

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

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

62-1147325

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

8410 West Bryn Mawr, Chicago, Illinois 60631
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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

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

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Signatures

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

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

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

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

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

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

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

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

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	\$ 409,579	\$ 424,155
Short-term investments	140,494	127,039
Accounts receivable		
Customers and agents, less allowances of \$24,784 and \$21,337, respectively	332,318	341,439
Roaming	47,216	36,557
Affiliated	119	621
Other, less allowances of \$3,127 and \$2,200, respectively	84,132	63,204
Inventory	196,523	127,056
Income taxes receivable	2,280	74,791
Prepaid expenses	60,631	55,980
Net deferred income tax asset	37,868	31,905
Other current assets	15,993	10,096
	1,327,153	1,292,843
Assets held for sale	-	49,647
Investments		
Licenses	1,531,873	1,470,769
Goodwill	494,737	494,737
Customer lists, net of accumulated amortization of \$96,776 and \$96,597, respectively	135	314
Investments in unconsolidated entities	162,012	138,096
Notes and interest receivable — long-term	-	1,921
Long-term investments	10,171	30,057
	2,198,928	2,135,894
Property, plant and equipment		
In service and under construction	7,341,632	7,008,449
Less: Accumulated depreciation	4,406,847	4,218,147
	2,934,785	2,790,302
Other assets and deferred charges	75,482	59,290
Total assets	\$ 6,536,348	\$ 6,327,976

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

Table of Contents**United States Cellular Corporation****Consolidated Balance Sheet — Liabilities and Equity**
(Unaudited)

(Dollars and shares in thousands)	September 30, 2012	December 31, 2011
Current liabilities		
Current portion of long-term debt	\$ 127	\$ 127
Accounts payable		
Affiliated	7,398	12,183
Trade	250,681	303,779
Customer deposits and deferred revenues	208,042	181,355
Accrued taxes	60,695	34,095
Accrued compensation	52,200	69,551
Other current liabilities	92,957	121,190
	672,100	722,280
Liabilities held for sale	-	1,051
Deferred liabilities and credits		
Net deferred income tax liability	861,709	799,190
Other deferred liabilities and credits	259,499	248,213
Long-term debt	880,486	880,320
Commitments and contingencies	-	-
Noncontrolling interests with redemption features	759	1,005
Equity		
U.S. Cellular shareholders' equity		
Series A Common and Common Shares		
Authorized 190,000 shares (50,000 Series A Common and 140,000 Common Shares)		
Issued 88,074 shares (33,006 Series A Common and 55,068 Common Shares)		
Outstanding 84,735 shares (33,006 Series A Common and 51,729 Common Shares) and 84,557 shares (33,006 Series A Common and 51,551 Common Shares), respectively		
Par Value (\$1 per share) (\$33,006 Series A Common and \$55,068 Common Shares)	88,074	88,074
Additional paid-in capital	1,406,617	1,387,341

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

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

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

	Total						
	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity
(Dollars in thousands) Balance, December 31, 2011	\$ 88,074	\$ 1,387,341	\$ (152,817)	\$ 2,297,363	\$ 3,619,961	\$ 55,956	\$ 3,675,917
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	-	-	-	150,628	150,628	-	150,628
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	19,766	19,766
Incentive and compensation plans	-	137	6,958	(9,231)	(2,136)	-	(2,136)
Stock-based compensation awards	-	15,761	-	-	15,761	-	15,761
Tax windfall (shortfall) from stock awards	-	471	-	-	471	-	471
Distributions to noncontrolling interests	-	-	-	-	-	(1,491)	(1,491)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	2,907	-	-	2,907	-	2,907
Other	-	-	-	-	-	-	-