

UNITED STATES CELLULAR CORP
Form 10-Q
May 06, 2011

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 March 31, 2011

OR

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

For the transition period from to

Commission File Number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

62-1147325

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

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

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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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 March 31, 2011
Common Shares, \$1 par value	52,228,673 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 March 31, 2011

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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 March 31,	
	2011	2010
Operating revenues		
Service	\$ 985,113	\$ 965,008
Equipment sales	71,979	58,849
Total operating revenues	1,057,092	1,023,857
Operating expenses		
System operations (excluding Depreciation, amortization and accretion reported below)	217,603	207,114
Cost of equipment sold	194,360	161,105
Selling, general and administrative (including charges from affiliates of \$26.2 million and \$27.7 million, respectively)	442,004	429,605
Depreciation, amortization and accretion	145,045	143,233
Loss on asset disposals, net	1,037	5,176
Total operating expenses	1,000,049	946,233
Operating income	57,043	77,624
Investment and other income (expense)		
Equity in earnings of unconsolidated entities	20,891	24,694
Interest and dividend income	849	1,021
Interest expense	(15,186)	(16,524)
Other, net	(125)	(65)
Total investment and other income (expense)	6,429	9,126
Income before income taxes	63,472	86,750
Income tax expense	24,092	33,662
Net income	39,380	53,088
Less: Net income attributable to noncontrolling interests, net of tax	(5,269)	(5,719)
Net income attributable to U.S. Cellular shareholders	\$ 34,111	\$ 47,369
Basic weighted average shares outstanding	85,484	86,576
Basic earnings per share attributable to U.S. Cellular shareholders	\$ 0.40	\$ 0.55

Diluted weighted average shares outstanding	86,101		86,978
Diluted earnings per share attributable to U.S. Cellular shareholders	\$ 0.40	\$	0.54

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)	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 39,380	\$ 53,088
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	145,045	143,233
Bad debts expense	13,507	19,193
Stock-based compensation expense	5,792	3,830
Deferred income taxes, net	44,413	(2,419)
Equity in earnings of unconsolidated entities	(20,891)	(24,694)
Distributions from unconsolidated entities	8,323	7,238
Loss on asset disposals, net	1,037	5,176
Other operating activities	1,064	274
Changes in assets and liabilities from operations		
Accounts receivable	4,950	1,313
Inventory	3,461	(722)
Accounts payable - trade	(2,244)	(39,375)
Accounts payable - affiliate	(2,041)	(5,843)
Customer deposits and deferred revenues	10,245	403
Accrued taxes	11,174	30,723
Accrued interest	9,205	9,221
Other assets and liabilities	(70,598)	(48,387)
	201,822	152,252
Cash flows from investing activities		
Additions to property, plant and equipment	(95,933)	(121,514)
Cash paid for acquisitions and licenses		(3,800)
Cash paid for investments		(25,000)
Cash received for investments	35,000	126
Other investing activities	2,200	230
	(58,733)	(149,958)
Cash flows from financing activities		
Common shares reissued for benefit plans, net of tax payments	1,305	486
Common shares repurchased	(17,357)	(5,186)
Distributions to noncontrolling interests	(186)	(2,284)
Other financing activities	17	(63)
	(16,221)	(7,047)

Net increase (decrease) in cash and cash equivalents	126,868	(4,753)
Cash and cash equivalents		
Beginning of period	294,426	294,411
End of period	\$ 421,294	\$ 289,658

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)	March 31, 2011	December 31, 2010
Current assets		
Cash and cash equivalents	\$ 421,294	\$ 294,426
Short-term investments	121,252	146,586
Accounts receivable		
Customers and agents, less allowances of \$21,674 and \$24,455, respectively	302,532	331,452
Roaming	36,109	37,218
Affiliated	272	226
Other, less allowances of \$1,180 and \$1,361, respectively	66,650	55,123
Inventory	108,818	112,279
Prepaid income taxes	4,910	41,397
Prepaid expenses	62,709	53,356
Net deferred income tax asset	26,757	26,757
Other current assets	10,282	10,804
	1,161,585	1,109,624
Investments		
Licenses	1,452,401	1,452,101
Goodwill	494,737	494,737
Customer lists, net of accumulated amortization of \$96,264 and \$96,153, respectively	648	759
Investments in unconsolidated entities	171,485	160,847
Notes and interest receivable – long-term	4,033	4,070
Long-term investments	35,737	46,033
	2,159,041	2,158,547
Property, plant and equipment		
In service and under construction	6,465,667	6,382,581
Less: Accumulated depreciation	3,898,393	3,767,509
	2,567,274	2,615,072
Other assets and deferred charges	74,028	50,367
Total assets	\$ 5,961,928	\$ 5,933,610

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)	March 31, 2011	December 31, 2010
Current liabilities		
Current portion of long-term debt	\$ 101	\$ 101
Accounts payable		
Affiliated	8,750	10,791
Trade	279,657	281,601
Customer deposits and deferred revenues	156,673	146,428
Accrued taxes	36,263	39,299
Accrued compensation	41,651	65,952
Other current liabilities	94,696	121,823
	617,791	665,995
Deferred liabilities and credits		
Net deferred income tax liability	624,884	579,769
Other deferred liabilities and credits	287,217	284,949
Long-term debt	868,102	867,941
Commitments and contingencies		
Noncontrolling interests with redemption features	894	855
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 85,234 shares (33,006 Series A		
Common and 52,228 Common Shares) and		
85,547 shares (33,006 Series A Common and		
52,541 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	1,374,323	1,368,487
Treasury shares, at cost, 2,840 and 2,527 Common		
Shares, respectively	(120,475)	(105,616)
Retained earnings	2,162,556	2,129,638

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Total U.S. Cellular shareholders equity	3,504,478	3,480,583
Noncontrolling interests	58,562	53,518
Total equity	3,563,040	3,534,101
Total liabilities and equity	\$ 5,961,928	\$ 5,933,610

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

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

	U.S. Cellular Shareholders				Total		
	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	U.S. Cellular Shareholders Equity	Noncontrolling Interests	Total Equity
(Dollars in thousands) Balance, December 31, 2010	\$ 88,074	\$ 1,368,487	\$ (105,616)	\$ 2,129,638	\$ 3,480,583	\$ 53,518	\$ 3,534,101
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders				34,111	34,111		34,111
Net income attributable to noncontrolling interests classified as equity						5,230	5,230
Repurchase of Common Shares			(17,357)		(17,357)		(17,357)
Incentive and compensation plans		32	2,498	(1,193)	1,337		1,337
Stock-based compensation awards		5,792			5,792		5,792
Tax windfall (shortfall) from stock awards		12			12		12
Distributions to noncontrolling interests						(186)	(186)
Balance, March 31, 2011	\$ 88,074	\$ 1,374,323	\$ (120,475)	\$ 2,162,556	\$ 3,504,478	\$ 58,562	\$ 3,563,040

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

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United States Cellular Corporation

Consolidated Statement of Changes in Equity
(Unaudited)

	U.S. Cellular Shareholders					
	Series A				Total	
	Common	Additional		U.S. Cellular		
	and					
	Common	Paid-In	Treasury	Retained	Shareholders'	Noncontrolling
	Shares	Capital	Shares	Earnings	Equity	Interests
						Total
						Equity
(Dollars in thousands)						
Balance, December 31, 2009	\$ 88,074	\$				