 |

The Divestiture Transaction, as described above, resulted in net Cash used in operating activities of \$3.2 million during the three months ended March 31, 2013. Cash flows from operating and investing activities in future periods will be impacted by the Divestiture Transaction.

Cash Flows from Operating Activities

Cash flows from operating activities in 2013 were \$223.6 million, a decrease of \$33.4 million from 2012. Significant items to note are as follows:

- Net income declined by \$58.3 million, however this decline was caused primarily by an increase in non-cash expenses, including depreciation expense, so it did not have a significant impact on cash flows from operating activities.
- Income tax refunds, net of \$0.2 million were recorded in 2013 compared to income tax refunds, net of \$57.1 million in 2012. This resulted in a year-over-year decrease in cash flows of \$56.9 million. Federal tax refunds of \$58.1 million were received in March 2012 related to a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures.
- Changes in Inventory provided \$16.8 million in 2013 and required \$4.4 million in 2012, resulting in a \$21.2 million increase in cash flows. This change was primarily due to lower inventory levels.
- Changes in Accounts payable provided \$2.7 million in 2013 and required \$14.7 million in 2012, causing a year-over-year increase in cash flows of \$17.4 million. Changes in Accounts payable were primarily driven by payment timing differences related to operating expenses and device purchases.

Cash Flows from Investing Activities

U.S. Cellular makes substantial investments to acquire wireless licenses and properties and to construct and upgrade 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.

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 \$118.4 million in the three months ended March 31, 2013 and \$201.3 million in the three months ended March 31, 2012. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows and excludes amounts accrued in Accounts payable for capital expenditures at March 31, 2013 and includes amounts paid in the current period that were accrued at December 31, 2012. Cash used for additions to property, plant and equipment totaled \$151.0 million in the three months ended March 31, 2013 and \$209.2 million in the three months ended March 31, 2012. These expenditures were made to construct new cell sites, build out 4G LTE networks in certain markets, increase capacity in existing cell sites and switches, develop new and enhance existing office systems such as the new Billing and Operational Support System ("B/OSS") and customer relationship management platforms, and construct new and remodel existing retail stores. The decrease in capital expenditures on a year over year basis is due primarily to the timing of spending for network operations equipment.

Cash payments for acquisitions of licenses were \$14.2 million and \$11.1 million in 2013 and 2012, respectively.

In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for \$49.8 million in cash.

Cash Flows from Financing Activities

Cash flows from financing activities primarily reflect repayments of and proceeds from 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.

Payments for repurchases of Common Shares required \$18.4 million in 2013. U.S. Cellular did not repurchase any Common Shares in the three months ended March 31, 2012. See Note 10 — 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. 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. 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.

| <u>Three Months Ended March 31,</u> (Dollars in thousands) | 2013 | 2012 |
|---|-------------|-------------|
| Cash flows from operating activities | \$ 223,615 | \$ 256,967 |
| Cash used for additions to property, plant and equipment | (151,024) | (209,160) |
| Free cash flow | \$ 72,591 | \$ 47,807 |

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

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facility and expected Cash flows from operating and investing 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 access public and private capital markets to help meet its financing needs.

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.

The following table summarizes U.S. Cellular's cash and investments as of March 31, 2013.

(Dollars in millions)

| | | |
|---------------------------|----|-----|
| Cash and cash equivalents | \$ | 420 |
| Short-term investments | \$ | 111 |
| Long-term investments | \$ | 40 |

See Financial Resources for more information about Cash flows from operating activities and Cash flows from investing activities.

Cash and Cash Equivalents

Cash and cash equivalents include 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, 2013, the majority of U.S. Cellular's Cash and cash equivalents was held in money market funds that invest exclusively in U.S. Treasury securities 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.

Short-term and Long-term Investments

Short-term and Long-term investments consist of U.S. Treasury securities which are designated as held-to-maturity investments and are recorded at amortized cost in the Consolidated Balance Sheet. For these investments, U.S. Cellular's objective is to earn a higher rate of return on funds 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 2 — 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, 2013, 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, 2013, U.S. Cellular's senior debt 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, 2013:

(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 2017 |

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, 2013 or 2012. U.S. Cellular believes it was in compliance as of March 31, 2013 with all of the covenants and requirements set forth in its revolving credit facility.

Long-Term Financing

There were no material changes to Long-Term Financing as 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, 2012.

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, 2013 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 2013 and the next four years represent less than 1% of the total long-term debt obligation at March 31, 2013. Refer to Market Risk — Long-Term Debt in U.S. Cellular's Form 10-K for the year ended December 31, 2012 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 may use to issue senior debt securities. The proceeds from any such issuance may 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 2013 are expected to be approximately \$735 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;
- Continue to 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 2013 using primarily cash flows from operating activities and, as necessary, existing cash balances and short-term investments.

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 interests that are not strategic to its long-term success. As a result, U.S. Cellular 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 "Divestiture Transaction" above in this Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 5 — Acquisitions, Divestitures and Exchanges and Note 13 — Subsequent Event 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 9 — 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 2013 and 2012, see Note 10 — Common Share Repurchases in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Contractual and Other Obligations

There were no material changes outside the ordinary course of business 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, 2012.

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.

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 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements 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, 2012. There were no material changes to U.S. Cellular’s application of critical accounting policies and estimates during the three months ended March 31, 2013.

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, 2012. 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, 2012, 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 (including planned acquisitions, divestitures and exchanges) 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 business, financial condition or results of 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, continued network build-outs by other wireless carriers and/or the inability to negotiate 4G LTE roaming agreements with other operators could cause roaming revenues to decline from current levels, which would have an adverse effect on U.S. Cellular's business, financial condition or 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, financial condition or results of 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 business, financial condition or results of operations.*
- *Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on U.S. Cellular's business, 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 primarily to conditions in this industry.*

- *U.S. Cellular's lower scale relative to larger competitors could adversely affect its 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 technology 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 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 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, termination or impairment of U.S. Cellular's relationships with such suppliers, 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.*
- *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 business, 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 business, financial condition or results of operations.*
- *Uncertainty of U.S. Cellular's ability to access capital, 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 business, financial condition or results of operations.*
- *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 products or 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 revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.*

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, 2012 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, 2012.

See Note 2 — 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, 2013.

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, 2013, 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, 2013 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular's internal control over financial reporting.

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, 2012, 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, 2012 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, 2012.

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.

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) Total Number of Common Shares Purchased | (b) Average Price Paid per Common Share | (c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs |
|---|--|--|--|--|
| January 1 – 31, 2013 | 280,509 | \$ 35.95 | 280,509 | 3,047,034 |
| February 1 – 28, 2013 | 215,300 | 38.74 | 215,300 | 2,831,734 |
| March 1 – 31, 2013 | - | - | - | 2,831,734 |
| Total for or as of the end of the quarter ended March 31, 2013 | 495,809 | \$ 37.16 | 495,809 | 2,831,734 |

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 2013.
- 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 2013.

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 2013. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of March 31, 2013.

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.

Item 6. Exhibits.

Exhibit 10.1 —U.S. Cellular Restated Compensation Plan for Non-Employee Directors, is hereby incorporated by reference to Exhibit B to the U.S. Cellular's Notice of Annual Meeting of Shareholders and Proxy Statement dated April 15, 2013.

Exhibit 10.2 – U.S. Cellular 2013 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit A to the U.S. Cellular Notice of Annual Meeting of Shareholders and Proxy Statement dated April 15, 2013.

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 4 — 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.

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, 2012. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2012 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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 3, 2013

/s/ Mary N. Dillon
Mary N. Dillon

President and Chief Executive
Officer

(principal executive officer)

Date: May 3, 2013

/s/ Steven T. Campbell
Steven T. Campbell

Executive Vice
President-Finance,

Chief Financial Officer and
Treasurer

(principal financial officer)

Date: May 3, 2013

/s/ Douglas D. Shuma
Douglas D. Shuma

Chief Accounting Officer

(principal accounting officer)

