UNITED STATES CELLULAR CORP
Form 10-Q
November 01, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

| | |
|---|---|
| x | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the quarterly period ended September 30, 2013** |
| | **OR** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the transition period from to** |

**Commission file number 1-9712**

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

| | |
|---|---|
| **Delaware** | **62-1147325** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

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

(Address of principal executive offices) (Zip code)

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

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

| | | |
|---|---|---|
| • whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). | x | o |

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o | Non-accelerated filer | o | Smaller reporting company | o |

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

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

| Class | Outstanding at September 30, 2013 |
|---|---|
| Common Shares, $1 par value | 51,092,437 Shares |
| Series A Common Shares, $1 par value | 33,005,877 Shares |

**United States Cellular Corporation**

**Quarterly Report on Form 10-Q**
**For the Quarterly Period Ended September 30, 2013**

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**Part I. Financial Information**

**Item 1. Financial Statements**

**United States Cellular Corporation**

**Consolidated Statement of Operations**

**(Unaudited)**

| (Dollars and shares in thousands, except per share amounts) | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Service | $ 862,330 | $ 1,036,370 | $ 2,769,645 | $ 3,089,932 |
| Equipment sales | 76,906 | 103,987 | 246,467 | 246,946 |
| Total operating revenues | 939,236 | 1,140,357 | 3,016,112 | 3,336,878 |
| | | | | |
| **Operating expenses** | | | | |
| System operations (excluding Depreciation, amortization and accretion reported below) | 177,431 | 249,245 | 585,997 | 725,636 |
| Cost of equipment sold | 193,392 | 248,029 | 652,153 | 626,765 |
| Selling, general and administrative (including charges from affiliates of $22.7 million and $25.6 million, respectively, for the three months, and $71.2 million and $77.6 million, respectively for the nine months) | 410,468 | 438,526 | 1,234,675 | 1,315,823 |
| Depreciation, amortization and accretion | 200,985 | 145,151 | 593,410 | 439,391 |
| Loss on asset disposals, net | 1,701 | 11,262 | 16,153 | 15,967 |
| (Gain) loss on sale of business and other exit costs, net | (1,534) | 65 | (243,627) | (4,148) |
| Total operating expenses | 982,443 | 1,092,278 | 2,838,761 | 3,119,434 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Operating income (loss)** | | (43,207) | | 48,079 | | 177,351 | | 217,444 |
| | | | | | | | | |
| **Investment and other income (expense)** | | | | | | | | |
| Equity in earnings of unconsolidated entities | | 37,360 | | 24,816 | | 99,797 | | 71,584 |
| Interest and dividend income | | 1,095 | | 935 | | 2,967 | | 2,823 |
| Gain (loss) on investments | | - | | - | | 18,527 | | (3,728) |
| Interest expense | | (11,329) | | (9,501) | | (32,393) | | (35,272) |
| Other, net | | 47 | | 200 | | 153 | | 173 |
| Total investment and other income (expense) | | 27,173 | | 16,450 | | 89,051 | | 35,580 |
| | | | | | | | | |
| **Income (loss) before income taxes** | | (16,034) | | 64,529 | | 266,402 | | 253,024 |
| Income tax expense (benefit) | | (6,433) | | 22,389 | | 121,618 | | 82,624 |
| | | | | | | | | |
| **Net income (loss)** | | (9,601) | | 42,140 | | 144,784 | | 170,400 |
| Less: Net income attributable to noncontrolling interests, net of tax | | 258 | | 6,689 | | 6,338 | | 19,772 |
| **Net income (loss) attributable to U.S. Cellular shareholders** | $ | (9,859) | $ | 35,451 | $ | 138,446 | $ | 150,628 |
| | | | | | | | | |
| **Basic weighted average shares outstanding** | | 84,005 | | 84,737 | | 83,897 | | 84,671 |
| **Basic earnings (loss) per share attributable to U.S. Cellular shareholders** | $ | (0.12) | $ | 0.42 | $ | 1.65 | $ | 1.78 |
| | | | | | | | | |
| **Diluted weighted average shares outstanding** | | 84,005 | | 85,348 | | 84,676 | | 85,261 |
| **Diluted earnings (loss) per share attributable to U.S. Cellular shareholders** | $ | (0.12) | $ | 0.42 | $ | 1.64 | $ | 1.77 |
| | | | | | | | | |
| **Special dividend per share to U.S. Cellular shareholders** | $ | - | $ | - | $ | 5.75 | $ | - |
| | | | | | | | | |

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

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**United States Cellular Corporation**

**Consolidated Statement of Cash Flows**

**(Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| **(Dollars in thousands)** | **2013** | **2012** |
| **Cash flows from operating activities** | | |
| Net income | $ 144,784 | $ 170,400 |
| Add (deduct) adjustments to reconcile net income to net cash flows from operating activities | | |
| Depreciation, amortization and accretion | 593,410 | 439,391 |
| Bad debts expense | 52,184 | 51,293 |
| Stock-based compensation expense | 11,143 | 15,924 |
| Deferred income taxes, net | (38,515) | 52,865 |
| Equity in earnings of unconsolidated entities | (99,797) | (71,584) |
| Distributions from unconsolidated entities | 49,612 | 45,211 |
| Loss on asset disposals, net | 16,153 | 15,967 |
| (Gain) loss on sale of business and other exit costs, net | (243,627) | (4,148) |
| (Gain) loss on investments | (18,527) | 3,728 |
| Noncash interest expense | 792 | 1,331 |
| Other operating activities | 590 | 863 |
| Changes in assets and liabilities from operations | | |
| Accounts receivable | (214,114) | (67,302) |
| Inventory | 13,236 | (69,423) |
| Accounts payable - trade | 32,202 | (28,902) |
| Accounts payable - affiliate | 345 | (4,785) |
| Customer deposits and deferred revenues | 22,538 | 26,687 |
| Accrued taxes | 45,780 | 99,556 |
| Accrued interest | 9,385 | 9,508 |
| Other assets and liabilities | (81,341) | (77,821) |
| | 296,233 | 608,759 |
| | | |
| **Cash flows from investing activities** | | |
| Cash used for additions to property, plant and equipment | (522,180) | (611,431) |
| Cash paid for licenses | (16,540) | (57,957) |
| Cash received from divestitures | 484,300 | 49,932 |
| Cash paid for investments | - | (45,000) |
| Cash received for investments | 65,000 | 50,000 |

| | | | | | |
|---|---|---|---|---|---|
| Other investing activities | | 583 | | (5,030) |
| | | 11,163 | | (619,486) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Repayment of long-term debt | | (393) | | (343) |
| Common shares reissued for benefit plans, net of tax payments | | 2,840 | | (2,299) |
| Common shares repurchased | | (18,544) | | - |
| Dividends paid | | (482,270) | | - |
| Distributions to noncontrolling interests | | (3,447) | | (1,491) |
| Other financing activities | | (839) | | 284 |
| | | (502,653) | | (3,849) |
| | | | | |
| **Net decrease in cash and cash equivalents** | | (195,257) | | (14,576) |
| | | | | |
| **Cash and cash equivalents** | | | | |
| Beginning of period | | 378,358 | | 424,155 |
| End of period | $ | 183,101 | $ | 409,579 |

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

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**United States Cellular Corporation**

**Consolidated Balance Sheet — Assets**

**(Unaudited)**

| (Dollars in thousands) | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | $ | 183,101 | $ | 378,358 |
| Short-term investments | | 45,162 | | 100,676 |
| Accounts receivable | | | | |
| Customers and agents, less allowances of $31,477 and $24,290, respectively | | 445,165 | | 349,424 |
| Roaming | | 35,784 | | 31,782 |
| Affiliated | | 397 | | 375 |
| Other, less allowances of $1,546 and $2,612, respectively | | 79,569 | | 63,639 |
| Inventory | | 142,560 | | 155,886 |
| Income taxes receivable | | - | | 1,612 |
| Prepaid expenses | | 71,047 | | 62,560 |
| Net deferred income tax asset | | 54,475 | | 35,419 |
| Other current assets | | 19,051 | | 16,745 |
| | | 1,076,311 | | 1,196,476 |
| | | | | |
| **Assets held for sale** | | 78,413 | | 216,763 |
| | | | | |
| **Investments** | | | | |
| Licenses | | 1,397,888 | | 1,456,794 |
| Goodwill | | 387,360 | | 421,743 |
| Customer lists, net of accumulated amortization of $50,258 and $96,809, respectively | | - | | 102 |
| Investments in unconsolidated entities | | 309,481 | | 144,531 |
| Long-term investments | | 40,099 | | 50,305 |
| | | 2,134,828 | | 2,073,475 |
| **Property, plant and equipment** | | | | |
| In service and under construction | | 7,571,429 | | 7,478,428 |
| Less: Accumulated depreciation | | 4,696,836 | | 4,455,840 |
| | | 2,874,593 | | 3,022,588 |
| | | | | |
| **Other assets and deferred charges** | | 95,709 | | 78,148 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total assets** | $ | 6,259,854 | | $ | 6,587,450 |

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

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**United States Cellular Corporation**

**Consolidated Balance Sheet — Liabilities and Equity**

**(Unaudited)**

| (Dollars and shares in thousands) | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Current portion of long-term debt | $ | 102 | $ | 92 |
| Accounts payable | | | | |
| Affiliated | | 11,069 | | 10,725 |
| Trade | | 334,047 | | 310,936 |
| Customer deposits and deferred revenues | | 212,733 | | 192,113 |
| Accrued taxes | | 102,510 | | 35,834 |
| Accrued compensation | | 58,282 | | 90,418 |
| Other current liabilities | | 133,637 | | 114,881 |
| | | 852,380 | | 754,999 |
| | | | | |
| **Liabilities held for sale** | | 471 | | 19,594 |
| | | | | |
| **Deferred liabilities and credits** | | | | |
| Net deferred income tax liability | | 829,247 | | 849,818 |
| Other deferred liabilities and credits | | 294,675 | | 288,441 |
| | | | | |
| **Long-term debt** | | 878,939 | | 878,858 |
| | | | | |
| **Commitments and contingencies** | | - | | - |
| | | | | |
| **Noncontrolling interests with redemption features** | | 540 | | 493 |
| | | | | |
| **Equity** | | | | |
| U.S. Cellular shareholders' equity | | | | |
| Series A Common and Common Shares | | | | |
| Authorized 190,000 shares (50,000 Series A Common and 140,000 Common Shares) | | | | |
| Issued 88,074 shares (33,006 Series A Common and 55,068 Common Shares) | | | | |
| Outstanding 84,098 shares (33,006 Series A Common and 51,092 Common Shares) and 84,168 shares (33,006 Series A Common and 51,162 Common Shares), respectively | | | | |

| | | | |
|---|---|---|---|
| Par Value ($1 per share) ($33,006 Series A Common and $55,068 Common Shares) | | 88,074 | 88,074 |
| Additional paid-in capital | | 1,421,261 | 1,412,453 |
| Treasury shares, at cost, 3,976 and 3,906 Common Shares, respectively | | (168,454) | (165,724) |
| Retained earnings | | 2,042,254 | 2,399,052 |
| Total U.S. Cellular shareholders' equity | | 3,383,135 | 3,733,855 |
| | | | |
| Noncontrolling interests | | 20,467 | 61,392 |
| | | | |
| Total equity | | 3,403,602 | 3,795,247 |
| | | | |
| **Total liabilities and equity** | $ | 6,259,854 | $ 6,587,450 |

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

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| United States Cellular Corporation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Consolidated Statement of Changes in Equity** | | | | | | | | |
| **(Unaudited)** | | | | | | | | |
| | **U.S. Cellular Shareholders** | | | | | | | |
| **(Dollars in thousands)** | **Series A Common and Common Shares** | **Additional Paid-In Capital** | **Treasury Shares** | **Retained Earnings** | **Total U.S. Cellular Shareholders' Equity** | **Noncontrolling Interests** | **Total Equity** |
| **Balance, December 31, 2012** | $ 88,074 | $ 1,412,453 | $ (165,724) | $ 2,399,052 | $ 3,733,855 | $ 61,392 | $ 3,795,247 |
| Add (Deduct) | | | | | | | |
| Net income attributable to U.S. Cellular shareholders | - | - | - | 138,446 | 138,446 | - | 138,446 |
| Net income attributable to noncontrolling interests classified as equity | - | - | - | - | - | 6,292 | 6,292 |
| Common and Series A Common Shares dividends | - | - | - | (482,270) | (482,270) | - | (482,270) |
| Repurchase of Common Shares | - | - | (18,544) | - | (18,544) | - | (18,544) |
| | - | 222 | 15,814 | (12,974) | 3,062 | - | 3,062 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Incentive and compensation plans | | | | | | | |
| Stock-based compensation awards | - | 11,143 | - | - | 11,143 | - | 11,143 |
| Tax windfall (shortfall) from stock awards | - | (2,526) | - | - | (2,526) | - | (2,526) |
| Distributions to noncontrolling interests | - | - | - | - | - | (3,447) | (3,447) |
| Adjust investment in subsidiaries for noncontrolling interest purchases | - | (31) | - | - | (31) | - | (31) |
| Deconsolidation of partnerships | - | - | - | - | - | (43,770) | (43,770) |
| **Balance, September 30, 2013** | $ 88,074 | $ 1,421,261 | $ (168,454) | $ 2,042,254 | $ 3,383,135 | $ 20,467 | $ 3,403,602 |

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

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**United States Cellular Corporation**

**Consolidated Statement of Changes in Equity**

**(Unaudited)**

| | U.S. Cellular Shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Series A Common and Common Shares | Additional Paid-In Capital | Treasury Shares | Retained Earnings | Total U.S. Cellular Shareholders' Equity | Noncontrolling Interests | Total Equity |
| **Balance, December 31, 2011** | $ 88,074 | $ 1,387,341 | $ (152,817) | $ 2,297,363 | $ 3,619,961 | $ 55,956 | $ 3,675,917 |
| Add (Deduct) | | | | | | | |
| Net income attributable to U.S. Cellular shareholders | - | - | - | 150,628 | 150,628 | - | 150,628 |
| Net income attributable to noncontrolling interests classified as equity | - | - | - | - | - | 19,766 | 19,766 |
| Incentive and compensation plans | - | 137 | 6,958 | (9,231) | (2,136) | - | (2,136) |
| Stock-based compensation awards | - | 15,761 | - | - | 15,761 | - | 15,761 |
| Tax windfall (shortfall) from | - | 471 | - | - | 471 | - | 471 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| stock awards | | | | | | | | | | | | | | |
| Distributions to noncontrolling interests | | - | | - | | - | | - | | - | | (1,491) | | (1,491) |
| Adjust investment in subsidiaries for noncontrolling interest purchases | | - | | 2,907 | | - | | - | | 2,907 | | - | | 2,907 |
| Other | | - | | - | | - | | - | | - | | (28) | | (28) |
| **Balance, September 30, 2012** | $ | 88,074 | $ | 1,406,617 | $ | (145,859) | $ | 2,438,760 | $ | 3,787,592 | $ | 74,203 | $ | 3,861,795 |

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

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**United States Cellular Corporation**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

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

The accounting policies of U.S. Cellular conform to accounting principles generally accepted in the United States of America ("GAAP") as set forth in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries, general partnerships in which U.S. Cellular has a majority partnership interest and certain entities in which U.S. Cellular has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by U.S. Cellular, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2012.

In April 2013, U.S. Cellular deconsolidated its investments in the St. Lawrence Seaway RSA Cellular Partnership ("NY1") and New York RSA 2 Cellular Partnership ("NY2") and thereafter reported them as equity method investments in its consolidated financial statements ("NY1 & NY2 Deconsolidation"). See Note 7 — Investments in Unconsolidated Entities for additional information.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of September 30, 2013 and December 31, 2012, and the results of operations for the three and nine months ended September 30, 2013 and 2012 and cash flows and changes in equity for the nine months ended September 30, 2013 and 2012. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and nine months ended September 30, 2013 and 2012 equaled net income. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

On July 18, 2013, the FASB issued Accounting Standards Update 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryfoward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 addresses the presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. In such event, an unrecognized tax benefit, or portion of an unrecognized tax benefit, would be presented in the Consolidated Balance Sheet as a reduction to deferred tax assets unless the net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction. U.S. Cellular is required to adopt the provisions of ASU 2013-11 effective January 1, 2014. The adoption of ASU 2013-11 is not expected to have a significant impact on U.S. Cellular's financial position or results of operations.

Impairment of Long-lived Assets

U.S. Cellular reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired. The impairment test for tangible long-lived assets is a two-step process. The first step compares the carrying value of the asset (or asset group) with the estimated undiscounted cash flows over the remaining asset (or asset group) life. If the carrying value of the asset (or asset group) is greater than the undiscounted cash flows, the second step of the test is performed to measure the amount of impairment loss. The second step compares the carrying value of the asset (or asset group) to its estimated fair value. If the carrying value exceeds the estimated fair value (less cost to sell), an impairment loss is recognized for the difference.

U.S. Cellular has one asset group for purposes of assessing property, plant and equipment for impairment based on the fact that the individual operating markets are reliant on centrally operated data centers, mobile telephone switching offices, network operations center and wide-area network. As a result, U.S. Cellular operates a single integrated national wireless network, and the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities represent cash flows generated by this single interdependent network.

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Quoted market prices in active markets are the best evidence of fair value of a tangible long-lived asset and are used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. A present value analysis of cash flow scenarios is often the best available valuation technique. The use of this technique involves assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs could create materially different results.

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $27.4 million and $87.6 million for the three and nine months ended September 30, 2013, respectively, and $32.3 million and $102.2 for the three and nine months ended September 30, 2012, respectively.

**2. Fair Value Measurements**

As of September 30, 2013 and December 31, 2012, U.S. Cellular did not have any financial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, U.S. Cellular has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

| | | Level within the Fair Value Hierarchy | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| | | | Book Value | Fair Value | Book Value | Fair Value |
| (Dollars in thousands) | | | | | | |
| Cash and cash equivalents | | 1 | $ 183,101 | $ 183,101 | $ 378,358 | $ 378,358 |
| Short-term investments | | | | | | |
| | U.S. Treasury Notes | 1 | 45,162 | 45,162 | 100,676 | 100,676 |
| Long-term investments | | | | | | |
| | | 1 | 40,099 | 40,154 | 50,305 | 50,339 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | U.S. Treasury Notes | | | | | |
| Long-term debt | | | | | | |
| | 6.95% Senior Notes | 1 | 342,000 | 330,509 | 342,000 | 376,610 |
| | 6.7% Senior Notes | 2 | 532,383 | 512,221 | 532,194 | 582,744 |

Short-term investments and Long-term investments are both designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. Long-term investment maturities range between 14 and 15 months at September 30, 2013. Long-term debt excludes capital lease obligations and the 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 was estimated using market prices for the 6.95% Senior Notes, and discounted cash flow analysis using an estimated yield to maturity of 7.25% for the 6.7% Senior Notes at September 30, 2013.

As of September 30, 2013 and December 31, 2012, U.S. Cellular did not have nonfinancial assets or liabilities that required the application of fair value accounting for purposes of reporting such amounts in the Consolidated Balance Sheet.

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**3. Income Taxes**

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

U.S. Cellular's overall effective tax rate on Income (loss) before income taxes for the three and nine months ended September 30, 2013 was 40.1% and 45.7%, respectively, and for the three and nine months ended September 30, 2012 was 34.7% and 32.7%, respectively.

The effective tax rate for the three months ended September 30, 2013 was higher than the rate for the three months ended September 30, 2012 primarily as a result of a tax benefit related to the correction of state deferred taxes in 2012.

The effective tax rate for the nine months ended September 30, 2013 was higher than the rate for the nine months ended September 30, 2012 primarily as a result of the deferred tax expense related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction (as described in Note 5 — Acquisitions, Divestitures and Exchanges) in 2013, and tax benefits related to the expiration of the statute of limitations for certain tax years and the correction of state deferred taxes in 2012.

**4. Earnings Per Share**

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

The amounts used in computing earnings (loss) per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| **(Dollars and shares in thousands, except per share amounts)** | | | | |
| Net income (loss) attributable to U.S. Cellular shareholders | $ (9,859) | $ 35,451 | $ 138,446 | $ 150,628 |
| | | | | |
| Weighted average number of shares used in basic earnings (loss) per share | 84,005 | 84,737 | 83,897 | 84,671 |
| Effects of dilutive securities: | | | | |
| Stock options | - | 171 | 209 | 197 |
| Restricted stock units | - | 440 | 570 | 393 |
| Weighted average number of shares used in diluted earnings (loss) per share | 84,005 | 85,348 | 84,676 | 85,261 |
| | | | | |
| Basic earnings (loss) per share attributable to U.S. Cellular shareholders | $ (0.12) | $ 0.42 | $ 1.65 | $ 1.78 |
| | | | | |
| Diluted earnings (loss) per share attributable to U.S. Cellular shareholders | $ (0.12) | $ 0.42 | $ 1.64 | $ 1.77 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **(Shares in thousands)** | | | | |
| Stock options | 3,416 | 2,434 | 2,126 | 2,088 |
| Restricted stock units | 1,243 | - | 305 | 329 |

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares. Outstanding U.S. Cellular stock options and restricted stock unit awards were equitably adjusted for the special cash dividend. The impact of such adjustments on the earnings per share calculation was reflected in the three and nine months ended September 30, 2012.

## 5. Acquisitions, Divestitures and Exchanges

U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those interests that are not strategic to its long-term success.

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

Divestiture Transaction

On November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Nextel Corporation (“Sprint”). Pursuant to the Purchase and Sale Agreement, on May 16, 2013, U.S. Cellular transferred customers and certain PCS license spectrum to Sprint in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets (“Divestiture Markets”) in consideration for $480 million in cash. The Purchase and Sale Agreement also contemplated certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the “Divestiture Transaction.”

U.S. Cellular has retained other assets and liabilities related to the Divestiture Markets, including network assets, retail stores and related equipment, and other buildings and facilities. The transaction does not affect spectrum licenses held by U.S. Cellular or variable interest entities (“VIEs”) that are not currently used in the operations of the Divestiture Markets. Pursuant to the Purchase and Sale Agreement, U.S. Cellular and Sprint also entered into certain other agreements, including customer and network transition services agreements, which require U.S. Cellular to provide customer, billing and network services to Sprint for a period of up to 24 months after the May 16, 2013 closing date. Sprint will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular's cost, including applicable overhead allocations. In addition, these agreements require Sprint to reimburse U.S. Cellular up to $200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to $160 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to $40 million of the Sprint Cost Reimbursement will be recorded in System operations in the Consolidated Statement of Operations. For the nine months ended September 30, 2013, $1.1 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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

| (Dollars in thousands) | Expected Period of Recognition | Projected Range | | Cumulative Amount Recognized as of September 30, 2013 | Actual Amount Recognized Nine Months Ended September 30, 2013 | Actual Amount Recognized Three Months Ended September 30, 2013 |
|---|---|---|---|---|---|---|
| **(Gain) loss on sale of business and other exit costs, net** | | | | | | |
| Proceeds from Sprint | | | | | | |
| Purchase price | 2013 | $ (480,000) | $ (480,000) | $ (480,000) | $ (480,000) | $ - |
| Sprint Cost | 2013-2014 | (120,000) | (160,000) | (4,221) | (4,221) | (4,213) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Reimbursement | | | | | | |
| Net assets transferred | 2013 | 213,593 | 213,593 | 213,593 | 213,593 | - |
| Non-cash charges for the write-off and write-down of property under construction and related assets | 2012-2013 | 10,000 | 14,000 | 10,726 | 54 | (27) |
| Employee related costs including severance, retention and outplacement | 2012-2014 | 15,000 | 20,000 | 15,071 | 2,462 | (641) |
| Contract termination costs | 2012-2014 | 125,000 | 175,000 | 18,840 | 18,781 | 2,176 |
| Transaction costs | 2012-2013 | 4,000 | 6,000 | 5,218 | 4,081 | 362 |
| Total (Gain) loss on sale of business and other exit costs, net | | $ (232,407) | $ (211,407) | $ (220,773) | $ (245,250) | $ (2,343) |
| | | | | | | |
| **Depreciation, amortization and accretion expense** | | | | | | |
| Incremental depreciation, amortization and accretion, net of salvage values | 2012-2014 | 175,000 | 210,000 | 154,058 | 134,000 | 45,676 |
| **(Increase) decrease in** | | $ (57,407) | $ (1,407) | $ (66,715) | $ (111,250) | $ 43,333 |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | | | | | | | | | | | |

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Incremental depreciation, amortization and accretion, net of salvage values represents anticipated amounts to be recorded in the specified time periods as a result of a change in estimate for the remaining useful life and salvage value of certain assets and a change in estimate which accelerated the settlement dates of certain asset retirement obligations in conjunction with the Divestiture Transaction. Specifically, for the years indicated, this is estimated depreciation, amortization and accretion recorded on assets and liabilities of the Divestiture Markets after the November 6, 2012 transaction date less depreciation, amortization and accretion that would have been recorded on such assets and liabilities in the normal course, absent the Divestiture Transaction. As a result of the accelerated settlement dates of certain asset retirement obligations, U.S. Cellular reclassified $34.0 million of its asset retirement obligations from long to short-term liabilities at September 30, 2013.

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

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Nine Months Ended September 30, 2013 | | | | | | |
| **(Dollars in thousands)** | | **Balance December 31, 2012** | | **Costs Incurred** | | **Cash Settlements (1)** | | **Adjustments (2)** | | **Balance September 30, 2013** |
| **Accrued compensation** | | | | | | | | | | |
| Employee related costs including severance, retention, outplacement | $ | 12,305 | $ | 6,750 | $ | (11,460) | $ | (4,288) | $ | 3,307 |
| **Other current liabilities** | | | | | | | | | | |
| Contract termination costs | $ | 30 | $ | 12,201 | $ | (6,561) | $ | - | $ | 5,670 |
| **Other deferred liabilities and credits** | | | | | | | | | | |
| Contract termination costs | $ | - | $ | 7,246 | $ | (1,488) | $ | - | $ | 5,758 |

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

(2) Adjustment to liability represents changes to previously accrued amounts.

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Other Acquisitions, Divestitures and Exchanges

On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license ("unbuilt license") for $308.0 million. The sale will result in a $252.2 million gain and a $96.0 million current tax expense, which will be recorded in the fourth quarter of 2013. In addition, on August 14, 2013 U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for $92.3 million. This transaction is subject to regulatory approval and is expected to close by the end of 2013. In accordance with GAAP, the book value of both licenses has been accounted for and disclosed as "held for sale" in the Consolidated Balance Sheet at September 30, 2013.

U.S. Cellular acquisitions during the nine months ended September 30, 2013 and 2012 and the allocation of the purchase price for these acquisitions were as follows:

| | | Allocation of Purchase Price | | | |
|---|---|---|---|---|---|
| | Purchase Price | Goodwill | Licenses | Intangible Assets Subject to Amortization | Net Tangible Assets/(Liabilities) |
| (Dollars in thousands) | | | | | |
| 2013 | | | | | |
| Licenses | $ 16,540 | $ - | $ 16,540 | $ - | $ - |
| 2012 | | | | | |
| Licenses | $ 57,957 | $ - | $ 57,957 | $ - | $ - |

At September 30, 2013 and December 31, 2012, the following assets and liabilities were classified in the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale":

| | Current Assets | Licenses | Goodwill | Property, Plant and Equipment | Loss on Assets Held for Sale (1) | Total Assets Held for Sale | Liabilities Held for Sale (2) |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | | | | | | | |
| September 30, 2013 | | | | | | | |
| Divestiture of Missouri | $ 726 | $ 2,909 | $ 669 | $ 3,179 | $ (1,607) | $ 5,876 | $ 471 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Market (3) | | | | | | | | | | | | | | |
| Divestiture of Spectrum Licenses (4) | | - | | 72,537 | | - | | - | | - | | 72,537 | | - |
| Total | $ | 726 | $ | 75,446 | $ | 669 | $ | 3,179 | $ | (1,607) | $ | 78,413 | $ | 471 |
| | | | | | | | | | | | | | | |
| **December 31, 2012** | | | | | | | | | | | | | | |
| Divestiture Transaction | $ | - | $ | 140,599 | $ | 72,994 | $ | - | $ | - | $ | 213,593 | $ | 19,594 |
| Bolingbrook Customer Care Center (5) | | - | | - | | - | | 4,275 | | (1,105) | | 3,170 | | - |
| Total | $ | - | $ | 140,599 | $ | 72,994 | $ | 4,275 | $ | (1,105) | $ | 216,763 | $ | 19,594 |

(1) Loss on assets held for sale was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations.

(2) Liabilities held for sale primarily consisted of Customer deposits and deferred revenues.

(3) On May 15, 2013, U.S. Cellular entered into an agreement with a third party to sell the subscribers, spectrum and the network assets for a Missouri market.

(4) U.S. Cellular and/or its consolidated VIEs entered into agreements with third parties to sell unbuilt licenses in Mississippi Valley; St. Louis, MO; South Bend-Mishawaka, IN and Jackson, MI.

(5) Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.

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**6. Intangible Assets**

Changes in U.S. Cellular’s Licenses and Goodwill for the nine months ended September 30, 2013 and 2012 are presented below.

| Licenses | | |
|---|---|---|
| | **September 30, 2013** | **September 30, 2012** |
| **(Dollars in thousands)** | | |
| Balance, beginning of period | $ 1,456,794 | $ 1,470,769 |
| Acquisitions | 16,540 | 57,957 |
| Transferred to Assets held for sale | (75,446) | - |
| Other | - | 3,147 |
| Balance, end of period | $ 1,397,888 | $ 1,531,873 |

| Goodwill | | |
|---|---|---|
| | **September 30, 2013** | **September 30, 2012** |
| **(Dollars in thousands)** | | |
| Assigned value at time of acquisition | $ 494,737 | $ 494,737 |
| Accumulated impairment losses in prior periods | - | - |
| Transferred to Assets held for sale | (72,994) | - |
| Balance, beginning of period | 421,743 | 494,737 |
| Transferred to Assets held for sale | (669) | - |
| NY1 & NY2 Deconsolidation | (33,714) | - |
| Balance, end of period | $ 387,360 | $ 494,737 |

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**7. Investments in Unconsolidated Entities**

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

Equity in earnings of unconsolidated entities totaled $37.4 million and $24.8 million in the three months ended September 30, 2013 and 2012, respectively, and $99.8 million and $71.6 million in the nine months ended September 30, 2013 and 2012, respectively; of those amounts, U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $20.8 million and $18.3 million in the three months ended September 30, 2013 and 2012, respectively, and $61.2 million and $54.6 million in the nine months ended September 30, 2013 and 2012, respectively. U.S. Cellular held a 5.5% ownership interest in the LA Partnership during these periods.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of U.S. Cellular's equity method investments. Such combined results of operations include the results of the NY1 & NY2 Partnerships from April 3, 2013, the effective date of their deconsolidation as discussed below.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| **(Dollars in thousands)** | | | | | | | | |
| Revenues | $ | 1,577,934 | $ | 1,446,311 | $ | 4,615,224 | $ | 4,298,176 |
| Operating expenses | | 1,125,966 | | 1,063,285 | | 3,288,743 | | 3,150,168 |
| Operating income | | 451,968 | | 383,026 | | 1,326,481 | | 1,148,008 |
| Other income, net | | 1,063 | | (51) | | 2,764 | | 2,185 |
| Net income | $ | 453,031 | $ | 382,975 | $ | 1,329,245 | $ | 1,150,193 |

NY1 & NY2 Deconsolidation

U.S. Cellular holds a 60.00% interest in NY1 and a 57.14% interest in NY2 (together with NY1, the "Partnerships"). The remaining interests in the Partnerships are held by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. Prior to April 3, 2013, because U.S. Cellular owned a greater than 50% interest in each of these Partnerships and based on U.S. Cellular's rights under the Partnership Agreements, U.S. Cellular consolidated the financial results of these Partnerships in accordance with GAAP.

On April 3, 2013, U.S. Cellular entered into an agreement relating to the Partnerships. The agreement amends the Partnership Agreements in several ways which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, U.S. Cellular deconsolidated the Partnerships effective as of April 3, 2013 and thereafter reported them as equity method investments in its consolidated financial statements. After the NY1 & NY2 Deconsolidation, U.S. Cellular retained the same ownership percentages in the Partnerships and will continue to report the same percentages of income from the Partnerships, which will be recorded in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition to the foregoing described arrangements, U.S. Cellular has certain other arm's length, ordinary business relationships with Verizon Wireless and its affiliates.

In accordance with GAAP, as a result of the NY1 & NY2 Deconsolidation, U.S. Cellular's interest in the Partnerships was reflected in Investments in unconsolidated entities at a fair value of $114.8 million as of April 3, 2013. Recording U.S. Cellular's interest in the Partnerships required allocation of the excess of fair value over book value to customer lists, licenses, a favorable contract and goodwill of the Partnerships. Amortization expense related to customer lists and the favorable contract will be recognized over their respective useful lives and is included in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition, U.S. Cellular recognized a non-cash pre-tax gain of $18.5 million in the second quarter of 2013. The gain was recorded in Gain on investments in the Consolidated Statement of Operations.

The Partnerships were valued using a discounted cash flow approach and a publicly-traded guideline company method. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of U.S. Cellular specific assumptions. The most significant assumptions made in this process were the revenue growth rate (shown as a simple average in the table below), the terminal revenue growth rate, discount rate and capital expenditures. The assumptions were as follows:

| | | |
|---|---|---|
| **Key assumptions** | | |
| Average expected revenue growth rate (next ten years) | 2.0 | % |
| Terminal revenue growth rate (after year ten) | 2.0 | % |
| Discount rate | 10.5 | % |
| Capital expenditures as a percentage of revenue | 14.9-18.8 | % |

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The publicly-traded guideline company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded companies using multiples of: Revenue and Earnings before Interest, Taxes, and Depreciation and Amortization (EBITDA). The developed multiples were applied to applicable financial measures of the Partnerships to determine fair value. The discounted cash flow approach and publicly-traded guideline company method were weighted to arrive at the total fair value of the Partnerships.

**8. Commitments, Contingencies and Other Liabilities**

Agreements

As previously disclosed, on August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited (“Amdocs”) entered into a Software License and Maintenance Agreement (“SLMA”) and a Master Service Agreement (“MSA”) (collectively, the “Amdocs Agreements”) to develop a Billing and Operational Support System (“B/OSS”). In July 2013, U.S. Cellular implemented B/OSS, pursuant to an updated Statement of Work dated June 29, 2012. Total payments to Amdocs related to this implementation are estimated to be approximately $183.5 million (subject to certain potential adjustments) over the period from commencement of the SLMA through the first half of 2014. As of September 30, 2013, $133.3 million had been paid to Amdocs.

Indemnifications

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

Legal Proceedings

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

U.S. Cellular has accrued $1.7 million with respect to legal proceedings and unasserted claims as of both September 30, 2013 and December 31, 2012. U.S. Cellular has not accrued any amount for legal proceedings if it cannot reasonably estimate the amount of the possible loss or range of loss. U.S. Cellular does not believe that the amount of any contingent loss in excess of the amounts accrued would be material.

Apple iPhone Products Purchase Commitment

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

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**9. Variable Interest Entities (VIEs)**

Consolidated VIEs

As of September 30, 2013, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

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

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

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

| | | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | | | | | |
| **Assets** | | | | | |
| | Cash and cash equivalents | $ | 2,669 | $ | 5,849 |
| | Other current assets | | 1,190 | | 120 |
| | Licenses | | 308,091 | | 308,091 |
| | Property, plant and equipment, net | | 17,535 | | 16,443 |
| | Other assets and deferred charges | | 541 | | 887 |

| | | | | | |
|---|---|---|---|---|---|
| | Total assets | $ | 330,026 | $ | 331,390 |
| | | | | | |
| **Liabilities** | | | | | |
| | Current liabilities | $ | 3 | $ | 1,013 |
| | Deferred liabilities and credits | | 3,280 | | 3,024 |
| | Total liabilities | $ | 3,283 | $ | 4,037 |

Other Related Matters

Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to the business risks described in the "Risk Factors" in U.S. Cellular's Form 10-K for the year ended December 31, 2012.

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

U.S. Cellular's capital contributions and advances made to Aquinas Wireless and King Street Wireless and/or their general partners in the nine months ended September 30, 2012 totaled $5.0 million. There were no capital contributions or advances made to Aquinas Wireless or King Street Wireless or their general partners in the nine months ended September 30, 2013.

U.S. Cellular began offering fourth generation Long-term Evolution ("4G LTE") service in certain cities within its service areas during the first quarter of 2012 and has plans to continue the deployment of 4G LTE.  U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless. Aquinas Wireless is still in the process of developing long-term business plans.

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**10. Common Share Repurchases**

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

Share repurchases made under this authorization were as follows:

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| **(Dollars and shares in thousands, except cost per share)** | | | | |
| Number of shares | | 499 | | - |
| Average cost per share | $ | 37.19 | $ | - |
| Total cost | $ | 18,544 | $ | - |

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**11. Noncontrolling Interests**

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

The estimated aggregate amount that would be due and payable to settle all of these noncontrolling interests, assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2013, net of estimated liquidation costs, is $61.3 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. U.S. Cellular currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at September 30, 2013 was $17.4 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is due primarily to the unrecognized appreciation of the noncontrolling interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders' share, nor U.S. Cellular's share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

**12. Supplemental Cash Flow Disclosures**

Following are supplemental cash flow disclosures regarding transactions related to stock-based compensation awards. In certain situations, U.S. Cellular withholds shares that are issuable upon the exercise of stock options or the vesting of restricted shares to cover, and with a value equivalent to, the exercise price and/or the amount of taxes required to be withheld from the stock award holder at the time of the exercise or vesting. U.S. Cellular then pays the amount of the required tax withholdings to the taxing authorities in cash.

| | | Nine Months Ended | | |
|---|---|---|---|---|
| | | September 30, | | |
| | | **2013** | | **2012** |

| **(Dollars and shares in thousands)** | | | | |
|---|---|---|---|---|
| Common Shares withheld | | 524 | | 78 |
| | | | | |
| Aggregate value of Common Shares withheld | $ | 21,387 | $ | 3,076 |
| | | | | |
| Cash receipts upon exercise of stock options | $ | 7,223 | $ | 793 |
| Cash disbursements for payment of taxes | | (4,383) | | (3,092) |
| Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards | $ | 2,840 | $ | (2,299) |

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC.  This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to $40.1 million in one-time support from the Mobility Fund. These funds will reduce the carrying amount of the assets to which they relate or will offset operating expenses.  U.S. Cellular has received $13.4 million in support funds as of September 30, 2013, of which $12.1 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and $1.3 million reduced the carrying amount of the assets to which they relate, which are included in Property, plant and equipment in the Consolidated Balance Sheet.

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares.

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

United States Cellular Corporation ("U.S. Cellular") owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 84%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS") as of September 30, 2013.

U.S. Cellular provides wireless telecommunications services to approximately 4.9 million customers in four geographic market areas in 23 states. As of September 30, 2013, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.3%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network.

The following discussion and analysis should be read in conjunction with U.S. Cellular's interim consolidated financial statements and notes included in Item 1 above, and with the description of U.S. Cellular's business, its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2012.

### OVERVIEW

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

Financial and operating highlights in the nine months ended September 30, 2013 included the following:

- On April 3, 2013, U.S. Cellular entered into an agreement relating to St. Lawrence Seaway RSA Cellular Partnership ("NY1") and New York RSA 2 Cellular Partnership ("NY2" and, together with NY1, the "Partnerships") with Cellco Partnership d/b/a Verizon Wireless, which required U.S. Cellular to deconsolidate the Partnerships and thereafter account for them as equity method investments (the "NY1 & NY2 Deconsolidation"). In connection with the deconsolidation, U.S. Cellular recognized a non-cash pre-tax gain of $18.5 million which was recorded in Gain on investments in the Consolidated Statement of Operations. See Note 7 – Investments in Unconsolidated Entities in the Notes to the Consolidated Financial Statements for additional information regarding this transaction.

• On May 16, 2013, U.S. Cellular completed the sale of the Divestiture Markets (as defined below in the 2013 Estimates section), which included customers and certain PCS license spectrum, to Sprint Nextel Corporation for $480 million in cash (the "Divestiture Transaction"). In connection with the sale, U.S. Cellular recognized a pre-tax gain of $266.4 million which was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations. See Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information regarding this transaction.

• On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares.

• Total consolidated customers were 4,875,000 at September 30, 2013, including 4,713,000 retail customers (97% of total).

The following information is presented for Core Markets (as defined below in the 2013 Estimates section) excluding NY1 & NY2 markets:

• Retail customer net losses were 118,000 in 2013 compared to net additions of 14,000 in 2012. In the postpaid category, there were net losses of 146,000 in 2013, compared to net losses of 73,000 in 2012. Prepaid net additions were 28,000 in 2013 compared to net additions of 87,000 in 2012.

• Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of September 30, 2013. The postpaid churn rate was 1.6% in 2013 compared to 1.5% in 2012. The prepaid churn rate was 6.2% in 2013 compared to 5.2% in 2012.

• Billed average revenue per user ("ARPU") increased to $50.98 in 2013 from $50.48 in 2012 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU decreased to $57.83 in 2013 from $58.76 in 2012 due primarily to decreases in inbound roaming and eligible telecommunications carriers ("ETC") revenues.

• Postpaid customers on smartphone service plans increased to 47% as of September 30, 2013 compared to 38% as of September 30, 2012. In addition, smartphones represented 64% of all devices sold in 2013 compared to 53% in 2012.

The following information is presented for U.S. Cellular consolidated results:

- Retail service revenues decreased by $223.3 million, or 8%, in 2013 to $2,438.7 million due to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.

- Cash flows from operating activities were $296.2 million. At September 30, 2013, Cash and cash equivalents and Short-term investments totaled $228.3 million and there were no outstanding borrowings under the revolving credit facility.

- U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System ("B/OSS") which includes a new point-of-sale system and consolidates billing on one platform. This conversion resulted in billing delays, which caused Accounts receivable to increase at September 30, 2013. Future results of operations and cash flows may continue to be impacted by billing delays.

- Total additions to Property, plant and equipment were $529.4 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy fourth generation Long-term Evolution ("4G LTE") equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service decreased 4% year-over-year to 7,687 primarily as a result of the NY1 & NY2 Deconsolidation and the deactivation of certain cell sites in the Divestiture Markets.

- Operating income decreased $40.1 million, or 18%, to $177.4 million in 2013, reflecting the factors discussed below in the "Results of Operations".

- Net income attributable to U.S. Cellular shareholders decreased $12.2 million, or 8%, to $138.4 million in 2013 compared to $150.6 million in 2012. Basic earnings per share was $1.65 in 2013, which was $0.13 lower than in 2012, and Diluted earnings per share was $1.64, which was $0.13 lower than in 2012.

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

- Remaining impacts of the Divestiture Transaction;

- Impacts of selling Apple iPhone products;

- Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;

- Effects of industry competition on service and equipment pricing and roaming revenues as well as the impacts associated with the expanding presence of carriers and other retailers offering low-priced, unlimited prepaid service;

- Expanded distribution of products and services in third-party national retailers;

- Potential increases in prepaid customers, who generally generate lower ARPU, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;

- The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers;

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

- Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in network capacity;

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

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

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

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

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

- As mentioned above, U.S. Cellular’s conversion to a new billing system in the third quarter of 2013 caused billing delays. In addition, intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. Existing and potential future operational problems associated with the conversion to the new billing system could have adverse effects on customer satisfaction, customer service, customer attrition, gross customer additions, uncollectible customer accounts receivable, or operating expenses. All of these factors could have a material adverse effect on U.S. Cellular’s results of operations or cash flows.

- On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license (“unbuilt license”) for $308.0 million. The sale will result in a $252.2 million gain and a $96.0 million current tax expense, which will be recorded in the fourth quarter of 2013; and

- On August 14, 2013, U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for $92.3 million. This transaction will result in an estimated gain of $76.2 million and an estimated current tax expense of $28.5 million. This transaction is subject to regulatory approval and is expected to close by the end of 2013.

**FCC Reform Order**

In 2011, the FCC released an order (“Reform Order”) to: reform its universal service and intercarrier compensation mechanisms; establish a new, broadband-focused support mechanism; and propose further rules to advance reform. Appeals of the Reform Order are pending, have been consolidated and will be argued in the U.S. Court of Appeals for the 10th Circuit on November 19, 2013, with a decision anticipated in 2014.

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

Auction 901

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to $40.1 million in one-time support from the Mobility Fund, $13.4 million of which was received as of September 30, 2013. In June 2013, U.S. Cellular provided $17.4 million in letters of credit to the FCC.

Pursuant to the auction rules, winning bidders must complete network build-out projects to provide 3G or 4G service to these areas within two or three years, respectively, and must also make their networks available to other providers for roaming. Winning bidders will receive support funding primarily upon achievement of coverage milestones defined in the auction rules. As a result of the funding awards in the Mobility Fund Phase I, U.S. Cellular will be required to meet certain regulatory conditions in the areas where it will receive funding to provide service. Examples of these regulatory conditions include: allowing other carriers to collocate on U.S. Cellular’s towers, allowing voice and data roaming on U.S. Cellular’s network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC’s Reform Order.

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**FCC Interoperability Order**

On October 25, 2013, the FCC adopted a Report and Order and Order of Proposed Modification confirming a voluntary industry agreement on interoperability in the Lower 700 MHz spectrum band. The FCC's Report and Order lays out a roadmap for the voluntary commitments of AT&T and DISH Network Corporation ("DISH") to become fully binding under a regulatory frame work which will require the FCC to take additional actions proposed to be completed by the first quarter of 2014. Pursuant to this voluntary agreement, AT&T will begin incorporating changes in its network and devices that will foster interoperability across all paired spectrum blocks in the Lower 700 MHz Band and support LTE roaming on AT&T networks for carriers with compatible Band 12 devices, consistent with the FCC’s rules on roaming. As outlined in its voluntary commitment, AT&T will be implementing the foregoing changes in phases starting with network software enhancement taking place possibly through the third quarter of 2015 with the AT&T Band 12 device roll-out to follow. In addition the FCC has adopted changes in its technical rules for certain unpaired spectrum licensed to AT&T and DISH in the Lower 700 MHz band to enhance prospects for Lower 700 MHz interoperability. AT&T’s network and devices currently only interoperate across two of the three paired blocks in the Lower 700 MHz band. U.S. Cellular’s LTE deployment, carried out in conjunction with its partner, King Street Wireless, utilizes spectrum in all three of these blocks and consequently was not interoperable with the AT&T configuration. U.S. Cellular believes that the FCC action will broaden the ecosystem of devices available to U.S. Cellular’s customers over time.

**Cash Flows and Investments**

See “Financial Resources” and “Liquidity and Capital Resources” below for additional information.

**Pro Forma Financial Information**

Refer to U.S. Cellular’s Form 8-K filed on November 1, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and nine months ended September 30, 2013.

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**2013 ESTIMATES**

U.S. Cellular's estimates of full-year 2013 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing U.S. Cellular's Form 10-Q for the quarter ended September 30, 2013. Such forward looking statements should not be assumed to be current as of any future date. U.S. Cellular undertakes no duty to update such information, whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

| | 2013 Estimated Results (1) | | | | | |
|---|---|---|---|---|---|---|
| | Core Markets (2) | | Divestiture Markets (2)(3) | | U.S. Cellular Consolidated (2)(3) | |
| | Previous | Current | Previous | Current | Previous | Current |
| **(Dollars in millions)** | | | | | | |
| Service revenues | $3,475 - $3,575 | $3,450 - $3,500 | $140 | Unchanged | $3,615-$3,715 | $3,590-$3,640 |
| Adjusted income before income taxes (4) | $560 - $660 | Unchanged | $40 | Unchanged | $600-$700 | Unchanged |
| Capital expenditures | $730 | Unchanged | $5 | Unchanged | $735 | Unchanged |

(1) These estimates are based on U.S. Cellular's current plans, which include an expansion of the multi-year deployment of 4G LTE technology; such expansion includes deployment on 700 MHz in additional markets as well as deployment on the 850 MHz band to provide additional capacity for future growth in data usage, enable potential future 4G LTE roaming, and support the sale of Apple products. The financial impacts of selling Apple products in 2013 consist of the following:

- Increased Service revenues resulting from net incremental customers added and retained as a result of offering Apple products;

- Decreased Adjusted income before income taxes as a result of net increases in costs, primarily loss on equipment sales as a result of offering Apple products; and

- Increased Capital expenditures related to the deployment on the 850 MHz band to provide additional capacity for future growth in data usage, which includes capacity required to accommodate Apple products.

These estimates also reflect the impacts of the deconsolidation of certain partnerships as of April 2013. These estimates do not include (i) the reported gain on sale of business and other exit costs, net (ii) the reported gain on investments, or (iii) the actual or expected gains from spectrum license divestitures. New developments or changing conditions (such as, but not limited to, regulatory developments, customer net growth, customer demand for data services or possible acquisitions, dispositions or exchanges) could affect U.S. Cellular's plans and, therefore, its 2013 estimated results.

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

(3) These estimates reflect the Divestiture Transaction which closed on May 16, 2013. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information related to the Divestiture Transaction.

(4) Adjusted income before income taxes is a non-GAAP financial measure defined as Income before income taxes, adjusted for the items set forth in the reconciliation below. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In addition, U.S. Cellular may also exclude other items from adjusted income before income taxes if such items help reflect operating results on a more comparable basis. U.S. Cellular does not intend to imply that any such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future. Adjusted income before income taxes is not a measure of financial performance under GAAP and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to Cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. U.S. Cellular believes Adjusted income before income taxes is a useful measure of U.S. Cellular's operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense). The following tables provide a reconciliation of Income (loss) before income taxes to Adjusted income before income taxes for 2013 Estimated Results, nine months ended September 30, 2013 actual results, and 2012 actual results:

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| | 2013 Estimated Results | | |
|---|---|---|---|
| | Core Markets (2) | Divestiture Markets (2)(3) | U.S. Cellular Consolidated (2)(3) |
| **(Dollars in millions)** | | | |
| Income (loss) before income taxes | $315-$415 | $35 | $350-$450 |
| Depreciation, amortization and accretion expense (5) | $540 | $250 | $790 |
| (Gain) loss on sale of business and other exit costs, net | — | ($245) | ($245) |
| (Gain) loss from spectrum license divestitures | ($325) | — | ($325) |
| (Gain) loss on investments | ($20) | — | ($20) |
| Interest expense | $50 | — | $50 |
| Adjusted income before income taxes | $560-$660 | $40 | $600-$700 |

| | U.S. Cellular Consolidated Actual Results | |
|---|---|---|
| | Nine Months Ended September 30, 2013 | Year Ended December 31, 2012 |
| Income before income taxes | $ 266 | $ 205 |
| Depreciation, amortization and accretion expense (5) | 593 | 609 |
| (Gain) loss on sale of business and other exit costs, net | (244) | 21 |
| (Gain) loss from spectrum license divestitures | — | — |
| (Gain) loss on investments | (18) | 4 |
| Interest expense | 33 | 42 |
| Adjusted income before income taxes | $ 630 | $ 881 |

(5) The 2013 estimated amount for Depreciation, amortization and accretion expense in the Divestiture Markets includes approximately $171 million of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction. Actual results for the nine months ended September 30, 2013 and the year ended December 31, 2012 include $134 million and $20 million, respectively, of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction.

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

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**RESULTS OF OPERATIONS**

Consolidated Markets herein refers to markets which U.S. Cellular consolidates per GAAP and is not adjusted in prior periods presented for subsequent divestitures or deconsolidations. Divestiture Markets are comprised of U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets. Core Markets are comprised of all other markets in which U.S. Cellular conducts business including Peoria, Rockford, and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the sale and other retained assets from the Divestiture Markets.

**Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012**

Following is a table of summarized operating data for U.S. Cellular's Consolidated Markets. In 2012, the Divestiture Markets and NY1 and NY2 are included in U.S. Cellular's consolidated results. NY1 and NY2 are consolidated through the end of the first quarter of 2013 and Divestiture Markets are consolidated through May 16, 2013. Unless otherwise noted, figures reported in Results of Operations are representative of consolidated results.

| As of or for Nine Months Ended September 30, | | 2013 | | | 2012 | |
|---|---|---|---|---|---|---|
| **Retail Customers** | | | | | | |
| **Postpaid** | | | | | | |
| Total at end of period | | 4,343,000 | | | 5,175,000 | |
| Gross additions | | 521,000 | | | 639,000 | |
| Net additions (losses) | | (254,000) | | | (124,000) | |
| ARPU(1) | $ | 54.61 | | $ | 54.26 | |
| Churn rate(2) | | 1.8 | % | | 1.6 | % |
| Smartphone penetration(3)(4) | | 47.1 | % | | 38.6 | % |
| **Prepaid** | | | | | | |
| Total at end of period | | 370,000 | | | 386,000 | |
| Gross additions | | 246,000 | | | 261,000 | |
| Net additions (losses) | | 5,000 | | | 81,000 | |
| ARPU(1) | $ | 31.46 | | $ | 33.06 | |
| Churn rate(2) | | 6.6 | % | | 6.1 | % |
| **Total customers at end of period** | | 4,875,000 | | | 5,808,000 | |
| **Billed ARPU(1)** | $ | 50.94 | | $ | 50.77 | |
| **Service revenue ARPU(1)** | $ | 57.86 | | $ | 58.93 | |
| **Smartphones sold as a percent of total devices sold** | | 64.2 | % | | 53.0 | % |
| **Total Population** | | | | | | |
| Consolidated markets(5) | | 84,025,000 | | | 92,996,000 | |
| Consolidated operating markets(5) | | 31,822,000 | | | 46,966,000 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Market penetration at end of period** | | | | | | | |
| | Consolidated markets(6) | | 5.8 | % | | 6.2 | % |
| | Consolidated operating markets(6) | | 15.3 | % | | 12.4 | % |
| **Capital expenditures (000s)** | | $ | 529,366 | | $ | 583,632 | |
| **Total cell sites in service** | | | 7,687 | | | 7,984 | |
| **Owned towers in service** | | | 4,422 | | | 4,377 | |

Following is a table of summarized operating data for U.S. Cellular's Core Markets. For comparability NY1 and NY2 markets' results are not included in Core Markets as of or for the nine months ended September 30, 2013 or 2012, respectively.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **As of or for Nine Months Ended September 30,** | | | | **2013** | | | **2012** | |
| **Retail Customers** | | | | | | | | |
| | **Postpaid** | | | | | | | |
| | | Total at end of period | | 4,343,000 | | | 4,515,000 | |
| | | Gross additions | | 506,000 | | | 538,000 | |
| | | Net additions (losses) | | (146,000) | | | (73,000) | |
| | | ARPU(1) | $ | 54.46 | | $ | 53.57 | |
| | | Churn rate(2) | | 1.6 | % | | 1.5 | % |
| | | Smartphone penetration(3)(4) | | 47.1 | % | | 37.8 | % |
| | **Prepaid** | | | | | | | |
| | | Total at end of period | | 370,000 | | | 305,000 | |
| | | Gross additions | | 232,000 | | | 201,000 | |
| | | Net additions (losses) | | 28,000 | | | 87,000 | |
| | | ARPU(1) | $ | 31.21 | | $ | 32.83 | |
| | | Churn rate(2) | | 6.2 | % | | 5.2 | % |
| **Total customers at end of period** | | | | 4,875,000 | | | 5,012,000 | |
| **Billed ARPU (1)** | | | $ | 50.98 | | $ | 50.48 | |
| **Service revenue ARPU(1)** | | | $ | 57.83 | | $ | 58.76 | |
| **Smartphones sold as a percent of total devices sold** | | | | 64.4 | % | | 53.0 | % |
| **Total Population** | | | | | | | | |
| | Consolidated markets(5) | | | 84,025,000 | | | 82,595,000 | |
| | Consolidated operating markets(5) | | | 31,822,000 | | | 31,110,000 | |
| **Market penetration at end of period** | | | | | | | | |
| | Consolidated markets(6) | | | 5.8 | % | | 6.1 | % |
| | Consolidated operating markets(6) | | | 15.3 | % | | 16.1 | % |
| **Capital expenditures (000s)** | | | $ | 523,835 | | $ | 527,443 | |
| **Total cell sites in service** | | | | 6,127 | | | 6,089 | |
| **Owned towers in service** | | | | 3,859 | | | 3,818 | |

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

a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.

b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.

c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.

d. Service revenue ARPU consists of total retail service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

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

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

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

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

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

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| **Components of Operating Income** | | | | | |
|---|---|---|---|---|---|
| **Nine Months Ended September 30,** | **2013** | **2012** | **Change** | **Percentage Change** | |
| **(Dollars in thousands)** | | | | | |
| Retail service | $ 2,438,715 | $ 2,661,965 | $ (223,250) | (8) | % |
| Inbound roaming | 202,904 | 272,627 | (69,723) | (26) | % |
| Other | 128,026 | 155,340 | (27,314) | (18) | % |
| Service revenues | 2,769,645 | 3,089,932 | (320,287) | (10) | % |
| Equipment sales | 246,467 | 246,946 | (479) | - | |
| Total operating revenues | 3,016,112 | 3,336,878 | (320,766) | (10) | % |
| | | | | | |
| System operations (excluding Depreciation, amortization and accretion reported below) | 585,997 | 725,636 | (139,639) | (19) | % |
| Cost of equipment sold | 652,153 | 626,765 | 25,388 | 4 | % |
| Selling, general and administrative | 1,234,675 | 1,315,823 | (81,148) | (6) | % |
| Depreciation, amortization and accretion | 593,410 | 439,391 | 154,019 | 35 | % |
| Loss on asset disposals, net | 16,153 | 15,967 | 186 | 1 | % |
| (Gain) loss on sale of business and other exit costs, net | (243,627) | (4,148) | (239,479) | >100 | % |
| Total operating expenses | 2,838,761 | 3,119,434 | (280,673) | (9) | % |
| Operating income | $ 177,351 | $ 217,444 | $ (40,093) | (18) | % |

**Operating Revenues**

***Service revenues***

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

***Retail service revenues***

Retail service revenues decreased by $223.3 million, or 8%, in 2013 to $2,438.7 million due to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.

Billed ARPU increased to $50.94 in 2013 from $50.77 in 2012. This overall increase is due primarily to an increase in postpaid ARPU to $54.61 in 2013 from $54.26 in 2012, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

U.S. Cellular expects continued pressure on revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage.

U.S. Cellular accounts for loyalty reward points under the deferred revenue method. Under this method, U.S. Cellular allocates a portion of the revenue billed to customers with applicable plans to the loyalty reward points. The revenue allocated to these points is initially deferred in the Consolidated Balance Sheet and is recognized in future periods when the loyalty reward points are redeemed or used. Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of $19.6 million and $19.8 million in 2013 and 2012, respectively. Deferred revenues related to loyalty reward points are included in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

***Inbound roaming revenues***

Inbound roaming revenues decreased by $69.7 million, or 26%, in 2013 to $202.9 million. The decrease was due primarily to lower rates and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.  Data volume increased year-over-year but the impact of this increase was offset by the combined impacts of lower volume for voice and lower rates for both data and voice. The decline in roaming revenues was offset by a decline in roaming expense also due to lower rates. U.S. Cellular expects continued growth in data volume but also expects that the revenue impact of this growth will be offset by the impacts of decreases in data rates and voice volume.

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***Other revenues***

Other revenues decreased by $27.3 million, or 18%, in 2013 compared to 2012 due primarily to decreases in ETC support. Pursuant to the FCC's Reform Order (see "Overview – FCC Reform Order" above), ETC support was frozen on January 1, 2012 at the 2011 level and is being phased down at the rate of 20% per year beginning July 1, 2012.

If the Phase II Mobility Fund is not operational by July 2014, the aforementioned phase down will halt at that time and U.S. Cellular will receive 60% of its baseline support until the Phase II Mobility Fund is operational. At this time, U.S. Cellular cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

***Equipment sales revenues***

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

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

Equipment sales revenues were flat in 2013 compared to 2012. An increase of 19% in average revenue per device sold and an increase in equipment activation fees were offset by selling fewer devices partially due to the Divestiture Transaction. Average revenue per device sold increased due to general customer preference for higher-priced smartphones.

**Operating Expenses**

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

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

Key components of the $139.6 million, or 19%, decrease in System operations expenses to $586.0 million were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased $58.5 million, or 31%, due primarily to lower rates. Data roaming usage increased; however, the impact of the increase was more than offset by lower rates for both data and voice and lower voice volume.

- Customer usage expenses decreased by $43.4 million, or 19%, driven by impacts of the Divestiture Transaction and decreases in intercarrier charges and certain data costs partially offset by increases due to network costs for 4G LTE.

- Maintenance, utility and cell site expenses decreased $37.7 million, or 12%, driven primarily by impacts of the Divestiture Transaction.

U.S. Cellular expects system operations expenses to increase in the future to support the continued growth in cell sites and other network facilities as it continues to add capacity, enhance quality and deploy new technologies as well as to support increases in total customer usage, particularly data usage. However, these increases are expected to be offset to some extent by cost savings generated by shifting data traffic to the 4G LTE network from the 3G network.

***Cost of equipment sold***

Cost of equipment sold increased by $25.4 million, or 4%, in 2013 to $652.2 million. The increase was driven by a 28% increase in the average cost per device sold, which more than offset the impact of selling fewer devices. Average cost per device sold increased due to general customer preference for higher-priced 4G LTE smartphones. The total number of devices sold decreased by 17% partially due to the Divestiture Transaction.

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U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $405.7 million and $379.8 million for 2013 and 2012, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of smartphones, including sales of Apple iPhones, to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers. Smartphones sold as a percentage of total devices sold were 64.2% and 53.0% in 2013 and 2012, respectively.

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

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

Key components of the $81.1 million, or 6%, decrease to $1,234.7 million were as follows:

- Selling and marketing expense decreased by $65.3 million, or 11%, primarily from lower commission expenses, more cost-effective advertising spending and reduced employee and facilities costs as a result of the Divestiture Transaction.

- General and administrative expense decreased by $15.8 million, or 2%, driven by corporate cost containment and reduction initiatives partially offset by costs associated with launching the new billing system.

***Depreciation, amortization and accretion***

Depreciation, amortization and accretion increased $154.0 million, or 35%, in 2013 to $593.4 million due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was $134.0 million in 2013. The accelerated depreciation, amortization and accretion in the Divestiture Markets is expected to conclude in the first quarter of 2014.

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

The net gain in 2013 resulted from the closing and continued impacts of the Divestiture Transaction.  The net gain in 2012 resulted from the sale of a wireless market.

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| **Components of Other Income (Expense)** | | | | |
|---|---|---|---|---|
| **Nine Months Ended September 30,** | **2013** | **2012** | **Change** | **Percentage Change** |
| **(Dollars in thousands, except per share amounts)** | | | | |
| Operating income | $ 177,351 | $ 217,444 | $ (40,093) | (18) % |
| | | | | |
| Equity in earnings of unconsolidated entities | 99,797 | 71,584 | 28,213 | 39 % |
| Interest and dividend income | 2,967 | 2,823 | 144 | 5 % |
| Gain (loss) on investments | 18,527 | (3,728) | 22,255 | >100 % |
| Interest expense | (32,393) | (35,272) | 2,879 | (8) % |
| Other, net | 153 | 173 | (20) | (12) % |
| Total investment and other income | 89,051 | 35,580 | 53,471 | >100 % |
| | | | | |
| Income before income taxes | 266,402 | 253,024 | 13,378 | 5 % |
| Income tax expense | 121,618 | 82,624 | 38,994 | 47 % |
| | | | | |
| Net income | 144,784 | 170,400 | (25,616) | |