

UNITED STATES CELLULAR CORP  
Form 10-Q  
August 05, 2010

Table of Contents

---

---

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**For the transition period from to**

**Commission File Number 1-9712**



**UNITED STATES CELLULAR CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of

incorporation or organization)

**62-1147325**

(I.R.S. Employer Identification No.)

**8410 West Bryn Mawr, Suite 700, Chicago, Illinois 60631**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(773) 399-8900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

—

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at June 30, 2010</b>
Common Shares, \$1 par value	53,155,606 Shares
Series A Common Shares, \$1 par value	33,005,877 Shares

---

---

---

Table of Contents

**United States Cellular Corporation**  
**Quarterly Report on Form 10-Q**  
**For the Quarterly Period Ended June 30, 2010**

**Index**

		Page No.
<b><u>Part I.</u></b>	<b><u>Financial Information</u></b>	
	<b><u>Item 1.</u></b> <b><u>Financial Statements (Unaudited)</u></b>	<b><u>3</u></b>
	<b><u>Consolidated Statement of Operations Three and Six Months Ended June 30, 2010 and 2009</u></b>	<b><u>3</u></b>
	<b><u>Consolidated Statement of Cash Flows Six Months Ended June 30, 2010 and 2009</u></b>	<b><u>4</u></b>
	<b><u>Consolidated Balance Sheet June 30, 2010 and December 31, 2009</u></b>	<b><u>5</u></b>
	<b><u>Consolidated Statement of Changes in Equity Six Months Ended June 30, 2010 and 2009</u></b>	<b><u>7</u></b>
	<b><u>Notes to Consolidated Financial Statements</u></b>	<b><u>9</u></b>
	<b><u>Item 2.</u></b> <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>19</u></b>
	<b><u>Overview</u></b>	<b><u>19</u></b>
	<b><u>Results of Operations</u></b>	<b><u>22</u></b>
	<b><u>Recent Accounting Pronouncements</u></b>	<b><u>29</u></b>
	<b><u>Financial Resources</u></b>	<b><u>29</u></b>
	<b><u>Liquidity and Capital Resources</u></b>	<b><u>31</u></b>
	<b><u>Application of Critical Accounting Policies and Estimates</u></b>	<b><u>33</u></b>
	<b><u>Safe Harbor Cautionary Statement</u></b>	<b><u>34</u></b>
	<b><u>Item 3.</u></b> <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>37</u></b>
	<b><u>Item 4.</u></b> <b><u>Controls and Procedures</u></b>	<b><u>38</u></b>
<b><u>Part II.</u></b>	<b><u>Other Information</u></b>	<b><u>39</u></b>
	<b><u>Item 1.</u></b> <b><u>Legal Proceedings</u></b>	<b><u>39</u></b>

<u>Item 1A.</u>	<u>Risk Factors</u>	<u>39</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>40</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>41</u>
<u>Signatures</u>		<u>42</u>

---

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

<b>(Dollars and shares in thousands, except per share amounts)</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Operating revenues</b>				
Service	\$ 972,576	\$ 974,348	\$ 1,937,584	\$ 1,957,802
Equipment sales	57,317	67,795	116,166	138,685
Total operating revenues	1,029,893	1,042,143	2,053,750	2,096,487
<b>Operating expenses</b>				
System operations (excluding Depreciation, amortization and accretion reported below)	213,542	194,709	420,656	394,697
Cost of equipment sold	161,965	156,055	323,070	341,756
Selling, general and administrative (including charges from affiliates of \$26.4 million and \$26.2 million, respectively, for the three months, and \$54.1 million and \$54.9 million, respectively, for the six months)	445,177	411,153	874,782	819,616
Depreciation, amortization and accretion	144,455	138,777	287,688	276,655
Loss on asset disposals, net	1,250	2,611	6,426	6,556
Total operating expenses	966,389	903,305	1,912,622	1,839,280
<b>Operating income</b>	<b>63,504</b>	<b>138,838</b>	<b>141,128</b>	<b>257,207</b>
<b>Investment and other income (expense)</b>				
Equity in earnings of unconsolidated entities	25,753	24,794	50,447	50,121
Interest and dividend income	862	751	1,883	1,228
Interest expense	(16,438)	(19,856)	(32,962)	(39,283)
Other, net	472	(2)	407	278
	10,649	5,687	19,775	12,344

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

Total investment and other  
income (expense)

<b>Income before income taxes</b>	74,153	144,525	160,903	269,551
Income tax expense	28,181	56,788	61,843	91,747
<b>Net income</b>	45,972	87,737	99,060	177,804
Less: Net income attributable to noncontrolling interests, net of tax	(5,219)	(5,969)	(10,938)	(11,977)
<b>Net income attributable to U.S. Cellular shareholders</b>	\$ 40,753	\$ 81,768	\$ 88,122	\$ 165,827
<b>Basic weighted average shares outstanding</b>	86,425	86,992	86,500	87,093
<b>Basic earnings per share attributable to U.S. Cellular shareholders</b>	\$ 0.47	\$ 0.94	\$ 1.02	\$ 1.90
<b>Diluted weighted average shares outstanding</b>	86,787	87,177	86,873	87,308
<b>Diluted earnings per share attributable to U.S. Cellular shareholders</b>	\$ 0.47	\$ 0.94	\$ 1.01	\$ 1.90

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



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

(Dollars in thousands)	Six Months Ended June 30,	
	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 99,060	\$ 177,804
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	287,688	276,655
Bad debts expense	36,605	39,028
Stock-based compensation expense	9,012	7,974
Deferred income taxes, net	(9,935)	19,084
Equity in earnings of unconsolidated entities	(50,447)	(50,121)
Distributions from unconsolidated entities	48,491	12,997
Loss on asset disposals, net	6,426	6,556
Other operating activities	(464)	1,209
Changes in assets and liabilities from operations		
Accounts receivable	(22,995)	(68,923)
Inventory	32,252	(10,391)
Accounts payable - trade	(34,009)	(41,378)
Accounts payable - affiliate	(3,017)	4,137
Customer deposits and deferred revenues	3,854	(5,699)
Accrued taxes	27,744	71,041
Accrued interest	121	450
Other assets and liabilities	(26,680)	(67,300)
	403,706	373,123
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(255,004)	(228,902)
Cash paid for acquisitions and licenses	(10,501)	(12,327)
Cash paid for investments	(175,000)	(275)
Other investing activities	889	1,432
	(439,616)	(240,072)
<b>Cash flows from financing activities</b>		
Common shares reissued for benefit plans, net of tax payments	144	(405)
Common shares repurchased	(21,423)	(19,332)
Payment of debt issuance costs		(4,309)
Distributions to noncontrolling interests	(4,314)	(4,060)
Other financing activities	(55)	(21)

	(25,648)	(28,127)
<b>Net increase (decrease) in cash and cash equivalents</b>	(61,558)	104,924
<b>Cash and cash equivalents</b>		
Beginning of period	294,411	170,996
End of period	\$ 232,853	\$ 275,920

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

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

<b>(Dollars in thousands)</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 232,853	\$ 294,411
Short-term investments	135,798	330
Accounts receivable		
Customers, less allowances of \$25,265 and \$26,260, respectively	310,062	339,825
Roaming	34,738	28,450
Affiliated	28	135
Other, less allowances of \$967 and \$364, respectively	66,622	56,647
Inventory	120,304	152,556
Prepaid income taxes		717
Prepaid expenses	65,219	63,463
Net deferred income tax asset	21,570	21,570
Other current assets	48,662	51,013
	1,035,856	1,009,117
<b>Investments</b>		
Licenses	1,445,501	1,435,000
Goodwill	494,737	494,737
Customer lists, net of accumulated amortization of \$95,211 and \$92,829, respectively	1,701	4,083
Investments in unconsolidated entities	163,518	161,481
Notes and interest receivable - long-term	4,143	4,214
Long-term investments	40,987	
	2,150,587	2,099,515
<b>Property, plant and equipment</b>		
In service and under construction	6,096,533	5,884,307
Less: Accumulated depreciation	3,525,193	3,282,969
	2,571,340	2,601,338
<b>Other assets and deferred charges</b>		
	37,865	38,776
<b>Total assets</b>	<b>\$ 5,795,648</b>	<b>\$ 5,748,746</b>

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



Table of Contents

## United States Cellular Corporation

Consolidated Balance Sheet Liabilities and Equity  
(Unaudited)

(Dollars and shares in thousands)	June 30, 2010	December 31, 2009
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 86	\$ 76
Accounts payable		
Affiliated	11,714	14,732
Trade	262,279	296,288
Customer deposits and deferred revenues	144,101	140,248
Accrued taxes	90,802	57,507
Accrued compensation	45,086	62,242
Other current liabilities	80,322	92,884
	634,390	663,977
<b>Deferred liabilities and credits</b>		
Net deferred income tax liability	497,797	513,994
Other deferred liabilities and credits	273,467	262,412
<b>Long-term debt</b>	867,880	867,522
<b>Commitments and contingencies</b>		
<b>Noncontrolling interests with redemption features</b>	746	727
<b>Equity</b>		
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 86,161 shares (33,006 Series A Common and 53,155 Common Shares) and 86,540 shares (33,006 Series A Common and 53,534 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	1,364,129	1,356,322
Treasury shares, at cost, 1,913 and 1,534 Common Shares, respectively	(80,107)	(69,616)
Retained earnings	2,090,966	2,013,633
Total U.S. Cellular shareholders' equity	3,463,062	3,388,413

Noncontrolling interests	58,306	51,701
Total equity	3,521,368	3,440,114
<b>Total liabilities and equity</b>	<b>\$ 5,795,648</b>	<b>\$ 5,748,746</b>

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

Table of Contents

## United States Cellular Corporation

Consolidated Statement of Changes in Equity  
(Unaudited)

## U.S. Cellular Shareholders

	U.S. Cellular Shareholders				Total		
	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>(Dollars in thousands) Balance, December 31, 2009</b>	\$ 88,074	\$ 1,356,322	\$ (69,616)	\$ 2,013,633	\$ 3,388,413	\$ 51,701	\$ 3,440,114
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders				88,122	88,122		88,122
Net income attributable to noncontrolling interests classified as equity						10,919	10,919
Repurchase of Common Shares			(21,423)		(21,423)		(21,423)
Incentive and compensation plans		605	10,932	(10,789)	748		748
Stock-based compensation awards		9,012			9,012		9,012
Tax windfall (shortfall) from stock awards		(1,810)			(1,810)		(1,810)
Distributions to noncontrolling interests						(4,314)	(4,314)
<b>Balance, June 30, 2010</b>	\$ 88,074	\$ 1,364,129	\$ (80,107)	\$ 2,090,966	\$ 3,463,062	\$ 58,306	\$ 3,521,368

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



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

	Series A				Total		
	Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders Equity	Noncontrolling Interests	Total Equity
<b>(Dollars in thousands) Balance, December 31, 2008</b>	\$ 88,074	\$ 1,340,146	\$ (50,258)	\$ 1,822,073	\$ 3,200,035	\$ 48,567	\$ 3,248,602
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders				165,827	165,827		165,827
Net income attributable to noncontrolling interests classified as equity						11,926	11,926
Repurchase of Common Shares			(19,332)		(19,332)		(19,332)
Incentive and compensation plans		1,444	9,486	(10,754)	176		176
Stock-based compensation awards		7,974			7,974		7,974
Tax windfall (shortfall) from stock awards		(900)			(900)		(900)
Distributions to noncontrolling interests						(4,060)	(4,060)
<b>Balance, June 30, 2009</b>	\$ 88,074	\$ 1,348,664	\$ (60,104)	\$ 1,977,146	\$ 3,353,780	\$ 56,433	\$ 3,410,213

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

Table of Contents

**United States Cellular Corporation**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

United States Cellular Corporation ( U.S. Cellular ), a Delaware Corporation, is an 82%-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 since acquisition, general partnerships in which U.S. Cellular has a majority partnership interest and certain entities in which U.S. Cellular has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2010 presentation.

The consolidated financial statements included herein have been prepared by U.S. Cellular, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in

conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular's Current Report on Form 8-K (Items 8.01 and 9.01) filed with the SEC on August 5, 2010, which should be read in conjunction with U.S. Cellular's Annual Report on Form 10-K ( Form 10-K ) for the year ended December 31, 2009.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items and adjustments to prior periods as described in Note 2 - Revision of Prior Period Amounts) necessary to present fairly the financial position as of June 30, 2010 and December 31, 2009, the results of operations for the three and six months ended June 30, 2010 and 2009 and cash flows and changes in equity for the six months ended June 30, 2010 and 2009. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and six months ended June 30, 2010 and 2009 equaled net income. The results of operations for the three and six months ended and cash flows and changes in equity for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year.

## 2. Revision of Prior Period Amounts

In preparing its financial statements for the three months ended March 31, 2010, U.S. Cellular discovered certain errors related to accounting for operating revenues and sales tax liabilities. The quantification of these errors was subsequently refined during the second quarter of 2010. These errors resulted in the overstatement of operating revenues and understatement of sales tax liabilities for the years ended December 31, 2009, 2008, 2007, and the three months ended March 31, 2010. In addition to recording these adjustments, U.S. Cellular recorded other adjustments to prior-year amounts to correct other immaterial items. In accordance with *SEC Staff Accounting Bulletin Nos. 99 and 108* ( SAB 99 and SAB 108 ), U.S. Cellular evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendment of previously filed reports was not required. However, if the adjustments to correct the cumulative errors had been recorded in the first or second quarter of 2010, U.S. Cellular believes the impact would have been significant to those respective periods and would impact comparisons to prior periods. As permitted by SAB 108, U.S. Cellular revised in the current filing its comparative consolidated financial statements for these immaterial amounts. In addition, on August 5, 2010, U.S. Cellular filed a Current Report on Form 8-K (Items 8.01 and 9.01) with the SEC to revise financial statements and other financial information previously included in its Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the period ended March 31, 2010.

Table of Contents

The Consolidated Balance Sheet at December 31, 2009 was revised to reflect the cumulative effect of these errors which resulted in a decrease to Retained earnings of \$15.9 million. Also, in accordance with SAB 108, the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows have been revised as follows:

## Consolidated Balance Sheet December 31, 2009

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
Accounts receivable - Due from customers	\$ 336,296	\$ 3,529	\$ 339,825
<b>Total current assets</b>	1,005,588	3,529	1,009,117
<b>Total assets</b>	5,745,217	3,529	5,748,746
Customer deposits and deferred revenues	143,760	(3,512)	140,248
Accrued taxes	34,583	22,924	57,507
<b>Total current liabilities</b>	644,565	19,412	663,977
Retained earnings	2,029,516	(15,883)	2,013,633
<b>Total U.S. Cellular shareholders' equity</b>	3,404,296	(15,883)	3,388,413
<b>Total equity</b>	3,455,997	(15,883)	3,440,114
<b>Total liabilities and equity</b>	5,745,217	3,529	5,748,746

## Consolidated Statement of Operations Three Months Ended June 30, 2009

(Dollars in thousands)	As previously reported (2)	Adjustment	Revised
Service revenues	\$ 974,755	\$ (407)	\$ 974,348
<b>Total operating revenues</b>	1,042,550	(407)	1,042,143
System operations expenses (excluding Depreciation, amortization and accretion)	194,806	(97)	194,709
	410,070	1,083	411,153

Selling, general and administrative expenses			
Depreciation, amortization and accretion	138,614	163	138,777
Loss on asset disposals, net	2,086	525	2,611
<b>Total operating expenses</b>	<b>901,631</b>	<b>1,674</b>	<b>903,305</b>
<b>Operating income</b>	<b>140,919</b>	<b>(2,081)</b>	<b>138,838</b>
Interest expense	(19,387)	(469)	(19,856)
<b>Total investment and other income (expense)</b>	<b>6,156</b>	<b>(469)</b>	<b>5,687</b>
<b>Income before income taxes</b>	<b>147,075</b>	<b>(2,550)</b>	<b>144,525</b>
Income tax expense	57,748	(960)	56,788
<b>Net income</b>	<b>89,327</b>	<b>(1,590)</b>	<b>87,737</b>
<b>Net income attributable to U.S. Cellular shareholders</b>	<b>83,358</b>	<b>(1,590)</b>	<b>81,768</b>
<b>Basic earnings per share attributable to U.S. Cellular shareholders</b>	<b>0.96</b>	<b>(0.02)</b>	<b>0.94</b>
<b>Diluted earnings per share attributable to U.S. Cellular shareholders</b>	<b>0.96</b>	<b>(0.02)</b>	<b>0.94</b>

Table of Contents

## Consolidated Statement of Operations Six Months Ended June 30, 2009

(Dollars in thousands)	As previously reported (2)	Adjustment	Revised
Service revenues	\$ 1,956,629	\$ 1,173	\$ 1,957,802
<b>Total operating revenues</b>	<b>2,095,314</b>	<b>1,173</b>	<b>2,096,487</b>
System operations expenses (excluding Depreciation, amortization and accretion)	394,809	(112)	394,697
Selling, general and administrative expenses	822,518	(2,902)	819,616
Depreciation, amortization and accretion	276,265	390	276,655
Loss on asset disposals, net	4,277	2,279	6,556
<b>Total operating expenses</b>	<b>1,839,625</b>	<b>(345)</b>	<b>1,839,280</b>
<b>Operating income</b>	<b>255,689</b>	<b>1,518</b>	<b>257,207</b>
Interest expense	(38,409)	(874)	(39,283)
<b>Total investment and other income (expense)</b>	<b>13,218</b>	<b>(874)</b>	<b>12,344</b>
<b>Income before income taxes</b>	<b>268,907</b>	<b>644</b>	<b>269,551</b>
Income tax expense	88,980	2,767	91,747
<b>Net income</b>	<b>179,927</b>	<b>(2,123)</b>	<b>177,804</b>
<b>Net income attributable to U.S. Cellular shareholders</b>	<b>167,950</b>	<b>(2,123)</b>	<b>165,827</b>
<b>Basic earnings per share attributable to U.S. Cellular shareholders</b>	<b>1.93</b>	<b>(0.03)</b>	<b>1.90</b>
<b>Diluted earnings per share attributable to U.S. Cellular shareholders</b>	<b>1.92</b>	<b>(0.02)</b>	<b>1.90</b>

## Consolidated Statement of Cash Flows Six Months Ended June 30, 2009

(Dollars in thousands)	As previously reported (2)	Adjustment	Revised
Net income	\$ 179,927	\$ (2,123)	\$ 177,804
Depreciation, amortization and accretion	276,265	390	276,655
Deferred income taxes, net	19,604	(520)	19,084
Loss on asset disposals, net	4,277	2,279	6,556
Change in accounts receivable	(63,510)	(5,413)	(68,923)
Change in customer deposits and deferred revenues	(5,372)	(327)	(5,699)
Change in accrued taxes	64,851	6,190	71,041
Change in other assets and liabilities	(66,824)	(476)	(67,300)

**Cash flows from operating activities**

---

373,123

373,123

- (1) In Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 25, 2010.
- (2) In Quarterly Report on Form 10-Q for the period ended June 30, 2009 filed on August 6, 2009.



Table of Contents

**3. Summary of Significant Accounting Policies**

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 governmental authority imposing such tax, the amounts collected from customers and remitted to governmental authorities are recorded net in Accrued taxes in the Consolidated Balance Sheet. If a tax is assessed upon U.S. Cellular but billed to customers to recover it, the amounts billed to customers are recorded in Service revenues and the amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded in Service revenues that were billed to customers and remitted to governmental authorities totaled \$37.4 million and \$71.3 million for the three months ended and six months ended June 30, 2010, respectively, and \$25.9 million and \$49.9 million for the three months ended and six months ended June 30, 2009, respectively. These revenues increased primarily due to an increase in the Universal Service Fund contribution rates established by the FCC.

Implementation of Revised Variable Interest Entity Accounting

U.S. Cellular holds interests in certain variable interest entities ( VIEs ) as such term is defined by GAAP. The primary beneficiary of a VIE, as defined by GAAP, is required to consolidate the VIE in its financial statements. Prior to January 1, 2010, the primary beneficiary of a VIE was the entity that recognized a majority of a VIE 's expected gains or losses, as determined based on a quantitative model. Effective January 1, 2010, new provisions under GAAP related to accounting for VIEs provide for a more qualitative assessment in determining the primary beneficiary of a VIE.

The revised consolidation guidance related to VIEs effective January 1, 2010 did not change U.S. Cellular 's consolidated reporting entities. See Note 10 Variable Interest Entities (VIEs) for details on consolidated VIEs.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple Deliverable Revenue Arrangements a consensus of FASB Emerging Issues Task Force* ("ASU 2009-13"). ASU 2009-13 provides for less restrictive separation criteria that must be met for a deliverable to be considered a separate unit of accounting. Additionally, under this Standard, there is a hierarchy for determining the selling price of a unit of accounting and consideration must be allocated using a relative-selling price method. ASU 2009-13 will be effective for U.S. Cellular on January 1, 2011; however, early adoption is permitted. U.S. Cellular is currently reviewing the requirements of

ASU 2009-13 and has not yet determined the impact on its financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements that include Software Elements a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-14"). ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." ASU 2009-14 will be effective for U.S. Cellular on January 1, 2011; however, early adoption is permitted. U.S. Cellular does not anticipate that this pronouncement will have a significant impact on its financial position or results of operations.

Table of Contents

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* ( ASU 2010-06 ). ASU 2010-06 requires new disclosures regarding transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation in certain disclosures, inputs, and valuation techniques used in FASB ASC 820, *Fair Value Measurements and Disclosures*. U.S. Cellular adopted all of the requirements of this update on January 1, 2010, its effective date, except for the new requirement regarding activity in Level 3 fair value measurements which has a later effective date under the provisions of ASU 2010-06, and will become effective on January 1, 2011. Adoption of this pronouncement has not had, and is not expected to have, a significant impact on U.S. Cellular's fair value disclosures.

**4. Fair Value Measurements**

As of June 30, 2010 and December 31, 2009, U.S. Cellular did not have any financial assets or liabilities that were required, under GAAP, to be recorded at fair value on a recurring basis in its Consolidated Balance Sheet. 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. The fair value of financial instruments was as follows:

(Dollars in thousands)	June 30, 2010		December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$ 232,853	\$ 232,853	\$ 294,411	\$ 294,411
Short-term investments (1)(2)				
Certificates of deposit	104	104	330	330
U.S. treasuries	110,451	110,451		
Commercial paper (3)	25,243	25,243		
Long-term investments (1)(4)				
U.S. treasuries	10,071	10,069		
Commercial paper (3)	30,916	30,924		
Long-term debt (5)	863,430	828,684	863,202	853,937

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

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

(3) Guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.

(4) Maturities range between 13 and 30 months from the balance sheet date.

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

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair values of Long-term investments were estimated using quoted market prices for the individual issuances. The fair value of Long-term debt, excluding capital lease obligations and current portion of Long-term debt, was estimated using market prices for the 7.5% senior notes and discounted cash flow analyses for the remaining debt.

As of June 30, 2010, U.S. Cellular did not have any nonfinancial assets or liabilities that required the application of fair value accounting for purposes of reporting such amounts in its Consolidated Balance Sheet.

## 5. Income Taxes

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

U.S. Cellular's overall effective tax rate on Income before income taxes for the three and six months ended June 30, 2010 was 38.0% and 38.4%, respectively, and for the three and six months ended June 30, 2009 was 39.3% and 34.0%, respectively. The effective tax rate for the six months ended June 30, 2009 was lower than the rate for the six months ended June 30, 2010 primarily due to a 2009 state tax benefit resulting from a state tax law change in the first quarter of 2009. This benefit, along with other minor discrete benefits, decreased income tax expense for the six months ended June 30, 2009 by \$9.9 million; absent these benefits, the effective tax rate for such period would have been higher by 3.7 percentage points.

Table of Contents**6. 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 adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and the vesting of restricted stock units.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>(Dollars and shares in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income attributable to U.S. Cellular shareholders	\$ 40,753	\$ 81,768	\$ 88,122	\$ 165,827
Weighted average number of shares used in basic earnings per share	86,425	86,992	86,500	87,093
Effect of dilutive securities:				
Stock options (1)	86	21	69	32
Restricted stock units (2)	276	164	304	183
Weighted average number of shares used in diluted earnings per share	86,787	87,177	86,873	87,308
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.47	\$ 0.94	\$ 1.02	\$ 1.90

Diluted earnings per share attributable to U.S. Cellular shareholders	\$	0.47	\$	0.94	\$	1.01	\$	1.90
--	----	------	----	------	----	------	----	------

(1) Stock options exercisable into 2,030 and 1,727 Common Shares in the three and six months ended June 30, 2010, respectively, and 2,271 and 1,848 Common Shares in the three and six months ended June 30, 2009, respectively were not included in computing Diluted Earnings per Share because their effects were antidilutive.

(2) Restricted stock issuable upon vesting into 154 and 131 Common Shares in the three and six months ended June 30, 2010, respectively, and 151 and 126 Common Shares in the three and six months ended June 30, 2009, respectively, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

## 7. Licenses and Goodwill

Changes in U.S. Cellular's licenses and goodwill for the six months ended June 30, 2010 and 2009 are presented below.

### Licenses

(Dollars in thousands)	June 30, 2010	June 30, 2009
Balance, beginning of period	\$ 1,435,000	\$ 1,433,415
Acquisitions	10,501	12,250
Other		(164)
Balance, end of period	\$ 1,445,501	\$ 1,445,501

### Goodwill

(Dollars in thousands)	June 30, 2010	June 30, 2009
Balance, beginning of period	\$ 494,737	\$ 494,279
Accumulated impairment losses		
Acquisitions	494,737	494,279
Other		458

Balance, end of period	\$	494,737	\$	494,737
------------------------	----	---------	----	---------

Table of Contents**8. Investment 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 \$25.8 million and \$24.8 million in the three months ended June 30, 2010 and 2009, respectively, and \$50.4 million and \$50.1 million in the six months ended June 30, 2010 and 2009, respectively; of those amounts, U.S. Cellular's investment in the Los Angeles SMSA Partnership ( LA Partnership ) contributed \$16.6 and \$17.1 million in the three months ended June 30, 2010 and 2009, respectively, and \$33.5 and \$34.0 million in the six months ended June 30, 2010 and 2009, respectively. U.S. Cellular held a 5.5% ownership interest in the LA Partnership during these periods.

The following table summarizes the combined results of operations of U.S. Cellular's equity method investments:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 1,206,000	\$ 1,197,000	\$ 2,420,000	\$ 2,369,000
Operating expenses	846,000	834,000	1,705,000	1,648,000
Operating income	360,000	363,000	715,000	721,000
Other income (expense)	13,000	12,000	20,000	21,000
Net income	\$ 373,000	\$ 375,000	\$ 735,000	\$ 742,000

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

### **10. Variable Interest Entities (VIEs)**

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

Table of ContentsConsolidated VIEs

As of June 30, 2010, U.S. Cellular consolidates the following VIEs under GAAP:

- Aquinas Wireless;
- King Street Wireless and King Street Wireless, Inc., the general partner of King Street Wireless;
- Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless; and
- Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless.

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

Following is a summary of the capital contributions and advances made to each entity by U.S. Cellular as of June 30, 2010. The amounts shown in the table below exclude funds provided to these entities solely from the shareholder of the general partner.

**(Dollars in thousands)**

Aquinas Wireless	\$	2,132
King Street Wireless & King Street Wireless, Inc.		300,904
Barat Wireless & Barat Wireless, Inc.		127,685
Carroll Wireless & Carroll PCS, Inc.	\$	131,294
		562,015

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

<b>(Dollars in thousands)</b>		<b>June 30, 2010</b>		<b>December 31, 2009</b>
<b>Assets</b>				
	Cash	\$	641	\$ 679
	Other current assets		94	393
	Licenses		487,962	487,962
	Other assets		1,548	440
	Total assets	\$	490,245	\$ 489,474
<b>Liabilities</b>				
	Customer deposits and deferred revenues	\$	4	\$ 70
	Total liabilities	\$	4	\$ 70

Table of Contents

Other Related Matters

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

These VIEs are in the process of developing long-term business and financing plans. These entities were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to the business risks described in the Risk Factors in U.S. Cellular's Form 10-K for the year ended December 31, 2009.

## **11. Common Share Repurchases**

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

Common Share repurchases made under this authorization and prior authorizations were as follows:

Six Months Ended June 30,

(Dollars and shares in thousands, except cost per share)

	2010		2009
Number of shares	523		507
Average cost per share	\$ 40.97	\$	38.13
Total cost	\$ 21,423	\$	19,332

## 12. Noncontrolling Interests

### Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries

Under GAAP, certain noncontrolling interests in consolidated entities with finite lives may meet the definition of mandatorily redeemable financial instruments. U.S. Cellular's consolidated financial statements include certain noncontrolling interests that meet the 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 2094.

The settlement value of U.S. Cellular's mandatorily redeemable noncontrolling interests in finite-lived subsidiaries is estimated to be \$167.9 million at June 30, 2010. This amount represents the 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 June 30, 2010, net of estimated liquidation costs. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. 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 June 30, 2010 was \$53.9 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. 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.

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

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

<b>(Dollars and shares in thousands)</b>	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Common Shares withheld (1)	86	34
Aggregate value of Common Shares withheld	\$ 3,620	\$ 1,213
Cash receipts upon exercise of stock options	\$ 1,876	\$ 808
Cash disbursements for payment of taxes (2)	(1,732)	(1,213)
Net cash receipts from exercise of stock options and vesting of other stock awards	\$ 144	\$ (405)

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

(2) In certain situations, U.S. Cellular withholds shares that are issuable upon the exercise of stock options or the vesting of restricted shares to cover, and with a value equivalent to, the 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.

Table of Contents

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



**and Results of Operations**

United States Cellular Corporation ("U.S. Cellular") owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 82%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS") as of June 30, 2010.

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 Current Report on Form 8-K (Items 8.01 and 9.01) filed with the SEC on August 5, 2010, which should be read in conjunction with the U.S. Cellular Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2009.

## 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.

U.S. Cellular provides wireless telecommunications services to approximately 6.1 million customers in five geographic market areas in 26 states. As of June 30, 2010, U.S. Cellular's average penetration rate in its consolidated operating markets, calculated by dividing U.S. Cellular's total customers by the total population of 46.5 million in such markets, was 13.2%. 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. U.S. Cellular's business development strategy is to acquire and operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular believes that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in the six months ended June 30, 2010 included the following:

- Total customers were 6,144,000 at June 30, 2010, including 5,775,000 retail customers.
- Retail customer net additions were 31,000 in 2010 compared to 4,000 in 2009. In the postpaid category, there was a net loss of 31,000 in 2010 compared to net additions of 28,000 in 2009. Prepaid net additions increased to 62,000 in 2010 compared to a net loss of 24,000 in 2009.

- Postpaid customers comprised approximately 94% of U.S. Cellular's retail customers as of June 30, 2010. The postpaid churn rate improved to 1.4% in 2010 compared to 1.6% in 2009.
- Service revenues of \$1,937.6 million decreased \$20.2 million (1%) year-over-year, primarily due to decreases in retail service revenues (\$17.6 million) and inbound roaming revenues (\$9.4 million). Retail service revenues decreased due to a decline in voice revenues which was partially offset by continued growth in data revenues. Data revenues grew 31% year-over-year to \$416.6 million.
- Cash flows from operating activities were \$403.7 million. At June 30, 2010, Cash and cash equivalents totaled \$232.9 million and there were no outstanding borrowings under the revolving credit facility.
- Additions to property, plant and equipment totaled \$255.0 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, expand mobile broadband services based on third generation Evolution Data Optimized technology ("3G") to additional markets, 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 5% year-over-year to 7,416.
- U.S. Cellular's innovative Battery Swap program and Overage Protection service remained popular with its customers in 2010. By June 30, 2010, U.S. Cellular had completed 2.1 million battery swaps since the program launched in May 2009. Also, U.S. Cellular had nearly 2.2 million customers sign up for Overage Protection since it launched in November 2009.
- U.S. Cellular continued its efforts on a number of marketing initiatives and other multi-year initiatives including the development of a Billing and Operational Support System ("BSS/OSS") with a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently to build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and to manage their accounts online.

Table of Contents

- Operating income decreased \$116.1 million, or 45%, to \$141.1 million in 2010 from \$257.2 million in 2009. Factors in the decrease were lower service revenues as discussed above, together with higher costs of serving and retaining customers in an increasingly competitive industry and costs of investments in multi-year initiatives.
- Net income attributable to U.S. Cellular shareholders decreased \$77.7 million, or 47%, to \$88.1 million in 2010 compared to \$165.8 million in 2009, primarily due to lower operating income. Basic earnings per share was \$1.02 in 2010, which was \$0.88 lower than in 2009, and Diluted earnings per share was \$1.01, which was \$0.89 lower than in 2009.

In addition, Mary N. Dillon was appointed as President and CEO and a director of U.S. Cellular on June 1, 2010, as a result of the retirement of John E. Rooney.

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

- Continued uncertainty related to current economic conditions and their impact on customer purchasing and payment behaviors;
- Increased competition in the wireless industry, including potential reductions in pricing for products and services overall and impacts associated with the expanding presence of carriers offering low-priced, unlimited prepaid service;
- Potential increases in prepaid customers as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;
- Increasing penetration in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers rather than by adding customers that are new to wireless service;
- Continued growth in revenues from data products and services and lower growth or declines in revenues from voice services;

- The effects of recent industry consolidation, such as Verizon's acquisition of Alltel, and possible further industry consolidation, on roaming revenues, service pricing and equipment pricing;
- Costs of developing and enhancing office and customer support systems, including costs and risks associated with the completion and potential benefits of the multi-year initiatives described above;
- Continued enhancements to U.S. Cellular's wireless networks;
- Uncertainty related to the National Broadband Plan and other rulemaking by the Federal Communications Commission ( FCC ), including uncertainty relating to future eligible telecommunication carrier ( ETC ) funding from the universal service fund ( USF ); and
- Possible operational and other changes that may occur as a result of the appointment of a new President and CEO.

### **Cash Flows and Investments**

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

See [Financial Resources](#) and [Liquidity and Capital Resources](#) below for additional information related to cash flows and investments.

Table of Contents

**Recent Developments**

American Recovery and Reinvestment Act

Congress enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of \$7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. U.S. Cellular has not received any grants of Recovery Act funds. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of U.S. Cellular's service areas.

National Broadband Plan and Related Matters

In 2009, Congress directed the FCC to develop a National Broadband Plan to ensure every American has access to broadband capability. In March 2010, the FCC released the *plan* which describes the FCC's goals in enhancing broadband availability and the methods for achieving those goals over the next decade.

The FCC notes that about one-half of the plan will be addressed by the FCC, while the remainder will be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. U.S. Cellular cannot predict the outcome of these deliberations or what effect any final rules, regulations or laws may have on its ability to compete in the provision of wireless broadband services to its customer base. Changes in regulation or the amount or distribution of funds to U.S. Cellular and other telecommunications service providers could impact competition in certain of U.S. Cellular's service areas, and could have a material adverse affect on U.S. Cellular's business, financial condition or results of operations.

Net Neutrality

As disclosed in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2009, the FCC initiated a rulemaking proceeding in 2009 designed to codify its existing Net Neutrality principles and impose new requirements that could have the effect of restricting the ability of wireless Internet service providers to manage applications and content that traverse their networks. These principles, which the FCC initially announced in 2005, espoused the right of consumers to access lawful Internet content, to run applications and use services of their choice. In 2008, the FCC ruled that Comcast had violated these principles by moderating the amount of bandwidth used by certain peer-to-peer services and ordered Comcast to discontinue this practice. Comcast challenged this order and, on

April 6, 2010, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the FCC had exceeded its authority under the Communications Act of 1934, as amended, when it sought to regulate Comcast's network management practices for its high-speed Internet access service. In 2010, the FCC sought and received comments on its Net Neutrality proposals and concerning the impact of the Comcast case on those proposals. It is currently evaluating those comments. Accordingly, the status of the FCC's network neutrality proceeding is uncertain at this time and, as a result, there may be further proceedings or legislation relating to the FCC's authority to regulate the Internet. U.S. Cellular cannot predict the ultimate outcome of this matter or the effect it will have on its wireless broadband services.

## 2010 Estimates

U.S. Cellular's estimates of full-year 2010 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Quarterly Report on Form 10-Q ( Form 10-Q ) for the quarterly period ended June 30, 2010. Such forward looking statements should not be assumed to be accurate 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.

	<b>2010 Estimated Results</b>	
	<b>Current</b>	<b>Previous (1)</b>
Service revenues	\$3,925-\$4,000 million	\$3,975-\$4,075 million
Adjusted OIBDA (2)	\$800-\$850 million	\$850-\$950 million
Operating income (3)	\$200-\$250 million	\$250-\$350 million
Depreciation, amortization and accretion expenses, and losses on disposals and impairment of assets (3)	Approx. \$600 million	Approx. \$600 million
Capital expenditures	Approx. \$600 million	Approx. \$600 million

(1) Guidance as disclosed in U.S. Cellular's Quarterly Report on Form 10-Q for the period ended March 31, 2010.

(2) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows.

(3) The 2010 Estimated Results include estimates for Depreciation, amortization and accretion expenses and losses on disposals of assets, but do not include an estimate for losses on impairment of assets since these cannot be predicted.





Table of Contents

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

**RESULTS OF OPERATIONS****Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009**

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

<b>As of June 30, (1)</b>	<b>2010</b>	<b>2009</b>
Total market population of consolidated operating markets (2)	46,546,000	46,306,000
Customers (3)	6,144,000	6,155,000
Market penetration (2)	13.2%	13.3%
Total full-time equivalent employees	8,882	8,673
Cell sites in service	7,416	7,043
<b>For the Six Months Ended June 30, (4)</b>	<b>2010</b>	<b>2009</b>
Net retail customer additions (5)	31,000	4,000
Net customer additions (5)	3,000	(41,000)
Average monthly service revenue per customer (6)	\$ 52.57	\$ 52.54
Postpaid churn rate (7)	1.4%	1.6%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of June 30.

(2) Calculated using 2009 and 2008 Claritas population estimates for 2010 and 2009, respectively. Total market population of consolidated operating markets is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 90,468,000 and 6.8%, and 83,726,000 and 7.4%, as of June 30, 2010 and 2009, respectively.

(3) U.S. Cellular's customer base consists of the following types of customers:

	<b>2010</b>	<b>June 30,</b>	<b>2009</b>
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ( postpaid customers )	5,451,000		5,448,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ( prepaid customers )	324,000		263,000
Total retail customers	5,775,000		5,711,000
End user customers acquired through U.S. Cellular's agreements with third parties ( reseller customers )	369,000		444,000
Total customers	6,144,000		6,155,000

(4) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through June 30; operating markets acquired during a particular period are included as of the acquisition date.

Table of Contents

(5) Net retail customer additions represents the number of net customers added to U.S. Cellular's retail customer base through its marketing distribution channels; this measure excludes activity related to reseller customers and customers transferred through acquisitions, divestitures or exchanges. Net customer additions represents the number of net customers added to U.S. Cellular's overall customer base through its marketing distribution channels; this measure includes activity related to reseller customers but excludes activity related to customers transferred through acquisitions, divestitures or exchanges.

(6) Management uses this measurement to assess the amount of service revenue that U.S. Cellular generates each month on a per customer basis. Average monthly service revenue per customer is calculated as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Service revenues per Consolidated Statement of Operations (000s) \$	1,937,584	\$ 1,957,802
Divided by average customers during period (000s)*	6,143	6,210
Divided by number of months in each period	6	6
Average monthly service revenue per customer	\$ 52.57	\$ 52.54

\* Average customers during period is calculated by adding the number of total customers, including reseller customers, at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.

(7) Postpaid churn rate represents the percentage of the postpaid customer base that disconnects service each month.

**Components of Operating Income**

<b>Six Months Ended June 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>
Retail service	\$ 1,728,875	\$ 1,746,480	\$ (17,605)	(1)%
Inbound roaming	112,844	122,280	(9,436)	(8)%
Other	95,865	89,042	6,823	8%
Service revenues	1,937,584	1,957,802	(20,218)	(1)%
Equipment sales	116,166	138,685	(22,519)	(16)%
Total operating revenues	2,053,750	2,096,487	(42,737)	(2)%

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

System operations (excluding Depreciation, amortization and accretion reported below)	420,656	394,697	25,959	7%
Cost of equipment sold	323,070	341,756	(18,686)	(5)%
Selling, general and administrative	874,782	819,616	55,166	7%
Depreciation, amortization and accretion	287,688	276,655	11,033	4%
Loss on asset disposals, net	6,426	6,556	(130)	(2)%
Total operating expenses	1,912,622	1,839,280	73,342	4%
Operating income	\$ 141,128	\$ 257,207	\$ (116,079)	(45)%

**Operating Revenues**

*Service revenues*

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value-added services, including data products and services and long distance, 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 USF.

*Retail service revenues*

The decrease in Retail service revenues in 2010 was primarily due to a significant reduction in revenues from voice services.

- The average number of customers decreased to 6,143,000 in 2010 from 6,210,000 in 2009.

## Table of Contents

- Average monthly retail service revenue per customer increased slightly less than 1% to \$46.91 in 2010 from \$46.87 in 2009. The net increase resulted from growth in revenues from data products and services and revenues related to regulatory cost recovery, which together offset a decline in revenues from voice services. The average monthly retail service revenue per customer also reflects the impact of a reduction in the number of lower revenue reseller customers.

Revenues from voice services declined year-over-year primarily due to a reduction in average voice revenue per customer. The reduction in average voice revenue per customer reflects industry competition which has resulted in lower pricing overall as well as growth in family plans and service plans with enhanced coverage areas and value (such as free incoming calls, free mobile-to-mobile and unlimited minutes). U.S. Cellular expects continued pressure on revenues from voice services in the foreseeable future due to industry competition related to service plan offerings.

Revenues from data products and services totaled \$416.6 million in 2010 and \$318.9 million in 2009, and represented 21% of service revenues in 2010 compared to 16% of service revenues in 2009. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easyedge**<sup>SM</sup> service and applications, premium mobile Internet services, smartphone handsets and services, and modems. In March 2010, U.S. Cellular launched new data offerings for its prepaid customers, which included picture and video messaging, ringtones, email services, and **easyedge**<sup>SM</sup> service and applications. U.S. Cellular expects that the growth in revenues from data products and services will continue as customers increasingly purchase premium and smartphone devices along with data plans and applications and utilize U.S. Cellular's 3G network. U.S. Cellular's 3G network covered approximately 98% of its customers as of June 30, 2010.

Revenues related to regulatory cost recovery increased due to an increase in the USF contribution rates established by the FCC (most of the USF contribution revenues for amounts passed through to customers are offset by expenses as discussed below).

### ***Inbound roaming revenues***

The decrease in Inbound roaming revenues in 2010 was primarily due to a decline in roaming revenues from the combined entity of Verizon Wireless (Verizon) and Alltel Corporation (Alltel). In January 2009, Verizon acquired Alltel. As a result of this transaction, the network footprints of Verizon and Alltel were combined. This has resulted in a decrease in inbound roaming revenues for U.S. Cellular, since the combined Verizon and Alltel entity has reduced its usage of U.S. Cellular's network in certain coverage areas that were used by Verizon and Alltel as separate entities. U.S. Cellular anticipates that inbound roaming revenues for the full year 2010 will be flat to slightly higher than the prior year due to the positive impact of increasing minutes of use and increasing data usage from U.S. Cellular's roaming partners, partially offset by the negative impact of decreasing rates per minute or kilobyte of use.

***Equipment sales revenues***

Equipment sales revenues include revenues from sales of handsets and related accessories to both new and existing customers, as well as revenues from sales of handsets and accessories to agents. All equipment sales revenues are recorded net of anticipated rebates.

U.S. Cellular's customer retention efforts include offering new smartphones and premium handsets at discounted prices to existing customers as the expiration date of the customer's service contract approaches. U.S. Cellular also continues to sell handsets to agents; this practice enables U.S. Cellular to provide better control over the quality of handsets sold to its customers, establish roaming preferences and earn quantity discounts from handset manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell handsets to agents in the future.

The decrease in 2010 equipment sales revenues was driven by declines of 15% in average revenue per handset sold and 5% in total handsets sold. Average revenue per handset sold declined due to aggressive promotional pricing across all categories of handsets.

**Operating Expenses**

***System operations expenses (excluding Depreciation, amortization and accretion)***

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

Table of Contents

Key components of the overall increase in system operations expenses were as follows:

- Maintenance, utility and cell site expenses increased \$14.1 million, or 9%, driven primarily by an increase in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,416 at June 30, 2010 and 7,043 at June 30, 2009, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets.
- Customer usage expenses increased \$10.5 million, or 8%, primarily due to an increase in data usage.
- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$1.4 million, or 2%, primarily due to higher data usage.

U.S. Cellular expects total system operations expenses to increase on a year-over-year basis in the foreseeable future, driven by the following factors:

- Increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality; and
- Increases in total customer usage, driven by text messaging and other data usage, both on U.S. Cellular's network and by U.S. Cellular's customers on other carriers' networks when roaming.

***Cost of equipment sold***

Cost of equipment sold decreased in 2010 primarily due to a 5% decline in total handsets sold as well as a slight reduction in the average cost per handset sold.

***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 net increase in Selling, general and administrative expenses in 2010 were as follows:

- Selling and marketing expenses increased by \$7.8 million, or 2%, primarily due to higher sales related expenses, partially offset by lower advertising expense and lower commissions expense reflecting fewer eligible customer additions.
- General and administrative expenses increased \$47.4 million, or 11%, due to higher USF contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers as discussed above); higher costs related to marketing initiatives and investments in multi-year initiatives for business support systems as described in the Overview section; and higher employee related expenses.

U.S. Cellular expects Selling, general and administrative expenses to increase on a year-over-year basis in the foreseeable future driven primarily by increases in expenses associated with acquiring, serving and retaining customers, as well as costs related to its multi-year initiatives discussed previously.

#### ***Depreciation, amortization and accretion***

Depreciation, amortization and accretion increased primarily due to an increase in the gross property, plant and equipment balances from 2009 to 2010.

See [Financial Resources](#) and [Liquidity and Capital Resources](#) for a discussion of U.S. Cellular's capital expenditures.



Table of Contents**Components of Other Income (Expense)**

<b>Six Months Ended June 30, (Dollars in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>
Operating income	\$ 141,128	\$ 257,207	\$ (116,079)	(45)%
Equity in earnings of unconsolidated entities	50,447	50,121	326	1%
Interest and dividend income	1,883	1,228	655	53%
Interest expense	(32,962)	(39,283)	6,321	16%
Other, net	407	278	129	46%
Total investment and other income (expense)	19,775	12,344	7,431	60%
Income before income taxes	160,903	269,551	(108,648)	(40)%
Income tax expense	(61,843)	(91,747)	29,904	33%
Net income	99,060	177,804	(78,744)	(44)%
Less: Net income attributable to noncontrolling interests, net of tax	(10,938)	(11,977)	1,039	9%
Net income attributable to U.S. Cellular shareholders	\$ 88,122	\$ 165,827	\$ (77,705)	(47)%
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 1.02	\$ 1.90	\$ (0.88)	(46)%
Diluted earnings per share attributable to U.S. Cellular shareholders	\$ 1.01	\$ 1.90	\$ (0.89)	(47)%

***Equity in earnings of unconsolidated entities***

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

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ( LA Partnership ) contributed \$33.5 million and \$34.0 million to Equity in earnings of unconsolidated entities in 2010 and 2009, respectively.

***Interest expense***

Interest expense decreased year-over-year due to the redemption of U.S. Cellular's \$130.0 million, 8.75% senior notes in December 2009.

***Income tax expense***

See Note 5 Income Taxes in the Notes to Consolidated Financial Statements for a discussion of income tax expense and the overall effective tax rate on Income before income taxes.

Table of Contents**Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009****Components of Operating Income**

<b>Three Months Ended June 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>
Retail service	\$ 863,836	\$ 870,802	\$ (6,966)	(1)%
Inbound roaming	60,902	62,223	(1,321)	(2)%
Other	47,838	41,323	6,515	16%
Service revenues	972,576	974,348	(1,772)	
Equipment sales	57,317	67,795	(10,478)	(15)%
Total operating revenues	1,029,893	1,042,143	(12,250)	(1)%
System operations (excluding Depreciation, amortization and accretion reported below)	213,542	194,709	18,833	10%
Cost of equipment sold	161,965	156,055	5,910	4%
Selling, general and administrative	445,177	411,153	34,024	8%
Depreciation, amortization and accretion	144,455	138,777	5,678	4%
Loss on asset disposals, net	1,250	2,611	(1,361)	(52)%
Total operating expenses	966,389	903,305	63,084	7%
Operating income	\$ 63,504	\$ 138,838	\$ (75,334)	(54)%

**Operating Revenues*****Retail service revenues***

The decrease in retail service revenues in 2010 was primarily due to a significant reduction in revenues from voice services.

- The average number of customers decreased to 6,151,000 in 2010 from 6,199,000 in 2009.

- Average monthly retail service revenue per customer was essentially flat at \$46.81 in 2010 compared to \$46.82 in 2009, as an increase in revenues from data products and services offset a decline in revenues from voice services. The average monthly retail service revenue per customer also reflects the impact of a reduction in the number of lower revenue reseller customers.

Revenues from voice services declined year-over-year primarily due to a reduction in average voice revenue per customer. The reduction in average voice revenue per customer reflects industry competition which has resulted in lower pricing overall as well as growth in family plans and service plans with enhanced coverage areas and value (such as free incoming calls, free mobile-to-mobile and unlimited minutes).

Revenues from data products and services totaled \$215.3 million in 2010 and \$162.0 million in 2009, and represented 22% of total service revenues in 2010 compared to 17% of total service revenues in 2009. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easyedge**<sup>SM</sup> service and applications, premium mobile Internet services, smartphone handsets and services, and modems.

Revenues related to regulatory cost recovery increased due to an increase in the USF contribution rates established by the FCC.

### ***Inbound roaming revenues***

The decrease in Inbound roaming revenues in 2010 was primarily due to a decline in roaming revenues from the combined entity of Verizon and Alltel.

Table of Contents

***Equipment sales revenues***

The decrease in 2010 Equipment sales revenues was driven by a decline in average revenue per handset sold of 22% due to aggressive promotional pricing across all categories of handsets. The impact of lower overall pricing was offset somewhat by a shift in mix of handsets purchased by customers to handsets with expanded capabilities, such as smartphones and premium handsets, together with a 4% increase in the total number of handsets sold.

**Operating Expenses**

***System operations expenses (excluding Depreciation, amortization and accretion)***

Key components of the overall increase in system operations expenses were as follows:

- Maintenance, utility and cell site expenses increased \$8.9 million, or 11%, driven primarily by an increase in the number of cell sites within U.S. Cellular's network;
- Customer usage expenses on U.S. Cellular's systems increased \$10.0 million, or 15%, primarily due to an increase in data usage.

***Cost of equipment sold***

The increase in Cost of equipment sold was due to an increase in total handsets sold of 4%, together with a shift in the mix of handsets purchased by customers to handsets with expanded capabilities, such as smartphones and premium handsets, which resulted in an increase in average cost per handset sold of 2%.

***Selling, general and administrative expenses***

Key components of the net increase in Selling, general and administrative expenses were as follows:

- Selling and marketing expenses increased by \$13.9 million, or 7%, primarily due to higher sales related expenses, and higher commissions resulting from a greater number of eligible customer additions and renewals.
- General and administrative expenses increased \$20.1 million, or 9%, due to higher USF contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers as discussed above); higher costs related to marketing initiatives and investments in multi-year initiatives for business support systems as described in the Overview section; and higher employee related expenses.

**Components of Other Income (Expense)**

<b>Three Months Ended June 30, (Dollars in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>
Operating income	\$ 63,504	\$ 138,838	\$ (75,334)	(54)%

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

Equity in earnings from unconsolidated entities	25,753	24,794	959	4%
Interest and dividend income	862	751	111	15%
Interest expense	(16,438)	(19,856)	3,418	17%
Other, net	472	(2)	474	>100%
Total investment and other income (expense)	10,649	5,687	4,962	87%
Income before income taxes	74,153	144,525	(70,372)	(49)%
Income tax expense	(28,181)	(56,788)	28,607	50%
Net income	45,972	87,737	(41,765)	(48)%
Less: Net income attributable to noncontrolling interests, net of tax	(5,219)	(5,969)	750	13%
Net income attributable to U.S. Cellular	\$ 40,753	\$ 81,768	\$ (41,015)	(50)%
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.47	\$ 0.94	\$ (0.47)	(50)%
Diluted earnings per share attributable to U.S. Cellular shareholders	\$ 0.47	\$ 0.94	\$ (0.47)	(50)%

Table of Contents

*Equity in earnings from unconsolidated entities*

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership contributed \$16.6 million and \$17.1 million to Equity in earnings from unconsolidated entities in 2010 and 2009, respectively.

*Interest expense*

Interest expense decreased year-over-year due to the redemption of U.S. Cellular's \$130.0 million, 8.75% senior notes in December 2009.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Recent accounting pronouncements either are not expected to have a significant effect on U.S. Cellular's financial condition or results of operations or U.S. Cellular is currently analyzing such pronouncements in order to determine their impact, if any.

See Note 3 – Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

**FINANCIAL RESOURCES**

U.S. Cellular operates a capital and marketing intensive business. U.S. Cellular utilizes cash from its operating activities, cash proceeds from divestitures, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and Common Share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize U.S. Cellular's cash flow activities in the six months ended June 30, 2010 compared to the six months ended June 30, 2009.



<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
Cash flows from (used in):		
Operating activities	\$ 403,706	\$ 373,123
Investing activities	(439,616)	(240,072)
Financing activities	(25,648)	(28,127)
Net increase (decrease) in cash and cash equivalents	\$ (61,558)	\$ 104,924

### Cash Flows from Operating Activities

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

<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
Operating income	\$ 141,128	\$ 257,207
Non-cash items		
Depreciation, amortization and accretion	287,688	276,655
Loss on asset disposals, net	6,426	6,556
Adjusted OIBDA (1) (2)	\$ 435,242	\$ 540,418

(1) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows.

(2) Adjusted OIBDA excludes the net gain or loss on asset disposals and loss on impairment of assets (if any), in order to show operating results on a more comparable basis from period to period. U.S. Cellular does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future.

## Table of Contents

Cash flows from operating activities in 2010 were \$403.7 million, an increase of \$30.6 million from 2009. Significant changes included the following:

- Adjusted OIBDA, as shown in the table above, decreased by \$105.2 million primarily due to a decrease in operating income. See discussion in the Results of Operations for factors that affected operating income.
- In 2009, a \$34.0 million deposit related to a pending income tax audit was paid to TDS for U.S. Cellular's proportionate share of a deposit TDS made to the Internal Revenue Service to eliminate any potential interest expense subsequent to the deposit. The deposit was recorded as a cash outflow in Change in other assets and liabilities in the Consolidated Statement of Cash Flows in 2009.
- A \$33.0 million distribution from the LA Partnership was received in June 2010. A \$33.0 million distribution from the LA Partnership was approved in June 2009, but not received until July 2009, resulting in lower Distributions from unconsolidated entities in 2009.
- Income tax payments, net of refunds increased by \$39.8 million to \$55.6 million in 2010 from \$15.8 million in 2009. This increase primarily relates to tax payments made in 2010 related to the 2009 tax year and the discontinuance of the bonus depreciation deduction in 2010.
- Changes in accounts receivable required \$23.0 million and \$68.9 million in 2010 and 2009, respectively, causing a year-over-year increase in cash flows of \$45.9 million. Changes in inventory provided \$32.3 million in 2010 and required \$10.4 million in 2009, resulting in a \$42.6 million increase in cash flows. Both the accounts receivable and inventory balances can fluctuate significantly based on the timing of promotions.

## **Cash Flows from Investing Activities**

U.S. Cellular makes substantial investments to construct and upgrade modern high quality wireless communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades of U.S. Cellular's networks. Cash flows used for investing activities also represent cash required for the acquisition of wireless properties or licenses. Proceeds from exchanges and divestiture transactions have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

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 in order to maintain competitive services.

Cash used for property, plant and equipment and system development expenditures totaled \$255.0 million in 2010 and \$228.9 million in 2009. These expenditures were made to construct new cell sites, increase capacity in existing cell sites and switches, upgrade technology including the overlay of 3G technology in certain markets, develop new and enhance existing office systems, and construct new and remodel existing retail stores.

The following table presents Free cash flow. U.S. Cellular believes that Free cash flow as reported by U.S. Cellular is useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations, after capital expenditures.

<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
Cash flows from operating activities	\$ 403,706	\$ 373,123
Capital expenditures	(255,004)	(228,902)
Free cash flow (1)	\$ 148,702	\$ 144,221

---

(1) Free cash flow is defined as Cash flows from operating activities less Capital expenditures. Free cash flow is a non-GAAP financial measure.

Table of Contents

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

Cash payments for acquisitions in 2010 and 2009 were as follows:

<b>(Dollars in thousands)</b>	<b>2010</b>		<b>2009</b>	
U.S. Cellular licenses	\$	10,501	\$	12,050
Other				277
Total	\$	10,501	\$	12,327

In 2010, U.S. Cellular invested \$175.0 million in U.S. treasuries and commercial paper with maturities of greater than three months from the acquisition date.

**Cash Flows from Financing Activities**

In 2010 and 2009, U.S. Cellular repurchased Common Shares at an aggregate cost of \$21.4 million and \$19.3 million, respectively. See Note 11 – Common Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

**LIQUIDITY AND CAPITAL RESOURCES**

U.S. Cellular believes that existing cash balances, expected cash flows from operating activities and funds available under its revolving credit facility provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs (including working capital, construction and development expenditures, and share repurchases under its approved program) for the foreseeable future. In addition, U.S. Cellular may have access to public and private capital markets to help meet its financing needs.

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

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

### **Cash and Cash Equivalents**

At June 30, 2010, U.S. Cellular had \$232.9 million in cash and cash equivalents, which 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 June 30, 2010, 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 with maturities of less than three months or in repurchase agreements fully collateralized by such obligations. U.S. Cellular also invested directly in U.S. Treasury securities that qualify as cash equivalents. 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**

At June 30, 2010, U.S. Cellular had \$135.8 million in Short-term investments and \$41.0 million in Long-term investments. Short-term and Long-term investments consist of Certificates of deposit (Short-term only), U.S. treasuries and commercial paper that are designated as held-to-maturity investments, and are recorded at amortized cost in the Consolidated Balance Sheet. During the six months June 30, 2010, U.S. Cellular made \$175.0 million of investments in U.S. treasuries and commercial paper. Such commercial paper investments are guaranteed by the Federal Deposit Insurance Corporation. U.S. Cellular's objective was to earn a higher rate of return on cash balances that are not anticipated to be required to meet liquidity needs in the foreseeable future, while maintaining a low level of investment risk. See Note 4 Fair Value Measurements in the Notes to Consolidated Financial Statements for additional details on Short-term and Long-term investments.

Table of Contents

**Revolving Credit Facility**

U.S. Cellular has a \$300 million revolving credit facility available for general corporate purposes. At June 30, 2010, there were no outstanding borrowings and \$0.2 million of outstanding letters of credit, leaving \$299.8 million available for use. In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated June 30, 2009 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At June 30, 2010, 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.

U.S. Cellular's credit ratings from nationally recognized credit rating agencies were investment grade as of June 30, 2010.

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. U.S. Cellular believes it was in compliance as of June 30, 2010 with all of the covenants and requirements set forth in its revolving credit facility. There were no intercompany loans at June 30, 2010 or 2009.

**Long-Term Financing**

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 June 30, 2010 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 2010 and the next four years represent less than 1% of the total long-term debt obligation at June 30, 2010. Refer to Market Risk – Long-Term Debt in U.S. Cellular’s Form 10-K for the year ended December 31, 2009 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.

### **Capital Expenditures**

U.S. Cellular’s capital expenditures for 2010 are expected to be approximately \$600 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance U.S. Cellular’s coverage in its service areas;
- Provide additional capacity to accommodate increased network usage by current customers;
- Overlay 3G 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 2010 using cash flows from operating activities, existing cash balances and, if necessary, short-term debt.





Table of Contents

**Acquisitions, Divestitures and Exchanges**

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

**Variable Interest Entities**

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

**Common Share Repurchase Program**

U.S. Cellular has repurchased and expects to continue to repurchase its Common Shares subject to its repurchase program. For additional information related to the current repurchase authorization and repurchases made during 2010 and 2009, see Note 11 Common Share Repurchases in the Notes to Consolidated Financial Statements and Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.

**Contractual and Other Obligations**

There was no material change between December 31, 2009 and June 30, 2010 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, 2009.

### **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, 2009. Changes to significant accounting policies are discussed in Note 3 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of this Form 10-Q. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the six months ended June 30, 2010.

Table of Contents

***PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995***

***SAFE HARBOR CAUTIONARY STATEMENT***

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that U.S. Cellular intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words believes, anticipates, estimates, expects, plans, intends, projects and similar expressions are 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 discussed under Risk Factors in U.S. Cellular's Form 10-K for the year ended December 31, 2009. 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, 2009, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to U.S. Cellular's business.

- *Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular's revenues or increase its costs to compete.*
- *A failure by U.S. Cellular to successfully execute its business strategy or allocate resources or capital could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *A failure by U.S. Cellular's service offerings to meet customer expectations could limit U.S. Cellular's ability to attract and retain customers and could have an adverse effect on U.S. Cellular's operations.*
- *U.S. Cellular's systems 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. As a result of consolidation of companies in the wireless industry, U.S. Cellular roaming revenues have declined significantly from amounts earned in certain prior years. Further industry consolidation and continued build outs by existing and new wireless carriers could cause roaming revenues to decline even more, which would have an adverse effect on U.S. Cellular's business, financial condition and results of operations.*
- *A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular's business and operations.*
- *In the event that the FCC conducts auctions of additional spectrum in the future, U.S. Cellular is likely to participate in such auctions as an applicant or as a non-controlling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on U.S. Cellular.*
- *Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular's financial condition, results of operations or ability to do business.*
- *Changes in USF funding and/or intercarrier compensation could have a material adverse impact on U.S. Cellular's financial position or results of operations.*
- *An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

Table of Contents

- *U.S. Cellular's assets are concentrated in the U.S. wireless telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.*
- *The completion of acquisitions by other companies has led to increased consolidation in the wireless telecommunications industry. U.S. Cellular's lower scale relative to larger wireless carriers has in the past and could in the future prevent or delay its access to new products including handsets, new technology and/or new content and applications which could adversely affect U.S. Cellular's ability to attract and retain customers and, as a result, could adversely affect its business, financial condition or results of operations.*
- *Inability to manage its supply chain or inventory successfully could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in general economic and business conditions, both nationally and in the markets in which U.S. Cellular operates, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in various business factors could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol ( VoIP ), High-Speed Packet Access, WiMAX or Long-Term Evolution ( LTE ), could render certain technologies used by U.S. Cellular obsolete, could reduce U.S. Cellular's revenues or could increase its costs of doing business.*
- *U.S. Cellular could incur higher than anticipated intercarrier compensation costs.*
- *U.S. Cellular is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.*
- *Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its license costs, goodwill and/or physical assets.*

- *Costs, integration problems or other factors associated with developing and enhancing business support systems, acquisitions/divestitures of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *A significant portion of U.S. Cellular's revenues is derived from customers who buy services through independent agents who market U.S. Cellular's services on a commission basis. If U.S. Cellular's relationships with these agents are seriously harmed, its revenues 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) of any of U.S. Cellular's key suppliers or vendors, termination or impairment of U.S. Cellular's relationships with such suppliers or vendors, or a failure by U.S. Cellular to manage its supply chain effectively could result in delays or termination of U.S. Cellular's receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.*
- *A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*



Table of Contents

- *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 SEC.*
- *Restatements of financial statements by U.S. Cellular and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on U.S. Cellular's financial condition or results of operations.*
- *Early redemptions or repurchases of debt, issuances of debt, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in U.S. Cellular's Management's Discussion and Analysis of Financial Condition and Results of Operations to be different from the amounts actually incurred.*
- *An increase in the amount of U.S. Cellular's debt could subject U.S. Cellular to higher interest costs and restrictions on its financing, investing and operating activities and could decrease its net income and cash flows.*
- *Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events, could, among other things, impede U.S. Cellular's access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular's financial condition or results of operations.*

- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs.*
- *U.S. Cellular's credit facility and the indenture governing its senior notes include restrictive covenants that limit its operating flexibility and U.S. Cellular may be unable to service its debt or to refinance its indebtedness before maturity.*
- *Changes in income tax rates, laws, regulations or rulings, or federal or state tax assessments, could have an adverse effect on U.S. Cellular's financial condition or results of operations.*
- *Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular's financial condition, results of operations or ability to do business.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent U.S. Cellular from using necessary technology to provide services or subject U.S. Cellular to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *There are potential conflicts of interests between TDS and U.S. Cellular.*
- *Certain matters, such as control by TDS and provisions in the U.S. Cellular Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.*
- *Any of the foregoing events or other events could cause customer net additions, revenues, operating income, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.*



Table of Contents

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**MARKET RISK**

**Long-term Debt**

As of June 30, 2010, U.S. Cellular's long-term debt was in the form of fixed-rate notes with original maturities ranging up to 30 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair values of these fixed-rate notes.

See Note 4 – 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 June 30, 2010.

Refer to the disclosure under Market Risk – Long-Term Debt in U.S. Cellular's Form 10-K for the year ended December 31, 2009 for additional 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, 2009.

Table of Contents

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

U.S. Cellular maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's 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 June 30, 2010, 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 June 30, 2010 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular's internal control over financial reporting.

Table of Contents

**Part II. Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors.**

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2009, 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, 2009 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. In addition, you are referred to the above Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly the section captioned Overview Recent Developments, for disclosures related to the FCC's National Broadband Plan and other developments that have occurred since U.S. Cellular filed its Form 10-K for the year ended December 31, 2009. 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, 2009.

Table of Contents**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 during the remainder of 2009 and additional repurchases of up to 1,300,000 Common Shares on an annual basis in 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 Common Shares during the quarter covered by this Form 10-Q.

		(a)	(b)	(c)	(d)
					Maximum Number of Common Shares that May Yet Be Purchased Under the
		Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs	Plans or Programs
	Period				
April 1	30, 2010	44,978	\$ 41.70	44,978	2,337,322
May 1	31, 2010	120,430	40.56	120,430	2,216,892
June 1	30, 2010	229,936	41.22	229,936	1,986,956
	Total for or as of the end of the quarter ended June 30, 2010	395,344	\$ 41.07	395,344	1,986,956

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 second quarter of 2010.
  
- v. U.S. Cellular did not determine to terminate the foregoing Common Share repurchase program prior to expiration, or cease making further purchases thereunder, during the second quarter of 2010.

**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 second quarter of 2010. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of June 30, 2010.

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 June 30, 2009 and is incorporated by reference herein.



Table of Contents

**Item 6. Exhibits**

Exhibit 10.1 Amendment dated January 30, 2010 to Employment, Consulting and General Release Agreement dated November 3, 2009 between U.S. Cellular and Jay M. Ellison is hereby incorporated by reference to Exhibit 10 to U.S. Cellular's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010.

Exhibit 10.2 Terms of Letter Agreement dated May 3, 2010 between U.S. Cellular and Mary N. Dillon, is hereby incorporated by reference from Exhibit 99.2 to U.S. Cellular's Current Report on Form 8-K dated May 6, 2010

Exhibit 10.3 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Stock Option Award Agreement evidencing U.S. Cellular stock options granted to Mary N. Dillon on June 1, 2010 (with accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.4 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Restricted Stock Unit Award Agreement evidencing U.S. Cellular restricted stock units granted to Mary N. Dillon on June 1, 2010 (with accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.5 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Stock Option Award Agreement evidencing U.S. Cellular stock options granted to Mary N. Dillon on June 1, 2010 (without accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.6 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Restricted Stock Unit Award Agreement evidencing U.S. Cellular restricted stock units granted to Mary N. Dillon on June 1, 2010 (without accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.7 U.S. Cellular 2010 Executive Officer Annual Incentive Plan Effective January 1, 2010, is hereby incorporated by reference from Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated June 7, 2010

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

Exhibit 11 Statement regarding computation of per share earnings is included herein as Note 6 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, 2009. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2009 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

Table of Contents

SIGNATURES

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

UNITED STATES CELLULAR CORPORATION  
(Registrant)

Date: August 5, 2010

/s/ Mary N. Dillon  
Mary N. Dillon

President and Chief Executive  
Officer

(Principal Executive Officer)

Date: August 5, 2010

/s/ Steven T. Campbell  
Steven T. Campbell

Executive Vice  
President-Finance,

Chief Financial Officer and  
Treasurer

(Principal Financial Officer)

Date: August 5, 2010

/s/ Kenneth R Meyers  
Kenneth R. Meyers

Chief Accounting Officer

(Principal Accounting Officer)

Date: August 5, 2010

/s/ Ljubica A. Petrich  
Ljubica A. Petrich

Vice President and Controller

