

UNITED STATES CELLULAR CORP
Form 10-Q
February 23, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

62-1147325

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

-

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

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

| Class | Outstanding at September 30, 2006 |
|---------------------------------------|-----------------------------------|
| Common Shares, \$1 par value | 54,197,834 Shares |
| Series A Common Shares, \$1 par value | 33,005,877 Shares |

UNITED STATES CELLULAR CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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FOR THE PERIOD ENDED SEPTEMBER 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2006 | 2005 (As Restated) | 2006 | 2005 (As Restated) |
| (Dollars in thousands, except per share amounts) | | | | |
| OPERATING REVENUES | | | | |
| Service | \$ 821,820 | \$ 729,005 | \$ 2,382,747 | \$ 2,089,232 |
| Equipment sales | 66,703 | 66,095 | 188,289 | 156,294 |
| Total Operating Revenues | 888,523 | 795,100 | 2,571,036 | 2,245,526 |
| OPERATING EXPENSES | | | | |
| System operations (excluding Depreciation, amortization and accretion shown separately below) | 165,107 | 159,335 | 468,980 | 446,278 |
| Cost of equipment sold | 140,757 | 130,823 | 417,489 | 374,882 |
| Selling, general and administrative (including charges from affiliates of \$28.2 million and \$22.9 million for the three months ended September 30, 2006 and 2005, respectively, and \$77.8 million and \$64.1 million for the nine months ended 2006 and 2005, respectively) | 358,392 | 313,374 | 1,028,865 | 877,116 |
| Depreciation, amortization and accretion | 146,940 | 128,238 | 429,451 | 382,244 |
| Total Operating Expenses | 811,196 | 731,770 | 2,344,785 | 2,080,520 |
| OPERATING INCOME | 77,327 | 63,330 | 226,251 | 165,006 |
| INVESTMENT AND OTHER INCOME (EXPENSE) | | | | |
| Equity in earnings of unconsolidated entities | 23,483 | 17,416 | 64,923 | 49,231 |
| Fair value adjustment of derivative instruments | (21,285) | (14,241) | (17,392) | 9,938 |
| Interest and dividend income | 601 | 384 | 10,996 | 6,884 |
| Gain on investments | | | | 551 |
| Interest expense | (23,974) | (21,122) | (70,189) | (63,304) |
| Other expense, net | (225) | (691) | (163) | (536) |
| Total Investment and Other Income (Expense) | (21,400) | (18,254) | (11,825) | 2,764 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTEREST | | | | |
| INTEREST | 55,927 | 45,076 | 214,426 | 167,770 |
| Income tax expense | 15,510 | 17,966 | 77,903 | 65,955 |
| INCOME BEFORE MINORITY INTEREST | | | | |
| Minority share of income | (4,542) | (3,438) | (11,138) | (8,034) |
| NET INCOME | \$ 35,875 | \$ 23,672 | \$ 125,385 | \$ 93,781 |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s) | | | | |
| BASIC EARNINGS PER SHARE (Note 6) | \$ 0.41 | \$ 0.27 | \$ 1.44 | \$ 1.08 |
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s) | | | | |
| DILUTED EARNINGS PER SHARE (Note 6) | \$ 0.41 | \$ 0.27 | \$ 1.42 | \$ 1.07 |

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2006 | 2005 |
| | (As Restated) | |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 125,385 | \$ 93,781 |
| Add (deduct) adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, amortization and accretion | 429,451 | 382,244 |
| Bad debts expense | 43,787 | 25,417 |
| Stock-based compensation expense | 16,134 | 5,764 |
| Deferred income taxes, net | (30,714) | 47,987 |
| Equity in earnings of unconsolidated entities | (64,923) | (49,231) |
| Distributions from unconsolidated entities | 39,374 | 30,809 |
| Minority share of income | 11,138 | 8,034 |
| Fair value adjustment of derivative instruments | 17,392 | (9,938) |
| Gain (loss) on investments | | (551) |
| Noncash interest expense | 1,335 | 1,335 |
| Other operating activities | 244 | |
| Changes in assets and liabilities from operations | | |
| Change in accounts receivable | (74,401) | (34,908) |
| Change in inventory | 16,084 | 21,694 |
| Change in accounts payable | (48,926) | (43,787) |
| Change in customer deposits and deferred revenues | 7,813 | 3,937 |
| Change in accrued taxes | 9,145 | 18,739 |
| Change in accrued interest | 9,226 | 8,383 |
| Change in other assets and liabilities | (7,906) | (213) |
| | 499,638 | 509,496 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (421,378) | (379,088) |
| Cash received from divestitures | | 551 |
| Cash paid for acquisitions | (98,581) | (126,160) |
| Return of investment | 28,650 | |
| Other investing activities | (3,256) | (4,994) |
| | (494,565) | (509,691) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of notes payable | 390,000 | 350,000 |
| Repayment of notes payable | (375,000) | (380,000) |
| Common shares reissued | 3,856 | 22,228 |
| Capital (distributions) to minority partners | (14,371) | (1,831) |
| Other financing activities | 349 | (195) |
| | 4,834 | (9,798) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 9,907 | (9,993) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of period | 29,003 | 41,062 |
| End of period | \$ 38,910 | \$ 31,069 |

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETSASSETSUnaudited

| | September 30, 2006 (Dollars in thousands) | December 31, 2005 (As Restated) |
|--|---|---------------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 38,910 | \$ 29,003 |
| Accounts receivable | | |
| Customers, less allowance of \$13,625 and \$11,410, respectively | 298,018 | 278,170 |
| Roaming | 39,178 | 27,178 |
| Other | 56,324 | 57,011 |
| Marketable equity securities | 204,933 | |
| Inventory | 76,925 | 92,748 |
| Prepaid expenses | 36,605 | 32,068 |
| Deferred income tax asset | | 8,218 |
| Other current assets | 21,160 | 15,489 |
| | 772,053 | 539,885 |
| INVESTMENTS | | |
| Licenses | 1,447,569 | 1,362,263 |
| Goodwill | 485,485 | 481,235 |
| Customer lists, net of accumulated amortization of \$62,259 and \$44,616, respectively | 32,048 | 47,649 |
| Marketable equity securities | 3,572 | 225,387 |
| Investments in unconsolidated entities | 197,817 | 172,093 |
| Notes and interest receivable | 4,767 | 4,707 |
| | 2,171,258 | 2,293,334 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| In service and under construction | 4,981,963 | 4,615,234 |
| Less accumulated depreciation | 2,382,414 | 2,062,205 |
| | 2,599,549 | 2,553,029 |
| OTHER ASSETS AND DEFERRED CHARGES | | |
| | 30,647 | 29,985 |
| TOTAL ASSETS | \$ 5,573,507 | \$ 5,416,233 |

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETSLIABILITIES AND SHAREHOLDERS EQUITYUnaudited

| | September 30, 2006 (Dollars in thousands) | December 31, 2005 (As Restated) |
|---|---|---------------------------------------|
| CURRENT LIABILITIES | | |
| Forward contracts | \$ 159,856 | \$ |
| Notes payable | 150,000 | 135,000 |
| Accounts payable | | |
| Affiliated | 11,065 | 7,239 |
| Trade | 248,805 | 301,058 |
| Customer deposits and deferred revenues | 119,782 | 111,407 |
| Accrued taxes | 42,324 | 36,748 |
| Accrued compensation | 42,504 | 42,865 |
| Derivative liability | 43,210 | |
| Deferred income tax liability | 28,681 | |
| Other current liabilities | 47,822 | 28,404 |
| | 894,049 | 662,721 |
| DEFERRED LIABILITIES AND CREDITS | | |
| Net deferred income tax liability | 582,328 | 647,086 |
| Derivative liability | | 25,818 |
| Asset retirement obligation | 115,998 | 90,224 |
| Other deferred liabilities and credits | 57,462 | 46,234 |
| | 755,788 | 809,362 |
| LONG-TERM DEBT | | |
| Long-term debt | 1,001,725 | 1,001,385 |
| Forward contracts | | 159,856 |
| | 1,001,725 | 1,161,241 |
| COMMITMENTS AND CONTINGENCIES (SEE NOTE 19) | | |
| MINORITY INTEREST | 38,741 | 41,871 |
| COMMON SHAREHOLDERS EQUITY | | |
| Common Shares, par value \$1 per share; authorized 140,000,000 shares; issued 55,045,685 shares | 55,046 | 55,046 |
| Series A Common Shares, par value \$1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares | 33,006 | 33,006 |
| Capital in excess of par value | 1,289,802 | 1,286,964 |
| Treasury Shares, at cost, 847,851 and 962,863 Common Shares, respectively | (40,594) | (47,088) |
| Accumulated other comprehensive income | 51,571 | 44,122 |
| Retained earnings | 1,494,373 | 1,368,988 |
| | 2,883,204 | 2,741,038 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 5,573,507 | \$ 5,416,233 |

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

UNITED STATES CELLULAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of United States Cellular Corporation (U.S. Cellular) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries since acquisition, general partnerships in which U.S. Cellular has a majority partnership interest and any entity in which U.S. Cellular has a variable interest that requires U.S. Cellular to recognize a majority of the entity's expected gains or losses, or both. 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 U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the information and disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements 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/A for the year ended December 31, 2005 (Form 10-K/A).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of September 30, 2006 and December 31, 2005, the results of operations for the three and nine months ended September 30, 2006 and 2005, and the cash flows for the nine months ended September 30, 2006 and 2005. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

Restatement

U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- Forward contracts and related derivative instruments - In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.

- **Contracts with maintenance and support services** U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$4.7 million in the nine months ended September 30, 2005.
- **Income taxes** U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by \$9.6 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to certain balance sheet amounts. These individual adjustments were not material.

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The table below summarizes the impacts of the restatement on income before income taxes and minority interest.

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|--|--|---|
| | (Increase (decrease), dollars in thousands) | |
| Income Before Income Taxes and Minority Interest, as previously reported | \$ 62,536 | \$ 166,149 |
| Forward contracts and related derivative instruments | (14,241) | 9,938 |
| Contracts with maintenance and support services | (123) | (458) |
| Property, plant and equipment | (1,827) | (1,750) |
| Other items | (1,269) | (6,109) |
| Total adjustment | (17,460) | 1,621 |
| Income Before Income Taxes and Minority Interest, as restated | \$ 45,076 | \$ 167,770 |

The table below summarizes the net income and diluted earnings per share impacts from the restatement.

| | Three Months Ended September 30, 2005 | | Nine Months Ended September 30, 2005 | |
|--|--|---|---|---|
| | Net Income | Diluted Earnings Per Share | Net Income | Diluted Earnings Per Share |
| | (Increase (decrease), dollars in thousands, except per share amounts) | | | |
| As previously reported | \$ 34,620 | \$ 0.39 | \$ 92,262 | \$ 1.06 |
| Forward contracts and related derivative instruments | (9,006) | (0.10) | 6,285 | 0.07 |
| Contracts with maintenance and support services | (59) | | (231) | |
| Income taxes | | | | |
| Property, plant and equipment | (1,127) | (0.01) | (1,075) | (0.01) |
| Other items | (756) | (0.01) | (3,460) | (0.05) |
| Total adjustment | (10,948) | (0.12) | 1,519 | 0.01 |
| As restated | \$ 23,672 | \$ 0.27 | \$ 93,781 | \$ 1.07 |

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The effect of the restatement on the previously reported Consolidated Statements of Operations is as follows:

| | Three Months Ended September 30, 2005 | | Nine Months Ended September 30, 2005 | |
|---|--|------------------|---|------------------|
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| OPERATING REVENUES | | | | |
| Service | \$ 729,504 | \$ 729,005 | \$ 2,092,889 | \$ 2,089,232 |
| Equipment sales | 66,002 | 66,095 | 155,653 | 156,294 |
| Total Operating Revenues | 795,506 | 795,100 | 2,248,542 | 2,245,526 |
| OPERATING EXPENSES | | | | |
| System operations (excluding Depreciation, amortization and accretion shown separately below) | 159,102 | 159,335 | 444,811 | 446,278 |
| Cost of equipment sold | 130,823 | 130,823 | 374,882 | 374,882 |
| Selling, general and administrative | 312,777 | 313,374 | 875,316 | 877,116 |
| Depreciation, amortization and accretion | 126,583 | 128,238 | 380,860 | 382,244 |
| Total Operating Expenses | 729,285 | 731,770 | 2,075,869 | 2,080,520 |
| OPERATING INCOME | 66,221 | 63,330 | 172,673 | 165,006 |
| INVESTMENT AND OTHER INCOME (EXPENSE) | | | | |
| Equity in earnings of unconsolidated entities | 17,744 | 17,416 | 50,009 | 49,231 |
| Fair value adjustment of derivative instruments | | (14,241) | | 9,938 |
| Interest and dividend income | 384 | 384 | 6,756 | 6,884 |
| Gain on investments | | | 551 | 551 |
| Interest expense | (21,122) | (21,122) | (63,304) | (63,304) |
| Other expense, net | (691) | (691) | (536) | (536) |
| Total Investment and Other Income (Expense) | (3,685) | (18,254) | (6,524) | 2,764 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTEREST | | | | |
| INTEREST | 62,536 | 45,076 | 166,149 | 167,770 |
| Income tax expense | 24,471 | 17,966 | 65,445 | 65,955 |
| INCOME BEFORE MINORITY INTEREST | 38,065 | 27,110 | 100,704 | 101,815 |
| Minority share of income | (3,445) | (3,438) | (8,442) | (8,034) |
| NET INCOME | \$ 34,620 | \$ 23,672 | \$ 92,262 | \$ 93,781 |
| BASIC EARNINGS PER SHARE | \$ 0.40 | \$ 0.27 | \$ 1.06 | \$ 1.08 |
| DILUTED EARNINGS PER SHARE | \$ 0.39 | \$ 0.27 | \$ 1.06 | \$ 1.07 |

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The effect of the restatement on the previously reported Consolidated Statements of Cash Flows is as follows:

| | Nine Months Ended September 30, 2005 | |
|---|---|------------------------|
| | As Previously Reported | As Restated |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 92,262 | \$ 93,781 |
| Add (deduct) adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, amortization and accretion | 380,860 | 382,244 |
| Bad debts expense | 25,417 | 25,417 |
| Stock-based compensation expense | 5,764 | 5,764 |
| Deferred income taxes, net | 47,475 | 47,987 |
| Equity in earnings of unconsolidated entities | (50,009) | (49,231) |
| Distributions from unconsolidated entities | 31,104 | 30,809 |
| Minority share of income | 8,442 | 8,034 |
| Fair value adjustment of derivative instruments | | (9,938) |
| Gain (loss) on investments | (551) | (551) |
| Noncash interest expense | 1,335 | 1,335 |
| Changes in assets and liabilities from operations | | |
| Change in accounts receivable | (34,676) | (34,908) |
| Change in inventory | 21,694 | 21,694 |
| Change in accounts payable | (43,787) | (43,787) |
| Change in customer deposits and deferred revenues | 360 | 3,937 |
| Change in accrued taxes | 18,739 | 18,739 |
| Change in accrued interest | 8,383 | 8,383 |
| Change in other assets and liabilities | 2,440 | (213) |
| | 515,252 | 509,496 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (384,844) | (379,088) |
| Cash received from divestitures | | 551 |
| Cash paid for acquisitions | (125,609) | (126,160) |
| Return of investment | | |
| Other investing activities | (4,994) | (4,994) |
| | (515,447) | (509,691) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of notes payable | 350,000 | 350,000 |
| Repayment of notes payable | (380,000) | (380,000) |
| Common shares reissued | 22,228 | 22,228 |
| Capital (distributions) to minority partners | | (1,831) |
| Other financing activities | (2,026) | (195) |
| | (9,798) | (9,798) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (9,993) | (9,993) |
| CASH AND CASH EQUIVALENTS- | | |
| Beginning of period | 41,062 | 41,062 |
| End of period | \$ 31,069 | \$ 31,069 |

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The effect of the restatement on the previously reported Consolidated Balance Sheets is as follows:

| | December 31, 2005 As Previously Reported | 2005 As Restated |
|---|---|---------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 29,003 | \$ 29,003 |
| Accounts Receivable | | |
| Customers, less allowance | 281,896 | 278,170 |
| Roaming | 27,178 | 27,178 |
| Other | 58,436 | 57,011 |
| Marketable equity securities | | |
| Inventory | 92,748 | 92,748 |
| Prepaid expenses | 31,026 | 32,068 |
| Deferred income tax asset | 8,218 | 8,218 |
| Other current assets | 15,145 | 15,489 |
| | 543,650 | 539,885 |
| INVESTMENTS | | |
| Licenses | 1,362,263 | 1,362,263 |
| Goodwill | 471,617 | 481,235 |
| Customer lists, net of accumulated amortization | 49,318 | 47,649 |
| Marketable equity securities | 225,387 | 225,387 |
| Investments in unconsolidated entities | 170,337 | 172,093 |
| Notes and interest receivable | 4,707 | 4,707 |
| | 2,283,629 | 2,293,334 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| In service and under construction | 4,653,292 | 4,615,234 |
| Less accumulated depreciation | 2,076,528 | 2,062,205 |
| | 2,576,764 | 2,553,029 |
| OTHER DEFERRED CHARGES | | |
| | 29,985 | 29,985 |
| TOTAL ASSETS | \$ 5,434,028 | \$ 5,416,233 |

| | December 31, 2005 As Previously Reported | 2005 As Restated |
|--|---|---------------------------------|
| CURRENT LIABILITIES | | |
| Forward contracts | \$ | \$ |
| Notes payable | 135,000 | 135,000 |
| Accounts payable | | |
| Affiliated | 7,239 | 7,239 |
| Trade | 298,397 | 301,058 |
| Customer deposits and deferred revenues | 106,180 | 111,407 |
| Accrued taxes | 38,627 | 36,748 |
| Accrued compensation | 42,865 | 42,865 |
| Derivative liability | | |
| Deferred income tax liability | | |
| Other current liabilities | 25,952 | 28,404 |
| | 654,260 | 662,721 |
| DEFERRED LIABILITIES AND CREDITS | | |
| Net deferred income tax liability | 660,667 | 647,086 |
| Derivative liability | 25,818 | 25,818 |
| Asset retirement obligation | 90,224 | 90,224 |
| Other deferred liabilities and credits | 44,636 | 46,234 |
| | 821,345 | 809,362 |
| LONG-TERM DEBT | | |
| Long-term debt | 1,001,385 | 1,001,385 |
| Forward contracts | 159,856 | 159,856 |
| | 1,161,241 | 1,161,241 |
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTEREST | 46,442 | 41,871 |
| COMMON SHAREHOLDERS EQUITY | | |
| Common Shares, par value \$1 per share | 55,046 | 55,046 |
| Series A Common Shares, par value \$1 per share | 33,006 | 33,006 |
| Capital in excess of par value | 1,286,964 | 1,286,964 |
| Treasury Shares, at cost | (47,088) | (47,088) |
| Accumulated other comprehensive income | 24,944 | 44,122 |
| Retained earnings | 1,397,868 | 1,368,988 |
| | 2,750,740 | 2,741,038 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 5,434,028 | \$ 5,416,233 |

2. Summary of Significant Accounting Policies

Change in Accounting Principle Stock-Based Compensation

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan, an employee stock purchase plan and a non-employee director compensation plan. Also, U.S. Cellular employees are eligible to participate in the Telephone and Data Systems, Inc. (TDS) employee stock purchase plan; TDS is U.S. Cellular's parent organization. These plans are described more fully in Note 3 - Stock-Based Compensation. Prior to January 1, 2006, U.S. Cellular accounted for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (SFAS 123), Accounting for Stock-Based Compensation . Total stock-based employee compensation cost recognized in the Consolidated Statements of Operations under APB 25 was \$2.2 million and \$5.8 million for the three and nine months ended September 30, 2005, respectively, primarily for restricted stock unit and deferred compensation stock unit awards. No compensation cost was recognized in the Consolidated Statements of Operations under APB 25 for stock option awards for the three and nine months ended September 30, 2005, because all outstanding options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The employee stock purchase plans qualified as non-compensatory plans under APB 25; therefore, no compensation cost was recognized for these plans during the three and nine months ended September 30, 2005.

Effective January 1, 2006, U.S. Cellular adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment (SFAS 123(R)), using the modified prospective transition method. In addition, U.S. Cellular applied the provisions of Staff Accounting Bulletin No. 107 (SAB 107), issued by the SEC in March 2005 in its adoption of SFAS 123(R). Under the modified prospective transition method, compensation cost recognized during the three and nine months ended September 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

Under SFAS 123(R), the long-term incentive plan is considered a compensatory plan; therefore, recognition of compensation cost for grants made under this plan is required.

Under SFAS 123(R), the employee stock purchase plan is considered a compensatory plan; therefore, recognition of compensation cost for grants made under this plan is required. However, due to restrictions on activity under this plan that were in place during the nine months ended September 30, 2006, no compensation cost was recognized during this period.

Upon adoption of SFAS 123(R), U.S. Cellular elected to continue to value its share-based payment transactions using a Black-Scholes valuation model, which was previously used by U.S. Cellular for purposes of preparing the pro forma disclosures under SFAS 123. Under the provisions of SFAS 123(R), stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation cost recognized in 2006 has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. U.S. Cellular believes that its historical experience is the best estimate of future expected life. In U.S. Cellular's pro forma information required under SFAS 123, U.S. Cellular also reduced stock-based compensation cost for estimated forfeitures. The expected life assumption was determined based on U.S. Cellular's historical experience. For purposes of both SFAS 123 and SFAS 123(R), the expected volatility assumption was based on the historical volatility of U.S. Cellular's common stock. The dividend yield assumption was zero because U.S. Cellular has never paid a dividend and has expressed its intention to retain all future earnings in the business. The risk-free interest rate assumption was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

Compensation cost for stock option awards granted after January 1, 2006 will be recognized over the respective requisite service period of the awards, which is generally the vesting period, on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method), which is the same attribution method that was used by U.S. Cellular for purposes of its pro forma disclosures under SFAS 123.

Certain employees were eligible for retirement at the time that compensatory stock options and restricted stock units were granted to them. Under the terms of the U.S. Cellular option and restricted stock unit agreements, options and restricted stock units granted retirement-eligible employees will fully vest upon their retirement if the employees have reached the age of 65. Prior to the adoption of SFAS 123(R), U.S. Cellular used the nominal vesting method to recognize the pro forma stock-based compensation cost related to options and restricted stock units awarded to retirement-eligible employees. This method does not take into account the effect of early vesting due to the retirement of eligible employees. Upon adoption of SFAS 123(R), U.S. Cellular adopted the non-substantive vesting method, which requires recognition of the cost of options and restricted stock units granted to retirement-eligible employees over the period from the date of grant to the date such employees reach age 65. If the non-substantive vesting method had been applied in prior periods, the effect on previously disclosed pro forma stock-based compensation cost would not have been material.

On March 7, 2006, the U.S. Cellular Compensation Committee approved amendments to stock option award agreements. The amendments modify current and future options to extend the exercise period until 30 days following: (i) the lifting of a "suspension" if options otherwise would expire or be forfeited during the suspension period; and (ii) the lifting of a blackout if options otherwise would expire or be forfeited during a blackout period. U.S. Cellular temporarily suspended issuances of shares under the 2005 Long Term Incentive Plan between March 17, 2006 and October 10, 2006 as a consequence of late SEC filings. U.S. Cellular became current with respect to its Form 10-K for the year ended December 31, 2005 and other periodic SEC filings upon the filing of its Form 10-Q for the quarter ended June 30, 2006, on October 10, 2006. As required under the provisions of SFAS 123(R), U.S. Cellular evaluated the impact of this plan modification and originally determined that the adjustment to stock based compensation was not material. However, in connection with the restatement discussed above, U.S. Cellular further reviewed the accounting for the plan modification. Upon such further review, U.S. Cellular determined that it should have recognized Stock-Based compensation expense of \$1.5 million in the three months ended March 31, 2006 as a result of this modification. U.S. Cellular recognized \$0.0 and \$1.5 million in stock-based compensation expense in the three and nine months ended September 30, 2006 as a result of this modification.

Pension Plan

U.S. Cellular participates in a qualified noncontributory defined contribution pension plan sponsored by TDS. The plan provides pension benefits for the employees of U.S. Cellular and its subsidiaries. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were \$2.1 million and \$6.5 million for the three and nine months ended September 30, 2006, respectively, and \$1.7 million and \$5.2 million for the three and nine months ended September 30, 2005, respectively.

Recent Accounting Pronouncements

The Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108), in September 2006. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on one method or the other in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB 108 is effective for U.S. Cellular's opening balance sheet in 2007. U.S. Cellular is currently evaluating the impact this Bulletin might have on its financial position or results of operations.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). Under SFAS 158, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The recognition, measurement and disclosure provisions of SFAS 158 are effective for U.S. Cellular as of December 31, 2006. However, because U.S. Cellular currently does not have any defined benefit pension or other postretirement plans, SFAS 158 will have no immediate impact on its financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is effective for U.S. Cellular's 2008 quarterly and annual financial statements; however, earlier application is encouraged. U.S. Cellular is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

The FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). The interpretation applies to all tax positions accounted for in accordance with SFAS 109 and changes how tax positions are recognized and measured and how uncertainties related to income tax positions are disclosed. It provides guidance on recognition, derecognition and measurement of uncertain tax positions in a period subsequent to that in which a position is taken; the accounting for interest and penalties; the classification and presentation of recorded amounts; and disclosure requirements. U.S. Cellular will adopt the provisions of FIN 48 effective January 1, 2007. Under FIN 48, U.S. Cellular will evaluate the tax uncertainty, assess the probability of the ultimate settlement with the applicable taxing authority and record an amount based on that assessment. U.S. Cellular had previously set up tax accruals, as needed, to cover its potential liability for income tax uncertainties pursuant to FASB Statement No. 5

Accounting for Contingencies. The FASB has issued preliminary guidance regarding ultimate settlement of tax uncertainties. This guidance, in the form of a FASB Staff Position, is not yet finalized. U.S. Cellular will use the finalized guidance to determine the amount of its cumulative effect adjustment to be recorded to opening retained earnings upon adoption of FIN 48 effective January 1, 2007. U.S. Cellular is currently reviewing the requirements of FIN 48 to determine the impact on its financial position or results of operations. The primary impact of FIN 48 on U.S. Cellular's existing tax accounting policies and practices will be the documentation of all tax positions rather than only tax positions that U.S. Cellular considers probable of incurring a loss.

3. Stock-Based Compensation

Stock-Based Compensation Plans

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan, an employee stock purchase plan, and a non-employee director compensation plan.

Under the U.S. Cellular 2005 Long-Term Incentive Plan, U.S. Cellular may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. At September 30, 2006, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

At September 30, 2006, U.S. Cellular had reserved 5,403,000 Common Shares for equity awards granted and to be granted under the long-term incentive plan, and also had reserved 110,000 Common Shares for issuance to employees under an employee stock purchase plan. The maximum number of U.S. Cellular Common Shares that may be issued to employees under all stock-based compensation plans in effect at September 30, 2006 was 5,513,000 shares. U.S. Cellular currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards.

U.S. Cellular also has established a Non-Employee Director Compensation Plan under which it has reserved 4,900 Common shares of U.S. Cellular stock for issuance as compensation to members of the board of directors who are not employees of U.S. Cellular.

Long-Term Incentive Plan **Stock Options** Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at September 30, 2006 expire between 2006 and 2016. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of the option generally equals the market value of U.S. Cellular Common Shares on the date of grant.

U.S. Cellular did not grant any stock options during the three months ended September 30, 2006 and September 30, 2005, respectively. U.S. Cellular granted 551,000 and 757,000 stock options during the nine months ended September 30, 2006 and September 30, 2005, respectively. U.S. Cellular estimates the fair value of stock options granted using the Black-Scholes valuation model. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards, which is the same attribution method that was used by U.S. Cellular for purposes of its pro forma disclosures under SFAS 123. U.S. Cellular used the assumptions shown in the table below in valuing the options granted in 2006:

| | |
|----------------------------------|-----------|
| Expected Life | 3.0 Years |
| Expected Volatility | 25.2% |
| Dividend Yield | |
| Risk-free Interest Rate | 4.7% |
| Estimated Annual Forfeiture Rate | 4.4% |

A summary of U.S. Cellular stock options outstanding (total and portion exercisable) at September 30, 2006 and changes during the nine months then ended is presented in the table below:

| | Number of Options | Weighted Average Exercise Prices | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|-------------------|----------------------------------|---|---------------------------|
| Outstanding at December 31, 2005 (877,000 exercisable) | 2,701,000 | \$ 38.80 | 7.5 Years | \$ 56,469,000 |
| Granted | 551,000 | \$ 59.46 | | \$ 132,000 |
| Exercised | 107,000 | \$ 34.51 | | \$ 2,259,000 |
| Forfeited | 37,000 | \$ 38.65 | | \$ 809,000 |
| Expired | 1,000 | \$ 32.23 | | \$ 33,000 |
| Outstanding at September 30, 2006 (1,543,000 exercisable) | 3,107,000 | \$ 42.62 | 7.1 Years | \$ 53,083,000 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between U.S. Cellular's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2006. This amount will change in future periods based on the market price of U.S. Cellular's stock. U.S. Cellular received \$0 and \$3.7 million in cash from the exercise of stock options during the three and nine months ended September 30, 2006.

A summary of U.S. Cellular nonvested stock options at September 30, 2006 and changes during the nine months then ended is presented in the table that follows:

| | Number of Stock Options | Weighted Average Fair Values of Stock Options |
|--------------------------------|-------------------------|---|
| Nonvested at December 31, 2005 | 1,824,000 | \$ 14.19 |
| Granted | 551,000 | \$ 14.06 |
| Vested | 777,000 | \$ 14.49 |
| Forfeited | 34,000 | \$ 14.49 |

| | | | |
|---------------------------------|-----------|----|-------|
| Nonvested at September 30, 2006 | 1,564,000 | \$ | 13.99 |
|---------------------------------|-----------|----|-------|

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Long-Term Incentive Plan **Restricted Stock Units** U.S. Cellular grants restricted stock unit awards, which generally vest after three years, to key employees.

U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant, which is not adjusted for any dividends foregone during the vesting period because U.S. Cellular has never paid a dividend and has expressed its intention to retain all future earnings in the business. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Awards granted under this plan prior to 2005 were classified as liability awards due to a plan provision which allowed participants to elect tax withholding in excess of minimum statutory tax rates. In 2005, this provision was removed from the plan and awards after 2005 have been classified as equity awards (except for awards that may be settled in stock or cash at the option of the recipient, which are classified as liability awards).

A summary of U.S. Cellular nonvested restricted stock units at September 30, 2006 and changes during the nine months then ended is presented in the tables that follow:

Liability Classified Awards

| | Number of Restricted Stock Units | Weighted Average Grant-Date Fair Values of Restricted Stock Units |
|---------------------------------|---|--|
| Nonvested at December 31, 2005 | 193,000 | \$ 30.71 |
| Granted | 3,000 | \$ 59.43 |
| Vested | 108,000 | \$ 23.73 |
| Forfeited | 7,000 | \$ 37.34 |
| Nonvested at September 30, 2006 | 81,000 | \$ 40.46 |

Equity Classified Awards

| | Number of Restricted Stock Units | Weighted Average Grant-Date Fair Values of Restricted Stock Units |
|---------------------------------|---|--|
| Nonvested at December 31, 2005 | 189,000 | \$ 45.63 |
| Granted | 125,000 | \$ 59.43 |
| Vested | | |
| Forfeited | 24,000 | \$ 47.76 |
| Nonvested at September 30, 2006 | 290,000 | \$ 51.40 |

Long-Term Incentive Plan **Deferred Compensation Stock Units** Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. Upon distribution of such stock units, participants will receive U.S. Cellular Common Shares. The amount of U.S. Cellular's matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units. The matching contribution stock units vest ratably at a rate of one-third per year over three years. Upon vesting and distribution of such matching contribution stock units, participants will receive U.S. Cellular Common Shares.

U.S. Cellular estimates the fair value of deferred compensation matching contribution stock units based on the closing market price of U.S. Cellular Common Shares on the date of match. The fair value of such matching contribution stock units is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

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A summary of U.S. Cellular nonvested deferred compensation stock units at September 30, 2006 and changes during the nine months then ended is presented in the table below:

Deferred Compensation Awards

| | Number of Stock Units | Weighted Average Grant-Date Fair Values of Stock Units |
|---------------------------------|--------------------------|---|
| Nonvested at December 31, 2005 | 7,700 | \$ 41.08 |
| Granted | 1,700 | \$ 56.71 |
| Vested | 3,900 | \$ 42.16 |
| Forfeited | | |
| Nonvested at September 30, 2006 | 5,500 | \$ 48.92 |

Employee Stock Purchase Plan Under the 2003 Employee Stock Purchase Plan, eligible employees of U.S. Cellular and its subsidiaries may purchase a limited number of U.S. Cellular Common Shares on a quarterly basis. U.S. Cellular had reserved 110,000 Common Shares at September 30, 2006 for issuance under this plan. The plan became effective on April 1, 2003 and will terminate on December 31, 2008. U.S. Cellular employees are also eligible to participate in the TDS Employee Stock Purchase Plan. The per share cost to each participant in these plans is 85% of the market value of the Common Shares or Special Common Shares as of the issuance date. Under SFAS 123(R), the employee stock purchase plans are considered compensatory plans; therefore, recognition of compensation cost for stock issued under these plans is required. Compensation cost is measured as the difference between the cost of the shares to plan participants and the fair market value of the shares on the date of issuance. However, due to restrictions on activity under these plans in place during the three and nine months ended September 30, 2006, no compensation expense was recognized during these periods for either plan.

Compensation of Non-Employee Directors U.S. Cellular issued 0 and 40 shares under its Non-Employee Director Compensation Plan in the three and nine months ended September 30, 2006.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense recognized during the three months and nine months ended September 30, 2006:

| | Three Months Ended September 30, 2006 (Dollars in thousands) | Nine Months Ended September 30, 2006 |
|---|--|---|
| Stock option awards | \$ 3,363 | \$ 10,815 |
| Restricted stock unit awards | 2,518 | 6,181 |
| Deferred compensation matching stock unit awards | (204) | (864) |
| Awards under non-employee director compensation plan | | 2 |
| Awards under employee stock purchase plan | | |
| Total stock-based compensation, before income taxes | 5,677 | 16,134 |
| Income tax benefit | (1,715) | (5,866) |
| Total stock-based compensation expense, net of income taxes | \$ 3,962 | \$ 10,268 |

All stock-based compensation expense recognized during the three and nine months ended September 30, 2006 was recorded in Selling, general and administrative expense.

As a result of adopting SFAS 123(R) on January 1, 2006, U.S. Cellular's income before income taxes for the three and nine months ended September 30, 2006 was \$3.4 million and \$10.8 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Similarly, as a result of adopting SFAS 123(R) on January 1, 2006, U.S. Cellular's net income for the three and nine months ended September 30, 2006 was \$2.4 million and \$6.9 million lower, basic earnings per share for the three and nine months ended September 30,

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2006 was \$0.03 and \$0.08 lower, and diluted earnings per share for the three and nine months ended September 30, 2006 was \$0.03 and \$0.08 lower, respectively, than if U.S. Cellular had continued to account for stock-based compensation expense under APB 25.

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For comparison, the following table illustrates the pro forma effect on net income and earnings per share had U.S. Cellular applied the fair value recognition provisions of SFAS 123(R) to its stock-based employee compensation plans for the three and nine months ended September 30, 2005:

| | Three Months Ended September 30, 2005 (As Restated) (Dollars in thousands, except per share amounts) | Nine Months Ended September 30, 2005 (As Restated) |
|--|---|---|
| Net income, as reported | \$ 23,672 | \$ 93,781 |
| Add: Stock-based compensation expense included in reported net income, net of related tax effects and minority interest | 1,358 | 3,488 |
| Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects and minority interest | (4,403) | (11,437) |
| Pro forma net income | \$ 20,627 | \$ 85,832 |
| Earnings per share: | | |
| Basic as reported | \$ 0.27 | \$ 1.08 |
| Basic pro forma | 0.24 | 0.99 |
| Diluted as reported | 0.27 | 1.07 |
| Diluted pro forma | 0.24 | 0.98 |

At September 30, 2006, unrecognized compensation cost for all U.S. Cellular stock-based compensation awards was \$17.2 million. The unrecognized compensation cost for stock-based compensation awards at September 30, 2006 is expected to be recognized over a weighted average period of 0.9 years.

Prior to the adoption of SFAS 123(R), U.S. Cellular presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. SFAS 123(R) requires that excess tax benefits be classified as cash flows from financing activities in the Consolidated Statements of Cash Flows. For this purpose, the excess tax benefits are tax related benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the nine months ended September 30, 2006, excess tax benefits of \$0.3 million were included in cash flows from financing activities in the Consolidated Statements of Cash Flows pursuant to this requirement of SFAS 123(R).

4. Income Taxes

The following table summarizes the effective income tax rates for the three and nine months ended September 30, 2006 and 2005.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | | | | | |
|---|---|-------------------------------|--|-------------------------------|------|---|------|---|
| | 2006 | 2005 (As Restated) | 2006 | 2005 (As Restated) | | | | |
| Effective Tax Rate From | | | | | | | | |
| Operations excluding gain on sale of assets and fair value adjustment of derivative instruments | 30.2 | % | 39.1 | % | 36.4 | % | 39.5 | % |
| Gain on sale of assets and fair value adjustment of derivative instruments | 36.7 | % | 36.8 | % | 36.7 | % | 36.8 | % |
| Income before income taxes and minority interest | 27.7 | % | 39.9 | % | 36.3 | % | 39.3 | % |

The three- and nine-month 2006 effective tax rates are lower as a result of favorable outcomes upon the completion of certain state income tax audits.

In June of 2006, the Internal Revenue Service commenced its audit of the 2002-2004 consolidated federal tax returns of TDS and subsidiaries. In October 2006, the Internal Revenue Service added the 2005 consolidated federal tax return to the audit cycle. U.S. Cellular is included in the TDS consolidated federal tax return. The audit is in its preliminary stages.

5. Fair Value Adjustment of Derivative Instruments

Fair value adjustment of derivative instruments totaled a loss of \$21.3 million and \$17.4 million in the three and nine months ended September 30, 2006, respectively, and a loss of \$14.2 million and a gain of \$9.9 million in the three and nine months ended September 30, 2005, respectively. Fair value adjustment of derivative instruments reflect the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Vodafone marketable equity securities not designated as a hedge. The changes in fair value of the embedded collars during cash flow hedge designation are recorded to other comprehensive income. When the collars were de-designated in the cash flow hedge, subsequent changes in fair value are recognized in the Consolidated Statements of Operations, along with the related income tax effects. The accounting for the embedded collars as derivative instruments not designated in a hedging relationship results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the Consolidated Statements of Operations.

6. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities included in diluted earnings per share represent incremental shares issuable upon exercise of outstanding stock options.

The net income amounts used in computing earnings per share and the effects on the weighted average number of common shares and earnings per share of potentially dilutive stock options are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-----------------------|--|-----------------------|
| | 2006 (Dollars and shares in thousands, except earnings per share) | 2005 (As Restated) | 2006 (Dollars and shares in thousands, except earnings per share) | 2005 (As Restated) |
| Net income | \$ 35,875 | \$ 23,672 | \$ 125,385 | \$ 93,781 |
| Weighted average number of common shares used in basic earnings per share | 87,281 | 86,904 | 87,258 | 86,674 |
| Effect of dilutive stock options (1) | 811 | 757 | 813 | 716 |
| Weighted average number of common shares used in diluted earnings per share | 88,092 | 87,661 | 88,071 | 87,390 |
| Basic Earnings per Share | \$ 0.41 | \$ 0.27 | \$ 1.44 | \$ 1.08 |
| Diluted Earnings per Share | \$ 0.41 | \$ 0.27 | \$ 1.42 | \$ 1.07 |

(1) Stock options convertible into 200,207 and 764,997 Common Shares were not included in computing diluted earnings per share in the three and nine months ended September 30, 2006, because their effects would have increased earnings per share. Stock options convertible into 175,158 and 181,458 Common Shares were not included in computing diluted earnings per share in the three and nine months ended September 30, 2005 because their effects would have increased earnings per share.

7. Marketable Equity Securities and Forward Contracts

U.S. Cellular holds a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. U.S. Cellular does not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets.

Information regarding U.S. Cellular's marketable equity securities is summarized below.

| | September 30, 2006 (Dollars in thousands) | December 31, 2005 (As Restated) |
|---|---|---------------------------------------|
| Marketable Equity Securities - Current Assets | | |
| Vodafone Group Plc 8,964,698 and 0 American Depositary Receipts, respectively | \$ 204,933 | \$ |
| Marketable Equity Securities - Investments | | |
| Vodafone Group Plc 0 and 10,245,370 American Depositary Receipts, respectively | | 219,968 |
| Rural Cellular Corporation 370,882 Common Shares | 3,572 | 5,419 |
| Total aggregate fair value | 208,505 | 225,387 |
| Accounting cost basis | 131,512 | 160,161 |
| Gross unrealized holding gains | 76,993 | 65,226 |
| Deferred income tax liability | (28,257) | (23,939) |
| Net unrealized holding gains | 48,736 | 41,287 |
| Derivative instruments, net of tax | 2,835 | 2,835 |
| Accumulated other comprehensive income | \$ 51,571 | \$ 44,122 |

The investment in Vodafone Group Plc (Vodafone) resulted from certain dispositions of non-strategic wireless investments to or settlements with AirTouch Communications, Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby U.S. Cellular received American Depositary Receipts representing Vodafone stock. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several wireless partnerships, in which U.S. Cellular subsidiaries held interests, into Rural Cellular and the distribution of Rural Cellular stock in exchange for those interests.

U.S. Cellular has entered into a number of forward contracts related to over 97% of the market value of the marketable equity securities that it holds. The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis of the securities.

The forward contracts related to the Vodafone American Depositary Receipts (ADRs) mature in May 2007. Accordingly, the Vodafone ADRs are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheets at September 30, 2006.

Vodafone Special Distribution and Share Consolidation

At an Extraordinary General Meeting held on July 25, 2006, shareholders of Vodafone approved a Special Distribution of £0.15 per share (£1.50 per ADR) and a Share Consolidation under which every 8 ADRs of Vodafone were consolidated into 7 ADRs. As a result of the Special Distribution which was paid on August 18, 2006, U.S. Cellular received approximately \$28.6 million in cash; this amount, representing a return of capital for financial statement purposes, was recorded as a reduction in the accounting cost basis of the marketable equity securities. Also, as a result of the Share Consolidation which was effective on July 28, 2006, U.S. Cellular's previous 10,245,370 Vodafone ADRs were consolidated into 8,964,698 Vodafone ADRs.

Pursuant to terms of the Vodafone forward contracts, the Vodafone contract collars were adjusted and substitution payments were made to reflect the Special Distribution and the Share Consolidation. After adjustment, the collars had downside limits (floor) ranging from \$17.22 to \$18.37 and upside potentials (ceiling) ranging from \$17.22 to \$19.11. In the case of one forward contract, U.S. Cellular made a dividend substitution payment in the amount of \$0.2 million to the counterparty in lieu of further adjustments to the collars of such forward contract. The dividend substitution payment was recorded in Other expense, net in the Consolidated Statements of Operations.

See Note 14 Long-term Debt and Forward Contracts for additional information related to U.S. Cellular's forward contracts.

8. Licenses and Goodwill

U.S. Cellular has substantial amounts of licenses and goodwill as a result of the acquisition of wireless markets. The changes in licenses and goodwill result primarily from acquisitions, divestitures and impairments.

A summary of activity in licenses and goodwill for the nine months ended September 30, 2006 and 2005 is provided below:

| | September 30, 2006 (Dollars in thousands) | September 30, 2005 |
|------------------------------------|---|-----------------------|
| Licenses | | |
| Balance, beginning of period | \$ 1,362,263 | \$ 1,228,801 |
| Acquisitions | 5,534 | 133,633 |
| Assets of Operations Held for Sale | | (21,945) |
| Other (1) | 79,772 | |
| Balance, end of period | \$ 1,447,569 | \$ 1,340,489 |

(1) Includes \$80 million representing deposits made to the FCC for Barat Wireless licenses with respect to which Barat Wireless was the high bidder in Auction 66. See Note 17 Acquisitions, Divestitures and Exchanges for more information related to Barat Wireless.

| | September 30, 2006 (Dollars in thousands) | September 30, 2005 (As Restated) |
|--|---|--|
| Goodwill | | |
| Balance, beginning of period | \$ 481,235 | \$ 454,830 |
| Acquisitions | 3,932 | 237 |
| Assets of Operations Held for Sale (1) | | (2,741) |
| Other | 318 | (10) |
| Balance, end of period | \$ 485,485 | \$ 452,316 |

(1) As a result of the exchange agreement entered into with ALLTEL during 2005, U.S. Cellular reclassified \$2.7 million of goodwill to Assets of Operations Held for Sale as of September 30, 2005. The transaction closed in the fourth quarter of 2005.

See Note 17 Acquisitions, Divestitures and Exchanges below for additional information related to transactions which affected licenses and goodwill.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. U.S. Cellular performs the annual impairment review on licenses and goodwill during the second quarter of its fiscal year. Accordingly, the annual impairment tests for licenses and goodwill for 2006 and 2005 were performed in the second quarter of 2006 and 2005. Such impairment tests indicated that there was no impairment of licenses or goodwill in either year.

9. Unconsolidated Entities

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

U.S. Cellular's significant investments in unconsolidated entities included the following:

| | September 30, 2006 | | September 30, 2005 | |
|---|-----------------------|---|-----------------------|---|
| Los Angeles SMSA Limited Partnership | 5.5 | % | 5.5 | % |
| Midwest Wireless Communications, L.L.C. (1) | 14.2 | % | 14.2 | % |
| North Carolina RSA 1 Partnership | 50.0 | % | 50.0 | % |
| Oklahoma City SMSA Limited Partnership | 14.6 | % | 14.6 | % |

(1) In addition, at September 30, 2006 and 2005, U.S. Cellular owned a 49% interest in an entity which owned an interest of approximately 2.9% in Midwest Wireless Holdings, L.L.C, the parent company of Midwest Wireless Communications, L.L.C. See Note 21 Subsequent Events for information about the disposition of this interest.

Based primarily on data furnished to U.S. Cellular by third parties, the following summarizes the combined results of operations of U.S. Cellular's equity method investments:

| | Three Months Ended September 30, 2006 | | Nine Months Ended September 30, 2006 | |
|------------------------|---|------------|--|--------------|
| | 2005 | | 2005 | |
| (Dollars in thousands) | | | | |
| Results of Operations | | | | |
| Revenues | \$ 1,077,000 | \$ 906,000 | \$ 3,083,000 | \$ 2,510,000 |
| Operating expenses | 740,000 | 627,000 | 2,121,000 | 1,741,000 |
| Operating income | 337,000 | 279,000 | 962,000 | 769,000 |
| Other income, net (1) | 11,000 | 2,000 | 34,000 | 17,000 |
| Net Income | \$ 348,000 | \$ 281,000 | \$ 996,000 | \$ 786,000 |

(1) Includes income tax related to small corporations.

See Note 21 Subsequent Events for additional information related to U.S. Cellular's investment in Midwest Wireless Communications, L.L.C.

10. Customer Lists

Customer lists acquired in connection with purchases and exchanges of wireless markets are being amortized based on average customer retention periods using the double declining balance method in the first year, switching to straight-line over the remaining estimated life. The acquisition of certain minority interests in the nine months ended September 30, 2006 and 2005 added \$2.0 million and \$0.6 million, respectively, to the gross balance of customer lists. Customer list amortization expense was \$5.9 million and \$17.6 million for the three and nine months ended September 30, 2006, respectively, and \$2.4 million and \$7.6 million for the three and nine months ended September 30, 2005, respectively. Amortization expense for the remainder of 2006 and for the years 2007-2011 is expected to be \$5.9 million, \$9.8 million, \$7.2 million, \$5.4 million, \$3.7 million and \$0.1 million, respectively.

11. Property, Plant and Equipment

In accordance with SFAS 144, U.S. Cellular reviews its long-lived assets, including property, plant and equipment, for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. U.S. Cellular performed impairment tests of property, plant and equipment during the second quarter of 2006 and 2005. Such impairment tests indicated that there was no impairment of property, plant and equipment in either year.

12. Revolving Credit Facility

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At September 30, 2006, outstanding borrowings and letters of credit were \$150.0 million and \$0.5 million, respectively, leaving \$549.5 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular s credit rating. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. At September 30, 2006, the one month LIBOR was 5.32% and the contractual spread was 60 basis points. If U.S. Cellular provides less than two days notice of intent to borrow, the related borrowings bear interest at the prime rate less 50 basis points (the prime rate was 8.25% at September 30, 2006). This credit facility expires in December 2009.

U.S. Cellular s interest cost on its revolving credit facility would increase if its current credit ratings from either Standard & Poor s Rating Services (Standard & Poor s) or Moody s Investor Service (Moody s) were lowered. However, the credit facility would not cease to be available or accelerate solely as a result of a decline in U.S. Cellular s credit rating. A downgrade in U.S. Cellular s credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future. U.S. Cellular s credit ratings as of the dates indicated are as follows:

| | | |
|--|------|---|
| Moody s (Issued November 10, 2005) | Baa3 | under review for possible further downgrade |
| Standard & Poor s (Issued February 13, 2007) | BBB- | on credit watch with negative implications |
| Fitch Ratings (Issued November 10, 2005) | BBB+ | on ratings watch negative |

U.S. Cellular s credit rating may be changed at any time and such ratings should not be assumed to be accurate as of any future date.

The maturity dates of borrowings under U.S. Cellular s revolving credit facility would accelerate in the event of a change in control. The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and represent certain matters at the time of each borrowing. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements which caused U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under the revolving credit facility. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and late filings. The waivers required the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarter ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarter ended March 31, 2006. On October 6, 2006, U.S. Cellular received amended waivers from the lenders associated with the revolving credit facility which extended the date by which the financial statements of U.S. Cellular for the second quarter ended June 30, 2006 were required to be delivered to November 8, 2006. The Form 10-K for the year ended December 31, 2005 was filed on July 28, 2006, the Form 10-Q for the quarter ended March 31, 2006 was filed on August 25, 2006 and the Form 10-Q for the quarter ended June 30, 2006 was filed on October 10, 2006.

In addition, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under the revolving credit facility. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such revolving credit facility. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

On October 26, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB+ from A-. The outlook was stable. On November 7, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB from BBB+. The ratings were placed on credit watch with negative implications. On February 13, 2007, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB- from BBB. The ratings remain on Credit Watch with negative implications. The credit ratings by Moody's Investors Service remain Baa3 under review for possible further downgrade. The credit ratings by Fitch remain BBB+ on ratings watch negative.

13. Asset Retirement Obligations

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include obligations to remediate leased land on which U.S. Cellular's cell sites and switching offices are located. U.S. Cellular is also generally required to return leased retail store premises and office space to their pre-existing conditions.

U.S. Cellular accounts for its asset retirement obligations in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, (SFAS 143) and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), which require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. At the time the liability is incurred, U.S. Cellular records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligations, any difference between the cost to retire an asset and the recorded liability (including accretion of discount) is recognized in the Consolidated Statements of Operations as a gain or loss.

During the third quarter of 2006, U.S. Cellular reviewed the assumptions related to its asset retirement obligations and, as a result of the review, revised certain of those assumptions. Estimated retirement obligations for cell sites were revised to reflect higher estimated costs for removal of radio and power equipment, and estimated retirement obligations for retail stores were revised to reflect a shift to larger stores and slightly higher estimated costs for removal of fixtures. These changes are reflected in Revision in estimated cash flows below. The table below also summarizes other changes in asset retirement obligations during the nine months ended September 30, 2006 and 2005.

| | September 30, 2006 | September 30, 2005 |
|-----------------------------------|------------------------|-----------------------|
| | (Dollars in thousands) | |
| Beginning balance | \$ 90,224 | \$ 72,575 |
| Additional liabilities incurred | 5,922 | 4,701 |
| Revisions in estimated cash flows | 13,415 | |
| Acquisition of assets | 1,237 | |
| Disposition of assets | (112) | (1,925) |
| Accretion expense | 5,312 | 4,733 |
| Ending balance | \$ 115,998 | \$ 80,084 |

14. Long-Term Debt and Forward Contracts

There were no significant changes in long-term debt during the three months ended September 30, 2006.

The late filing of U.S. Cellular's Form 10-K for the year ended December 31, 2005 and Forms 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 and the failure to deliver such Forms 10-K and 10-Q to the trustee of the U.S. Cellular debt indenture on a timely basis, resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default. U.S. Cellular believes that non-compliance was cured upon the filing of its Form 10-K for the year ended December 31, 2005 and its Forms 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indenture.

In addition, the late filing of this Form 10-Q and the failure to deliver such Form 10-Q to the trustees of the U.S. Cellular debt indenture on a timely basis also resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default and U.S. Cellular believes that such non-compliance was cured upon the filing of this Form 10-Q. U.S. Cellular has failed to make and does not expect to fail to make any scheduled payment of principal or interest under such indenture.

Except as noted above, U.S. Cellular believes it was in compliance as of September 30, 2006 with all covenants and other requirements set forth in its long-term debt indenture. Such indenture does not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to obtain long-term debt financing in the future.

Forward Contracts

U.S. Cellular has forward contracts related to its 8,964,698 Vodafone Group Plc ADRs. The Vodafone securities are pledged as collateral for the forward contracts.

See Note 7 above for a description of the Vodafone Special Distribution and Share Consolidation. Pursuant to terms of the Vodafone forward contracts, the Vodafone contract collars were adjusted and substitution payments were made to reflect the Special Distribution and the Share Consolidation. After adjustment, the collars had downside limits (floor) ranging from \$17.22 to \$18.37 and upside potentials (ceiling) ranging from \$17.22 to \$19.11. In the case of one forward contract, U.S. Cellular made a dividend substitution payment in the amount of \$0.2 million to the counterparty in lieu of further adjustments to the collars of such forward contract. The dividend substitution payment was recorded in Other expense, net in the Consolidated Statements of Operations.

The \$159.9 million principal amount of the forward contracts is accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. Because the forward contracts mature in May 2007, the associated debt and derivative liability balances are classified as Current Liabilities. The forward contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 5.37% at September 30, 2006).

The economic hedge risk management objective of the forward contracts is to hedge the value of the Vodafone securities from losses due to decreases in the market prices of the securities (downside limit) while retaining a share of gains from increases in the market prices of such securities (upside potential). The downside limit is hedged at or above the accounting cost basis.

Under the terms of the forward contracts, a subsidiary of U.S. Cellular continues to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts, at U.S. Cellular's option, may be settled in shares of the security or in cash, pursuant to formulas that collar the price of the shares. The collars effectively reduce U.S. Cellular's downside limit and upside potential on the contracted shares. The collars are typically contractually adjusted for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential is typically reduced. If the dividend decreases, the collar's upside potential is typically increased. If U.S. Cellular elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities and the net amount realized through maturity. If U.S. Cellular elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula. U.S. Cellular has provided guarantees to the counterparties which provide assurance that all principal and interest amounts will be paid by its subsidiary upon settlement of the contracts.

U.S. Cellular is required to comply with certain covenants under the forward contracts. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements which caused U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under one of the forward contracts. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received a waiver from the counterparty associated with the forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements and late filings. The waivers required the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarterly period ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarterly period ended March 31, 2006. On October 6, 2006, U.S. Cellular received amended waivers from the counterparty associated with the forward contract which extended the date by which the financial statements of U.S. Cellular for the quarterly period ended June 30, 2006 were required to be delivered to November 8, 2006. The Form 10-K for the year ended December 31, 2005 was filed on July 28, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 was filed on August 25, 2006 and the Form 10-Q for the quarterly period ended June 30, 2006 was filed on October 10, 2006.

In addition, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under certain of the forward contracts. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such forward contracts. U.S. Cellular received waivers from the counterparty to such forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

15. Minority Interest in Subsidiaries

Under SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, certain minority interests in consolidated entities with finite lives may meet the Statement's definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity's organization agreement, assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). U.S. Cellular's consolidated financial statements include such minority interests that meet the Statement's definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (L.L.C.s), where the terms of the underlying partnership or L.L.C. 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 minority interest holders and U.S. Cellular in accordance with the respective partnership and L.L.C. agreements. The termination dates of U.S. Cellular's mandatorily redeemable minority interests range from 2042 to 2103.

The settlement value of U.S. Cellular's mandatorily redeemable minority interests was estimated to be \$172.2 million at September 30, 2006. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and L.L.C.s on September 30, 2006, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FASB Staff Position (FSP) No. FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests. U.S. Cellular has no current plans or intentions to liquidate any of the finite-lived partnerships or L.L.C.s prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and L.L.C.s at September 30, 2006 was \$38.9 million and is included in Minority Interest in Subsidiaries in the Consolidated Balance Sheets. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of

\$133.3 million is primarily due to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and L.L.C.s. Neither the minority 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 under U.S. GAAP. The estimate of settlement value was based on certain factors and assumptions. A change in those factors and assumptions could result in a materially larger or smaller settlement amount.

16. Common Share Repurchase Program

The Board of Directors of U.S. Cellular has authorized the repurchase of a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. No U.S. Cellular Common Shares were repurchased in the first nine months of 2006 or 2005.

17. 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 markets and wireless interests that are not strategic to its long-term success.

U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the Federal Communications Commission (FCC) as Auction 66. Barat Wireless was qualified to receive a 25% discount available to designated entities, which are small businesses that have a limited amount of assets. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its designated entity discount. The balance due from Barat Wireless at the conclusion of the auction for the licenses with respect to which Barat Wireless was the high bidder was approximately \$47.1 million and was paid on October 18, 2006. Although the bidding in Auction 66 ended on September 18, 2006, the FCC has not yet awarded the licenses to Barat Wireless, nor is there any prescribed timeframe for the FCC to review the qualifications of Barat Wireless and award the licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of October 31, 2006, U.S. Cellular had made capital contributions and advances to Barat Wireless and/or its general partner totaling \$127.2 million. For financial reporting purposes, U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51 (FIN 46(R)), as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless' expected gains or losses. Pending finalization of Barat Wireless' permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

On April 21, 2006, U.S. Cellular purchased the remaining ownership interest in a Tennessee wireless market in which it had previously owned a 16.7% interest for approximately \$18.8 million in cash, subject to a working capital adjustment. This acquisition increased investments in licenses, goodwill and customer lists by \$5.5 million, \$3.9 million and \$2.0 million, respectively.

U.S. Cellular is a limited partner in Carroll Wireless, L.P. (Carroll Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. The aggregate amount paid to the FCC for the 17 licenses was \$129.9 million, net of all bidding credits to which Carroll Wireless was entitled as a designated entity. These 17 licensed areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly, in 2006, Carroll Wireless received a full refund of the \$228,000 previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of September 30, 2006, U.S. Cellular had made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$129.9 million; \$129.7 million of this amount is included in Licenses in the Consolidated Balance Sheets. For financial reporting purposes, U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, pursuant to the guidelines of FIN 46(R), as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of \$1.4 million of which \$0.1 million was provided to Carroll Wireless through September 30, 2006.

In the first quarter of 2005, U.S. Cellular adjusted the gain on investments related to its sale to ALLTEL Corporation (ALLTEL) of certain wireless properties on November 30, 2004. The adjustment of the gain, which resulted from a working capital adjustment that was finalized in the first quarter of 2005, increased the total gain on the sale by \$0.6 million to \$38.6 million.

In addition, in 2005, U.S. Cellular purchased one new wireless market and certain minority interests in other wireless markets in which it already owned a controlling interest for \$6.9 million in cash.

18. Accumulated Other Comprehensive Income

The cumulative balance of unrealized gains and losses on securities and derivative instruments and related income tax effects included in Accumulated other comprehensive income are as follows:

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Marketable Equity Securities | | |
| Balance, beginning of period | \$ 41,287 | \$ 77,573 |
| Add (deduct): | | |
| Unrealized gains (losses) on marketable equity securities | 11,768 | (12,247) |
| Income tax (expense) benefit | (4,319) | 4,502 |
| Net change in unrealized gains (losses) on marketable equity securities in comprehensive income | 7,449 | (7,745) |
| Balance, end of period | \$ 48,736 | \$ 69,828 |
| Derivative Instruments | | |
| Balance, beginning of period | \$ 2,835 | \$ 2,832 |
| Add (deduct): | | |
| Unrealized gain (loss) on derivative instruments | | |
| Income tax (expense) benefit | | |
| Net change in unrealized gains (losses) on derivative instruments included in comprehensive income | | |
| Balance, end of period | \$ 2,835 | \$ 2,832 |
| Accumulated Other Comprehensive Income | | |
| Balance, beginning of period | \$ 44,122 | \$ 80,405 |
| Net change in marketable equity securities | 7,449 | (7,745) |
| Net change in derivative instruments | | |
| Net change in unrealized gains (losses) included in comprehensive income | 7,449 | (7,745) |
| Balance, end of period | \$ 51,571 | \$ 72,660 |

19. Commitments and Contingencies

Contingent obligations, including indemnities, litigation and other possible commitments are accounted for in accordance with SFAS No. 5, Accounting for Contingencies, which requires that an estimated loss be recorded if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, those contingencies that are deemed to be probable and where the amount of the loss is reasonably estimable are accrued in the financial statements. 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. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been or will be incurred, even if the amount is not estimable. The assessment of contingencies is a highly subjective process that requires judgments about future events. Contingencies are reviewed at least quarterly to determine the adequacy of the accruals and financial statement disclosure. The ultimate outcome of contingencies could materially impact the Consolidated Statements of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows.

Indemnifications

U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. These agreements include certain asset sales and financings with other parties. The terms of the indemnification 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 in a number of legal proceedings before the FCC and 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 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 the accruals and related financial statement disclosure. The ultimate outcome of legal proceedings could differ materially from amounts accrued in the financial statements.

20. Related Party Transactions

U.S. Cellular is billed for all services it receives from TDS, pursuant to the terms of various agreements between U.S. Cellular and TDS. These billings are included in U.S. Cellular's selling, general and administrative expenses. Some of these agreements were established at a time prior to U.S. Cellular's initial public offering when TDS owned more than 90% of U.S. Cellular's outstanding capital stock and may not reflect terms that would be obtainable from an unrelated third party through arm's-length negotiations. Such billings are based on expenses specifically identified to U.S. Cellular and on allocations of common expenses. Such allocations are based on the relationship of U.S. Cellular's assets, employees, investment in plant and expenses to the total assets, employees, investment in plant and expenses of TDS. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular are reflected in the accompanying financial statements. Billings to U.S. Cellular from TDS totaled \$28.2 million and \$22.9 million for the three-month period ended September 30, 2006 and 2005, respectively, and \$77.8 million and \$64.1 million for the nine-month period ended September 30, 2006 and 2005, respectively.

21. Subsequent Events

Midwest Wireless

As of September 30, 2006, U.S. Cellular owned approximately 14% of Midwest Wireless Communications, L.L.C., which interest was convertible into an interest of approximately 11% in Midwest Wireless Holdings, L.L.C., a privately-held wireless telecommunications company that controlled Midwest Wireless Communications. Midwest Wireless Holdings, through subsidiaries, held FCC licenses and operated certain wireless markets in southern Minnesota, northern and eastern Iowa and western Wisconsin. On November 18, 2005, ALLTEL announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for \$1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the members of Midwest Wireless Holdings. These conditions were satisfied and the closing of this agreement occurred on October 3, 2006. As a result, U.S. Cellular became entitled to receive approximately \$106.0 million in cash in consideration with respect to its interest in Midwest Wireless Communications. Of this amount, \$95.1 million was received on October 6, 2006; the remaining balance is being held in reserve and in escrow to secure true-up, indemnification and other adjustments and, subject to such adjustments, will be distributed in installments over a period of four to fifteen months following the closing. In addition as of September 30, 2006, U.S. Cellular owned 49% of an entity, accounted for under the equity method, which owned approximately 2.9% of Midwest Wireless Holdings. As a result of the closing of the transaction, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately \$11.8 million in cash, subject to the previously referenced discussion regarding adjustments and installments. The net aggregate carrying value of U.S. Cellular's investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately \$29.9 million at September 30, 2006.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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United States Cellular Corporation (U.S. Cellular) owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 81.2%-owned subsidiary of Telephone and Data Systems, Inc. (TDS).

The following discussion and analysis should be read in conjunction with U.S. Cellular's interim consolidated financial statements included in Item 1 above, and with its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K/A (Form 10-K/A) for the year ended December 31, 2005.

Restatement

U.S. Cellular and its audit committee concluded on November 6, 2006, that U.S. Cellular would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004 and certain selected financial data for 2002. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- **Forward contracts and related derivative instruments** - In reviewing the accounting and disclosure of its prepaid forward contracts, U.S. Cellular concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. U.S. Cellular did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders' equity, to the statement of operations.
- **Contracts with maintenance and support services** - U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.
- **Classification of Asset Retirement Obligation on the Statement of Cash Flows** - The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$4.7 million in the nine months ended September 30, 2005.

- **Income taxes** U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. In the restatement, U.S. Cellular adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by \$9.6 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.
- **Property, plant and equipment** U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.
- **Other items** In addition to the adjustments described above, U.S. Cellular recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to certain balance sheet amounts. These individual adjustments were not material.

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The table below summarizes the impacts of the restatement on income before income taxes and minority interest.

| | Three Months Ended September 30, 2005 (Increase (decrease), dollars in thousands) | | Nine Months Ended September 30, 2005 | |
|--|---|-----------|---|----------|
| Income Before Income Taxes and Minority Interest, as previously reported | \$ | 62,536 | \$ | 166,149 |
| Forward contracts and related derivative instruments | | (14,241) | | 9,938) |
| Contracts with maintenance and support services | | (123) | | (458) |
| Property, plant and equipment | | (1,827) | | (1,750) |
| Other items | | (1,269) | | (6,109) |
| Total adjustment | | (17,460) | | 1,621) |
| Income Before Income Taxes and Minority Interest, as restated | \$ | 45,076 | \$ | 167,770 |

The table below summarizes the net income and diluted earnings per share impacts from the restatement.

| | Three Months Ended September 30, 2005 | | Nine Months Ended September 30, 2005 | |
|--|---|----------------------------|---|----------------------------|
| | Net Income | Diluted Earnings Per Share | Net Income | Diluted Earnings Per Share |
| | (Increase (decrease), dollars in thousands, except per share amounts) | | | |
| As previously reported | \$ 34,620 | \$ 0.39 | \$ 92,262 | \$ 1.06 |
| Forward contracts and related derivative instruments | (9,006) | (0.10) | 6,285 | 0.07 |
| Contracts with maintenance and support services | (59) | | (231) | |
| Income taxes | | | | |
| Property, plant and equipment | (1,127) | (0.01) | (1,075) | (0.01) |
| Other items | (756) | (0.01) | (3,460) | (0.05) |
| Total adjustment | (10,948) | (0.12) | 1,519 | 0.01 |
| As restated | \$ 23,672 | \$ 0.27 | \$ 93,781 | \$ 1.07 |

SUMMARY OF HOLDINGS

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, interests in 241 wireless markets at September 30, 2006. A summary of the number of markets U.S. Cellular owned or had rights to acquire as of September 30, 2006 follows:

| | Number of Markets |
|---|------------------------------|
| Consolidated markets (1) | 201 |
| Consolidated markets acquirable pursuant to existing agreements (2) | 17 |
| Minority interests accounted for using equity method | 18 |
| Minority interests accounted for using cost method | 5 |
| Total markets to be owned after completion of pending transactions | 241 |

(1) Includes majority interests in 190 markets and other interests in 11 licenses acquired through Carroll Wireless, L.P. (Carroll Wireless). U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial reporting purposes, pursuant to the guidelines of FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51 (FIN 46(R)), as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless was the winning bidder of 17 wireless licenses in the auction of wireless spectrum designated by the Federal Communications Commission (FCC) as Auction 58. On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it was the winning bidder and dismissed one application relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. In March 2006, Carroll Wireless received a full refund of the amount paid to the FCC with respect to the Walla Walla license. Of the 16 licenses which were granted to Carroll Wireless, 11 licenses represent markets which are incremental to U.S. Cellular s currently owned or acquirable markets and 5 represent markets in which U.S. Cellular currently owns spectrum. Only licenses which add incremental territory to U.S. Cellular s consolidated operating markets are included in the number of consolidated markets so as to avoid duplicate reporting of overlapping markets.

(2) U.S. Cellular owns rights to acquire majority interests in 17 wireless licenses resulting from an exchange transaction with AT&T Wireless Services, Inc. (AT&T Wireless), now Cingular Wireless LLC (Cingular), which closed in August 2003. Pursuant to the exchange transaction, U.S. Cellular also has rights to acquire 4 additional licenses. However, those 4 additional licenses are in markets where U.S. Cellular currently owns spectrum. Only licenses which add incremental territory to U.S. Cellular s consolidated operating markets are included in the number of consolidated markets so as to avoid duplicate reporting of overlapping markets.

OVERVIEW

The following is a summary of certain selected information from the complete Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) that follows below. This Overview does not contain all of the information that may be important and, therefore, you should carefully read the entire MD&A and not rely solely on this Overview.

Results of Operations

U.S. Cellular positions itself as a regional operator, focusing its efforts on providing wireless service to customers in the geographic areas where it has licenses to provide such service. U.S. Cellular differentiates itself from its competitors through a customer satisfaction strategy, reflecting broad product distribution, a customer service focus and a high-quality wireless network.

U.S. Cellular's business development strategy is to acquire, develop and operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular's operating strategy is to strengthen the geographic areas where it can continue to build long-term operating synergies and to exit those areas where it does not have opportunities to build such synergies.

U.S. Cellular delivered solid business results for the nine months ended September 30, 2006. Operating highlights included the following:

- Total customers increased 8% year-over-year to 5,729,000 and average monthly service revenue per customer increased 4% to \$46.92;
- The postpay churn rate per month was 1.5%;
- Additions to property, plant and equipment totaled \$421.4 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores and continue the development of U.S. Cellular's office systems. Total cell sites in service increased 11% year-over-year to 5,726; and
- In April 2006, U.S. Cellular completed the purchase of the remaining majority interest in the Tennessee RSA No. 3 Limited Partnership, a wireless market in which it had previously owned a 16.7% interest, for approximately \$18.8 million in cash.

Service Revenues increased \$293.5 million, or 14%, to \$2,382.7 million in the nine months ended September 30, 2006 from \$2,089.2 million in 2005. Revenues from data products and services increased 60% to \$147.8 million in the nine months ended September 2006 from \$92.3 million in 2005 as customers continue to use U.S. Cellular's **easyedgeSM** products and offerings such as Short Messaging Service (SMS), Speedtalk SM, a push-to-talk service, and Blackberry® handsets and service.

Operating Income in the nine months ended September 30, 2006 increased \$61.3 million, or 37%, to \$226.3 million from \$165.0 million in 2005. The increase in Operating Income reflected both higher operating revenues and a higher operating income margin (as a percent of service revenues), which was 9.5% in the nine months ended September 30, 2006 compared to 7.9% in 2005.

Investment and Other Income (Expense) totaled \$(11.8) million in the nine months ended September 30, 2006 and \$2.8 million in the same period of 2005.

Net Income in the nine months ended September 30, 2006 increased 34% to \$125.4 million compared to \$93.8 million in 2005. Basic Earnings per Share was \$1.44 in 2006, which was \$0.36 higher than last year and Diluted Earnings per Share was \$1.42, which was \$0.35 higher than last year. The increases in Net Income and Earnings per Share in 2006 compared to 2005 were primarily attributable to higher Operating Income.

Cash Flows and Investments

U.S. Cellular had cash and cash equivalents of \$38.9 million and available borrowing capacity of \$549.5 million under its revolving credit facility as of September 30, 2006. Also, during the nine months ended September 30, 2006, U.S. Cellular generated cash flows from operating activities of \$499.6 million. U.S. Cellular believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial financial flexibility and are sufficient to permit U.S. Cellular to finance its contractual obligations and anticipated capital expenditures for the foreseeable future. U.S. Cellular continues to seek to maintain a strong balance sheet and an investment grade credit rating.

U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% discount available to designated entities, which are small businesses that have a limited amount of assets. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its designated entity discount. The balance due from Barat Wireless at the conclusion of the auction for the licenses with respect to which Barat Wireless was the high bidder was approximately \$47.1 million and was paid on October 18, 2006. Although the bidding in Auction 66 ended on September 18, 2006, the FCC has not yet awarded any of the licenses to winning bidders, nor is there any prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of October 31, 2006, U.S. Cellular had made capital contributions and advances to Barat Wireless and/or its general partner totaling \$127.2 million. For financial reporting purposes, U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of FIN 46(R), as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless' expected gains or losses. Pending finalization of Barat Wireless' permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

At an Extraordinary General Meeting held on July 25, 2006, shareholders of Vodafone approved a Special Distribution of £0.15 per share (£1.50 per American Depositary Receipt (ADR)) and a Share Consolidation under which every 8 ADRs of Vodafone were consolidated into 7 ADRs. As a result of the Special Distribution which was paid on August 18, 2006, U.S. Cellular received approximately \$28.6 million in cash; this amount, representing a return of capital, was recorded as a reduction in the net carrying value of marketable equity securities in the Consolidated Balance Sheet. Also, as a result of the Share Consolidation which was effective on July 28, 2006, U.S. Cellular's previous 10,245,370 Vodafone ADRs were consolidated into 8,964,698 Vodafone ADRs.

See Financial Resources and Liquidity and Capital Resources for additional information related to cash flows and investments. See Note 21 Subsequent Events of Notes to Consolidated Financial Statements included in Item 1 above for information related to cash proceeds from the sale of Midwest Wireless.

RESULTS OF OPERATIONS**Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005.**

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

| | 2006 | | 2005 | |
|--|------------|---|------------|---|
| As of September 30, (1a) | | | | |
| Total market population (2)(4) | 55,543,000 | | 44,690,000 | |
| Customers (3) | 5,729,000 | | 5,303,000 | |
| Market penetration (4) | 10.3 | % | 11.9 | % |
| Total full-time equivalent employees | 7,571 | | 7,375 | |
| Cell sites in service | 5,726 | | 5,149 | |
| For the Nine Months Ended September 30, (1b) | | | | |
| Net customer additions (5) | 224,000 | | 352,000 | |
| Net retail customer additions (5) | 200,000 | | 281,000 | |
| Average monthly service revenue per customer (6) (As Restated) | \$ 46.92 | | \$ 45.02 | |
| Postpay churn rate per month (7) | 1.5 | % | 1.5 | % |
| Sales and marketing cost per gross customer addition (8) (As Restated) | \$ 467 | | \$ 445 | |

(1a) Amounts in 2006 include information related to all markets included in U.S. Cellular's consolidated operations as of September 30, 2006. Such markets include (i) the market acquired during April 2006, (ii) the 15 markets acquired from ALLTEL in the exchange transaction completed in December 2005 and (iii) the 11 markets granted to Carroll Wireless by the FCC in January 2006 which are incremental to U.S. Cellular's currently owned or acquirable markets. Such markets exclude the two markets transferred to ALLTEL in the exchange transaction completed in December 2005. Amounts in 2005 include information related to all markets included in U.S. Cellular's consolidated operations as of September 30, 2005. For further information on acquisitions, divestitures and exchanges, see Summary of Holdings above.

(1b) Amounts in 2006 include results from all markets included in U.S. Cellular's consolidated operations for the period January 1, 2006 through September 30, 2006. Such markets include (i) the market acquired during April 2006, (ii) the 15 markets acquired from ALLTEL in the exchange transaction completed in December 2005 for the period January 1 through September 30, 2006 and (iii) the 11 markets granted to Carroll Wireless by the FCC in January 2006 for the period January 6 through September 30, 2006. Such amounts exclude results from the two markets transferred to ALLTEL in the exchange transaction completed in December 2005. Amounts in 2005 include results from all markets included in U.S. Cellular's consolidated operations for the period January 1, 2005 through September 30, 2005. For further information on acquisitions, divestitures and exchanges, see Summary of Holdings above.

(2) Represents 100% of the population of the markets in which U.S. Cellular had a controlling financial interest for financial reporting purposes as of September 30 of each respective year.

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

| | September 30, 2006 | 2005 |
|---|-----------------------|-----------|
| Customers on postpay service plans in which the end user is a customer of U.S. Cellular (postpay customers) | 4,818,000 | 4,475,000 |
| End user customers acquired through U.S. Cellular's agreement with a third party (reseller customers) * | 602,000 | 538,000 |
| Total postpay customers | 5,420,000 | 5,013,000 |
| Customers on prepaid service plans in which the end user is a customer of U.S. Cellular (prepaid customers) | 309,000 | 290,000 |

| | | |
|-----------------|-----------|-----------|
| Total customers | 5,729,000 | 5,303,000 |
|-----------------|-----------|-----------|

* Pursuant to its agreement with the third party, U.S. Cellular is compensated by the third party on a postpay basis; as a result, all customers whom U.S. Cellular has acquired through this agreement are considered to be postpay customers.

(4) Calculated using 2005 and 2004 Claritas population estimates for 2006 and 2005, respectively. Total market population is used only for the purposes of calculating market penetration, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

(5) Net customer additions represents the number of net customers added to U.S. Cellular's overall customer base through all of its marketing distribution channels, excluding any customers transferred through acquisitions, divestitures or exchanges. Net retail customer additions represents the number of net customers added to U.S. Cellular's customer base through its marketing distribution channels, excluding net reseller customers added to its reseller customer base and excluding any customers transferred through acquisitions, divestitures or exchanges. See Operating Income below for information related to U.S. Cellular's estimate of net retail customer additions for the full year 2006.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------------------|
| | 2006 | 2005 (As Restated) |
| Service Revenues per Consolidated Statements of Operations | \$ 2,382,747 | \$ 2,089,232 |
| Divided by average customers during period (000s) * | 5,642 | 5,156 |
| Divided by number of months in each period | 9 | 9 |
| Average monthly service revenue per customer | \$ 46.92 | \$ 45.02 |

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

(7) Postpay churn rate per month represents the percentage of the postpay customer base that disconnects service each month, including both postpay customers and reseller customers. Reseller customers can disconnect service without the associated account numbers being disconnected from U.S. Cellular's network if the reseller elects to reuse the customer telephone numbers. Only those reseller customer numbers that are disconnected from U.S. Cellular's network are counted in the number of postpay disconnects. The calculation is performed by first dividing the total number of postpay and reseller customers who disconnect service during the period by the number of months in such period, and then dividing that quotient by the average monthly postpay customer base, which includes both postpay and reseller customers, for such period.

(8) For a discussion of the components of this calculation, see Operating expenses Selling, general and administrative expenses below.

Operating Revenues increased \$325.5 million, or 14%, to \$2,571.0 million in 2006 from \$2,245.5 million in 2005.

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------------------|
| | 2006 (Dollars in thousands) | 2005 (As Restated) |
| Retail service | \$ 2,087,092 | \$ 1,836,279 |
| Inbound roaming | 117,895 | 107,842 |
| Long-distance and other service revenues | 177,760 | 145,111 |
| Service Revenues | 2,382,747 | 2,089,232 |
| Equipment sales | 188,289 | 156,294 |
| | \$ 2,571,036 | \$ 2,245,526 |

Service revenues increased \$293.5 million, or 14%, to \$2,382.7 million in 2006 from \$2,089.2 million in 2005. Service revenues primarily consist 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 (inbound roaming); and (iii) charges for long-distance calls made on U.S. Cellular's systems. The increase in service revenues was primarily due to growth in the customer base, which increased to 5,729,000 in 2006 from 5,303,000 in 2005, and higher monthly service revenue per customer, which averaged \$46.92 in the first nine months of 2006 compared to \$45.02 in the first nine months of 2005. See footnote 6 to the table of summarized

operating data in Results of Operations above for the calculation of average monthly service revenue per customer.

Retail service revenues increased \$250.8 million, or 14%, to \$2,087.1 million in 2006 from \$1,836.3 million in 2005. Growth in U.S. Cellular's customer base and an increase in average monthly retail service revenue per customer were the primary reasons for the increase in retail service revenues. Average monthly retail service revenue per customer increased 4% to \$41.10 in 2006 from \$39.57 in 2005, reflecting growth in average minutes of use per customer and higher revenues from data products and services.

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The number of customers increased 8% to 5,729,000 at September 30, 2006, from 5,303,000 at September 30, 2005. The increase in the average number of customers was primarily driven by the addition of approximately 349,000 net new customers that U.S. Cellular generated from its marketing (including reseller) channels over the last twelve months. U.S. Cellular anticipates that the percentage growth in its customer base will be lower in the future, primarily as a result of increased competition and higher penetration in its markets. However, as U.S. Cellular expands its operations in its recently acquired and launched markets in future years, it anticipates adding customers and revenues in those markets.

Monthly retail minutes of use per customer increased 12% to 691 in 2006 from 617 in 2005. The increase in monthly retail minutes of use was driven by U.S. Cellular's focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage. The impact on retail service revenues of the increase in average monthly retail minutes of use was offset in part by a decrease in average revenue per minute of use in 2006 compared to 2005. The decrease in average revenue per minute of use reflects the effects of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans and the inclusion of features such as unlimited night and weekend minutes and unlimited incoming call minutes in certain pricing plans. Additionally, the percentage of U.S. Cellular's customer base represented by prepaid and reseller customers, which generate less revenue per customer on average than postpay customers, increased from 15.6% at September 30, 2005 to 15.9% at September 30, 2006. U.S. Cellular has seen stabilization in its average revenue per minute of use during 2006 but does anticipate that it could decline in the future, reflecting increased competition and continued penetration of the consumer market.

Revenues from data products and services increased to \$147.8 million in 2006 from \$92.3 million in 2005 as U.S. Cellular continued to enhance its *easyedge*SM products and introduce new offerings such as Speedtalk SM, a push-to-talk service, and Blackberry® handsets and services.

Inbound roaming revenues increased \$10.1 million, or 9%, to \$117.9 million in 2006 from \$107.8 million in 2005. The increase in revenues was related primarily to an increase in roaming minutes of use, partially offset by a decrease in average inbound roaming revenue per roaming minute of use. The increase in inbound roaming minutes of use was driven primarily by the overall growth in the number of customers throughout the wireless industry. The decline in roaming revenue per minute of use was due primarily to the general downward trend in negotiated rates.

U.S. Cellular anticipates that inbound roaming minutes of use might continue to grow over the next few years, reflecting continuing industry-wide growth in customers, but that the rate of growth will decline due to higher penetration of the consumer wireless market. In addition, U.S. Cellular anticipates that the rate of decline in average inbound roaming revenue per roaming minute of use may be lower over the next few years, reflecting the wireless industry trend toward longer term negotiated rates.

Long-distance and other service revenues increased \$32.7 million, or 22%, to \$177.8 million in 2006 from \$145.1 million in 2005. The increase reflected a \$8.8 million increase in long-distance revenues and a \$23.9 million increase in other service revenues. The increase in long-distance revenues was driven by an increase in the volume of long-distance calls billed to U.S. Cellular's customers and to other wireless carriers whose customers used U.S. Cellular's systems to make long-distance calls. The growth in other service revenues was primarily due to an increase of \$6.5 million in tower rental revenues, driven by an increase in the number of tower space lease agreements in effect, and by an increase of \$15.7 million in the amount of funds received from the federal Universal Service Fund (USF). In the first nine months of 2006 and 2005, U.S. Cellular was eligible to receive eligible telecommunication carrier funds in seven and five states, respectively.

Equipment sales revenues increased \$32.0 million, or 20%, to \$188.3 million in 2006 from \$156.3 million in 2005. Equipment sales revenues include revenues from sales of handsets and related accessories to both new and existing customers, as well as revenues from sales of handsets to agents. All equipment sales revenues are recorded net of anticipated rebates.

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

The increase in equipment sales revenues in 2006 was driven by increases in both average revenue per handset sold and the number of handsets sold to customers and agents. Average revenue per handset sold increased 5% in 2006 primarily due to changes in both the mix of handsets sold and promotional discounts. The number of handsets sold increased 15% in 2006, partly due to sales of handsets to existing customers to replace non-GPS enabled handsets. The number of customers added to U.S. Cellular's customer base through its marketing distribution channels (gross customer additions), which is a key driver of equipment sales revenues, increased 2% in 2006.

Operating Expenses increased \$264.3 million, or 13%, to \$2,344.8 million in 2006 from \$2,080.5 million in 2005. The major components of operating expenses are shown in the table below.

| | Nine Months Ended September 30, | |
|---|--|-------------------------------|
| | 2006 | 2005 (As Restated) |
| | (Dollars in thousands) | |
| System operations (excluding depreciation, amortization and accretion included below) | \$ 468,980 | \$ 446,278 |
| Cost of equipment sold | 417,489 | 374,882 |
| Selling, general and administrative | 1,028,865 | 877,116 |
| Depreciation, amortization and accretion | 429,451 | 382,244 |
| | \$ 2,344,785 | \$ 2,080,520 |

System operations expenses (excluding depreciation, amortization and accretion) increased \$22.7 million, or 5%, to \$469.0 million in 2006 from \$446.3 million in 2005. System operations expenses include charges from landline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the landline network, charges for maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers. Key components of the overall increase in system operations expenses were as follows:

- maintenance, utility and cell site expenses increased \$27.3 million, or 17%, primarily due to a 10% increase in full-time engineering employee equivalents and an 11% increase in the number of cell sites within U.S. Cellular's network. The number of cell sites increased to 5,726 in 2006 from 5,149 in 2005, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets by acquisitions and by launching operations in new markets;
- the cost of network usage on U.S. Cellular's systems increased \$13.8 million, or 8%, as total minutes used on U.S. Cellular's systems increased 28% in 2006 compared to 2005, offset by the ongoing reduction in the per-minute cost of usage on U.S. Cellular's network; and
- expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$18.4 million, or 15%, primarily due to a reduction in roaming rates negotiated with other carriers and the elimination of roaming expenses incurred in previous periods when U.S. Cellular customers traveled into markets now operated by U.S. Cellular.

In total, management expects system operations expenses to increase over the next few years, driven by the following factors:

- increases in the number of cell sites within U.S. Cellular's systems as it continues to add capacity and enhance quality in all markets and continues development activities in new markets; and

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- increases in minutes of use, both on U.S. Cellular's systems and by U.S. Cellular's customers on other systems when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular's systems and on other carriers' networks.

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Cost of equipment sold increased \$42.6 million, or 11%, to \$417.5 million in 2006 from \$374.9 million in 2005. The increase was due primarily to an increase in the number of handsets sold (15%), as discussed above. The effect of the increase in the number of handsets sold was partially offset by a decrease in the average cost per handset sold (4%), which reflected changes in both the mix of handsets sold and vendor discounts.

Selling, general and administrative expenses increased \$151.8 million, or 17%, to \$1,028.9 million in 2006 from \$877.1 million in 2005. Selling, general and administrative expenses primarily consist of salaries, commissions and other expenses of field sales and retail personnel and offices; agent commissions and related expenses; corporate marketing, merchandise management and telesales department salaries and expenses; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular's customer care centers and the majority of U.S. Cellular's corporate expenses.

The increase in selling, general and administrative expenses in 2006 is primarily due to higher expenses associated with acquiring, serving and retaining customers, primarily as a result of the 8% increase in U.S. Cellular's customer base. Key components of the increase in selling, general and administrative expenses were as follows:

- a \$47.3 million increase in expenses related to sales employees and agents. The increase in sales employee-related expenses was driven by an 11% increase in full-time sales employee equivalents; new employees were added primarily in the newly acquired and recently launched markets. In addition, initiatives focused on providing wireless GPS enabled handsets to customers who did not previously have such handsets contributed to higher sales employee-related and agent-related commissions;
- a \$26.4 million increase in advertising expenses related to marketing of the U.S. Cellular brand in newly acquired and launched markets as well as increases in spending for specific direct marketing, segment marketing, product advertising and sponsorship programs;
- a \$34.4 million increase in expenses primarily related to the operations of U.S. Cellular's regional support offices and customer care centers, primarily due to the 8% increase in the customer base;
- a \$18.4 million increase in bad debt expense, reflecting both higher revenues and higher bad debts experience as a percent of revenues;
- a \$9.5 million increase in consulting and outsourcing costs as U.S. Cellular increased its use of third parties to perform certain functions and participate in certain projects;
- an \$10.4 million increase in stock-based compensation expense primarily due to the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (revised) (SFAS 123(R)), Share-Based Payment, as of January 1, 2006; and
- a \$5.4 million increase in expenses related to universal service fund contributions and other regulatory fees and taxes. Most of the expenses related to universal service fund contributions are offset by increases in retail service revenues for amounts passed through to customers.

Sales and marketing cost per gross customer addition increased 5% to \$467 in 2006 from \$445 in 2005, primarily due to increased agent-related expenses, employee-related expenses and advertising expenses, partially offset by reduced losses on sales of handsets. Management uses the sales and marketing cost per gross customer addition measurement to assess the cost of acquiring customers and the efficiency of its marketing efforts. Sales and marketing cost per gross customer addition is not calculable using financial information derived directly from the Consolidated Statements of Operations. The definition of sales and marketing cost per gross customer addition that U.S. Cellular uses as a measure of the cost to acquire additional

customers through its marketing distribution channels may not be comparable to similarly titled measures that are reported by other companies.

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Below is a summary of sales and marketing cost per gross customer addition for each period:

| | Nine Months Ended September 30, | |
|--|---|-----------------------|
| | 2006 (Dollars in thousands, except per customer amounts) | 2005 (As Restated) |
| Components of cost: | | |
| Selling, general and administrative expenses related to the acquisition of new customers (1) | \$ 448,315 | \$ 388,863 |
| Cost of equipment sold to new customers (2) | 297,533 | 283,078 |
| Less equipment sales revenues from new customers (3) | (211,167) | (172,822) |
| Total costs | 534,681 | \$ 499,119 |
| Gross customer additions (000s) (4) | 1,146 | 1,121 |
| Sales and marketing cost per gross customer addition | \$ 467 | \$ 445 |

(1) Selling, general and administrative expenses related to the acquisition of new customers is reconciled to total selling, general and administrative expenses as follows:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------------|
| | 2006 (Dollars in thousands) | 2005 (As Restated) |
| Selling, general and administrative expenses, as reported | \$ 1,028,865 | \$ 877,116 |
| Less expenses related to serving and retaining customers | (580,550) | (488,253) |
| Selling, general and administrative expenses related to the acquisition of new customers | \$ 448,315 | \$ 388,863 |

(2) Cost of equipment sold to new customers is reconciled to cost of equipment sold as follows:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------------|
| | 2006 (Dollars in thousands) | 2005 |
| Cost of equipment sold as reported | \$ 417,489 | \$ 374,882 |
| Less cost of equipment sold related to the retention of current customers | (119,956) | (91,804) |
| Cost of equipment sold to new customers | \$ 297,533 | \$ 283,078 |

(3) Equipment sales revenues from new customers is reconciled to equipment sales revenues as follows:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------------|
| | 2006 (Dollars in thousands) | 2005 (As Restated) |
| Equipment sales revenues as reported | \$ 188,289 | \$ 156,294 |
| Less equipment sales revenues related to the retention of current customers, excluding agent rebates | (40,398) | (21,272) |
| Add agent rebate reductions of equipment sales revenues related to the retention of current customers | 63,276 | 37,800 |
| Equipment sales revenues from new customers | \$ 211,167 | \$ 172,822 |

(4) Gross customer additions represent customers added to U.S. Cellular's customer base through its marketing distribution channels, including customers added through third party resellers, during the respective periods presented.

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Monthly general and administrative expenses per customer, including the net costs related to the renewal or upgrade of service contracts of existing current U.S. Cellular customers (net customer retention costs), increased 11% to \$14.25 in 2006 from \$12.86 in 2005, primarily due to the increase in employee-related expenses associated with serving and retaining customers. Also, in 2006, U.S. Cellular increased spending on retention activities that are focused on providing wireless GPS enabled handsets to customers who did not previously have such handsets.

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U.S. Cellular uses this monthly general and administrative expenses per customer measurement to assess the cost of serving and retaining its customers on a per unit basis. This measurement is reconciled to total selling, general and administrative expenses as follows:

| | Nine Months Ended September 30, | |
|---|--|-----------------|
| | 2006 | 2005 |
| | (Dollars in thousands, except per customer amounts) | |
| Components of cost (1) | | |
| Selling, general and administrative expenses as reported | \$ 1,028,865 | \$ 877,116 |
| Less selling, general and administrative expenses related to the acquisition of new customers | (448,315) | (388,863) |
| Add cost of equipment sold related to the retention of current customers | 119,956 | 91,804 |
| Less equipment sales revenues related to the retention of current customers, excluding agent rebates | (40,398) | (21,272) |
| Add agent rebate reductions of equipment sales revenues related to the retention of current customers | 63,276 | 37,800 |
| Net cost of serving and retaining customers | \$ 723,384 | \$ 596,585 |
| Divided by average customers during period (000s) (2) | 5,642 | 5,156 |
| Divided by nine months in each period | 9 | 9 |
| Average monthly general and administrative expenses per customer | \$ 14.25 | \$ 12.86 |

(1) These components were previously identified in the summary of sales and marketing cost per customer addition and related footnotes above.

(2) The calculation of Average customers during the period is set forth in footnote 6 of the table of summarized operating data above.

Depreciation, amortization and accretion expense increased \$47.3 million, or 12%, to \$429.5 million in 2006 from \$382.2 million in 2005. The majority of the increase reflects higher depreciation expense of \$35.2 million due to higher fixed assets; average fixed assets for the nine months ended September 30, 2006 increased 13% as compared to the same period in the prior year. The increase in fixed assets in 2006 resulted from the following factors:

- the addition of 577 cell sites to U.S. Cellular's network since September 30, 2005, including both those built to improve coverage and capacity in U.S. Cellular's existing service areas and those built in areas where U.S. Cellular has recently launched service; and
- the addition of radio channels and switching capacity to U.S. Cellular's network to accommodate increased usage.

See Financial Resources and Liquidity and Capital Resources for further discussions of U.S. Cellular's capital expenditures.

In 2006, depreciation expense included charges of \$12.2 million related to disposals of assets, trade-ins of older assets for replacement assets and write-offs of TDMA equipment upon disposal or consignment for future sale. In 2005, depreciation expense included charges of \$16.8 million related to such disposals, trade-ins and write-offs.

Operating Income

Operating income increased \$61.3 million, or 37%, to \$226.3 million in 2006 from \$165.0 million in 2005. The operating income margin (as a percent of service revenues) was 9.5% in 2006 and 7.9% in 2005. The increases in operating income and operating income margin were due to the fact that operating revenues increased more, in both dollar and percentage terms, than operating expenses, as a result of the factors which are described in detail in Operating Revenues and Operating Expenses above.

U.S. Cellular expects the above factors to continue to have an effect on operating income and operating income margin for the next several quarters. Any changes in the above factors, as well as the effects of other factors that might impact U.S. Cellular's operating results, could cause operating income and operating income margin to fluctuate over the next several quarters.

The following are estimates of full-year 2006 service revenues; depreciation, amortization and accretion expenses; and operating income. Such estimates are based on U.S. Cellular's currently owned and operated markets. The following estimates were updated by U.S. Cellular on November 6, 2006 and continue to represent U.S. Cellular's views as of the date of filing this Form 10-Q based on current facts and circumstances. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from these estimated results.

| | 2006 Estimated Results | 2005 Actual Results (As Restated) |
|---|------------------------|--------------------------------------|
| Service revenues | Approx. \$3.2 billion | \$2.83 billion |
| Depreciation, amortization and accretion expenses | Approx. \$575 million | \$510.5 million |
| Operating income (1)(2) | \$275-325 million | \$231.2 million |

(1) 2005 Actual Results includes a gain of \$44.7 million resulting from sale of assets.

(2) 2006 Estimated Results reflect an estimate of stock-based compensation expense to be recorded pursuant to U.S. Cellular's implementation of SFAS 123(R) effective January 1, 2006.

Investment and Other Income (Expense) totaled \$(11.8) million in 2006 and \$2.8 million in 2005.

Equity in earnings of unconsolidated entities increased \$15.7 million, or 32%, to \$64.9 million in 2006 from \$49.2 million in 2005. Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from the markets in which it has a minority interest and accounts for by the equity method. U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership meets certain significance tests pursuant to Rule 3-09 of Securities and Exchange Commission (SEC) Regulation S-X. This investment contributed \$46.4 million and \$37.8 million to equity in earnings of unconsolidated entities in 2006 and 2005, respectively.

Interest and dividend income increased \$4.1 million to \$11.0 million in 2006 from \$6.9 million in 2005. Interest income of \$3.6 million in 2006 includes amounts earned related to the settlement of a sales tax audit as well as interest earned on U.S. Cellular's cash balances. Dividend income of \$7.4 million in 2006 resulted from U.S. Cellular's investment in Vodafone ADRs; such dividend income does not include any amount related to the Special Distribution received in August 2006. For additional information regarding the Special Distribution, see Liquidity and Capital Resources below.

Fair value adjustment of derivative instruments totaled a loss of \$17.4 million in 2006 and a gain of \$9.9 million in 2005. Fair value adjustment of derivative instruments reflect the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Vodafone marketable equity securities not designated as a hedge. The changes in fair value of the embedded collars during cash flow hedge designation are recorded to other comprehensive income. When the collars were de-designated in the cash flow hedge, subsequent changes in fair value are recognized in the Consolidated Statements of Operations, along with the related income tax effects. The accounting for the embedded collars as derivative instruments not designated in a hedging relationship results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the consolidated statement of operations.

Interest expense increased \$6.9 million, or 11%, to \$70.2 million in 2006 from \$63.3 million in 2005. The increase in interest expense in 2006 is primarily due to an increase in average revolving credit facility balances and higher interest rates for variable rate debt including the revolving credit facility and the Vodafone forward contracts. For additional information regarding U.S. Cellular's Revolving Credit Facility, see *Liquidity and Capital Resources - Revolving Credit Facility* below.

Income Taxes

Income tax expense increased \$11.9 million, or 18%, to \$77.9 million in 2006 from \$66.0 million in 2005. The increase was due to higher income before income taxes and minority interest partly offset by the impact of a reduction in the overall effective tax rate. The overall effective tax rate on income before income taxes and minority interest for the nine months ended September 30, 2006 and 2005 was 36.3% and 39.3%, respectively. For further analysis and discussion of U.S. Cellular's effective tax rates in 2006 and 2005, see Note 4 *Income Taxes* of Notes to Consolidated Financial Statements included in Item 1 above.

TDS and U.S. Cellular are parties to a Tax Allocation Agreement, pursuant to which U.S. Cellular and its subsidiaries are included in a consolidated federal income tax return and in state income or franchise tax returns in certain situations with other members of the TDS consolidated group. For financial reporting purposes, U.S. Cellular and its subsidiaries compute their income, income taxes and credits as if they comprised a separate affiliated group and were not included in the TDS group.

Net Income

Net income increased \$31.6 million, or 34%, to \$125.4 million in 2006 from \$93.8 million in 2005. *Basic earnings per share* was \$1.44 in 2006 and \$1.08 in 2005. *Diluted earnings per share* were \$1.42 in 2006 and \$1.07 in 2005. The increases in net income and earnings per share in 2006 compared to 2005 were attributable primarily to higher Operating Income.

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Operating Revenues increased \$93.4 million, or 12%, to \$888.5 million during the third quarter of 2006 from \$795.1 million in 2005.

| | Three Months Ended September 30, | |
|--|---|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Retail service | \$ 714,270 | \$ 635,111 |
| Inbound roaming | 43,806 | 42,654 |
| Long-distance and other service revenues | 63,744 | 51,240 |
| Service Revenues | 821,820 | 729,005 |
| Equipment sales | 66,703 | 66,095 |
| | \$ 888,523 | \$ 795,100 |

Retail service revenues increased \$79.2 million, or 12%, to 714.3 million in the third quarter of 2006 from \$635.1 million in the third quarter of 2005, primarily due to growth in U.S. Cellular's customer base (8%) and average monthly retail service revenue per customer (4%). Revenues from data products and services increased 74% to \$56.7 million in 2006 from \$32.5 million in 2005. Average monthly retail service revenue per customer increased to \$41.65 in 2006 from \$40.22 in 2005, reflecting an increase in monthly retail minutes of use per customer, to 725 in 2006 from 639 in 2005, offset by a decrease in average revenue per minute of use.

Inbound roaming revenues increased \$1.1 million, or 3%, to \$43.8 million in the third quarter of 2006 from \$42.7 million in the third quarter of 2005. The increase in revenues was related primarily to an increase in roaming minutes of use, partially offset by a decrease in average inbound roaming revenue per roaming minute of use.

Long-distance and other service revenues increased \$12.5 million, or 24%, to \$63.7 million in the third quarter of 2006 from \$51.2 million in the third quarter of 2005. The increase primarily reflected a \$2.4 million increase in long-distance revenues, a \$2.2 million increase in rental revenues from other wireless carriers which lease space on U.S. Cellular's towers and a \$6.6 million increase in the amount of USF funds received.

Equipment sales revenues increased \$0.6 million, or 1%, to \$66.7 million in the third quarter of 2006 from \$66.1 million in the third quarter of 2005. The increase in equipment sales revenues in 2006 was driven by an increase in the number of handsets sold to customers and agents, which was partially offset by a decrease in average revenue per handset. The number of handsets sold increased by 8% in 2006, partly due to sales of handsets to existing customers to replace non-GPS enabled handsets.

Operating Expenses increased \$79.4 million, or 11%, to \$811.2 million during the third quarter of 2006 from \$731.8 million in 2005 for reasons generally the same as the first nine months. The major components of operating expenses are shown in the table below.

| | Three Months Ended September 30, | |
|---|---|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| System operations (excluding depreciation, amortization and accretion included below) | \$ 165,107 | \$ 159,335 |
| Cost of equipment sold | 140,757 | 130,823 |
| Selling, general and administrative | 358,392 | 313,374 |
| Depreciation, amortization and accretion | 146,940 | 128,238 |

| | | | |
|----|---------|----|---------|
| \$ | 811,196 | \$ | 731,770 |
|----|---------|----|---------|

System operations expenses (excluding depreciation, amortization and accretion) increased \$5.8 million, or 4%, to \$165.1 million in the third quarter of 2006 from \$159.3 million in the third quarter of 2005. Cost of usage on U.S. Cellular's systems increased \$3.7 million and maintenance of cell sites increased \$8.9 million. These factors were offset by a \$6.8 million decline in net outbound roaming expense due to a reduction in roaming rates negotiated with other carriers.

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Cost of equipment sold increased \$10.0 million, or 8%, to \$140.8 million in the third quarter of 2006 from \$130.8 million in the third quarter of 2005. The increase was due primarily to an increase in the number of handsets sold (8%), as discussed above.

Selling, general and administrative expenses increased \$45.0 million, or 14%, to \$358.4 million in the third quarter of 2006 from \$313.4 million in the third quarter of 2005. The increase reflects higher expenses associated with acquiring, serving and retaining customers, primarily as a result of the increase in U.S. Cellular's customer base (8%). Key components of the increase in selling, general and administrative expenses were as follows:

- an \$11.8 million increase in expenses related to sales employees and agents. The increase in sales employee-related expenses reflected a 5% increase in full-time sales employee equivalents; new employees were added primarily in the newly acquired and recently launched markets. In addition, increased spending for customer retention activities, including initiatives focused on providing wireless GPS enabled handsets to customers who did not previously have such handsets, contributed to higher sales employee-related and agent-related costs;
- a \$2.7 million increase in advertising expenses related to marketing of the U.S. Cellular brand in newly acquired and launched markets as well as increases in spending for specific direct marketing, segment marketing, product advertising and sponsorship programs;
- a \$16.9 million increase in expenses related to the operations of U.S. Cellular's regional support offices and customer care centers, primarily due to the 8% increase in the customer base;
- a \$9.7 million increase in bad debt expense reflecting both higher revenues and higher bad debts experience as a percent of sales; and
- a \$3.4 million increase in stock-based compensation expense primarily due to the implementation of SFAS 123 (R) as of January 1, 2006.

Sales and marketing cost per gross customer addition increased to \$496 in the third quarter of 2006 from \$491 in the same period of 2005, primarily due to increased employee-related and agent-related expenses and advertising expenses, partially offset by reduced losses on sales of handsets. Below is a summary of sales and marketing cost per gross customer addition for each period.

| | Three Months Ended September 30, | |
|--|--|-------------------------------|
| | 2006 | 2005 (As Restated) |
| | (Dollars in thousands, except per customer amounts) | |
| Components of cost: | | |
| Selling, general and administrative expenses related to the acquisition of new customers (1) | \$ 154,079 | \$ 144,202 |
| Cost of equipment sold to new customers (2) | 101,409 | 99,119 |
| Less equipment sales revenues from new customers (3) | (74,442) | (69,125) |
| Total costs | \$ 181,046 | \$ 174,196 |
| Gross customer additions (000s) (4) | 365 | 355 |
| Sales and marketing cost per gross customer addition | \$ 496 | \$ 491 |

(1) Selling, general and administrative expenses related to the acquisition of new customers is reconciled to total selling, general and administrative expenses as follows:

**Three Months Ended
September 30,
2006**

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| | (Dollars in thousands) | 2005 (As Restated) |
|--|------------------------|-----------------------|
| Selling, general and administrative expenses, as reported | \$ 358,392 | \$ 313,374 |
| Less expenses related to serving and retaining customers | (204,313) | (169,172) |
| Selling, general and administrative expenses related to the acquisition of new customers | \$ 154,079 | \$ 144,202 |

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(2) Cost of equipment sold to new customers is reconciled to cost of equipment sold as follows:

| | Three Months Ended September 30, | |
|---|---|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Cost of equipment sold as reported | \$ 140,757 | \$ 130,823 |
| Less cost of equipment sold related to the retention of current customers | (39,348) | (31,704) |
| Cost of equipment sold to new customers | \$ 101,409 | \$ 99,119 |

(3) Equipment sales revenues from new customers is reconciled to equipment sales revenues as follows:

| | Three Months Ended September 30, | |
|---|---|----------------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| | | (As Restated) |
| Equipment sales revenues as reported | \$ 66,703 | \$ 66,095 |
| Less equipment sales revenues related to the retention of current customers, excluding agent rebates | (13,530) | (9,169) |
| Add agent rebate reductions of equipment sales revenues related to the retention of current customers | 21,269 | 12,199 |
| Equipment sales revenues from new customers | \$ 74,442 | \$ 69,125 |

(4) Gross customer additions represent customers added to U.S. Cellular's customer base through its marketing distribution channels, including customers added through third party resellers, during the respective periods presented.

Monthly general and administrative expenses per customer, including the net costs related to the renewal or upgrade of service contracts of existing U.S. Cellular customers (net customer retention costs), increased 14% to \$14.66 in the third quarter of 2006 from \$12.91 in the third quarter of 2005, primarily due to the increase in employee-related expenses associated with serving and retaining customers. Also, in the third quarter of 2006, U.S. Cellular continued to focus on retention activities related to providing GPS-enabled handsets to customers who did not previously have such handsets. This measurement is reconciled to total selling, general and administrative expenses as follows:

| | Three Months Ended September 30, | |
|---|--|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands, except per customer amounts) | |
| Components of cost (1) | | |
| Selling, general and administrative expenses as reported | \$ 358,392 | \$ 313,374 |
| Less selling, general and administrative expenses related to the acquisition of new customers | (154,079) | (144,202) |
| Add cost of equipment sold related to the retention of current customers | 39,348 | 31,704 |
| Less equipment sales revenues related to the retention of current customers, excluding agent rebates | (13,530) | (9,169) |
| Add agent rebate reductions of equipment sales revenues related to the retention of current customers | 21,269 | 12,199 |
| Net cost of serving and retaining customers | \$ 251,400 | \$ 203,906 |
| Divided by average customers during period (000s) (2) | 5,716 | 5,264 |
| Divided by three months in each period | 3 | 3 |
| Average monthly general and administrative expenses per customer | \$ 14.66 | \$ 12.91 |

(1) These components were previously identified in the summary of sales and marketing cost per customer addition and related footnotes.

(2) The calculation of Average customers during the period is set forth in footnote 6 to the table of summarized operating data above.

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Depreciation, amortization and accretion expense increased \$18.7 million, or 15%, to \$146.9 million in the third quarter of 2006 from \$128.2 million in the third quarter of 2005. The majority of the increase reflects higher fixed assets; average fixed asset balances for the third quarter of 2006 increased 13% compared to the same period in the prior year. Such increased fixed assets balances resulted, to a large degree, from the addition of 577 cell sites to U.S. Cellular's network since September 30, 2005.

In the third quarter of 2006, depreciation expense included charges of \$6.1 million related to disposals of assets, trade-ins of older assets for replacement assets and write-offs of TDMA equipment upon disposal or consignment for future sale. In the third quarter of 2005, depreciation expense included charges of \$5.7 million related to such disposals, trade-ins and write-offs.

Operating Income increased \$14.0 million, or 22%, to \$77.3 million in the third quarter of 2006 from \$63.3 million in the third quarter of 2005; operating income margin (as a percent of service revenues) totaled 9.4% in 2006 and 8.7% in 2005.

Investment and Other Income (Expense) totaled expense of \$(21.4) million in the third quarter of 2006 and \$(18.3) million in the third quarter of 2005.

Equity in earnings of unconsolidated entities increased \$6.1 million, to \$23.5 million in the third quarter of 2006 from \$17.4 million in the third quarter of 2005. Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from the markets in which it has a minority interest and accounts for by the equity method. U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership contributed \$16.0 million and \$12.7 million to equity in earnings of unconsolidated entities in 2006 and 2005, respectively.

Fair value adjustment of derivative instruments totaled a loss of \$21.3 million in 2006 and \$14.2 million in 2005. Fair value adjustment of derivative instruments reflect the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Vodafone marketable equity securities not designated as a hedge. The changes in fair value of the embedded collars during cash flow hedge designation are recorded to other comprehensive income. When the collars were de-designated in the cash flow hedge, subsequent changes in fair value are recognized in the Consolidated Statements of Operations, along with the related income tax effects. The accounting for the embedded collars as derivative instruments not designated in a hedging relationship results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the Consolidated Statements of Operations.

Interest expense increased \$2.9 million, or 14%, to \$24.0 million in the third quarter of 2006 from \$21.1 million in the third quarter of 2005 primarily due to an increase in average revolving credit facility balances and higher interest rates for variable rate debt including the revolving credit facility and the Vodafone forward contracts.

Income Taxes

Income tax expense decreased \$2.5 million to \$15.5 million in the third quarter of 2006 from \$18.0 million in the third quarter of 2005 primarily due to the impact of a reduction in the overall effective tax rate. For an analysis and discussion of U.S. Cellular's effective tax rates in 2006 and 2005 see Note 4 Income Taxes of Notes to Consolidated Financial Statements included in Item 1 above.

Net Income

Net income increased \$12.2 million, or 52%, to \$35.9 million in the third quarter of 2006 from \$23.7 million in the third quarter of 2005. *Basic earnings per share* was \$0.41 in 2006 and \$0.27 in 2005. *Diluted earnings per share* was \$0.41 in 2006 and \$0.27 in 2005. The increases in net income and earnings per share in 2006 compared to 2005 were attributable primarily to higher Operating Income.

RECENT ACCOUNTING PRONOUNCEMENTS

The Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB 108), in September 2006. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on either method in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB 108 is effective for U.S. Cellular's opening balance sheet in 2007. U.S. Cellular is currently evaluating the impact this Bulletin might have on its financial position or results of operations.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). Under SFAS 158, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The recognition, measurement and disclosure provisions of SFAS 158 are effective for U.S. Cellular as of December 31, 2006. However, because U.S. Cellular currently does not have any defined benefit pension or other postretirement plans, SFAS 158 will have no immediate impact on its financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is effective for U.S. Cellular's 2008 quarterly and annual financial statements; however, earlier application is encouraged. U.S. Cellular is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

The FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). The interpretation applies to all tax positions accounted for in accordance with SFAS 109 and changes how tax positions are recognized and measured and how uncertainties related to income tax positions are disclosed. It provides guidance on recognition, derecognition and measurement of uncertain tax positions in a period subsequent to that in which a position is taken; the accounting for interest and penalties; the classification and presentation of recorded amounts; and disclosure requirements. U.S. Cellular will adopt the provisions of FIN 48 effective January 1, 2007. Under FIN 48, U.S. Cellular will evaluate the tax uncertainty, assess the probability of the ultimate settlement with the applicable taxing authority and record an amount based on that assessment. U.S. Cellular had previously set up tax accruals, as needed, to cover its potential liability for income tax uncertainties pursuant to FASB Statement No. 5

Accounting for Contingencies. The FASB has issued preliminary guidance regarding ultimate settlement of tax uncertainties. This guidance, in the form of a FASB Staff Position, is not yet finalized. U.S. Cellular will use the finalized guidance to determine the amount of its cumulative effect adjustment to be recorded to opening retained earnings upon adoption of FIN 48 effective January 1, 2007. U.S. Cellular is currently reviewing the requirements of FIN 48 to determine the impact on its financial position or results of operations. The primary impact of FIN 48 on U.S. Cellular's existing tax accounting policies and practices will be the documentation of all tax positions rather than only tax positions that U.S. Cellular considers probable of incurring a loss.

FINANCIAL RESOURCES

U.S. Cellular operates a capital- and sales and marketing-intensive business. In recent years, U.S. Cellular has generated cash from its operating activities, received cash proceeds from divestitures, used its short-term credit facilities and used long-term debt financing to fund its construction costs and operating expenses. U.S. Cellular anticipates further increases in wireless customers, revenues, operating expenses, cash flows from operating activities and capital expenditures in the future. Cash flows may fluctuate from quarter to quarter due to seasonality, the timing of acquisitions, market launches and capital expenditures and other factors. The following table provides a summary of U.S. Cellular's cash flow activities for the periods shown:

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Cash flows from (used in) | | |
| Operating activities | \$ 499,638 | \$ 509,496 |
| Investing activities | (494,565) | (509,691) |
| Financing activities | 4,834 | (9,798) |
| Net increase/(decrease) in cash and cash equivalents | \$ 9,907 | \$ (9,993) |

Cash Flows from Operating Activities

U.S. Cellular generates substantial cash flows from operating activities. For the nine months ended September 30, 2006, cash provided by operating activities was \$499.6 million compared to \$509.5 million generated in the nine months ended September 30, 2005. Higher net income (\$31.6 million) and adjustments to reconcile net income to cash provided by operating activities (\$21.3 million), were offset by changes in assets and liabilities from operations (\$62.8 million).

Adjustments to reconcile net income to cash provided by operating activities increased in the nine months ended September 30, 2006 versus the corresponding period in 2005, primarily due to an increase of \$47.2 million from depreciation, amortization and accretion, an increase of \$18.4 million in bad debts expense, and an increase of \$27.3 million in the fair value of the derivative instruments, offset by a decrease of \$78.7 million from deferred income taxes, net. The change in depreciation, amortization and accretion is due primarily to a higher average fixed assets balance: the change in bad debts expense is primarily due to both higher revenues and higher bad debts experience as a percent of revenues, and the change in fair value of the derivative instruments is due to fluctuations in the stock market price of the hedged shares. The change in deferred income taxes, net is due primarily to the utilization of federal net operating loss carryforwards during 2005.

The net decrease in cash flows due to changes in assets and liabilities from operations was attributable primarily to decreases associated with accounts receivable (\$39.5 million), inventory (\$5.6 million), accrued taxes (\$9.6 million) and accounts payable (\$5.1 million), offset by an increase associated with customer deposits and deferred revenues (\$3.9 million). These changes in assets and liabilities from operations are primarily a result of timing differences.

The following table is a summary of the components of cash flows from operating activities:

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Net income | \$ 125,385 | \$ 93,781 |
| Adjustments to reconcile net income to net cash provided by operating activities | 463,218 | 441,870 |
| | \$ 588,603 | \$ 535,651 |
| Changes in assets and liabilities from operations | (88,965) | (26,155) |
| | \$ 499,638 | \$ 509,496 |

Cash Flows from Investing Activities

U.S. Cellular makes substantial investments each year to acquire wireless licenses and properties and to construct, operate and upgrade modern high-quality wireless communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue-enhancing and cost-reducing upgrades to U.S. Cellular's networks. Cash flows used for investing activities were \$494.6 million in the nine months ended September 30, 2006 compared to \$509.7 million in the same period of 2005.

Cash used for property, plant and equipment and system development expenditures totaled \$421.4 million in 2006 and \$379.1 million in 2005, representing expenditures to construct cell sites, increase capacity in existing cell sites and switches, remodel new and existing retail stores and continue the development of U.S. Cellular's office systems. In both periods, these expenditures were financed primarily with cash flows from operating activities and borrowings under U.S. Cellular's revolving credit facility.

Acquisitions required \$98.6 million and \$126.2 million in 2006 and 2005. In 2006, U.S. Cellular acquired, for approximately \$18.8 million in cash, the remaining ownership interest in a wireless property in Tennessee in which U.S. Cellular previously owned a 16.7% interest. As of September 30, 2006, U.S. Cellular made capital contributions and advances in Barat Wireless, which is consolidated with U.S. Cellular for financial reporting purposes, and/or its general partner of \$79.9 million to provide initial funding of Barat Wireless's participation in the FCC's Auction 66. On October 17, 2006, U.S. Cellular made additional capital contributions and advances of \$47.3 million to Barat Wireless and/or its general partner, resulting in a total of \$127.2 million of advances and contributions made to Barat Wireless and/or its general partner. In 2005, Carroll Wireless, which is consolidated with U.S. Cellular for financial reporting purposes, paid \$120.9 million to the FCC to complete the payment for licenses in which it was the winning bidder in the FCC's Auction 58. See Acquisitions, Exchanges and Divestitures in the Liquidity and Capital Resources section below for more information on these transactions.

At an Extraordinary General Meeting held on July 25, 2006, shareholders of Vodafone approved a Special Distribution of £0.15 per share (£1.50 per ADR) and a Share Consolidation under which every 8 ADRs of Vodafone were consolidated into 7 ADRs. As a result of the Special Distribution which was paid on August 18, 2006, U.S. Cellular received approximately \$28.6 million in cash; this amount, representing a return of capital, was recorded as a reduction in the net carrying value of marketable equity securities in the Consolidated Balance Sheet. Also, as a result of the Share Consolidation which was effective on July 28, 2006, U.S. Cellular's previous 10,245,370 Vodafone ADRs were consolidated into 8,964,698 Vodafone ADRs.

Cash Flows from Financing Activities

Cash flows from financing activities provided \$4.8 million in the nine months ended September 30, 2006 and required \$9.8 million in the same period of 2005. Cash received from short-term borrowings under U.S. Cellular's revolving line of credit provided \$390.0 million in 2006 and \$350.0 million in 2005, while repayments required \$375.0 million in 2006 and \$380.0 million in 2005. Distributions to minority partners required \$14.4 million in 2006 and \$1.8 million in 2005. Proceeds from re-issuance of treasury shares in connection with employee benefits plans provided \$3.9 million in 2006 and \$22.2 million in 2005.

U.S. Cellular has an ongoing authorization from its Board of Directors to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. No U.S. Cellular Common Shares were repurchased in the nine months ended September 30, 2006 or 2005.

LIQUIDITY AND CAPITAL RESOURCES

As indicated above, U.S. Cellular generated cash flows from operating activities of \$499.6 million during the nine months ended September 30, 2006 and \$509.5 million during the nine months ended September 30, 2005. At September 30, 2006, U.S. Cellular had cash and cash equivalents of \$38.9 million. U.S. Cellular believes that cash flows from operating activities, existing cash balances and funds available from the revolving credit facility provide substantial financial flexibility for U.S. Cellular to meet both its short- and long-term needs for the foreseeable future. In addition, U.S. Cellular may have access to public and private capital markets to help meet its long-term financing needs.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, some of which are not in U.S. Cellular's control. If at any time financing is not available on terms acceptable to U.S. Cellular, it might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. U.S. Cellular cannot provide assurances that circumstances that could materially adversely affect U.S. Cellular's liquidity or capital resources will not occur. Economic downturns, changes in financial markets or other factors could affect U.S. Cellular's liquidity and the availability of capital resources. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development and acquisition programs.

At an Extraordinary General Meeting held on July 25, 2006, shareholders of Vodafone approved a Special Distribution of £0.15 per share (£1.50 per ADR) and a Share Consolidation under which every 8 ADRs of Vodafone were consolidated into 7 ADRs. As a result of the Special Distribution which was paid on August 18, 2006, U.S. Cellular received approximately \$28.6 million in cash; this amount, representing a return of capital, was recorded as a reduction in the net carrying value of marketable equity securities in the Consolidated Balance Sheet. Also, as a result of the Share Consolidation which was effective on July 28, 2006, U.S. Cellular's previous 10,245,370 Vodafone ADRs were consolidated into 8,964,698 Vodafone ADRs.

Pursuant to terms of the Vodafone forward contracts, the Vodafone contract collars were adjusted and substitution payments were made to reflect the Special Distribution and the Share Consolidation. After adjustment, the collars had downside limits (floor) ranging from \$17.22 to \$18.37 and upside potentials (ceiling) ranging from \$17.22 to \$19.11. In the case of one forward contract, U.S. Cellular made a dividend substitution payment in the amount of \$0.2 million to the counterparty in lieu of further adjustments to the collars of such forward contract. The dividend substitution payment was recorded in Other expense, net in the Consolidated Statements of Operations.

Revolving Credit Facility

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At September 30, 2006, outstanding notes payable and letters of credit were \$150.0 million and \$0.5 million, respectively, leaving \$549.5 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular's credit rating. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. At September 30, 2006, the one-month LIBOR was 5.32% and the contractual spread was 60 basis points. If U.S. Cellular provides less than two days' notice of intent to borrow, the related borrowings bear interest at the prime rate less 50 basis points (the prime rate was 8.25% at September 30, 2006). This credit facility expires in December 2009.

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U.S. Cellular's interest cost on its revolving credit facility would increase if its current credit ratings from either Standard & Poor's Rating Services (Standard & Poor's) or Moody's Investor Service (Moody's) were lowered. However, the credit facility would not cease to be available or accelerate solely as a result of a decline in U.S. Cellular's credit rating. A downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future. U.S. Cellular's credit ratings as of the dates indicated are as follows:

| | | |
|--|------|---|
| Moody's (Issued November 10, 2005) | Baa3 | under review for possible further downgrade |
| Standard & Poor's (Issued February 13, 2007) | BBB- | on credit watch with negative implications |
| Fitch Ratings (Issued November 10, 2005) | BBB+ | on ratings watch negative |

U.S. Cellular's credit rating may be changed at any time and such ratings should not be assumed to be accurate as of any future date.

The maturity dates of borrowings under U.S. Cellular's revolving credit facility would accelerate in the event of a change in control.

The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and represent certain matters at the time of each borrowing. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements, which caused U.S. Cellular to be late in certain SEC filings. The restatements and the late filings resulted in defaults under the revolving credit facility. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and the late filings. The waivers required the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarterly period ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarterly period ended March 31, 2006. On October 6, 2006, U.S. Cellular received amended waivers from the lenders associated with the revolving credit facility which extended the date by which the financial statements of U.S. Cellular for the quarterly period ended June 30, 2006 were required to be delivered to November 8, 2006. The Form 10-K for the year ended December 31, 2005 was filed on July 28, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 was filed on August 25, 2006 and the Form 10-Q for the quarterly period ended June 30, 2006 was filed on October 10, 2006.

In addition, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under the revolving credit facility. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such revolving credit facility. U.S. Cellular received waivers from the lenders associated with the revolving credit facility, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

On October 26, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB+ from A-. The outlook was stable. On November 7, 2006, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB from BBB+. The ratings were placed on credit watch with negative implications. On February 13, 2007, Standard & Poor's Rating Services lowered its credit ratings on U.S. Cellular to BBB- from BBB. The ratings remain on Credit Watch with negative implications. The credit ratings by Moody's Investors Service remain Baa3 under review for possible further downgrade. The credit ratings by Fitch remain BBB+ on ratings watch negative.

Long-Term Debt

The late filing of U.S. Cellular's Form 10-K for the year ended December 31, 2005 and Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 and the failure to deliver such Forms 10-K and 10-Q to the trustee of the U.S. Cellular debt indenture on a timely basis, resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default. U.S. Cellular believes that non-compliance was cured upon the filing of its Form 10-K for the year ended December 31, 2005 and Forms 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indenture.

In addition, the late filing of this Form 10-Q and the failure to deliver such Form 10-Q to the trustees of the U.S. Cellular debt indenture on a timely basis resulted in non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default and U.S. Cellular believes that such non-compliance was cured upon the filing of this Form 10-Q. U.S. Cellular has not failed to make and does not expect to fail to make any scheduled payment of principal or interest under such indenture.

Except as noted above, U.S. Cellular believes it was in compliance as of September 30, 2006 with all covenants and other requirements set forth in its long-term debt indenture. Such indenture does not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to obtain long-term debt financing in the future.

Marketable Equity Securities and Forward Contracts

U.S. Cellular holds a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. U.S. Cellular does not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets. U.S. Cellular's investment in Vodafone Group Plc (Vodafone) resulted from certain dispositions of non-strategic cellular investments to or settlements with AirTouch Communications, Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby U.S. Cellular received American Depositary Receipts representing Vodafone stock. (See Note 14 Long-Term Debt and Forward Contracts to Consolidated Financial Statements included in Item 1 above for additional information related to U.S. Cellular's investment in Vodafone ADRs.) U.S. Cellular's investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several cellular partnerships in which U.S. Cellular subsidiaries held interests into Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests.

A subsidiary of U.S. Cellular has entered into a number of forward contracts related to the marketable equity securities that it holds. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the respective security or cash. Currently, U.S. Cellular intends to settle the forward contracts by delivering shares of the respective security. U.S. Cellular has provided guarantees to the counterparties which provide assurance that all principal and interest amounts will be paid by its subsidiary when due. If shares are delivered in the settlement of a forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized on the forward contract through maturity. Deferred income taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in Net deferred income tax liability in the Consolidated Balance Sheets. As of September 30, 2006, such deferred tax liability related to current and noncurrent marketable equity securities totaled \$52.7 million and \$0.8 million, respectively.

The forward contracts related to the Vodafone ADRs held by U.S. Cellular mature in May 2007. Accordingly, such Vodafone ADRs are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheet at September 30, 2006.

U.S. Cellular is required to comply with certain covenants under the forward contracts. On November 10, 2005, U.S. Cellular announced that it would restate certain financial statements, which caused U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under one of the forward contracts. However, U.S. Cellular was not in violation of any covenants that require U.S. Cellular to maintain certain financial ratios and U.S. Cellular did not fail to make any scheduled payments. U.S. Cellular received a waiver from the counterparty associated with the forward contract, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements and late filings. The waiver required the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarterly period ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarterly period ended March 31, 2006. On October 6, 2006, U.S. Cellular received an amended waiver from the counterparty associated with the forward contract which extended the date by which the financial statements of U.S. Cellular for the quarterly period ended June 30, 2006 were required to be delivered to November 8, 2006. The Form 10-K for the year ended December 31, 2005 was filed on July 28, 2006, the Form 10-Q for the quarterly period ended March 31, 2006 was filed on August 25, 2006 and the Form 10-Q for the quarterly period ended June 30, 2006 was filed on October 10, 2006.

In addition, U.S. Cellular and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. U.S. Cellular and its audit committee also concluded that U.S. Cellular would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under certain of the forward contracts. U.S. Cellular was not in violation of any covenants that require it to maintain certain financial ratios. U.S. Cellular did not fail to make any scheduled payments under such forward contracts. U.S. Cellular received waivers from the counterparty to such forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

Capital Expenditures

U.S. Cellular's anticipated capital expenditures for 2006 primarily reflect plans for construction, system expansion and the buildout of certain of its licensed areas. U.S. Cellular plans to finance its capital expenditure program using cash flows from operating activities and short-term financing. U.S. Cellular's estimated capital expenditures for 2006 are currently expected to range from \$580 million to \$610 million. These expenditures primarily address the following needs:

- Expand and enhance U.S. Cellular's coverage in its service areas.
- Provide additional capacity to accommodate increased network usage by current customers.
- Enhance U.S. Cellular's retail store network and office systems.

Acquisitions, Exchanges and Divestitures

U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of operations and of 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 markets and wireless interests that are not strategic to its long-term success. U.S. Cellular may from time-to-time be engaged in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties or wireless spectrum. In addition, U.S. Cellular may participate as a bidder, or member of a bidding group, in auctions administered by the FCC.

As of September 30, 2006, U.S. Cellular owned approximately 14% of Midwest Wireless Communications, L.L.C., which interest was convertible into an interest of approximately 11% in Midwest Wireless Holdings, L.L.C., a privately-held wireless telecommunications company that controlled Midwest Wireless Communications. Midwest Wireless Holdings, through subsidiaries, held FCC licenses and operated certain wireless markets in southern Minnesota, northern and eastern Iowa and western Wisconsin. On November 18, 2005, ALLTEL Corporation (ALLTEL) announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for \$1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the members of Midwest Wireless

Holdings. These conditions were satisfied and the closing of this agreement occurred on October 3, 2006. As a result, U.S. Cellular became entitled to receive approximately \$106.0 million in cash in consideration with respect to its interest in Midwest Wireless Communications. Of this amount, \$95.1 million was received on October 6, 2006; the remaining balance is being held in reserve and in escrow to secure true-up, indemnification and other adjustments and, subject to such adjustments, will be distributed in installments over a period of four to fifteen months following the closing. In addition, as of September 30, 2006, U.S. Cellular owned 49% of an entity, accounted for under the equity method, which owned approximately 2.9% of Midwest Wireless Holdings. As a result of the closing of the transaction, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately \$11.8 million in cash, subject to the previously referenced discussion regarding adjustments and installments. The net aggregate carrying value of U.S. Cellular's investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately \$29.9 million at September 30, 2006.

U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% discount available to designated entities, which are small businesses that have a limited amounts of assets. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its designated entity discount. The balance due from Barat Wireless at the conclusion of the auction for the licenses with respect to which Barat Wireless was the high bidder was approximately \$47.1 million and was paid on October 18, 2006. Although the bidding in Auction 66 ended on September 18, 2006, the FCC has not yet awarded the licenses to Barat Wireless, nor is there any prescribed timeframe for the FCC to review the qualifications of Barat Wireless and award the licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of October 31, 2006, U.S. Cellular had made capital contributions and advances to Barat Wireless and/or its general partner totaling \$127.2 million. For financial reporting purposes, U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of FIN 46(R), as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless' expected gains or losses. Pending finalization of Barat Wireless' permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

On April 21, 2006, U.S. Cellular completed the purchase of the remaining majority interest in the Tennessee RSA No. 3 Limited Partnership, a wireless market in which it had previously owned a 16.7% interest for approximately \$18.8 million in cash, subject to a working capital adjustment. This acquisition increased investments in licenses, goodwill and customer lists by \$5.5 million, \$3.9 million and \$2.0 million, respectively.

U.S. Cellular is a limited partner in Carroll Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. The aggregate amount paid to the FCC for the 17 licenses was \$129.9 million, net of all bidding credits to which Carroll Wireless was entitled as a designated entity. These 17 licensed areas cover portions of 11 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On January 6, 2006, the FCC granted Carroll Wireless' applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly, in 2006, Carroll Wireless received a full refund of the \$228,000 previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of September 30, 2006, U.S. Cellular had made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$129.9 million; \$129.7 million of this amount is included in Licenses in the Consolidated Balance Sheets. For financial reporting purposes, U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, pursuant to the guidelines of FIN 46(R), as U.S. Cellular anticipates absorbing a majority of Carroll Wireless' expected gains or losses.

Pending finalization of Carroll Wireless' permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of \$1.4 million of which \$0.1 million was provided to Carroll Wireless through September 30, 2006.

In the first quarter of 2005, U.S. Cellular adjusted the gain on investments related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment, which resulted from a working capital adjustment that was finalized in the first quarter of 2005, increased the total gain on the sale by \$0.6 million to \$38.6 million.

In addition, in 2005, U.S. Cellular purchased one new wireless market and certain minority interests in other wireless markets in which it already owned a controlling interest for \$6.9 million in cash.

Repurchase of Securities

U.S. Cellular has an ongoing authorization from its Board of Directors to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. No U.S. Cellular Common Shares were repurchased in the first nine months of 2006 or 2005.

Contractual and Other Obligations

There has been no material change to Contractual and Other Obligations disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005.

Off-Balance Sheet Arrangements

U.S. Cellular has no transactions, agreements or contractual arrangements with unconsolidated entities involving off-balance sheet arrangements, as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, revenues or expenses.

Investments in Unconsolidated Entities. U.S. Cellular has certain variable interests in investments in which it holds a minority interest. Such investments totaled \$197.8 million as of September 30, 2006 and are accounted for using either the equity or cost method. U.S. Cellular's maximum loss exposure for these variable interests is limited to the aggregate carrying amount of the investments.

Indemnity Agreements. U.S. Cellular enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The term of the indemnification varies 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.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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U.S. Cellular prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). U.S. Cellular s significant accounting policies are discussed in detail in Note 1 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in U.S. Cellular s Form 10-K/A for the year ended December 31, 2005.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions.

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Management believes the following critical accounting estimates reflect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Management has discussed the development and selection of each of the following accounting policies and estimates and the following disclosures with the audit committee of U.S. Cellular's Board of Directors.

Licenses and Goodwill

As of September 30, 2006, U.S. Cellular reported \$1,447.6 million of licenses and \$485.5 million of goodwill, as a result of acquisitions of interests in wireless licenses and businesses. Licenses include those won by Barat Wireless in FCC Auction 66 completed in September 2006 and by Carroll Wireless in the FCC Auction 58 completed in February 2005, as well as license rights that will be received when the 2003 AT&T Wireless exchange transaction is fully completed.

Licenses and goodwill must be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. U.S. Cellular performs the annual impairment review on licenses and goodwill during the second quarter of its fiscal year. There can be no assurance that, upon review at a later date, material impairment charges will not be required.

The intangible asset impairment test consists of comparing the fair value of the intangible asset to the carrying amount of the intangible asset. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference. The goodwill impairment test is a two-step process. The first step compares the fair value of the reporting unit, as identified in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142) to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities of the reporting unit is the implied fair value of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss of goodwill is recognized for that difference.

The fair value of an asset or reporting unit is the amount at which that asset or reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be 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. Other valuation techniques include present value analysis, multiples of earnings or revenues or similar performance measures. The use of these techniques involves assumptions by U.S. Cellular about factors that are highly uncertain, including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs or different valuation methods could create materially different results.

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a reporting unit. For purposes of impairment testing of goodwill in 2006 and 2005, U.S. Cellular identified five reporting units pursuant to paragraph 30 of SFAS 142. The five reporting units represent five geographic groupings of FCC licenses, constituting five geographic service areas. For purposes of impairment testing of licenses in 2006 and 2005, U.S. Cellular combined its FCC licenses into five units of accounting pursuant to FASB Emerging Issues Task Force Issue 02-7, Units of Accounting for Testing Impairment of Indefinite-Lived Assets (EITF 02-7) and SFAS 142, using the same geographic groupings as its reporting units. In addition, in 2006, U.S. Cellular identified six additional geographic groupings of licenses which, because they are currently undeveloped and not expected to generate cash flows from operating activities in the foreseeable future, are considered separate units of accounting for purposes of impairment testing.

For purposes of impairment testing of goodwill, U.S. Cellular prepares valuations of each of the five reporting units. A discounted cash flow approach is used to value each of the reporting units, using value drivers and risks specific to each individual geographic region. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process are the selection of a discount rate, estimated future cash flow levels, projected capital expenditures, and selection of terminal value multiples. Similarly, for purposes of impairment testing of licenses, U.S. Cellular prepares valuations of each of the five units of accounting determined pursuant to EITF 02-7, using an excess earnings methodology. This excess earnings methodology estimates the fair value of the intangible assets (FCC license units of accounting) by measuring the future cash flows of the license groups, reduced by charges for contributory assets such as working capital, trademarks, existing subscribers, fixed assets, assembled workforce and goodwill. For undeveloped licenses, U.S. Cellular prepares estimates of fair value for each unit of accounting by reference to fair market values indicated by recent auctions and market transactions.

U.S. Cellular performed its annual testing for impairment in the second quarter of 2006 and 2005. Based on that testing, there was no impairment of goodwill or licenses in either year.

Property, Plant and Equipment

U.S. Cellular provides for depreciation on its property, plant and equipment using the straight-line method over the estimated useful lives of the assets. Annually, U.S. Cellular reviews its property, plant and equipment to assess whether the estimated useful lives are appropriate. The estimated useful lives of property, plant and equipment is a critical accounting estimate because changing the lives of assets can result in larger or smaller charges for depreciation expense. Factors used in determining useful lives include technology changes, regulatory requirements, obsolescence and type of use. U.S. Cellular did not change the useful lives of its property, plant and equipment in the nine months ended September 30, 2006 or 2005.

U.S. Cellular reviews long-lived assets for impairment at least annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The tangible asset impairment test is a two-step process. The first step compares the carrying value of the assets with the estimated undiscounted cash flows over the remaining asset life. If the carrying value of the assets is greater than the undiscounted cash flows, then the second step of the test is performed to measure the amount of impairment loss. The second step compares the estimated fair value of the assets to the carrying value of the assets. If the estimated fair value of the assets is less than the carrying value of the assets, an impairment loss is recognized for the difference.

The fair value of a tangible asset is the amount at which that asset could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be 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 with which to estimate the fair value of a long-lived asset. The use of this technique involves assumptions by management about factors that are highly uncertain including future cash flows, the appropriate discount rate, and other inputs. Different assumptions for these inputs or different valuation methodologies could create materially different results.

U.S. Cellular performed impairment tests of property, plant and equipment during the second quarter of 2006 and 2005. Such impairment tests indicated that there was no impairment of property, plant and equipment in either year.

Derivative Instruments

U.S. Cellular utilizes derivative financial instruments to reduce marketable equity security market value risk. U.S. Cellular does not hold or issue derivative financial instruments for trading purposes. U.S. Cellular recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. Changes in fair value of those instruments are reported in the Consolidated Statements of Operations or classified as Accumulated other comprehensive income, net of tax, in the Consolidated Balance Sheets depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements depend on the derivative's hedge designation and whether the hedge is anticipated to be highly effective in achieving offsetting changes in the fair value of the hedged item or cash flows of the asset hedged.

U.S. Cellular originally designated the embedded collars within its forward contracts as cash flow hedges of its Vodafone marketable equity securities. Accordingly, all changes in the fair value of the embedded collars were recorded in other comprehensive income, net of income taxes. Subsequently, upon contractual modifications to the terms of the collars, the embedded collars no longer qualified for hedge accounting treatment and all changes in fair value of the collars from the time of the contractual modification to the terms of the collars are included in the Consolidated Statements of Operations.

The accounting for the embedded collars as derivative instruments that do not qualify for cash flow hedge accounting results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the statement of operations.

The embedded collars are valued using the Black-Scholes valuation model. The inputs in the model include the stock price, strike price (differs for call options and put options), risk-free interest rate, volatility of the underlying stock, dividend yield and the term of the contracts. Different assumptions could create materially different results.

Asset Retirement Obligations

U.S. Cellular accounts for its asset retirement obligations in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, (SFAS 143) and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), which require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include costs to remediate leased land on which U.S. Cellular's cell sites and switching offices are located. Also, U.S. Cellular is generally required to return leased retail store premises and office space to their pre-existing conditions. At the time the liability is incurred, U.S. Cellular records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligations, any difference between the cost to retire an asset and the recorded liability (including accretion of discount) is recognized in the Consolidated Statements of Operations as a gain or loss.

The calculation of the asset retirement obligation is a critical accounting estimate for U.S. Cellular because changing the factors used in calculating the obligation could result in larger or smaller estimated obligations that could have a significant impact on U.S. Cellular's results of operations and financial condition. Such factors include probabilities or likelihood of remediation, cost estimates, lease renewals and salvage values. Actual results may differ materially from estimates under different assumptions or conditions.

During the third quarter of 2006, U.S. Cellular reviewed the assumptions related to its asset retirement obligations and, as a result of the review, revised certain of those assumptions. Estimated retirement obligations for cell sites were revised to reflect higher estimated costs for removal of radio and power equipment, and estimated retirement obligations for retail stores were revised to reflect a shift to larger stores and slightly higher estimated costs for removal of fixtures. These changes are reflected in Revision in estimated cash flows below. The table below also summarizes other changes in asset retirement obligations during the nine months ended September 30, 2006 and 2005.

| | September 30, 2006 (Dollars in thousands) | September 30, 2005 |
|----------------------------------|---|-----------------------|
| Beginning balance | \$ 90,224 | \$ 72,575 |
| Additional liabilities incurred | 5,922 | 4,701 |
| Revision in estimated cash flows | 13,415 | |
| Acquisition of assets | 1,237 | |
| Disposition of assets | (112) | (1,925) |
| Accretion expense | 5,312 | 4,733 |
| Ending balance | \$ 115,998 | \$ 80,084 |

Income Taxes

U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. TDS and U.S. Cellular are parties to the TDS Tax Allocation Agreement. The TDS Tax Allocation Agreement provides that U.S. Cellular and its subsidiaries be included with the TDS affiliated group in a consolidated federal income tax return and in state income or franchise tax returns in certain situations. For financial reporting purposes, U.S. Cellular and its subsidiaries calculate their income tax and credits as if they comprised a separate affiliated group. Under the TDS Tax Allocation Agreement, U.S. Cellular remits its applicable income tax payments to TDS.

The accounting for income taxes, the amounts of income tax assets and liabilities and the related income tax provision are critical accounting estimates because such amounts are significant to U.S. Cellular's financial condition and results of operations.

The preparation of the consolidated financial statements requires U.S. Cellular to calculate its provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes, such as depreciation expense, as well as estimating the impact of potential adjustments to filed tax returns. Temporary differences result in deferred income tax assets and liabilities, which are included in U.S. Cellular's Consolidated Balance Sheets. U.S. Cellular must then assess the likelihood that deferred income tax assets will be realized based on future taxable income, and, to the extent U.S. Cellular believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against deferred income tax assets.

In the event of an increase in the value of tax assets or a decrease in tax liabilities, U.S. Cellular would decrease the income tax expense or increase the income tax benefit by an equivalent amount. In the event of a decrease in the value of tax assets or an increase in tax liabilities, U.S. Cellular would increase the income tax expense or decrease the income tax benefit by an equivalent amount. Increases or decreases in market value related to marketable equity securities and derivatives, and the associated change in the deferred tax asset or liability, are recorded through Other comprehensive income.

U.S. Cellular's net current deferred income tax (liability) asset totaled \$(28.7) million at September 30, 2006, and \$8.2 million at December 31, 2005. The net current deferred tax liability at September 30, 2006 primarily represents deferred income taxes on the current portion of marketable equity securities. The net current deferred income tax asset at December 31, 2005 primarily represents the deferred income tax effects of the allowance for doubtful accounts on customer accounts receivable.

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U.S. Cellular's noncurrent deferred income tax assets and liabilities as of September 30, 2006 and December 31, 2005 and the underlying temporary differences are as follows:

| | September 30, 2006 (Dollars in thousands) | December 31, 2005 (As Restated) |
|--|---|---------------------------------------|
| Deferred Income Tax Asset | | |
| Net operating loss carryforward | \$ 31,199 | \$ 30,381 |
| Derivative instruments | | 9,475 |
| Other | 20,968 | 10,851 |
| | \$ 52,167 | \$ 50,707 |
| Less valuation allowance | (18,107) | (15,606) |
| Total Deferred Income Tax Asset | \$ 34,060 | \$ 35,101 |
| Deferred Income Tax Liability | | |
| Property, plant and equipment | \$ 266,535 | \$ 280,789 |
| Licenses/Intangibles | 250,196 | 233,753 |
| Marketable equity securities | 799 | 62,112 |
| Partnership investments | 98,858 | 105,533 |
| Total Deferred Income Tax Liability | \$ 616,388 | \$ 682,187 |
| Net Deferred Income Tax Liability | \$ 582,328 | \$ 647,086 |

State net operating loss carryforwards are available to offset future taxable income primarily of the individual subsidiaries which generated the losses. Certain subsidiaries that are not included in the federal consolidated income tax return, but file separate federal tax returns, had federal net operating loss carryforwards available to offset future taxable income. A valuation allowance was established for a portion of the state and federal net operating loss carryforwards since it is more likely than not that a portion of such carryforwards will expire before they can be utilized.

The deferred income tax liability related to marketable equity securities included \$52.7 million classified as current and \$0.8 million classified as noncurrent as of September 30, 2006. The deferred income tax liability related to marketable equity securities totaled \$62.1 million, all classified as noncurrent, as of December 31, 2005. In 2006, the deferred income tax asset of \$15.9 million related to derivatives was classified as current; in 2005, the deferred income tax asset of \$9.5 million related to derivatives was classified as noncurrent. In 2006, a portion of the deferred income tax liability related to marketable equity securities and the deferred income tax asset related to derivatives are classified as current because certain forward contracts mature before September 2007. The foregoing amounts represent deferred income taxes calculated on the difference between the fair value and the tax basis of the marketable equity securities and derivatives. Income taxes will be payable when U.S. Cellular disposes of the marketable equity securities.

TDS's consolidated federal income tax return, which includes U.S. Cellular, is routinely subject to examination by the Internal Revenue Service (IRS) and other tax authorities. U.S. Cellular periodically assesses the likelihood of adjustments to its tax liabilities resulting from these examinations to determine the adequacy of its provision for income taxes, including related interest. Management's judgment is required in assessing the eventual outcome of these examinations. Changes to such assessments affect the calculation of U.S. Cellular's income tax expense.

In June of 2006, the Internal Revenue Service commenced its audit of the 2002-2004 consolidated federal tax returns of TDS and subsidiaries. U.S. Cellular is included in the TDS consolidated federal tax return. The audit is in its preliminary stages.

Stock-based Compensation

As a result of the adoption of a new accounting pronouncement effective January 1, 2006, U.S. Cellular's accounting policy related to stock-based compensation has changed as described below and is now a critical accounting policy due to the significant assumptions and estimates involved.

As described in more detail in Notes 2 and 3 of the Notes to Consolidated Financial Statements included in Item 1 above, U.S. Cellular has established or participates in a long-term incentive plan and an employee stock purchase plan which are stock-based compensation plans. Prior to the first quarter of 2006, U.S. Cellular accounted for its stock-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations as allowed by SFAS No. 123, Accounting for Stock Based Compensation, (SFAS 123). Accordingly, prior to the first quarter of 2006, compensation cost for share-based payments was measured using the intrinsic value method as prescribed by APB 25. Under the intrinsic value method, compensation cost is measured as the amount by which the market value of the underlying equity instrument on the grant date exceeds the exercise price. Effective January 1, 2006, U.S. Cellular adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. In addition, U.S. Cellular applied the provisions of Staff Accounting Bulletin No. 107 regarding Share-Based Payments (SAB 107) issued by the SEC in March 2005 in its adoption of SFAS 123(R). Under the modified prospective transition method, compensation cost recognized during the nine months ended September 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

Upon adoption of SFAS 123(R), U.S. Cellular elected to value its share-based payment transactions using a Black-Scholes valuation model. This model requires assumptions regarding a number of complex and subjective variables. The variables in the model include, but are not limited to, U.S. Cellular's expected stock price volatility over the term of the awards, expected forfeitures, time of exercise, risk-free interest rate and expected dividends. Different assumptions could create materially different results. Under the provisions of SFAS 123(R), stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that are expected to ultimately vest.

Contingencies, Indemnities and Commitments

Contingent obligations, including indemnities, litigation and other possible commitments are accounted for in accordance with SFAS No. 5, Accounting for Contingencies, which requires that an estimated loss be recorded if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, those contingencies that are deemed to be probable and where the amount of such settlement is reasonably estimable are accrued in the financial statements. 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. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been or will be incurred, even if the amount is not estimable. The assessment of contingencies is a highly subjective process that requires judgments about future events. Contingencies are reviewed at least quarterly to determine the adequacy of the accruals and related financial statement disclosure. The ultimate settlement of contingencies could materially impact the Consolidated Statements of Operations, the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

U.S. Cellular is billed for all services it receives from TDS, pursuant to the terms of various agreements between U.S. Cellular and TDS. These billings are included in U.S. Cellular's selling, general and administrative expenses. Some of these agreements were established at a time prior to U.S. Cellular's initial public offering when TDS owned more than 90% of U.S. Cellular's outstanding capital stock and may not reflect terms that would be obtainable from an unrelated third party through arm's-length negotiations. Such billings are based on expenses specifically identified to U.S. Cellular and on allocations of common expenses. Such allocations are based on the relationship of U.S. Cellular's assets, employees, investment in plant and expenses to the total assets, employees, investment in plant and expenses of TDS. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular are reflected in the accompanying financial statements. Billings to U.S. Cellular from TDS totaled \$28.2 million and \$22.9 million for the three months ended September 30, 2006 and 2005, respectively, and \$77.8 million and \$64.1 million for the nine months ended September 30, 2006 and 2005, respectively.

The following persons are partners of Sidley Austin LLP, the principal law firm of U.S. Cellular and its subsidiaries: Walter C.D. Carlson, a director of U.S. Cellular, a director and non-executive Chairman of the Board of Directors of TDS and a trustee and beneficiary of a voting trust that controls TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and TDS Telecommunications Corporation and an Assistant Secretary of U.S. Cellular and certain other subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS, U.S. Cellular or their subsidiaries.

OTHER MATTERS

The Securities and Exchange Commission (SEC) Division of Corporation Finance routinely sends public companies comment letters relating to their filings with the SEC. In September 2006, U.S. Cellular received a comment letter from the staff of the SEC regarding its review of the U.S. Cellular annual report on Form 10-K for the year ended December 31, 2005 and quarterly report on Form 10-Q for the quarterly period ended March 31, 2006. The comments principally asked U.S. Cellular to provide additional information to the SEC and to make additional disclosures in its Forms 10-K and 10-Q on a prospective basis. U.S. Cellular responded to the SEC s comment letter on October 13, 2006. By letter dated November 15, 2006, the SEC informed U.S. Cellular that the SEC had completed its review of the aforementioned Form 10-K and related filings. The requested additional disclosures have been included in this quarterly report on Form 10-Q and in the amendments to the annual report on Form 10-K/A for the year ended December 31, 2005 and the quarterly reports on Form 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

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This Form 10-Q, including exhibits, contains statements that are not based on historical fact and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that U.S. Cellular intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. The words believes, anticipates, estimates, expects, plans, intends and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully discussed under Risk Factors in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to U.S. Cellular's business.

- Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular's revenues or increase its costs to compete.

- Consolidation in the telecommunications industry could adversely affect U.S. Cellular's revenues and increase its costs of doing business.

- Advances or changes in telecommunications technology, such as Voice over Internet Protocol or WiMAX, could render certain technologies used by U.S. Cellular obsolete, could reduce U.S. Cellular's revenues or could increase its costs of doing business.

- Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any regulatory requirements could adversely affect U.S. Cellular's financial condition, results of operations or ability to do business.

- Changes in U.S. Cellular's enterprise value, changes in the supply or demand of the market for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of U.S. Cellular's license costs, goodwill and/or physical assets.

- Early redemptions of debt or repurchases of debt, issuances of debt, changes in prepaid forward contracts, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual or Other Obligations in U.S. Cellular's Management's Discussion and Analysis of Financial Condition and Results of Operations to be different from the amounts actually incurred.

- Changes in accounting standards or changes in U.S. Cellular's accounting policies, estimates or in the assumptions underlying the accounting estimates, including those described in Application of Critical Accounting Policies and Estimates above, could have an adverse effect on U.S. Cellular's financial condition or results of operations.

- Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular's financial condition, results of operations or ability to do business.

- Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- A significant portion of U.S. Cellular's revenues is derived from customers who buy services through independent agents and dealers who market U.S. Cellular's services on a commission basis. If U.S. Cellular's relationships with these agents and dealers are seriously harmed, its wireless revenues could be adversely affected.

- U.S. Cellular's investments in technologies which are unproven or for which success has not yet been demonstrated may not produce the benefits that U.S. Cellular expects.

- An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to U.S. Cellular, and/or changes in roaming rates and the lack of standards and roaming agreements for wireless data products, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- Changes in access to content for data or video services and access to new handsets being developed by vendors, or an inability to manage its supply chain or inventory successfully, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- A failure by U.S. Cellular's service offerings to meet customer expectations could limit U.S. Cellular's ability to attract and retain customers and have an adverse effect on U.S. Cellular's operations.

- A failure by U.S. Cellular to complete significant network build-out and system implementation as part of its plans to build out new markets and improve the quality and capacity of its network could have an adverse effect on its operations.

- A failure by U.S. Cellular's business to acquire adequate radio spectrum could have an adverse effect on U.S. Cellular's business and operations.

- Financial difficulties of U.S. Cellular's key suppliers or vendors, or termination or impairment of U.S. Cellular's relationships with such suppliers or vendors, could result in a delay or termination of U.S. Cellular's receipt of equipment or services, which could adversely affect U.S. Cellular's business and results of operations.

- An increase in U.S. Cellular's debt in the future could subject U.S. Cellular to various restrictions and higher interest costs and decrease its cash flows and earnings.

- An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's results of operations or financial condition.

- Changes in guidance or interpretations of accounting requirements, changes in industry practice, identification of errors or changes in management assumptions could require amendments to or restatements of financial information or disclosures included in this or prior filings with the SEC.

- Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development and acquisition programs.

- Changes in income tax rates, laws, regulations or rulings, or federal or state tax assessments could have an adverse effect on U.S. Cellular's financial condition or results of operations.

- War, conflicts, hostilities and/or terrorist attacks or equipment failure, power outages, natural disasters or breaches of network or information technology security could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- Changes in general economic and business conditions, both nationally and in the markets in which U.S. Cellular operates, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities or otherwise, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on U.S. Cellular's financial condition or results of operations.

- A failure to successfully remediate existing material weaknesses in internal control over financial reporting in a timely manner or the identification of additional material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or inadequate disclosures or fail to prevent fraud, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- The restatement of financial statements by U.S. Cellular and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on U.S. Cellular's credit rating, liquidity, financing arrangements, capital resources and ability to access the capital markets, including pursuant to shelf registration statements; could adversely affect U.S. Cellular's listing arrangements on the American Stock Exchange and/or New York Stock Exchange; and/or could have other negative consequences, any of which could have an adverse effect on the trading prices of U.S. Cellular's publicly traded equity and/or debt and/or on U.S. Cellular's business, financial condition or results of operations.
- The pending SEC investigation regarding the restatement of U.S. Cellular's financial statements could result in substantial expenses, and could result in monetary or other penalties.

- The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

- U.S. Cellular's assets are concentrated in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.

- As U.S. Cellular continues to implement its strategies, there are internal and external factors that could impact its ability to successfully meet its objectives.

- Any of the foregoing events or other events could cause revenues, customer additions, operating income, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward estimates by a material amount.

- The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.

- Certain matters, such as control by TDS and provisions in the U.S. Cellular restated certificate of incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.

- There are potential conflicts of interests between TDS and U.S. Cellular.

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U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Long-term Debt

U.S. Cellular is subject to market risks due to fluctuations in interest rates and equity markets. The majority of U.S. Cellular's long-term debt, excluding long-term debt related to the forward contracts, is in the form of long-term, fixed-rate notes with original maturities ranging up to 30 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. The long-term debt related to the forward contracts consists of both variable-rate debt and fixed-rate zero coupon debt. The variable-rate forward contracts require quarterly interest payments that are dependent on market interest rates. Increases in interest rates will result in increased interest expense. As of September 30, 2006, U.S. Cellular had not entered into any financial derivatives to reduce its exposure to interest rate risks.

Reference is made to the disclosure under Market Risk - Long Term Debt in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005, for additional information related to required principal payments, average interest rates, and estimated fair values of long-term debt.

Marketable Equity Securities and Derivatives

A subsidiary of U.S. Cellular maintains a portfolio of available-for-sale marketable equity securities which were obtained in connection with the sale of non-strategic investments. The market value of these investments aggregated \$208.5 million at September 30, 2006 and \$225.4 million at December 31, 2005. U.S. Cellular's cumulative net unrealized holding gain, net of tax, included in Accumulated other comprehensive income in the Consolidated Balance Sheets totaled \$48.7 million at September 30, 2006.

A subsidiary of U.S. Cellular has a number of forward contracts related to the marketable equity securities that it holds. U.S. Cellular has provided guarantees to the counterparties which provide assurance to the counterparties that all principal and interest amounts will be paid by its subsidiary when due. The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities (downside limit) while retaining a share of gains from increases in the market prices of such securities (upside potential). The downside limit is hedged at or above the cost basis.

Under the terms of the forward contracts, U.S. Cellular's subsidiary continues to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the respective security or in cash, pursuant to formulas that collar the price of the shares. The collars effectively limit downside risk and upside potential on the contracted shares. The collars are typically contractually adjusted for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential is typically reduced. If the dividend decreases, the collar's upside potential is typically increased. If U.S. Cellular elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized under the forward contract through maturity. If U.S. Cellular elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

Deferred income taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and derivatives. The deferred income tax liability related to current and noncurrent marketable equity securities totaled \$53.5 million as of September 30, 2006; of this amount, \$52.7 million was classified as current and \$0.8 million was classified as noncurrent. The deferred income tax liability related to marketable equity securities, totaled \$62.1 million as of December 31, 2005; the entire amount was classified as noncurrent. The current deferred income tax asset related to derivatives totaled \$15.9 million as of September 30, 2006; the entire amount was classified as current. At December 31, 2005, the deferred income tax asset related to derivatives totaled \$9.5 million; the entire amount was classified as noncurrent.

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The forward contracts related to Vodafone ADRs held by U.S. Cellular mature in May 2007. Accordingly, the Vodafone ADRs are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheet at September 30, 2006. The associated deferred income tax assets and liabilities are also classified as current at September 30, 2006.

The following table summarizes certain details related to the contracted securities as of September 30, 2006.

| Security | Collar (1) | Downside Limit (Floor) | Upside Potential (Ceiling) | Loan Amount (000s) |
|--------------|------------|------------------------|----------------------------|--------------------|
| | Shares | | | |
| Vodafone (2) | 8,964,698 | \$ 17.22-\$18.37 | \$ 17.22-\$19.11 | \$ 159,856 |

(1) The per share amounts represent the range of floor and ceiling prices of the Vodafone shares monetized.

(2) See LIQUIDITY AND CAPITAL RESOURCES above for a discussion of the Special Distribution and Share Consolidation related to the Vodafone ADRs that was effected on July 28, 2006. As a result of the Share Consolidation, the number of shares underlying the ADRs was reduced from 10,245,370 to 8,964,698. The collars also were adjusted as a result of the Special Distribution and Share Consolidation.

The following analysis presents the hypothetical change in the fair value of marketable equity securities and derivative instruments at September 30, 2006, using the Black-Scholes model assuming hypothetical price fluctuations of plus and minus 10%, 20% and 30%. The table presents hypothetical information as required by SEC rules. Such information should not be inferred to suggest that U.S. Cellular has any intention of selling any marketable equity securities or canceling any derivative instruments.

| (Dollars in millions) | Valuation of investments assuming indicated decrease | | | September 30, 2006 Fair Value | Valuation of investments assuming indicated increase | | |
|------------------------------|--|-----------|------------|-------------------------------|--|------------|-------------|
| | -30% | -20% | -10% | | +10% | +20% | +30% |
| Marketable Equity Securities | \$ 146.0 | \$ 166.8 | \$ 187.7 | \$ 208.5 | \$ 229.4 | \$ 250.2 | \$ 271.1 |
| Derivative Instruments | | | | | | | |
| (1) | \$ 13.0 | \$ (0.8) | \$ (25.5) | \$ (43.2) | \$ (65.5) | \$ (85.7) | \$ (106.1) |

(1) Represents the fair value of the derivative instruments assuming the indicated increase or decrease in the underlying securities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

U.S. Cellular maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to U.S. Cellular's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), U.S. Cellular carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of U.S. Cellular's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that U.S. Cellular's disclosure controls and procedures were not effective as of September 30, 2006, at the reasonable assurance level, because of the material weaknesses described below. Notwithstanding the material weaknesses that existed as of September 30, 2006, management has concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the financial position, results of operation and cash flows of U.S. Cellular and its subsidiaries in conformity with accounting principles generally accepted in the United States of America.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified the following material weaknesses in internal control over financial reporting as of December 31, 2005, which continued to exist as of September 30, 2006:

1. U.S. Cellular did not have a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the financial reporting requirements and the complexity of U.S. Cellular's operations and transactions. Further, U.S. Cellular did not have a sufficient number of qualified personnel to create, communicate and apply accounting policies and procedures in compliance with accounting principles generally accepted in the United States of America (GAAP). This control deficiency contributed to the material weaknesses discussed in items 2, 3, 4 and 5 below and the restatement of U.S. Cellular's annual consolidated financial statements for 2005, 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2005, 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2006, as well as adjustments, including audit adjustments, to the 2006 and 2005 third quarter interim consolidated financial statements and the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of substantially all accounts and disclosures that would result in a material misstatement to U.S. Cellular's interim or annual consolidated financial statements that would not be prevented or detected.

2. U.S. Cellular did not maintain effective controls over the completeness, accuracy, presentation and disclosure of its accounting for income taxes, including the determination of income tax expense, income taxes payable, liabilities accrued for tax contingencies and deferred income tax assets and liabilities. Specifically, U.S. Cellular did not have effective controls designed and in place to accurately calculate income tax expense and income tax payable, monitor the difference between the income tax basis and the financial reporting basis of assets and liabilities and reconcile the resulting basis difference to its deferred income tax asset and liability balances. This control deficiency resulted in the restatement of U.S. Cellular's annual consolidated financial statements for 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements and the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to U.S. Cellular's interim or annual consolidated financial statements that would not be prevented or detected.

3. U.S. Cellular did not maintain effective controls over the complete and accurate recording of leases. Specifically, effective controls were not designed and in place to ensure the accuracy of lease information, the use of appropriate lease terms including renewal option periods, calculation of rent expense on a straight-line basis for leases with escalation clauses and the complete and accurate accumulation of future lease commitments in conformity with GAAP. This control deficiency affected rent expense, deferred liabilities and related lease disclosures and resulted in an audit adjustment to the disclosure of future minimum rental payments reflected in the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to U.S. Cellular's interim or annual consolidated financial statements that would not be prevented or detected.

4. U.S. Cellular did not maintain effective controls over accounting for prepaid forward contracts and related bifurcated embedded derivative instruments. Specifically, effective controls were not designed and in place to de-designate, re-designate and assess hedge effectiveness of the bifurcated embedded collars within the forward contracts as cash flow hedges of marketable equity securities when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities. This control deficiency affected other comprehensive income on the consolidated balance sheet and fair value adjustments of derivative instruments and income tax expense on the consolidated statements of operations. This control deficiency resulted in the restatement of U.S. Cellular's annual consolidated financial statements for 2005, 2004 and 2003, the interim consolidated financial statements for all quarters in 2005 and 2004, the interim consolidated financial statements for the first and second quarters of 2006, as well as adjustments, including audit adjustments, to the 2006 third quarter interim consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to U.S. Cellular's interim or annual consolidated financial statements that would not be prevented or detected.

5. U.S. Cellular did not maintain effective controls over its accounting for property, plant and equipment. Specifically, effective controls were not designed and in place to ensure accurate recording of transfers and disposals of equipment. This control deficiency affected depreciation expense, property, plant and equipment and accumulated depreciation. This control deficiency resulted in the restatement of U.S. Cellular's annual consolidated financial statements for 2005, 2004 and 2003, the interim consolidated financial statements for all quarters in 2005 and 2004, the interim consolidated financial statements for the first and second quarters of 2006, as well as adjustments, including audit adjustments, to the 2006 third quarter interim consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to U.S. Cellular's interim or annual consolidated financial statements that would not be prevented or detected.

Remediation of Material Weaknesses in Internal Control Over Financial Reporting

Prior to the identification of the material weaknesses described above, U.S. Cellular had begun the following processes to enhance its internal control over financial reporting:

- **Controller Review Committee**
- The Controller Review Committee was formed in the fourth quarter of 2004 and consists of TDS's Corporate Controller and Assistant Corporate Controller, U.S. Cellular's Controller and TDS Telecom's Chief Financial Officer. The Committee meets regularly to discuss accounting treatment for current, unusual or nonrecurring matters. In addition, the Committee engaged external consultants to provide technical accounting training related to current accounting developments on a quarterly basis. TDS provides shared services to U.S. Cellular including assistance on technical accounting issues and external financial reporting.

- Enhancements and additions to technical accounting personnel
- TDS a Vice President and Assistant Corporate Controller was hired in the second quarter of 2005; a Manager, Accounting and Reporting was added in the second quarter of 2005 and a Manager, External Reporting was added in the third quarter of 2005. TDS provides shared services to U.S. Cellular including assistance on technical accounting issues and external financial reporting.
- U.S. Cellular a Vice President and Controller was hired in the second quarter of 2005 and was designated as U.S. Cellular s principal accounting officer in the third quarter of 2005; a Director, Operations Accounting was hired in the second quarter of 2005 and a Manager, Accounting Policy was added in the first quarter of 2005.

U.S. Cellular believes the above changes have improved its internal control over financial reporting.

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Management is currently addressing each of the material weaknesses in internal control over financial reporting and is committed to remediating them as expeditiously as possible. Further, management is undertaking a multi-year program to improve and increase automation of financial reporting and other finance functions. Management will devote significant time and resources to the remediation effort. Management's remediation plans include the following:

- **Review of Existing Internal Control Over Financial Reporting** U.S. Cellular has engaged external consultants to assist in reviewing its existing internal control over financial reporting with the intent of improving the design and operating effectiveness of controls and processes. Such improvements will include the development and enhancement of written accounting policies and procedures as well as communication thereof. In addition, management has currently enhanced controls related to certain of the items that resulted in the restatement of U.S. Cellular's interim and annual consolidated financial statements as discussed above.
- **Training** Management has engaged external consultants to assist U.S. Cellular in developing and implementing a training program specific to the needs of accounting personnel.
- **Recruiting** U.S. Cellular made several key additions to its technical accounting personnel in 2005, as discussed above. In addition, U.S. Cellular has added, and is actively recruiting to fill, several new director, manager and staff level positions which will enhance the overall level of technical expertise and enable improvements in controls and processes. In the second quarter of 2006, U.S. Cellular hired a new Director, Accounting Policy and Reporting.
- **Financial Infrastructure** In late 2005, the Finance Leadership Team, consisting of key finance leaders from each of TDS's business units and Corporate headquarters, commenced a Financial Infrastructure initiative. This multi-year initiative is focused on longer-term improvements in key financial processes and support systems, with an emphasis on simplification of the financial reporting structure, automation, preventive controls versus detective controls, and system-based controls versus manual controls.
- **Income Tax Accounting** TDS provides shared services to U.S. Cellular including assistance with accounting for income taxes. TDS has engaged external tax advisors to assist in enhancing controls with respect to monitoring the difference between the income tax basis and financial reporting basis of assets and liabilities and reconciling the difference to the deferred income tax asset and liability balances. The scope of this project encompasses controls over income taxes on a TDS enterprise-wide basis, including U.S. Cellular. In addition, TDS is in the process of implementing a tax provisioning software which it believes will enhance its internal controls related to income taxes on a TDS enterprise-wide basis, including U.S. Cellular.
- **Leases** In 2005, *U.S. Cellular began implementation of a new real estate management system. Implementation of additional system functionality and related supporting processes and procedures in 2006 will enhance controls related to the administration, accounting and reporting for leases, including controls related to the accuracy, completeness and disclosure of future minimum rental payments and the calculation of straight-line rent expense.*
- **Forward contracts and related derivative instruments** *TDS provides shared services to U.S. Cellular including assistance with accounting for forward contracts and related derivative instruments. TDS will enhance controls related to derivative instrument transactions. TDS has engaged external financial reporting advisors to provide expertise related to forward contracts, derivative instruments and hedge accounting on an ongoing basis. More specifically, the financial reporting advisors will provide training designed to ensure that all relevant personnel involved in derivative instrument transactions understand and apply hedge accounting in compliance with Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities. Until internal personnel are trained, the financial reporting advisors will consult on any forward contracts and derivative*

instrument transactions.

- *Property, plant and equipment* U.S. Cellular has begun implementation of a new fixed assets management system. This system and supporting processes and procedures, including a cycle count program covering cell sites and switches, will improve controls related to accounting and reporting for property, plant and equipment, including controls related to disposals and transfers of decommissioned assets.

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Changes in Internal Control Over Financial Reporting

There were no changes in U.S. Cellular's internal control over financial reporting during the quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect U.S. Cellular's internal control over financial reporting. However, as discussed immediately above, management is currently taking a number of steps to address each of the material weaknesses in internal control over financial reporting and is committed to remediating them.

Solely for purposes of updating the foregoing disclosure, the following information is provided. There were certain changes to U.S. Cellular's internal control over financial reporting subsequent to the quarter ended September 30, 2006. These changes include the resignation of TDS's Vice President and Assistant Controller in February 2007, and the reorganization of responsibilities as a result thereof. Subject to such changes, U.S. Cellular believes that the foregoing disclosures continue to be correct in all material respects.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

U.S. Cellular is involved in a number of legal proceedings before the FCC and various state and federal courts. In some cases, the litigation involves disputes regarding rights to certain wireless telephone systems and other interests. 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 probable 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 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 the accruals and related financial statement disclosure. The ultimate settlement of proceedings may differ materially from amounts accrued in the financial statements and could have a material effect on U.S. Cellular's financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005, which could materially affect U.S. Cellular's business, financial condition or future results of operations. The risks described in this Form 10-Q and the Form 10-K/A for the year ended December 31, 2005, may not be the only risks facing U.S. Cellular. Additional unidentified or unrecognized risks and uncertainties may materially adversely affect U.S. Cellular's business, financial condition results of operations. Subject to the foregoing, U.S. Cellular has not identified for disclosure any material changes to the risk factors previously disclosed in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005, except as follows:

U.S. Cellular could be subject to sanctions, including monetary forfeitures, for failure to comply with the FCC's E-911 handset rules.

By an order issued in 2002, the FCC's E-911 rules required that 100 percent of all new digital handsets sold or otherwise activated by wireless carriers, including U.S. Cellular, be Global Positioning System-capable by May 30, 2004. The FCC's E-911 rules also required that 95 percent of all handsets in use on U.S. Cellular's network be GPS-capable by December 31, 2005; in December 2005, U.S. Cellular filed a request for a limited waiver of the FCC's 95 percent requirement. Since filing its initial waiver request, U.S. Cellular voluntarily submitted two different supplements to the waiver request that reported its progress toward meeting the 95 percent requirement. The most recent supplement reported that as of September 30, 2006, U.S. Cellular's overall GPS-capable handset penetration was 94.48 percent.

On January 5, 2007, the FCC released orders denying the 95 percent GPS-capable handset penetration waivers of nine wireless carriers, including U.S. Cellular (FCC Order). The FCC Order denying U.S. Cellular's handset penetration waiver imposed periodic reporting obligations on U.S. Cellular with respect to its (i) progress towards achieving the 95% penetration requirement, and (ii) receipt and disposition of phase two E-911 requests from local public safety agencies. The FCC Order also referred this matter to the FCC's Enforcement Bureau for possible further action, which could include the assessment of a monetary forfeiture. On January 19, 2007, as required by the FCC Order, U.S. Cellular filed a certification with the FCC confirming that its overall GPS-capable handset penetration exceeded 95 percent some time during the fourth quarter of 2006. U.S. Cellular is currently evaluating its response to the FCC Order. However, there is no guarantee that U.S. Cellular will not be subject to sanctions, including monetary forfeitures, for failure to comply with the FCC's E-911 handset penetration rule.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides certain information with respect to all purchases of U.S. Cellular Common Shares made by or on behalf of U.S. Cellular, and any open market purchases of U.S. Cellular Common Shares made by any affiliated purchaser (as defined by the SEC) of U.S. Cellular, during the quarter covered by this Form 10-Q.

U.S. CELLULAR PURCHASES OF COMMON SHARES

| Period | (a) Total Number of Common Shares Purchased | (b) Average Price Paid per Common Share | (c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|--|--|--|--|--|
| July 1 31, 2006 | | \$ | | 164,150 |
| August 1 31, 2006 | | | | 164,150 |
| September 1 30, 2006 | | | | 164,150 |
| Total for, or as of end of the quarter ended September 30, 2006 | | \$ | | 164,150 |

(1) Represents the aggregate number of Common Shares that could have been purchased under U.S. Cellular's publicly announced Common Share repurchase program at the end of the applicable period, considering the amount of Common Shares repurchased during the three months preceding the end of such period.

The following is additional information with respect to U.S. Cellular's publicly announced common share repurchase program:

- i. The date the program was announced was May 15, 2000 by Form 10-Q.
- ii. The share amount originally approved was up to 1% of the number of outstanding Common Shares of U.S. Cellular not held by TDS or any affiliate thereof in any six month period. As of September 30, 2006, this would permit U.S. Cellular to acquire up to 164,150 common shares in a three-month period based on the number of unaffiliated Common Shares outstanding on such date, less the number of shares purchased within three months prior to any specific purchase.
- iii. There is no expiration date for the program.
- iv. No common share repurchase program has expired during the third quarter of 2006.
- v. U.S. Cellular has not determined to terminate the foregoing common share repurchase program prior to expiration, or to cease making further purchases thereunder, during the third quarter of 2006.

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Item 4. Submission of Matters to a Vote of Security-Holders.

At the Annual Meeting of Shareholders of U.S. Cellular, held on September 14, 2006, the following number of votes were cast for the matters indicated:

1. Election of Directors:

a. For the election of one Class I Director of the Company by the holders of Common Shares:

| Nominee | For | Withhold | Broker Non-vote |
|-----------------------|------------|----------|-----------------|
| Harry J. Harczak, Jr. | 51,948,995 | 550,176 | 0 |

b. For the election of two Class I Directors of the Company by the holder of Series A Common Shares:

| Nominee | For | Withhold | Broker Non-vote |
|------------------|-------------|----------|-----------------|
| LeRoy T. Carlson | 330,058,770 | 0 | 0 |
| John E. Rooney | 330,058,770 | 0 | 0 |

2. Proposal to Ratify the Selection of PricewaterhouseCoopers LLP as Independent Public Accountants for 2006:

| For | Against | Abstain | Broker Non-vote |
|-------------|---------|---------|-----------------|
| 382,199,417 | 352,493 | 6,031 | 0 |

Item 5. Other Information.

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 - Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

U.S. Cellular has borrowed \$150.0 million under its Revolving Credit Facility as of September 30, 2006. The borrowings occurred throughout the first nine months of 2006. U.S. Cellular anticipates repaying such borrowings with future cash flows from operating activities or long-term debt financing. As of September 30, 2006, the notes range in maturity dates from three days to 18 days and bear interest of 5.93%. The notes can be renewed when they come due based on the London InterBank Offered Rate (LIBOR) plus a contractual spread; the applicable spread is 60 basis points at September 30, 2006. The notes were used primarily to fund the general obligations of U.S. Cellular as well as funding for Barat Wireless in Auction 66.

The foregoing description is qualified by reference to the description of the Revolving Credit Facility under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated December 9, 2004, and a copy of the Revolving Credit Facility, which is included as Exhibit 4.1 of U.S. Cellular's Current Report on such Form 8-K dated December 9, 2004 and is incorporated by reference herein.

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Item 6. Exhibits

Exhibit 3.1 Restated Bylaws, as amended as of December 4, 2006 effective January 1, 2007 are hereby incorporated by reference to Exhibit 99.3 to U.S. Cellular's Form 8-K dated December 4, 2006.

Exhibit 10.0 Supplemental Executive Retirement Plan (As Amended and Restated, Effective January 1, 2005) is hereby incorporated by reference to Exhibit 99.1 to TDS's Current Report on Form 8-K dated November 2, 2006.

Exhibit 10.1 Retention Agreement between TDS and Kenneth R. Meyers dated December 4, 2006, is hereby incorporated by reference to Exhibit 99.3 to TDS's Form 8-K dated November 30, 2006.

Exhibit 10.2 Executive Deferred Compensation Agreement Phantom Stock Account for 2007 bonus year between John E. Rooney and U.S. Cellular dated December 13, 2006 is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular Corporation's Current Report on Form 8-K filed on December 13, 2006.

Exhibit 10.3 Executive Deferred Compensation Agreement Interest Account for 2007 between John E. Rooney and U.S. Cellular dated December 13, 2006 is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular Corporation's Current Report on Form 8-K filed on December 13, 2006.

Exhibit 11 - Statement regarding computation of per share earnings is included herein as Note 6 of Notes to Consolidated Financial Statements.

Exhibit 12 - Statement regarding computation of ratios.

Exhibit 31.1 - Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in U.S. Cellular's Form 10-K/A for the year ended December 31, 2005. Reference is made to U.S. Cellular's Form 10-K/A for the year ended December 31, 2005 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded by the exhibits included above.

SIGNATURES

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

UNITED STATES CELLULAR CORPORATION

(Registrant)

Date: February 23, 2007

/s/ John E. Rooney
John E. Rooney
President and
Chief Executive Officer

Date: February 23, 2007

/s/ Steven T. Campbell
Steven T. Campbell
Executive Vice President-Finance,
Chief Financial Officer, Treasurer and Controller

Date: February 23, 2007

/s/ Kenneth R. Meyers
Kenneth R. Meyers
Chief Accounting Officer

Signature page for the U.S. Cellular 2006 Third Quarter Form 10-Q
