

UNITED STATES CELLULAR CORP  
Form 10-Q  
August 05, 2016

UNITED STATES  
SECURITIES AND  
EXCHANGE  
COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period  
ended June 30, 2016

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  
001-09712

UNITED STATES CELLULAR CORPORATION  
(Exact name of Registrant as specified in its charter)  
Delaware 62-1147325  
(State or other (IRS Employer  
jurisdiction of Identification No.)

incorporation or  
organization)

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

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

Yes No

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. ☒ ☐

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). ☒ ☐

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 ☐

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

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

Class

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Outstanding at June 30,  
2016

Common Shares,  
\$1 par value  
Series A

51,801,561 Shares

Common Shares,  
\$1 par value

33,005,877 Shares

United States Cellular Corporation

Quarterly Report on Form 10-Q  
For the Quarterly Period Ended June 30, 2016

| Index                                                                                      | Page No.  |
|--------------------------------------------------------------------------------------------|-----------|
| <u>Management Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>1</u>  |
| <u>Executive Overview</u>                                                                  | <u>1</u>  |
| <u>Terms used by U.S. Cellular</u>                                                         | <u>4</u>  |
| <u>Operational Overview</u>                                                                | <u>5</u>  |
| <u>Financial Overview</u>                                                                  | <u>8</u>  |
| <u>Liquidity and Capital Resources</u>                                                     | <u>12</u> |
| <u>Consolidated Cash Flow Analysis</u>                                                     | <u>14</u> |
| <u>Consolidated Balance Sheet Analysis</u>                                                 | <u>15</u> |
| <u>Supplemental Information Relating to Non-GAAP Financial Measures</u>                    | <u>16</u> |
| <u>Application of Critical Accounting Policies and Estimates</u>                           | <u>18</u> |
| <u>Recent Accounting Pronouncements</u>                                                    | <u>18</u> |
| <u>Regulatory Matters</u>                                                                  | <u>19</u> |
| <u>Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement</u>   | <u>20</u> |
| <u>Risk Factors</u>                                                                        | <u>22</u> |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                          | <u>22</u> |
| <u>Financial Statements (Unaudited)</u>                                                    | <u>23</u> |
| <u>Consolidated Statement of Operations</u>                                                | <u>23</u> |
| <u>Consolidated Statement of Cash Flows</u>                                                | <u>24</u> |
| <u>Consolidated Balance Sheet</u>                                                          | <u>25</u> |
| <u>Consolidated Statement of Changes in Equity</u>                                         | <u>27</u> |
| <u>Notes to Consolidated Financial Statements</u>                                          | <u>29</u> |
| <u>Controls and Procedures</u>                                                             | <u>37</u> |
| <u>Legal Proceedings</u>                                                                   | <u>37</u> |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                         | <u>37</u> |
| <u>Other Information</u>                                                                   | <u>38</u> |

|                                        |           |
|----------------------------------------|-----------|
| <u>Exhibits</u>                        | <u>39</u> |
| <u>Form 10-Q Cross Reference Index</u> | <u>40</u> |
| <u>Signatures</u>                      | <u>41</u> |

Table of Contents

United States Cellular Corporation

Management's Discussion and Analysis of

Financial Condition and Results of Operations

Executive Overview

The following discussion and analysis should be read in conjunction with United States Cellular Corporation's ("U.S. Cellular") interim consolidated financial statements and notes included within, and with the description of U.S. Cellular's business, its audited consolidated financial statements and Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations included in U.S. Cellular's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2015. Analysis of U.S. Cellular's financial results compares the three and six months ended June 30, 2016 to the three and six months ended June 30, 2015. Calculated amounts and percentages are based on the underlying actual numbers rather than the numbers rounded to millions as presented.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. 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. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

U.S. Cellular uses certain "non-GAAP financial measures" throughout the MD&A. A discussion of the reason U.S. Cellular determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America ("GAAP") are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-Q Report.

Table of Contents

General

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 83%-owned subsidiary of Telephone and Data Systems, Inc. (“TDS”). U.S. Cellular’s strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

OPERATIONS

- ◆ Serves customers with approximately 5.0 million connections including 4.5 million postpaid, 0.4 million prepaid and 0.1 million reseller and other connections
- ◆ Operates in 23 states
- ◆ Employs approximately 6,400 employees
- ◆ Headquartered in Chicago, Illinois
- ◆ 6,324 cell sites including 3,988 owned towers in service





Table of Contents

U.S. Cellular Mission and Strategy

U.S. Cellular's mission is to provide exceptional wireless communication services which enhance consumers' lives, increase the competitiveness of local businesses, and improve the efficiency of government operations in the mid-sized and rural markets served.

In 2016, U.S. Cellular will continue to execute on its strategies to grow revenues by increasing its customer base, driving smartphone adoption and ongoing data usage monetization. Strategic efforts include:

- ◆ U.S. Cellular deployed 4G LTE as a result of U.S. Cellular's strategic initiative to enhance its network. 4G LTE reaches 99% of postpaid connections and 98% of cell sites. The adoption of data-centric smartphones and connected devices is driving significant growth in data traffic. At the end of the second quarter of 2016, 76% of postpaid connections had 4G capable devices, with the LTE network handling 89% of data traffic. U.S. Cellular continues to devote efforts to enhance its network capabilities with the deployment of VoLTE technology and plans a multi-year roll out beginning with one market in 2017. VoLTE, when deployed commercially, will enable customers to utilize the LTE network for both voice and data services, and will enable enhanced services such as high definition voice, video calling and simultaneous voice and data sessions. The deployment of VoLTE also will expand U.S. Cellular's ability to offer roaming services to additional carriers.
- ◆ U.S. Cellular continued to enhance its spectrum position and monetize non-strategic assets by entering into multiple agreements with third parties. Certain of these agreements involve the purchase of licenses for cash, while others involve the exchange of licenses in non-operating markets for other licenses in operating markets and cash. The first closing of one of the exchange agreements occurred in June 2016 at which time U.S. Cellular received \$13 million of cash and recognized a gain of \$9 million. The remaining license purchase and exchange transactions are expected to close in the second half of 2016, at which point U.S. Cellular expects to recognize additional gains. See Note 5 — Acquisitions, Divestitures and Exchanges for additional information related to these transactions.
- ◆ U.S. Cellular is focused on expanding its solutions available to business and government customers, including a growing suite of machine-to-machine solutions across various categories. U.S. Cellular will continue to enhance its advanced wireless services and connected solutions for consumer, business and government customers.

## Table of Contents

### Terms Used by U.S. Cellular

All defined terms in this MD&A are used as defined in the Notes to Consolidated Financial Statements, and additional terms are defined below:

- ◆ 4G LTE – fourth generation Long-Term Evolution which is a wireless broadband technology.
- ◆ Account – represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.
- ◆ Auction 97 – An FCC auction of AWS-3 spectrum licenses that ended in January 2015.
- ◆ Auction 1002 – Auction 1002 is part of Auction 1000. Auction 1000 is an FCC auction of 600 MHz spectrum licenses being held in 2016 involving: (1) a “reverse auction” in which broadcast television licensees submit bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a “repacking” of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a “forward auction” of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).
- ◆ Churn Rate – represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.
- ◆ Connections - individual lines of service associated with each device activated by a customer. This includes smartphones, feature phones, tablets, modems, and machine-to-machine devices.
- ◆ FCC – Federal Communications Commission.
- ◆ Gross Additions – represents the total number of new connections added during the period, without regard to connections that were terminated during that period.
- ◆ Machine-to-Machine or M2M – technology that involves the transmission of data between networked devices, as well as the performance of actions by devices without human intervention. U.S. Cellular sells and supports M2M solutions to customers, provides connectivity for M2M solutions via the U.S. Cellular network, and has partnerships with device manufacturers and software developers who offer M2M solutions.
- ◆ Net Additions – represents the total number of new connections added during the period, net of connections that were terminated during that period.
- ◆ Postpaid Average Billings per Account (“Postpaid ABPA”) – non-GAAP metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period.
- ◆ Postpaid Average Billings per User (“Postpaid ABPU”) – non-GAAP metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period.
- ◆ Postpaid Average Revenue per Account (“Postpaid ARPA”) – metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts and by the number of months in the period.
- ◆ Postpaid Average Revenue per User (“Postpaid ARPU”) – metric is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.
- ◆ Retail Connections – the sum of postpaid connections and prepaid connections.
- ◆ Smartphone Penetration – is calculated by dividing postpaid smartphone connections by postpaid handset connections.
- ◆ Universal Service Fund (“USF”) – A system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.
- ◆ VoLTE – Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.



Table of Contents

Operational Overview

|                      | YTD 2015  | YTD 2016  |
|----------------------|-----------|-----------|
| Postpaid             |           |           |
| Connections          |           |           |
| Gross Additions      | 391,000   | 412,000   |
| Net Additions        | 26,000    | 81,000    |
| Churn                | 1.41%     | 1.24%     |
| Handsets             | 1.32%     | 1.14%     |
| Connected Devices    | 2.38%     | 1.92%     |
| Connections –        |           |           |
|                      | 4,324,000 | 4,490,000 |
| end of period        |           |           |
| Retail Connections – |           |           |
|                      | 4,692,000 | 4,903,000 |
| end of period        |           |           |

U.S. Cellular believes the increase in net additions in 2016 is a result of competitive services and products priced to offer the best value to customers and expanded equipment installment plan offerings. Postpaid churn continued to decline due to enhancements in the customer experience, targeted retention programs and improvement in the overall credit mix of gross additions.



Table of Contents

Smartphones represented 92% and 86% of total postpaid handset sales for the six months ended June 30, 2016 and 2015, respectively. As a result, smartphone penetration increased to 77% of the postpaid handset base as of June 30, 2016, up from 69% a year ago. Smartphone customers generally use more data than feature phone customers, thereby driving growth in service revenues.

Continued growth in customer usage related to data services and products may result in increased operating expenses and the need for additional investment in spectrum, network capacity and network enhancements.

\*Postpaid ABPU and ABPA are non-GAAP financial measures. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Postpaid ARPU and Postpaid ARPA decreased for the three and six months ended June 30, 2016 due to industry-wide price competition, together with discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal. Postpaid ARPU also decreased due to net additions of connected devices, which on a per unit basis contribute less revenue than handsets. These factors were partially offset by the impacts of continued adoption of smartphones and the related increase in service revenues from data usage.

Equipment installment plans increase equipment sales revenue as customers pay for their wireless devices in installments at a total device price that is generally higher than the device price offered to customers in conjunction with alternative plans that are subject to a service contract. Equipment installment plans also have the impact of

reducing service revenues as many equipment installment plans provide for reduced monthly access charges. In order to show the trends in total service and equipment revenues received, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly equipment installment plan billings per connection and account, respectively.

Table of Contents

Equipment installment plan billings increased for the three and six months ended June 30, 2016 due to increased adoption of equipment installment plans by postpaid customers. Postpaid ABPU decreased in 2016 as the increase in equipment installment plan billings was more than offset by the Postpaid ARPU drivers discussed above. Postpaid ABPA, however, increased in 2016 due to the increase in equipment installment plan billings and an increase in device connections per account, partially offset by the Postpaid ARPU and Postpaid ARPA drivers discussed above.



Table of Contents

## Financial Overview

|                                                                                       | Three Months Ended June 30, |        |               | Six Months Ended June 30, |          |               |
|---------------------------------------------------------------------------------------|-----------------------------|--------|---------------|---------------------------|----------|---------------|
|                                                                                       | 2016                        | 2015   | 2016 vs. 2015 | 2016                      | 2015     | 2016 vs. 2015 |
| (Dollars in millions)                                                                 |                             |        |               |                           |          |               |
| Retail service                                                                        | \$680                       | \$ 734 | (8)%          | \$1,361                   | \$ 1,482 | (8)%          |
| Inbound roaming                                                                       | 38                          | 49     | (23)%         | 74                        | 89       | (17)%         |
| Other                                                                                 | 44                          | 41     | 10%           | 86                        | 82       | 5%            |
| Service revenues                                                                      | 762                         | 824    | (8)%          | 1,521                     | 1,653    | (8)%          |
| Equipment sales                                                                       | 218                         | 152    | 44%           | 417                       | 288      | 45%           |
| Total operating revenues                                                              | 980                         | 976    | -             | 1,938                     | 1,941    | -             |
| System operations (excluding Depreciation, amortization and accretion reported below) | 193                         | 196    | (2)%          | 376                       | 387      | (3)%          |
| Cost of equipment sold                                                                | 262                         | 254    | 3%            | 518                       | 492      | 5%            |
| Selling, general and administrative                                                   | 357                         | 364    | (1)%          | 719                       | 731      | (2)%          |
|                                                                                       | 812                         | 814    | -             | 1,613                     | 1,610    | -             |
| Operating cash flow*                                                                  | 168                         | 162    | 3%            | 325                       | 331      | (2)%          |
| Depreciation, amortization and accretion                                              | 154                         | 151    | 2%            | 307                       | 298      | 3%            |
| (Gain) loss on asset disposals, net                                                   | 5                           | 5      | (12)%         | 10                        | 10       | 2%            |
| (Gain) loss on sale of business and other exit costs, net                             | -                           | (2)    | N/M           | -                         | (113)    | 100%          |
| (Gain) loss on license sales and exchanges                                            | (9)                         | -      | >(100)%       | (9)                       | (123)    | 93%           |
| Total operating expenses                                                              | 962                         | 968    | (1)%          | 1,921                     | 1,682    | 14%           |
| Operating income (loss)                                                               | \$18                        | \$ 8   | >100%         | \$17                      | \$ 259   | (93)%         |
| Net Income                                                                            | \$27                        | \$ 20  | 37%           | \$37                      | \$ 185   | (80)%         |
| Adjusted EBITDA*                                                                      | \$218                       | \$ 207 | 5%            | \$424                     | \$ 418   | 2%            |
| Capital expenditures                                                                  | \$93                        | \$ 134 | (31)%         | \$172                     | \$ 200   | (14)%         |

\* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

N/M - Percentage change not meaningful

Table of Contents

Service revenues consist of:

- ◆ Retail Service - Charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data services and products
- ◆ Inbound Roaming - Charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming
- ◆ Other – Primarily amounts received from the Federal USF and tower rental revenues

Equipment revenues consist of:

- ◆ Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

Total operating revenues

Service revenues decreased for the three and six months ended June 30, 2016 as a result of (i) a decrease in retail service revenues driven by industry-wide price competition, including discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal; and (ii) reductions in inbound roaming revenues driven by lower roaming rates. Such reductions were partially offset by an increase in the average connections base and continued adoption of shared data plans.

Federal USF revenue was \$23 million and \$46 million for the three and six months ended June 30, 2016, respectively, which remained flat when compared to the same periods last year. Pursuant to the FCC's Reform Order ("Reform Order"), U.S. Cellular's Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational as of July 2014 and, therefore, as provided by the Reform Order, the phase down was suspended at 60% of the baseline amount. U.S. Cellular will continue to receive USF support at the 60% level until the FCC takes further action. At this time, U.S. Cellular cannot predict the changes that the FCC might make to the USF high cost support program and, accordingly, cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Equipment sales revenues increased for the three and six months ended June 30, 2016 due primarily to an increase in average revenue per device sold from sales under equipment installment plans and an increase in the number of devices sold. Equipment installment plan sales contributed \$162 million and \$69 million during the three months ended June 30, 2016 and 2015, respectively, and \$309 million and \$137 million for the six months ended June 30, 2016 and 2015, respectively. Equipment installment plans represented 69% of the total postpaid devices sold to end users for the three and six months ended June 30, 2016 and 44% and 43% for the three and six months ended June 30, 2015, respectively. Equipment installment plan connections represented 37% and 20% of total postpaid connections as of June 30, 2016 and 2015, respectively.

#### System operations expenses

System operations expenses remained relatively flat for the three months ended June 30, 2016 when compared to the three months ended June 30, 2015.

System operations expenses decreased 3% to \$376 million for the six months ended June 30, 2016 when compared to the six months ended June 30, 2015. The primary drivers were as follows:

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$12 million or 12% to \$90 million driven primarily by lower rates for both data and voice traffic, partially offset by increased data roaming usage.

Customer usage expenses decreased \$10 million or 10% to \$88 million driven by a decrease in circuit costs from the migration to LTE and lower fees for platform and content providers.

The aforementioned drivers were partially offset by maintenance, utility and cell site expenses, which increased \$11 million or 6% to \$197 million reflecting higher support costs for the expanded 4G LTE network, increased cell site rent, the completion of certain tower maintenance and repair projects, and other maintenance activities.

Table of Contents

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

## Cost of equipment sold

Cost of equipment sold increased primarily as a result of a 6% and 7% increase in devices sold for the three and six months ended June 30, 2016, respectively. Cost of equipment sold included \$174 million and \$105 million related to equipment installment plan sales for the three months ended June 30, 2016 and 2015, respectively, and \$334 million and \$191 million for the six months ended June 30, 2016 and 2015, respectively. Loss on equipment, defined as Equipment sales revenues less Cost of equipment sold, was \$44 million and \$102 million for the three months ended June 30, 2016 and 2015, respectively, and \$101 million and \$204 million for the six months ended June 30, 2016 and 2015, respectively.

## Selling, general and administrative expenses

Selling, general and administrative expenses remained relatively flat for the three and six months ended June 30, 2016 when compared to the same periods last year.

## Depreciation, amortization, and accretion expenses

The increase in Depreciation, amortization, and accretion expenses for the three and six months ended June 30, 2016 is mainly driven by the increase in amortization expense related to billing system upgrades.

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

The net gain for the six months ended June 30, 2015 was due primarily to a \$108 million gain recognized on sale of towers and certain related contracts, assets and liabilities.

## (Gain) loss on license sales and exchanges, net

The net gains in 2016 and 2015 were due to gains recognized on license exchange transactions with third parties.

See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

Components of  
Other Income  
(Expense)

|                       | Three Months Ended<br>June 30, |      |          | Six Months Ended<br>June 30, |       |          |
|-----------------------|--------------------------------|------|----------|------------------------------|-------|----------|
|                       |                                |      | 2016 vs. |                              |       | 2016 vs. |
|                       | 2016                           | 2015 | 2015     | 2016                         | 2015  | 2015     |
| (Dollars in millions) |                                |      |          |                              |       |          |
| Operating income      | \$18                           | \$8  | >100%    | \$17                         | \$259 | (93)%    |

|                                                                       |      |      |         |      |       |       |
|-----------------------------------------------------------------------|------|------|---------|------|-------|-------|
| Equity in earnings of unconsolidated entities                         | 37   | 36   | 4%      | 72   | 70    | 3%    |
| Interest and dividend income                                          | 14   | 9    | 52%     | 27   | 17    | 63%   |
| Interest expense                                                      | (28) | (20) | (40)%   | (56) | (40)  | (40)% |
| Other, net                                                            | (1)  | –    | 10%     | –    | –     | 28%   |
| Total investment and other income                                     | 22   | 25   | (9)%    | 43   | 47    | (8)%  |
| Income before income taxes                                            | 40   | 33   | 21%     | 60   | 306   | (80)% |
| Income tax expense                                                    | 13   | 13   | (3)%    | 23   | 121   | (81)% |
| Net income                                                            | 27   | 20   | 37%     | 37   | 185   | (80)% |
| Less: Net income attributable to noncontrolling interests, net of tax | –    | 1    | >(100)% | 1    | 6     | (92)% |
| Net income attributable to U.S. Cellular shareholders                 | \$27 | \$19 | 42%     | \$36 | \$179 | (80)% |

Table of Contents

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method. U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$20 million and \$19 million to Equity in earnings of unconsolidated entities for the three months ended June 30, 2016 and 2015, respectively, and \$40 million and \$39 million for the six months ended June 2016 and 2015, respectively.

See Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of \$12 million and \$8 million during the three months ended June 30, 2016 and 2015, respectively, and \$24 million and \$15 million during the six months ended June 30, 2016 and 2015, respectively.

See Note 3 — Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Interest expense

The increase in Interest expense for the three and six months ended June 30, 2016 is primarily driven by U.S. Cellular's issuance of \$300 million of 7.25% Senior Notes due 2064 in November 2015 and borrowing of \$225 million on its senior term loan facility that was drawn in July 2015.

Income tax expense

U.S. Cellular's effective tax rate on Income before income taxes for the three and six months ended June 30, 2016 was 31.8% and 38.9%, respectively, and for the three and six months ended June 30, 2015 was 39.6% and 39.5%, respectively. The lower effective tax rate for the three and six months ended June 30, 2016 resulted from a decrease in unrecognized tax benefits resulting from the expiration of statutes of limitation during the period in certain states.

Net income attributable to noncontrolling interests, net of tax

The decrease for the three and six months ended June 30, 2016 is due primarily to lower income from certain partnerships in 2016.

## Table of Contents

### Liquidity and Capital Resources

#### Sources of Liquidity

U.S. Cellular operates a capital-intensive business. Historically, U.S. Cellular has used internally-generated funds and also has obtained substantial funds from external sources for general corporate purposes. In the past, U.S. Cellular's existing cash and investment balances, funds available under its revolving credit facility, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating, investing and financing activities, including sales of assets or businesses, provided sufficient liquidity and financial flexibility for U.S. Cellular to meet its normal day-to-day operating needs and debt service requirements, to finance the build-out and enhancement of markets and to fund acquisitions, primarily of spectrum licenses. There is no assurance that this will be the case in the future. It may be necessary from time-to-time to increase the size of the existing revolving credit facility, to put in place a new credit facility, or to obtain other forms of financing in order to fund potential expenditures. U.S. Cellular's liquidity would be adversely affected if, among other things, U.S. Cellular is unable to obtain short or long-term financing on acceptable terms, U.S. Cellular makes significant spectrum license purchases in FCC auctions or from other parties, the LA Partnership discontinues or reduces distributions compared to historical levels, or Federal USF and/or other regulatory support payments continue to decline. In addition, although sales of assets or businesses by U.S. Cellular have been an important source of liquidity in recent periods, U.S. Cellular does not expect a similar level of such sales in the future, which will reduce a source of liquidity. In recent years, U.S. Cellular's credit rating has declined to sub-investment grade.

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facility, and expected cash flows from operating and investing activities provide liquidity for U.S. Cellular to meet its normal day-to-day operating needs and debt service requirements for the coming year. Although U.S. Cellular currently has a significant cash balance, in certain recent periods, U.S. Cellular has incurred negative free cash flow (defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment) and this will continue in the future if operating results do not improve or capital expenditures are not reduced. U.S. Cellular currently expects to have negative free cash flow in 2016 due to anticipated growth in equipment installment plan receivables combined with significant capital expenditures. U.S. Cellular may require substantial additional capital for, among other uses, funding day-to-day operating needs, working capital, acquisitions of providers of wireless telecommunications services, spectrum license or system acquisitions, system development and network capacity expansion, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. There can be no assurance that sufficient funds will continue to be available to U.S. Cellular or its subsidiaries on terms or at prices acceptable to U.S. Cellular. Insufficient cash flows from operating activities, changes in its credit ratings, defaults of the terms of debt or credit agreements, uncertainty of access to capital, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in the performance of U.S. Cellular or in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its acquisition, capital expenditure and business development programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends. U.S. Cellular cannot provide assurance that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Any of the foregoing would have an adverse impact on U.S. Cellular's businesses, financial condition or results of operations.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and money market investments. The primary objective of U.S. Cellular's Cash and cash equivalents is for use in its operations and acquisition, capital expenditure and business development



programs.

At June 30, 2016, U.S. Cellular's cash and cash equivalents totaled \$621 million compared to \$715 million at December 31, 2015. The majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. U.S. Cellular monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Table of Contents

Financing

U.S. Cellular has a revolving credit facility available for general corporate purposes. In June 2016, U.S. Cellular entered into a new \$300 million revolving credit agreement with certain lenders and other parties. As a result of the new agreement, U.S. Cellular's revolving credit agreement due to expire in December 2017 was terminated. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time-to-time until maturity in June 2021. Certain U.S. Cellular wholly-owned subsidiaries have jointly and severally unconditionally guaranteed the payment and performance of the obligations of U.S. Cellular under the revolving credit agreement. As of June 30, 2016, there were no outstanding borrowings under the revolving credit facility, except for letters of credit, and U.S. Cellular's unused capacity under its revolving credit facility was \$283 million. The continued availability of the new revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and provide representations on certain matters at the time of each borrowing. See Note 8 — Debt in the Notes to Consolidated Financial Statements for additional information.

In June 2016, U.S. Cellular also amended and restated its senior term loan credit facility. Certain modifications were made to the financial covenants and subsidiary guarantees were added in order to align with the new revolving credit agreement. There were no significant changes to the maturity date or other key terms of the agreement.

U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its revolving credit facility and the senior term loan credit facility as of June 30, 2016.

U.S. Cellular has in place an effective shelf registration statement on Form S-3 to issue senior or subordinated debt securities.

The proceeds from any of the aforementioned financing facilities are available for general corporate purposes, including spectrum purchases and capital expenditures.

The long-term debt payments due for the remainder of 2016 and the next four years represent less than 4% of U.S. Cellular's total long-term debt obligation measured as of June 30, 2016.

Capital Expenditures

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include accruals and capitalized interest, in 2016 and 2015 were as follows:

U.S. Cellular's capital expenditures for 2016 are expected to be approximately \$500 million. These expenditures are expected to be for the following general purposes:

- ◆ Expand and enhance network coverage, including construction of a new regional connectivity center and providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- ◆ Deploy VoLTE technology;
- ◆ Expand and enhance the retail store network; and
- ◆ Develop and enhance business systems.

U.S. Cellular plans to finance its capital expenditures program for 2016 using primarily Cash flows from operating activities and, as necessary, existing cash balances and borrowings under its revolving credit agreement and/or other long-term debt.

#### Acquisitions, Divestitures and Exchanges

U.S. Cellular may be engaged from time-to-time in negotiations relating to the acquisition, divestiture or exchange of companies, properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. 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 capital. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum, including pursuant to FCC auctions. U.S. Cellular also may seek to divest outright or include in exchanges for other wireless interests those interests that are not strategic to its long-term success.

Table of Contents

In March 2016, the FCC released a list of applicants that successfully completed applications for the forward auction of 600 MHz spectrum licenses, referred to as Auction 1002, which included U.S. Cellular. In July 2016, the FCC released a list of applicants that qualified to bid in Auction 1002, which again included U.S. Cellular. Forward auction bidding is scheduled to begin in August 2016. See “Regulatory Matters — FCC Auction 1002.” Prior to becoming a qualified bidder, U.S. Cellular was required to make an upfront payment, the size of which establishes its initial bidding eligibility. In June 2016, U.S. Cellular made an upfront payment to the FCC of \$143 million to establish its initial bidding eligibility. If U.S. Cellular is a winning bidder in the auction, it may be required to make additional payments to the FCC that may be substantial. In such event, U.S. Cellular plans to finance such payments from its existing cash balances, borrowings under its revolving credit agreement and/or additional long-term debt. Further, if U.S. Cellular is not the winning bidder of any licenses, or is the winning bidder of licenses with an aggregate bid price that is less than the upfront payment, all or a portion of the upfront payment will be refunded to U.S. Cellular.

In 2015 and in 2016, U.S. Cellular entered into multiple spectrum license purchase agreements. The aggregate purchase price for these spectrum licenses is \$56 million, of which \$46 million closed in the six months ended June 30, 2016. In 2016, U.S. Cellular also entered into multiple agreements with third parties to transfer FCC licenses in non-operating markets and receive FCC licenses in operating markets. The agreements provide for the transfer of certain AWS and PCS spectrum licenses and approximately \$29 million, net, in cash to U.S. Cellular, in exchange for U.S. Cellular transferring certain AWS, PCS and 700 MHz spectrum licenses to the third parties. The first closing of one of the exchange agreements occurred in June 2016 at which time U.S. Cellular received \$13 million of cash. The remaining license purchase and exchange transactions are expected to close in the second half of 2016. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these transactions.

## Variable Interest Entities

U.S. Cellular consolidates certain entities as “variable interest entities” under GAAP. See Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. U.S. Cellular may elect to make capital contributions and/or advances to variable interest entities in order to fund their operations.

## Common Share Repurchase Program

U.S. Cellular has repurchased and expects to continue to repurchase its Common Shares, subject to its repurchase program. Share repurchases made under this program in 2016 and 2015 were as follows:

|                             | Six Months Ended |         |
|-----------------------------|------------------|---------|
|                             | June 30,         |         |
|                             | 2016             | 2015    |
| Number of shares            | 46,861           | 66,209  |
| Average cost per share      | \$34.77          | \$34.77 |
| Dollar Amount (in millions) | \$2              | \$2     |

For additional information related to the current repurchase authorization, see Unregistered Sales of Equity Securities and Use of Proceeds.

#### Contractual and Other Obligations

There were no material changes outside the ordinary course of business between December 31, 2015 and June 30, 2016 to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Form 10-K for the year ended December 31, 2015.

#### Off-Balance Sheet Arrangements

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

#### Consolidated Cash Flow Analysis

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular makes substantial investments to acquire wireless licenses and properties and to construct and upgrade wireless telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades to U.S. Cellular's networks. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and dispositions of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter-to-quarter and year-to-year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The following discussion summarizes U.S. Cellular's cash flow activities for the six months ended June 30, 2016 and 2015.

## Table of Contents

### 2016 Commentary

U.S. Cellular's Cash and cash equivalents decreased \$94 million in 2016. Net cash provided by operating activities was \$261 million in 2016 due to net income of \$37 million plus non-cash items of \$298 million and distributions from unconsolidated entities of \$30 million. This was partially offset by changes in working capital items which decreased net cash by \$104 million. U.S. Cellular received a federal tax refund of \$28 million related to an overpayment of the 2015 expected tax liability, which resulted from the enactment of federal bonus depreciation in December 2015. This was offset by a use of cash of \$94 million due to an increase in equipment installment plan receivables, which are expected to continue to increase and further require the use of working capital in the near term.

The net cash provided by operating activities was offset by Cash flows used for investing activities of \$350 million. Cash paid in 2016 for additions to property, plant and equipment totaled \$177 million. In June 2016, U.S. Cellular made a deposit of \$143 million to the FCC for its participation in Auction 1002. Cash paid for acquisitions and licenses in 2016 was \$46 million partially offset by Cash received from divestitures and exchanges of \$17 million. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these transactions.

### 2015 Commentary

Cash flows from operating activities were \$423 million in 2015, contributing to a net increase in Cash and cash equivalents of \$150 million for the period. Changes in working capital items provided net cash of \$161 million. As a result of increased focus by U.S. Cellular to sell through inventory of wireless devices on hand in 2015, inventory levels decreased. During 2015, U.S. Cellular received federal income tax refunds of \$66 million related to an overpayment of the 2014 expected tax liability and the carryback of its 2014 net operating loss to the 2012 and 2013 tax years. These refunds resulted from the enactment of federal bonus depreciation in December 2014. In addition, income taxes incurred on the sale of towers and on the license exchange in 2015 were not payable until periods after June 30, 2015, resulting in increased income tax payable amounts included in Accrued taxes.

Cash flows used for investing activities were \$256 million in 2015. Cash paid for additions to property, plant and equipment totaled \$259 million in 2015. During 2015, a \$278 million payment was made by Advantage Spectrum L.P. to the FCC for licenses for which it was the provisional winning bidder in Auction 97. Cash received from divestitures and exchanges in 2015 included \$117 million related to licenses and \$141 million related to the sale of 359 towers and certain related contracts, assets and liabilities.

### Other Information

U.S. Cellular did not receive any cash distribution in 2015 and in the six months ended June 30, 2016 from the LA Partnership. In July 2016, U.S. Cellular received a cash distribution of \$10 million.

### Consolidated Balance Sheet Analysis

The following discussion addresses certain captions in the consolidated balance sheet and changes therein. This discussion is intended to highlight the significant changes and is not intended to fully reconcile the changes. Changes in financial condition during 2016 are as follows:

#### Other current assets

Other current assets decreased \$33 million due primarily to the receipt of a federal income tax refund of \$28 million in March 2016.

Assets held for sale

Assets held for sale increased \$23 million due to reclassification of Licenses to this account as a result of exchanges with third parties. The license exchange agreements are expected to close in the second half of 2016. See Note 5 — Acquisitions, Divestitures and Exchanges for additional information.

Other assets and deferred charges

Other assets and deferred charges increased \$170 million due primarily to an upfront payment of \$143 million to the FCC to establish U.S. Cellular's initial bidding eligibility for its participation in Auction 1002. See Note 5 — Acquisitions, Divestitures and Exchanges for additional information.

Table of Contents

## Supplemental Information Relating to Non-GAAP Financial Measures

U.S. Cellular sometimes uses information derived from consolidated financial information but not presented in its financial statements prepared in accordance with U.S. GAAP to evaluate the performance of its business. Certain of these measures are considered “non-GAAP financial measures” under U.S. Securities and Exchange Commission Rules. Specifically, U.S. Cellular has referred to the following measures in this Form 10-Q Report:

- ◆ EBITDA
- ◆ Adjusted EBITDA
- ◆ Operating cash flow
- ◆ Free cash flow
- ◆ Adjusted free cash flow
- ◆ Postpaid ABPU
  
- ◆ Postpaid ABPA

Below is a reconciliation of each of these measures.

## Adjusted EBITDA and Operating Cash Flow

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and accretion) is defined as net income adjusted for the items set forth in the reconciliation. Operating cash flow is defined as net income adjusted for the items set forth in the reconciliation. Adjusted EBITDA and Operating cash flow are not measures of financial performance under GAAP and should not be considered as alternatives to Net income, as indicators of cash flows or as measures of liquidity. U.S. Cellular does not intend to imply that any such items set forth in the reconciliation below are non-recurring, infrequent or unusual; such items may occur in the future.

Management uses Adjusted EBITDA and Operating cash flow as measurements of profitability, and therefore reconciliations to Net income are deemed most appropriate. Management believes Adjusted EBITDA and Operating cash flow are useful measures of U.S. Cellular’s operating results before significant recurring non-cash charges, gains and losses, and other items as presented below as they provide additional relevant and useful information to investors and other users of U.S. Cellular’s financial data in evaluating the effectiveness of its operations and underlying business trends in a manner that is consistent with management’s evaluation of business performance. Adjusted EBITDA shows adjusted earnings before interest, taxes, depreciation, amortization and accretion, while Operating cash flow reduces this measure further to exclude Equity in earnings of unconsolidated entities and Interest and dividend income in order to more effectively show the performance of operating activities excluding investment activities. The following table reconciles Adjusted EBITDA and Operating cash flow to the corresponding GAAP measure, Net income.

|                       | Three<br>Months<br>Ended June<br>30,<br>2016 |      | Six Months<br>Ended June<br>30,<br>2015 |       |
|-----------------------|----------------------------------------------|------|-----------------------------------------|-------|
| (Dollars in millions) |                                              |      |                                         |       |
| Net income (GAAP)     | \$27                                         | \$20 | \$37                                    | \$185 |
| Add back:             |                                              |      |                                         |       |



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|                                                           |      |     |      |       |
|-----------------------------------------------------------|------|-----|------|-------|
| Income tax expense                                        | 13   | 13  | 23   | 121   |
| Interest expense                                          | 28   | 20  | 56   | 40    |
| Depreciation, amortization and accretion                  | 154  | 151 | 307  | 298   |
| EBITDA (Non-GAAP)                                         | 222  | 204 | 423  | 644   |
| Add back or deduct:                                       |      |     |      |       |
| (Gain) loss on sale of business and other exit costs, net | —    | (2) | —    | (113) |
| (Gain) loss on license sales and exchanges, net           | (9)  | —   | (9)  | (123) |
| (Gain) loss on asset disposals, net                       | 5    | 5   | 10   | 10    |
| Adjusted EBITDA (Non-GAAP)                                | 218  | 207 | 424  | 418   |
| Deduct:                                                   |      |     |      |       |
| Equity in earnings of unconsolidated entities             | 37   | 36  | 72   | 70    |
| Interest and dividend income                              | 14   | 9   | 27   | 17    |
| Other, net                                                | (1)  | —   | —    | —     |
| Operating cash flow (Non-GAAP)                            | 168  | 162 | 325  | 331   |
| Deduct:                                                   |      |     |      |       |
| Depreciation, amortization and accretion                  | 154  | 151 | 307  | 298   |
| (Gain) loss on sale of business and other exit costs, net | —    | (2) | —    | (113) |
| (Gain) loss on license sales and exchanges, net           | (9)  | —   | (9)  | (123) |
| (Gain) loss on asset disposals, net                       | 5    | 5   | 10   | 10    |
| Operating income (GAAP)                                   | \$18 | \$8 | \$17 | \$259 |



Table of Contents

## Free Cash Flow and Adjusted Free Cash Flow

The following table presents Free cash flow and Adjusted free cash flow. Management uses Free cash flow as a liquidity measure and it is defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. Adjusted free cash flow is defined as Cash flows from operating activities (which includes cash outflows related to the Sprint decommissioning), as adjusted for cash proceeds from the Sprint Cost Reimbursement (which are included in Cash flows from investing activities in the Consolidated Statement of Cash Flows), less Cash paid for additions to property, plant and equipment. Free cash flow and Adjusted free cash flow are non-GAAP financial measures which U.S. Cellular believes may be useful to investors and other users of its financial information in evaluating liquidity, specifically, the amount of cash generated by business operations (including cash proceeds from the Sprint Cost Reimbursement), after Cash paid for additions to property, plant and equipment.

|                                                                | Six Months<br>Ended June<br>30, |       |
|----------------------------------------------------------------|---------------------------------|-------|
|                                                                | 2016                            | 2015  |
| (Dollars in millions)                                          |                                 |       |
| Cash flows from operating activities (GAAP)                    | \$261                           | \$423 |
| Less: Cash paid for additions to property, plant and equipment | 177                             | 259   |
| Free cash flow (Non-GAAP)                                      | \$84                            | \$164 |
| Add: Sprint Cost Reimbursement <sup>1</sup>                    | 4                               | 23    |
| Adjusted free cash flow (Non-GAAP)                             | \$88                            | \$187 |

On May 16, 2013, pursuant to a Purchase and Sale Agreement, U.S. Cellular sold customers and certain PCS spectrum licenses to subsidiaries of Sprint Corp. fka Sprint Nextel Corporation (“Sprint”) in U.S. Cellular’s Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets in consideration for \$480 million in cash. The

<sup>1</sup> Purchase and Sale Agreement also contemplated certain other agreements. These agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees.



Table of Contents

## Postpaid ABPU and Postpaid ABPA

U.S. Cellular presents Postpaid ABPU and Postpaid ABPA to reflect the revenue shift from Service revenues to Equipment and product sales resulting from the increased adoption of equipment installment plans. Postpaid ABPU and Postpaid ABPA, as previously defined, are non-GAAP financial measures which U.S. Cellular believes are useful to investors and other users of its financial information in showing trends in both service and equipment revenues received from customers.

|                                             | Three Months<br>Ended June 30, |         | Six Months Ended<br>June 30, |         |
|---------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                             | 2016                           | 2015    | 2016                         | 2015    |
| (Dollars and connection counts in millions) |                                |         |                              |         |
| Calculation of Postpaid ARPU                |                                |         |                              |         |
| Postpaid service revenues                   | \$636                          | \$694   | \$1,275                      | \$1,401 |
| Average number of postpaid connections      | 4.48                           | 4.31    | 4.45                         | 4.31    |
| Number of months in period                  | 3                              | 3       | 6                            | 6       |
| Postpaid ARPU (GAAP metric)                 | \$47.37                        | \$53.62 | \$47.76                      | \$54.24 |
| Calculation of Postpaid ABPU                |                                |         |                              |         |
| Postpaid service revenues                   | \$636                          | \$694   | \$1,275                      | \$1,401 |
| Equipment installment plan billings         | 118                            | 58      | 223                          | 104     |
| Total billings to postpaid connections      | \$754                          | \$752   | \$1,498                      | \$1,505 |
| Average number of postpaid connections      | 4.48                           | 4.31    | 4.45                         | 4.31    |
| Number of months in period                  | 3                              | 3       | 6                            | 6       |
| Postpaid ABPU (Non-GAAP metric)             | \$56.09                        | \$58.06 | \$56.08                      | \$58.28 |

|                                           |          |          |          |          |
|-------------------------------------------|----------|----------|----------|----------|
| Calculation of<br>Postpaid ARPA           |          |          |          |          |
| Postpaid service<br>revenues              | \$636    | \$694    | \$1,275  | \$1,401  |
| Average number<br>of postpaid<br>accounts | 1.70     | 1.73     | 1.70     | 1.74     |
| Number of<br>months in period             | 3        | 3        | 6        | 6        |
| Postpaid<br>ARPA<br>(GAAP<br>metric)      | \$124.91 | \$133.85 | \$125.13 | \$134.39 |

|                                           |          |          |          |          |
|-------------------------------------------|----------|----------|----------|----------|
| Calculation of<br>Postpaid ABPA           |          |          |          |          |
| Postpaid service<br>revenues              | \$636    | \$694    | \$1,275  | \$1,401  |
| Equipment<br>installment plan<br>billings | 118      | 58       | 223      | 104      |
| Total billings<br>to postpaid<br>accounts | \$754    | \$752    | \$1,498  | \$1,505  |
| Average number<br>of postpaid<br>accounts | 1.70     | 1.73     | 1.70     | 1.74     |
| Number of<br>months in period             | 3        | 3        | 6        | 6        |
| Postpaid<br>ABPA<br>(Non-GAAP<br>metric)  | \$147.90 | \$144.94 | \$146.95 | \$144.40 |

#### Application of Critical Accounting Policies and Estimates

U.S. Cellular prepares its consolidated financial statements in accordance with GAAP. U.S. Cellular's significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and U.S. Cellular's Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in U.S. Cellular's Form 10-K for the year ended December 31, 2015. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the six months ended June 30, 2016.

#### Recent Accounting Pronouncements

See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.



Table of Contents

Regulatory Matters

The discussion below includes updates related to recent regulatory developments. These updates should be read in conjunction with the disclosures previously provided under “Regulatory Matters” in U.S. Cellular’s Form 10-K for the year ended December 31, 2015.

FCC Auction 1002

On March 18, 2016, the FCC released a list of applicants that successfully completed applications for the forward auction of 600 MHz spectrum licenses, referred to as Auction 1002, which included U.S. Cellular. On July 15, 2016, the FCC released a list of the applicants that qualified to bid in Auction 1002, which again included U.S. Cellular. Forward auction bidding is scheduled to begin on August 16, 2016. As a result of its participation, since February 10, 2016, U.S. Cellular has been subject to FCC anti-collusion rules that place certain restrictions on public disclosures and business communications with other companies relating to U.S. Cellular’s participation. These restrictions will continue until the down payment deadline for Auction 1002, which will be ten business days after release of the FCC’s Channel Reassignment Public Notice, following the end of the auction. These anti-collusion rules, which could last nine months or more from February 10, 2016, may restrict the conduct of certain U.S. Cellular activities with other auction applicants as well as with nationwide providers of wireless services which are not applicants. The restrictions could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.

FCC Net Neutrality Order

U.S. Cellular previously disclosed that the FCC adopted rules relating to net neutrality which reclassified broadband internet access service under Title II, and that lawsuits had been filed challenging such rules and reclassification. In June 2016, the U.S. Court of Appeals for the District of Columbia Circuit upheld the FCC’s rules and reclassification. A request for a rehearing of this decision was filed in July 2016, and it is expected that this court decision also will be appealed and subject to further proceedings. U.S. Cellular cannot predict the outcome of any further proceedings or the impact on its business.



Table of Contents

Private Securities Litigation Reform Act of 1995

Safe Harbor Cautionary Statement

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that U.S. Cellular intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions 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 described under “Risk Factors” in U.S. Cellular’s Form 10-K for the year ended December 31, 2015. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in U.S. Cellular’s Form 10-K for the year ended December 31, 2015, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to U.S. Cellular’s business.

- ◆ Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular’s revenues or increase its costs to compete.
- ◆ A failure by U.S. Cellular to successfully execute its business strategy (including planned acquisitions, spectrum acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.
- ◆ Uncertainty in U.S. Cellular’s future cash flow and liquidity or in the ability to access capital, deterioration in the capital markets, other changes in U.S. Cellular’s performance or market conditions, changes in U.S. Cellular’s credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases.
- ◆ U.S. Cellular has a significant amount of indebtedness which could adversely affect its financial performance and in turn adversely affect its ability to make payments on its indebtedness, comply with terms of debt covenants and incur additional debt.
- ◆ Changes in roaming practices or other factors could cause U.S. Cellular's roaming revenues to decline from current levels, roaming expenses to increase from current levels and/or impact U.S. Cellular's ability to service its customers in geographic areas where U.S. Cellular does not have its own network, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.
- ◆ To the extent conducted by the FCC, U.S. Cellular may participate in FCC auctions of additional spectrum in the future directly or indirectly and, during certain periods, will be subject to the FCC’s anti-collusion rules,

which could have an adverse effect on U.S. Cellular.

- ◆ Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular's business, financial condition or results of operations.
- ◆ An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded 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. wireless telecommunications industry. Consequently, its operating results may fluctuate based on factors related primarily to conditions in this industry.
- ◆ U.S. Cellular's smaller scale relative to larger competitors that may have much greater financial and other resources than U.S. Cellular could cause U.S. Cellular to be unable to compete successfully, which could adversely affect its business, financial condition or results of operations.
- ◆ Changes in various business factors, including changes in demand, customer preferences and perceptions, price competition, churn from customer switching activity and other factors, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Table of Contents

- ◆ Advances or changes in technology could render certain technologies used by U.S. Cellular obsolete, could put U.S. Cellular at a competitive disadvantage, could reduce U.S. Cellular's revenues or could increase its costs of doing business.
- ◆ Complexities associated with deploying new technologies present substantial risk and U.S. Cellular investments in unproven technologies may not produce the benefits that U.S. Cellular expects.
- ◆ U.S. Cellular receives regulatory support and is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of the support and fees are subject to great uncertainty.
- ◆ Performance under device purchase agreements could have a material adverse impact on U.S. Cellular's business, financial condition or results of operations.
- ◆ Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its licenses, goodwill and/or physical assets.
- ◆ Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ U.S. Cellular offers customers the option to purchase certain devices under installment contracts which, compared to fixed-term service contracts, includes risks that U.S. Cellular may possibly incur greater churn, lower cash flows, increased costs and/or increased bad debts expense due to differences in contract terms, which could have an adverse impact on U.S. Cellular's financial condition or results of operations.
- ◆ A failure by U.S. Cellular to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.
- ◆ Difficulties involving third parties with which U.S. Cellular does business, including changes in U.S. Cellular's relationships with or financial or operational difficulties of key suppliers or independent agents and third party national retailers who market U.S. Cellular's services, could adversely affect U.S. Cellular's business, financial condition or results of operations.
- ◆ U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.
- ◆ A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ U.S. Cellular has experienced and, in the future, expects to experience cyber-attacks or other breaches of network or information technology security of varying degrees on a regular basis, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.
- ◆ Changes in facts or circumstances, including new or additional information, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede U.S. Cellular's access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular's business, 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 business, financial condition

or results of operations.

- ◆ The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent U.S. Cellular from using necessary technology to provide products or services or subject U.S. Cellular to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- ◆ There are potential conflicts of interests between TDS and U.S. Cellular.

Table of Contents

- ◆ Certain matters, such as control by TDS and provisions in the U.S. Cellular Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.
- ◆ Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.

Risk Factors

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect U.S. Cellular's business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2015, may not be the only risks that could affect U.S. Cellular. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect U.S. Cellular's business, financial condition and/or operating results. Subject to the foregoing, U.S. Cellular has not identified for disclosure any material changes to the risk factors as previously disclosed in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2015.

Quantitative and Qualitative Disclosures about Market Risk

MARKET RISK

Refer to the disclosure under Market Risk in U.S. Cellular's Form 10-K for the year ended December 31, 2015 for additional information, including information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt. There have been no material changes to such information since December 31, 2015. See Note 8 — Debt in the Notes to Consolidated Financial Statements for additional information.

See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of U.S. Cellular's Long-term debt as of June 30, 2016.

Table of Contents

Financial Statements

United States Cellular Corporation

Consolidated Statement of Operations

(Unaudited)

|                                                                        | Three Months<br>Ended<br>June 30,<br>2016 |       | Six Months<br>Ended<br>June 30,<br>2016 |         |
|------------------------------------------------------------------------|-------------------------------------------|-------|-----------------------------------------|---------|
|                                                                        | 2015                                      |       | 2015                                    |         |
| (Dollars and<br>shares in<br>millions, except<br>per share<br>amounts) |                                           |       |                                         |         |
| Operating<br>revenues                                                  |                                           |       |                                         |         |
| Service                                                                | \$762                                     | \$824 | \$1,521                                 | \$1,653 |
| Equipment sales                                                        | 218                                       | 152   | 417                                     | 288     |
| Total<br>operating<br>revenues                                         | 980                                       | 976   | 1,938                                   | 1,941   |

|                                                     |     |     |     |     |
|-----------------------------------------------------|-----|-----|-----|-----|
| Operating<br>expenses                               |     |     |     |     |
| System<br>operations<br>(excluding<br>Depreciation, | 193 | 196 | 376 | 387 |

amortization  
and accretion  
reported below)

|                                                                    |     |     |     |     |
|--------------------------------------------------------------------|-----|-----|-----|-----|
| Cost of<br>equipment sold                                          | 262 | 254 | 518 | 492 |
| Selling, general<br>and<br>administrative<br>(including<br>charges | 357 | 364 | 719 | 731 |

from affiliates  
of \$23 million

and \$24 million,  
respectively,

for the three  
months, and \$48  
million and \$44  
million,

respectively,  
for the six  
months)

|                                                                    |      |      |       |       |
|--------------------------------------------------------------------|------|------|-------|-------|
| Depreciation,<br>amortization and<br>accretion                     | 154  | 151  | 307   | 298   |
| (Gain) loss on<br>asset disposals,<br>net                          | 5    | 5    | 10    | 10    |
| (Gain) loss on<br>sale of business<br>and other exit<br>costs, net | —    | (2)  | —     | (113) |
| (Gain) loss on<br>license sales and<br>exchanges, net              | (9)  | —    | (9)   | (123) |
| Total<br>operating<br>expenses                                     | 962  | 968  | 1,921 | 1,682 |
| Operating income                                                   | 18   | 8    | 17    | 259   |
| Investment and<br>other income<br>(expense)                        |      |      |       |       |
| Equity in<br>earnings of<br>unconsolidated<br>entities             | 37   | 36   | 72    | 70    |
| Interest and<br>dividend income                                    | 14   | 9    | 27    | 17    |
| Interest expense                                                   | (28) | (20) | (56)  | (40)  |
| Other, net                                                         | (1)  | —    | —     | —     |
| Total<br>investment<br>and other<br>income                         | 22   | 25   | 43    | 47    |
| Income before<br>income taxes                                      | 40   | 33   | 60    | 306   |
| Income tax<br>expense                                              | 13   | 13   | 23    | 121   |
| Net income                                                         | 27   | 20   | 37    | 185   |

|                                                                       |   |   |   |   |
|-----------------------------------------------------------------------|---|---|---|---|
| Less: Net income attributable to noncontrolling interests, net of tax |   |   |   |   |
|                                                                       | – | 1 | 1 | 6 |

|                                          |      |      |      |       |
|------------------------------------------|------|------|------|-------|
| Net income attributable to U.S. Cellular | \$27 | \$19 | \$36 | \$179 |
|------------------------------------------|------|------|------|-------|

shareholders

|                                                        |        |        |        |        |
|--------------------------------------------------------|--------|--------|--------|--------|
| Basic weighted average shares outstanding              | 85     | 84     | 85     | 84     |
| Basic earnings per share attributable to U.S. Cellular | \$0.32 | \$0.23 | \$0.43 | \$2.13 |

shareholders

|                                                          |        |        |        |        |
|----------------------------------------------------------|--------|--------|--------|--------|
| Diluted weighted average shares outstanding              | 85     | 85     | 85     | 85     |
| Diluted earnings per share attributable to U.S. Cellular | \$0.32 | \$0.23 | \$0.43 | \$2.11 |

shareholders

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)

|                                                                                              | Six Months<br>Ended<br>June 30,<br>2016 2015 |       |
|----------------------------------------------------------------------------------------------|----------------------------------------------|-------|
| (Dollars in millions)                                                                        |                                              |       |
| Cash flows from operating activities                                                         |                                              |       |
| Net income                                                                                   | \$37                                         | \$185 |
| Add (deduct) adjustments to reconcile net income to net cash flows from operating activities |                                              |       |
| Depreciation, amortization and accretion                                                     | 307                                          | 298   |
| Bad debts expense                                                                            | 44                                           | 52    |
| Stock-based compensation expense                                                             | 12                                           | 12    |
| Deferred income taxes, net                                                                   | 7                                            | (17)  |
| Equity in earnings of unconsolidated entities                                                | (72)                                         | (70)  |
| Distributions from unconsolidated entities                                                   | 30                                           | 27    |
| (Gain) loss on asset disposals, net                                                          | 10                                           | 10    |
| (Gain) loss on sale of business and other exit costs, net                                    | —                                            | (113) |
| (Gain) loss on license sales and exchanges, net                                              | (9)                                          | (123) |
| Noncash interest expense                                                                     | 1                                            | 1     |
| Other operating activities                                                                   | (2)                                          | —     |
| Changes in assets and liabilities from operations                                            |                                              |       |
| Accounts receivable                                                                          | 9                                            | 5     |
| Equipment installment plans receivable                                                       | (94)                                         | (65)  |
| Inventory                                                                                    | (27)                                         | 132   |
| Accounts payable                                                                             | 35                                           | 25    |
| Customer deposits and deferred revenues                                                      | (18)                                         | (7)   |
| Accrued taxes                                                                                | 41                                           | 139   |
| Accrued interest                                                                             | (1)                                          | —     |
| Other assets and liabilities                                                                 | (49)                                         | (68)  |
| Net cash provided by operating activities                                                    | 261                                          | 423   |
| Cash flows from investing activities                                                         |                                              |       |
| Cash paid for additions to property, plant and equipment                                     | (177)                                        | (259) |

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|                                                               |       |       |
|---------------------------------------------------------------|-------|-------|
| Cash paid for acquisitions and licenses                       | (46)  | (280) |
| Cash received from divestitures and exchanges                 | 17    | 282   |
| Federal Communications Commission deposit                     | (143) | —     |
| Other investing activities                                    | (1)   | 1     |
| Net cash used in investing activities                         | (350) | (256) |
| Cash flows from financing activities                          |       |       |
| Repayment of long-term debt                                   | (6)   | —     |
| Common shares reissued for benefit plans, net of tax payments | 3     | (2)   |
| Common shares repurchased                                     | (2)   | (2)   |
| Payment of debt issuance costs                                | (2)   | (3)   |
| Acquisition of assets in common control transaction           | —     | (2)   |
| Distributions to noncontrolling interests                     | (1)   | (6)   |
| Other financing activities                                    | 3     | (2)   |
| Net cash used in financing activities                         | (5)   | (17)  |
| Net increase (decrease) in cash and cash equivalents          | (94)  | 150   |
| Cash and cash equivalents                                     |       |       |
| Beginning of period                                           | 715   | 212   |
| End of period                                                 | \$621 | \$362 |

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

Table of Contents

## United States Cellular Corporation

## Consolidated Balance Sheet — Assets

(Unaudited)

|                                                                            | June<br>30,<br>2016 | December<br>31,<br>2015 |
|----------------------------------------------------------------------------|---------------------|-------------------------|
| (Dollars in millions)                                                      |                     |                         |
| Current assets                                                             |                     |                         |
| Cash and cash equivalents                                                  | \$621               | \$ 715                  |
| Accounts receivable                                                        |                     |                         |
| Customers and agents, less<br>allowances of \$44 and \$45,<br>respectively | 613                 | 608                     |
| Roaming                                                                    | 19                  | 20                      |
| Affiliated                                                                 | 1                   | —                       |
| Other, less allowances of \$1 and \$1,<br>respectively                     | 47                  | 44                      |
| Inventory, net                                                             | 176                 | 149                     |
| Prepaid expenses                                                           | 86                  | 81                      |
| Other current assets                                                       | 22                  | 55                      |
| Total current assets                                                       | 1,585               | 1,672                   |
| Assets held for sale                                                       | 23                  | —                       |
| Licenses                                                                   | 1,854               | 1,834                   |
| Goodwill                                                                   | 370                 | 370                     |
| Investments in unconsolidated entities                                     | 407                 | 363                     |
| Property, plant and equipment                                              |                     |                         |
| In service and under construction                                          | 7,605               | 7,669                   |
| Less: Accumulated depreciation and<br>amortization                         | 5,095               | 5,020                   |
| Property, plant and equipment, net                                         | 2,510               | 2,649                   |
| Other assets and deferred charges                                          | 342                 | 172                     |
| Total assets <sup>1</sup>                                                  | \$7,091             | \$ 7,060                |

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)

|                                                                                                                                       | June<br>30,<br>2016 | December<br>31,<br>2015 |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------|
| (Dollars and shares in millions, except per share amounts)                                                                            |                     |                         |
| Current liabilities                                                                                                                   |                     |                         |
| Current portion of long-term debt                                                                                                     | \$ 11               | \$ 11                   |
| Accounts payable                                                                                                                      |                     |                         |
| Affiliated                                                                                                                            | 16                  | 10                      |
| Trade                                                                                                                                 | 294                 | 275                     |
| Customer deposits and deferred revenues                                                                                               | 231                 | 251                     |
| Accrued taxes                                                                                                                         | 35                  | 28                      |
| Accrued compensation                                                                                                                  | 52                  | 68                      |
| Other current liabilities                                                                                                             | 80                  | 105                     |
| Total current liabilities                                                                                                             | 719                 | 748                     |
| Deferred liabilities and credits                                                                                                      |                     |                         |
| Deferred income tax liability, net                                                                                                    | 827                 | 821                     |
| Other deferred liabilities and credits                                                                                                | 300                 | 290                     |
| Long-term debt, net                                                                                                                   | 1,623               | 1,629                   |
| Commitments and contingencies                                                                                                         |                     |                         |
| Noncontrolling interests with redemption features                                                                                     | 1                   | 1                       |
| Equity                                                                                                                                |                     |                         |
| U.S. Cellular shareholders' equity                                                                                                    |                     |                         |
| Series A Common and Common Shares                                                                                                     |                     |                         |
| Authorized 190 shares (50 Series A Common and 140 Common Shares)                                                                      |                     |                         |
| Issued 88 shares (33 Series A Common and 55 Common Shares)                                                                            |                     |                         |
| Outstanding 85 shares (33 Series A Common and 52 Common Shares) and 84 shares (33 Series A Common and 51 Common Shares), respectively |                     |                         |
| Par Value (\$1.00 per share) (\$33 Series A Common and \$55 Common Shares)                                                            | 88                  | 88                      |
| Additional paid-in capital                                                                                                            | 1,510               | 1,497                   |
| Treasury shares, at cost, 3 and 4 Common Shares, respectively                                                                         | (137)               | (157)                   |
| Retained earnings                                                                                                                     | 2,150               | 2,133                   |
| Total U.S. Cellular shareholders' equity                                                                                              | 3,611               | 3,561                   |

|                                           |         |          |
|-------------------------------------------|---------|----------|
| Noncontrolling interests                  | 10      | 10       |
| Total equity                              | 3,621   | 3,571    |
| Total liabilities and equity <sup>1</sup> | \$7,091 | \$ 7,060 |

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

<sup>1</sup> The consolidated total assets as of June 30, 2016 and December 31, 2015 include assets held by consolidated VIEs of \$827 million and \$658 million, respectively, which are not available to be used to settle the obligations of U.S. Cellular. The consolidated total liabilities as of June 30, 2016 and December 31, 2015 include certain liabilities of consolidated VIEs of \$18 million and \$1 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of U.S. Cellular. See Note 9 — Variable Interest Entities for additional information.

Table of Contents

United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

| U.S. Cellular Shareholders                            |                                                     |          |               |                |          |       |          |
|-------------------------------------------------------|-----------------------------------------------------|----------|---------------|----------------|----------|-------|----------|
| Series                                                |                                                     |          |               |                |          |       |          |
| A                                                     | Total                                               |          |               |                |          |       |          |
| Additional                                            | Treasury                                            | Retained | U.S. Cellular | Noncontrolling | Total    |       |          |
| Common and paid-in                                    | shares                                              | earnings | shareholders' | interests      | equity   |       |          |
| Common capital                                        | equity                                              |          |               |                |          |       |          |
| shares                                                |                                                     |          |               |                |          |       |          |
| (Dollars in millions)                                 |                                                     |          |               |                |          |       |          |
| Balance, December 31, 2015                            | \$ 88                                               | \$ 1,497 | \$ (157)      | \$ 2,133       | \$ 3,561 | \$ 10 | \$ 3,571 |
| Net income attributable to U.S. Cellular shareholders | Net income attributable to noncontrolling interests |          |               |                |          |       |          |
| to                                                    | –                                                   | –        | 36            | 36             | –        |       | 36       |
| U.S. Cellular shareholders                            |                                                     |          |               |                |          |       |          |
| Net income attributable to noncontrolling interests   | –                                                   | –        | –             | –              | 1        |       | 1        |
| classified as equity                                  |                                                     |          |               |                |          |       |          |
| Repurchase of Common shares                           | –                                                   | (2)      | –             | (2)            | –        |       | (2)      |

|                                                    |       |          |          |          |          |
|----------------------------------------------------|-------|----------|----------|----------|----------|
| Incentive<br>and<br>compensation<br>plans          | 22    | (19)     | 3        | —        | 3        |
| Stock-based<br>compensation<br>awards              | —     | —        | 13       | —        | 13       |
| Distributions<br>to<br>noncontrolling<br>interests | —     | —        | —        | (1)      | (1)      |
| Balance,<br>June<br>30,<br>2016                    | \$ 88 | \$ 1,510 | \$ (137) | \$ 2,150 | \$ 3,611 |
|                                                    |       |          |          | \$ 10    | \$ 3,621 |

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



Table of Contents

United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

| U.S. Cellular Shareholders |            |          |          |               |                |         |
|----------------------------|------------|----------|----------|---------------|----------------|---------|
| Series                     |            |          |          |               |                |         |
| A                          | Total      |          |          |               |                |         |
| Common                     | Additional | Treasury | Retained | U.S. Cellular | Noncontrolling | Total   |
| and paid-in                |            | shares   | earnings | shareholders' | interests      | equity  |
| Common                     | capital    |          |          | equity        |                |         |
| shares                     |            |          |          |               |                |         |
| (Dollars                   |            |          |          |               |                |         |
| in                         |            |          |          |               |                |         |
| millions)                  |            |          |          |               |                |         |
| Balance,                   |            |          |          |               |                |         |
| December                   |            |          |          |               |                |         |
| 31,                        | \$88       | \$ 1,473 | \$ (169) | \$ 1,910      | \$ 3,302       | \$ 11   |
| 2014                       |            |          |          |               |                | \$3,313 |
| Net                        |            |          |          |               |                |         |
| income                     |            |          |          |               |                |         |
| attributable               |            |          |          |               |                |         |
| to – –                     |            | –        | 179      | 179           |                | 179     |
| U.S.                       |            |          |          |               |                |         |
| Cellular                   |            |          |          |               |                |         |
| shareholders               |            |          |          |               |                |         |
| Repurchase                 |            |          |          |               |                |         |
| of –                       |            | (2)      | –        | (2)           | –              | (2)     |
| Common                     |            |          |          |               |                |         |
| shares                     |            |          |          |               |                |         |
| Incentive                  |            |          |          |               |                |         |
| and –                      |            | 13       | (15)     | (2)           | –              | (2)     |
| compensation               |            |          |          |               |                |         |
| plans                      |            |          |          |               |                |         |
| Stock-based                |            |          |          |               |                |         |
| compensation               |            | –        | –        | 11            | –              | 11      |
| awards                     |            |          |          |               |                |         |
| Distributions              |            |          |          |               |                |         |
| to –                       |            | –        | –        | –             | (1)            | (1)     |
| noncontrolling             |            |          |          |               |                |         |
| interests                  |            |          |          |               |                |         |
| – 1                        |            | –        | (2)      | (1)           | –              | (1)     |

Acquisition  
of  
assets  
in  
common  
control  
transaction

Balance,

|      |      |          |          |          |          |       |         |
|------|------|----------|----------|----------|----------|-------|---------|
| June | \$88 | \$ 1,485 | \$ (158) | \$ 2,072 | \$ 3,487 | \$ 10 | \$3,497 |
| 30,  |      |          |          |          |          |       |         |
| 2015 |      |          |          |          |          |       |         |

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

Table of Contents

United States Cellular Corporation

Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

United States Cellular Corporation (“U.S. Cellular”), a Delaware corporation, is an 83%-owned subsidiary of Telephone and Data Systems, Inc. (“TDS”).

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

The unaudited consolidated financial statements included herein have been prepared by U.S. Cellular pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the disclosures included herein are adequate to make the information presented not misleading. Calculated amounts and percentages are based on the underlying actual numbers rather than the numbers rounded to millions as presented. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular’s Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2015.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items, unless otherwise disclosed) necessary for the fair statement of U.S. Cellular’s financial position as of June 30, 2016 and December 31, 2015, its results of operations for the three and six months ended June 30, 2016 and 2015, and its cash flows and changes in equity for the six months ended June 30, 2016 and 2015. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and six months ended June 30, 2016 and 2015 equaled net income. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) and has since amended the standard with Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, Accounting Standards Update 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), Accounting Standards Update 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and Accounting Standards Update 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These standards replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. U.S. Cellular is required to adopt ASU 2014-09, as amended, on January 1, 2018. Early adoption as of January 1, 2017 is permitted; however, U.S. Cellular does not intend to adopt early. ASU 2014-09, as amended, impacts U.S. Cellular’s revenue

recognition related to the allocation of contract revenues between various services and equipment, and the timing of when those revenues are recognized. In addition, the new requirements require deferral of incremental contract acquisition and fulfillment costs and subsequent expense recognition over the contract period or expected customer life. U.S. Cellular will transition to the new standard under one of the two adoption methods available for implementation. Under one method, the guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the other method, a cumulative effect adjustment is recognized upon adoption and the guidance is applied prospectively. U.S. Cellular is currently evaluating the guidance, developing its implementation plan, and evaluating the effects ASU 2014-09, as amended, will have on its financial position and results of operations upon adoption.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 requires U.S. Cellular to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. U.S. Cellular is required to adopt the provisions of ASU 2014-15 for the annual period ending December 31, 2016, but early adoption is permitted. The adoption of ASU 2014-15 will not impact U.S. Cellular's financial position or results of operations but may impact future disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Inventory: Simplifying the Measurement of Inventory ("ASU 2015-11"), which requires inventory to be measured at the lower of cost or net realizable value. U.S. Cellular is required to adopt ASU 2015-11 on January 1, 2017. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a significant impact on U.S. Cellular's financial position or results of operations.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This ASU introduces changes to current accounting for equity investments and financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. U.S. Cellular is required to adopt ASU 2016-01 on January 1, 2018. Certain provisions are eligible for early adoption. U.S. Cellular is evaluating the effects that adoption of ASU 2016-01 will have on its financial position and results of operations.

## Table of Contents

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 requires lessees to record a right-of-use asset and lease liability for almost all leases. This ASU does not substantially impact lessor accounting. U.S. Cellular is required to adopt ASU 2016-02 on January 1, 2019. Early adoption is permitted. Upon adoption of ASU 2016-02, U.S. Cellular expects a substantial increase to assets and liabilities on its balance sheet. U.S. Cellular is still evaluating the full effects that adoption of ASU 2016-02 will have on its financial position and results of operations.

In March 2016, the FASB issued Accounting Standards Update 2016-04, Liabilities – Extinguishments of Liabilities: Recognition of Breakage from Certain Prepaid Stored-Value Products (“ASU 2016-04”). ASU 2016-04 requires companies that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize breakage (i.e., the value that is ultimately not redeemed by the consumer) in a way that is consistent with how it will be recognized under the new revenue recognition standard. U.S. Cellular is required to adopt ASU 2016-04 on January 1, 2018. Early adoption is permitted. The adoption of ASU 2016-04 is not expected to have a significant impact on U.S. Cellular’s financial position or results of operations.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 intends to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. U.S. Cellular is required to adopt ASU 2016-09 on January 1, 2017. Early adoption is permitted. U.S. Cellular is evaluating the effects that adoption of ASU 2016-09 will have on its financial position, results of operations and cash flows.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires entities to use a new forward-looking, expected loss model to estimate credit losses. It also requires additional disclosure relating to the credit quality of trade and other receivables, including information relating to management’s estimate of credit allowances. U.S. Cellular is required to adopt ASU 2016-13 on January 1, 2020. Early adoption as of January 1, 2019 is permitted. U.S. Cellular is evaluating the effects that adoption of ASU 2016-13 will have on its financial position, results of operations and disclosures.

### Amounts Collected from Customers and Remitted to Governmental Authorities

U.S. Cellular records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$16 million and \$34 million for the three and six months ended June 30, 2016, respectively, and \$20 million and \$41 million for the three and six months ended June 30, 2015, respectively.

### Note 2 Fair Value Measurements

As of June 30, 2016 and December 31, 2015, U.S. Cellular did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

The provisions of GAAP establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level

Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 or Level 1 assets.

Table of Contents

U.S. Cellular has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

|                           | Level within the Fair Value Hierarchy | June 30, 2016 |            | December 31, 2015 |            |
|---------------------------|---------------------------------------|---------------|------------|-------------------|------------|
|                           |                                       | Book Value    | Fair Value | Book Value        | Fair Value |
| (Dollars in millions)     |                                       |               |            |                   |            |
| Cash and cash equivalents | 1                                     | \$621         | \$621      | \$715             | \$715      |
| Long-term debt            |                                       |               |            |                   |            |
| Retail                    | 2                                     | 917           | 952        | 917               | 929        |
| Institutional             | 2                                     | 533           | 521        | 533               | 501        |
| Other                     | 2                                     | 208           | 208        | 214               | 214        |

The fair value of Cash and cash equivalents approximates the book value due to the short-term nature of these financial instruments. Long-term debt excludes capital lease obligations and the current portion of Long-term debt. The fair value of “Retail” Long-term debt was estimated using market prices for the 6.95% Senior Notes, 7.25% Senior Notes due 2063 and 7.25% Senior Notes due 2064. U.S. Cellular’s “Institutional” debt consists of the 6.7% Senior Notes which are traded over the counter. U.S. Cellular’s “Other” debt consists of a senior term loan credit facility. U.S. Cellular estimated the fair value of its Institutional and Other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 3.38% to 7.12% and 3.19% to 7.51% at June 30, 2016 and December 31, 2015, respectively.

### Note 3 Equipment Installment Plans

U.S. Cellular offers customers, through its owned and agent distribution channels, the option to purchase certain devices under equipment installment contracts over a specified time period. For certain equipment installment plans (“EIP”), after a specified period of time or amount of payments, the customer may have the right to upgrade to a new device and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. U.S. Cellular values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. As of June 30, 2016 and December 31, 2015, the guarantee liability related to these plans was \$66 million and \$93 million, respectively, and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

U.S. Cellular equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of greater than twelve months, U.S. Cellular imputes interest. Equipment installment plan receivables had a weighted average effective imputed interest rate of 10.2% and 9.7% as of June 30, 2016 and December 31, 2015, respectively.

The following table summarizes unbilled equipment installment plan receivables as of June 30, 2016 and December 31, 2015. Such amounts are included in the Consolidated Balance Sheet as Accounts receivable – customers and agents and Other assets and deferred charges, where applicable.

|                                                                              | June<br>30,<br>2016 | December<br>31, 2015 |
|------------------------------------------------------------------------------|---------------------|----------------------|
| (Dollars in millions)                                                        |                     |                      |
| Short-term portion of unbilled equipment installment plan receivables, gross | \$314               | \$ 279               |
| Short-term portion of unbilled deferred interest                             | (28)                | (21)                 |
| Short-term portion of unbilled allowance for credit losses                   | (19)                | (14)                 |
| Short-term portion of unbilled equipment installment plan receivables, net   | \$267               | \$ 244               |
| Long-term portion of unbilled equipment installment plan receivables, gross  | \$127               | \$ 76                |
| Long-term portion of unbilled deferred interest                              | (6)                 | (2)                  |
| Long-term portion of unbilled allowance                                      | (10)                | (6)                  |



for credit  
losses

Long-term  
portion of  
unbilled  
equipment \$111 \$ 68  
installment  
plan  
receivables,  
net

U.S. Cellular assesses the collectability of the equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors and provides an allowance for estimated losses. The credit profiles of U.S. Cellular's customers on equipment installment plans are similar to those of U.S. Cellular customers with traditional subsidized plans. Customers with a higher risk credit profile are required to make a deposit for equipment purchased through an installment contract.

U.S. Cellular recorded out-of-period adjustments during the six months ended June 30, 2015 due to errors related to equipment installment plan transactions that were attributable to 2014. U.S. Cellular determined that these adjustments were not material to the quarterly periods or the annual results for 2015. These equipment installment plan adjustments had the impact of reducing Equipment sales revenues by \$6 million for both the three and six months ended June 30, 2015, and Income before income taxes by \$5 million and \$6 million, for the three and six months ended June 30, 2015, respectively.

Table of Contents

## Note 4 Earnings Per Share

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

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

|                                                                           | Three Months<br>Ended<br>June 30,<br>2016 2015 |       | Six Months<br>Ended<br>June 30,<br>2016 2015 |        |
|---------------------------------------------------------------------------|------------------------------------------------|-------|----------------------------------------------|--------|
| (Dollars and<br>shares in<br>millions,<br>except per<br>share<br>amounts) |                                                |       |                                              |        |
| Net income<br>attributable<br>to U.S.<br>Cellular<br>shareholders         | \$27                                           | \$ 19 | \$ 36                                        | \$ 179 |
| Weighted<br>average<br>number of<br>shares used<br>in basic               | 85                                             | 84    | 85                                           | 84     |
| earnings per<br>share                                                     |                                                |       |                                              |        |
| Effects of<br>dilutive<br>securities                                      | —                                              | 1     | —                                            | 1      |
| Weighted<br>average<br>number of<br>shares used<br>in diluted             | 85                                             | 85    | 85                                           | 85     |
| earnings per<br>share                                                     |                                                |       |                                              |        |

Basic  
earnings per  
share  
attributable  
to U.S.  
Cellular

|        |         |         |         |
|--------|---------|---------|---------|
| \$0.32 | \$ 0.23 | \$ 0.43 | \$ 2.13 |
|--------|---------|---------|---------|

shareholders

Diluted  
earnings per  
share  
attributable  
to

|        |         |         |         |
|--------|---------|---------|---------|
| \$0.32 | \$ 0.23 | \$ 0.43 | \$ 2.11 |
|--------|---------|---------|---------|

U.S.  
Cellular  
shareholders

Certain Common Shares issuable upon the exercise of stock options or vesting of restricted stock units were not included in average diluted shares outstanding for the calculation of Diluted earnings per share attributable to U.S. Cellular shareholders because their effects were antidilutive. The number of such Common Shares excluded was 3 million shares for both the three and six months ended June 30, 2016, and 4 million shares and 3 million shares for the three and six months ended June 30, 2015, respectively.

#### Note 5 Acquisitions, Divestitures and Exchanges

In February 2016, U.S. Cellular entered into an agreement with a third party to exchange certain 700 MHz licenses for certain AWS and PCS licenses and \$28 million of cash. This license exchange will be accomplished in two closings. The first closing occurred in June 2016 at which time U.S. Cellular received \$13 million of cash and recorded a gain of \$9 million. The second closing is expected to occur in the second half of 2016 and U.S. Cellular expects to recognize a gain at that time. As a result of this exchange, the remaining licenses with a carrying value of \$8 million have been classified as “Assets held for sale” in the Consolidated Balance Sheet as of June 30, 2016.

In 2016, U.S. Cellular entered into additional agreements with third parties to transfer FCC licenses in non-operating markets and receive FCC licenses in operating markets. The agreements provide for the transfer of certain AWS and PCS spectrum licenses and approximately \$1 million, net, in cash to U.S. Cellular, in exchange for U.S. Cellular transferring certain AWS, PCS and 700 MHz spectrum licenses to the third parties. These transactions are subject to regulatory approval and other customary closing conditions, and are expected to close in the second half of 2016. See Note 10 — Subsequent Events for additional information related to one of these exchange agreements. Upon closing of each transaction, U.S. Cellular expects to recognize a gain. As a result of these additional exchange agreements, licenses with a carrying value of \$15 million have been classified as “Assets held for sale” in the Consolidated Balance Sheet as of June 30, 2016.

In 2015 and 2016, U.S. Cellular entered into multiple agreements to purchase spectrum licenses located in U.S. Cellular’s existing operating markets. The aggregate purchase price for these spectrum licenses is \$56 million, of which \$46 million closed in the three months ended June 30, 2016. The remaining agreements are expected to close

in the second half of 2016.

In March 2016, the FCC released a list of applicants that successfully completed applications for the forward auction of 600 MHz spectrum licenses, referred to as Auction 1002, including U.S. Cellular. Forward auction bidding is scheduled to begin on August 16, 2016. In June 2016, U.S. Cellular made an upfront payment to the FCC of \$143 million to establish its initial bidding eligibility.

Table of Contents

Note 6 Intangible Assets

Changes in U.S. Cellular's Licenses for the six months ended June 30, 2016 are presented below. There were no significant changes to Goodwill during the six months ended June 30, 2016.

Licenses

(Dollars in  
millions)

Balance

December \$1,834  
31, 2015<sup>1</sup>

Acquisitions

Transferred

to

Assets (23)  
held

for

sale

Exchange<sup>(2)</sup>

Balance

June 30, \$1,854  
2016<sup>1</sup>

- 1 Amounts include payments totaling \$338 million made by Advantage Spectrum L.P. to the FCC for licenses in which it was the provisional winning bidder in Auction 97. These licenses were granted by the FCC in July 2016. See Note 9 — Variable

Interest  
Entities for  
additional  
information.

# Note 7 Investments in Unconsolidated Entities

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

The following table, which is based in part on information provided by third parties, summarizes the combined results of operations of U.S. Cellular's equity method investments.

|                                      | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|--------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                      | 2016                           | 2015     | 2016                         | 2015     |
| (Dollars in<br>millions)             |                                |          |                              |          |
| Revenues                             | \$ 1,636                       | \$ 1,721 | \$ 3,318                     | \$ 3,451 |
| Operating<br>expenses                | 1,168                          | 1,277    | 2,398                        | 2,564    |
| Operating<br>income                  | 468                            | 444      | 920                          | 887      |
| Other<br>income<br>(expense),<br>net | (3)                            | (10)     | (6)                          | (5)      |
| Net<br>income                        | \$ 465                         | \$ 434   | \$ 914                       | \$ 882   |

Table of Contents

## Note 8 Debt

## Revolving Credit Facilities

U.S. Cellular has a revolving credit facility available for general corporate purposes. In June 2016, U.S. Cellular entered into a new \$300 million revolving credit agreement with certain lenders and other parties. As a result of the new agreement, U.S. Cellular's revolving credit agreement due to expire in December 2017 was terminated. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time-to-time until maturity in June 2021. As of June 30, 2016, there were no outstanding borrowings under the revolving credit facility, except for letters of credit. Interest expense primarily associated with the unused commitment fees on the revolving line of credit was immaterial for each of the six months ended June 30, 2016 and 2015.

The following table summarizes the terms of the revolving credit facility as of June 30, 2016:

|                                                          |       |
|----------------------------------------------------------|-------|
| (Dollars in millions)                                    |       |
| Maximum borrowing capacity                               | \$300 |
| Letters of credit outstanding                            | \$17  |
| Amount borrowed                                          | \$—   |
| Amount available for use                                 | \$283 |
| Illustrative borrowing rate:                             |       |
| One-month London Interbank Offered Rate ("LIBOR")        | 2.18% |
| plus contractual spread <sup>1</sup>                     |       |
| Illustrative LIBOR Rate                                  | 0.43% |
| Contractual spread                                       | 1.75% |
| Commitment fees on amount available for use <sup>2</sup> | 0.30% |

Agreement date June 2016  
Maturity date June 2021

1 Borrowings under the revolving credit facility bear interest either at a LIBOR rate or at an alternative Base Rate as defined in the revolving credit agreement, plus an applicable margin, at U.S. Cellular's option. U.S. Cellular may select a borrowing period of either one, two, three or six months (or other period of twelve months or less if requested by U.S. Cellular and approved by the lenders).

2 The revolving credit facility has commitment fees based on the unsecured senior debt ratings assigned to U.S. Cellular by certain ratings agencies.

The new revolving credit agreement includes the following financial covenants:

- ◆ Consolidated Interest Coverage Ratio may not be less than 3.00 to 1.00 as of the end of any fiscal quarter.
- ◆ Consolidated Leverage Ratio may not be greater than the ratios indicated as of the end of any fiscal quarter for each period specified below:

| Period                                                         | Ratios       |
|----------------------------------------------------------------|--------------|
| From the agreement date of June 15, 2016 through June 30, 2019 | 3.25 to 1.00 |



From July 1, 2019 and thereafter

3.00 to 1.00

Certain U.S. Cellular wholly-owned subsidiaries have jointly and severally unconditionally guaranteed the payment and performance of the obligations of U.S. Cellular under the revolving credit agreement pursuant to a guaranty dated June 15, 2016. Other subsidiaries that meet certain criteria will be required to provide a similar guaranty in the future. U.S. Cellular believes it was in compliance with all of the financial and other covenants and requirements set forth in the revolving credit facility as of June 30, 2016.

At June 30, 2016, U.S. Cellular had recorded \$3 million of unamortized debt issuance costs related to the revolving credit facility which is included in Other assets and deferred charges in the Consolidated Balance Sheet. Included in that amount was \$2 million related to the new revolving credit facility.

#### Term Loan

In June 2016, U.S. Cellular also amended and restated its senior term loan credit facility. Certain modifications were made to the financial covenants and subsidiary guarantees were added in order to align with the new revolving credit agreements. There were no significant changes to the maturity date or other key terms of the agreement.

Table of Contents

Note 9 Variable Interest Entities

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation: Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 changes consolidation accounting including revising certain criteria for identifying variable interest entities. U.S. Cellular adopted the provisions of this standard as of January 1, 2016. As a result, certain consolidated subsidiaries and unconsolidated entities that were not defined as variable interest entities under previous accounting guidance are defined as variable interest entities under the provisions of ASU 2015-02. U.S. Cellular's modified retrospective adoption of ASU 2015-02 did not change the group of entities which U.S. Cellular is required to consolidate in its financial statements. Accordingly, the adoption of ASU 2015-02 did not impact its financial position or results of operations.

Consolidated VIEs

U.S. Cellular consolidates variable interest entities ("VIEs") in which it has a controlling financial interest as defined by GAAP and is therefore deemed the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb the VIE losses and right to receive benefits that are significant to the VIE. U.S. Cellular reviews these criteria initially at the time it enters into agreements and subsequently when events warranting reconsideration occur. These VIEs have risks similar to those described in the "Risk Factors" in U.S. Cellular's Form 10-K for the year ended December 31, 2015.

The following VIEs were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions:

- ◆ Advantage Spectrum L.P. ("Advantage Spectrum") and Frequency Advantage L.P., the general partner of Advantage Spectrum;
- ◆ Aquinas Wireless L.P. ("Aquinas Wireless"); and
- ◆ King Street Wireless L.P. ("King Street Wireless") and King Street Wireless, Inc., the general partner of King Street Wireless.

These particular VIEs are collectively referred to as designated entities. Historically and as of June 30, 2016, U.S. Cellular consolidated these VIEs.

The power to direct the activities that most significantly impact the economic performance of these VIEs is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships. The general partner of each partnership needs the consent of the limited partner, an indirect U.S. Cellular subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of these VIEs is shared, U.S. Cellular has the most significant level of exposure to the variability associated with the economic performance of the VIEs, indicating that U.S. Cellular is the primary beneficiary of the VIEs. Therefore, in accordance with GAAP, these VIEs are consolidated.

In March 2015, King Street Wireless made a \$60 million distribution to its owners. Of this distribution, \$6 million was provided to King Street Wireless, Inc. and \$54 million was provided to U.S. Cellular.

FCC Auction 97 ended in January 2015. U.S. Cellular participated in Auction 97 indirectly through its interest in Advantage Spectrum. An indirect subsidiary of U.S. Cellular is a limited partner in Advantage Spectrum. Advantage Spectrum applied as a designated entity, and received bid credits with respect to spectrum purchased in Auction 97. Advantage Spectrum was the winning bidder for 124 licenses for an aggregate bid of \$338 million, after its designated entity discount of 25%. This amount is classified as Licenses in U.S. Cellular's Consolidated Balance Sheet. Advantage Spectrum's bid amount, less the initial deposit of \$60 million paid in 2014, plus certain other charges totaling \$2 million, was paid to the FCC in March 2015. These licenses were granted by the FCC in July 2016.

U.S. Cellular also consolidates other VIEs that are limited partnerships that provide wireless service. ASU 2015-02 modified the manner in which limited partnerships and similar legal entities are evaluated under the variable interest model. A limited partnership is a variable interest entity unless the limited partners hold substantive participating rights or kick-out rights over the general partners. For certain limited partnerships, U.S. Cellular is the general partner and manages the operations. In these partnerships, the limited partners do not have substantive kick-out or participating rights and, further, such limited partners do not have the authority to remove the general partner. Therefore, beginning January 1, 2016, these limited partnerships are also recognized as VIEs and are consolidated under the variable interest model. Prior to the adoption of ASU 2015-02, these limited partnerships were consolidated under the voting interest model.

Table of Contents

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

|                                    | June<br>30,<br>2016 <sup>1</sup> | December<br>31,<br>2015 <sup>1</sup> |
|------------------------------------|----------------------------------|--------------------------------------|
| (Dollars in millions)              |                                  |                                      |
| <b>Assets</b>                      |                                  |                                      |
| Cash and cash equivalents          | \$2                              | \$ 1                                 |
| Accounts receivable                | 41                               | —                                    |
| Other current assets               | 7                                | —                                    |
| Assets held for sale               | 2                                | —                                    |
| Licenses <sup>2</sup>              | 652                              | 649                                  |
| Property, plant and equipment, net | 112                              | 8                                    |
| Other assets and deferred charges  | 11                               | —                                    |
| <b>Total assets</b>                | <b>\$827</b>                     | <b>\$ 658</b>                        |
| <b>Liabilities</b>                 |                                  |                                      |
| Current liabilities                | \$24                             | \$ —                                 |
| Deferred liabilities and credits   | 12                               | 1                                    |
| <b>Total liabilities</b>           | <b>\$36</b>                      | <b>\$ 1</b>                          |

ASU 2015-02 was adopted on a modified retrospective basis and, accordingly, prior year amounts have not been revised to reflect the change in guidance.

Includes payments totaling \$338 million made by Advantage Spectrum to the FCC as described above.

Unconsolidated VIEs

U.S. Cellular manages the operations of and holds a variable interest in certain other limited partnerships, but is not the primary beneficiary of these entities and, therefore, does not consolidate them under the variable interest model outlined in ASU 2015-02.

U.S. Cellular's total investment in these unconsolidated entities was \$6 million and \$5 million at June 30, 2016 and December 31, 2015, respectively, and is included in Investments in unconsolidated entities in U.S. Cellular's Consolidated Balance Sheet. The maximum exposure from unconsolidated VIEs is limited to the investment held by U.S. Cellular in those entities.

#### Other Related Matters

U.S. Cellular made contributions, loans and/or advances to its VIEs totaling \$26 million and \$281 million during the six months ended June 30, 2016 and June 30, 2015, respectively. U.S. Cellular may agree to make additional capital contributions and/or advances to these or other VIEs and/or to their general partners to provide additional funding for operations or the development of licenses granted in various auctions. U.S. Cellular may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or other long-term debt. There is no assurance that U.S. Cellular will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

#### Note 10 Subsequent Events

In February 2016, U.S. Cellular entered into an agreement with a third party that provided for the transfer of certain AWS spectrum licenses and \$2 million in cash to U.S. Cellular, in exchange for U.S. Cellular transferring certain AWS, PCS and 700 MHz licenses with a carrying value of \$7 million to the third party. This transaction closed on August 1, 2016. U.S. Cellular expects to recognize a gain as a result of this exchange. See Note 5 — Acquisitions, Divestitures and Exchanges for additional information.

## Table of Contents

United States Cellular Corporation

Additional Required Information

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 principal executive officer and principal 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 principal executive officer and principal financial officer, of the effectiveness of the design and operation of U.S. Cellular’s disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, U.S. Cellular’s principal executive officer and principal financial officer concluded that U.S. Cellular’s disclosure controls and procedures were effective as of June 30, 2016, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that have occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular’s internal control over financial reporting.

Legal Proceedings

Refer to the disclosure under Legal Proceedings in U.S. Cellular’s Form 10-K for the year ended December 31, 2015. There have been no material changes to such information since December 31, 2015.

Unregistered Sales of Equity Securities and Use of Proceeds

On November 20, 2009, U.S. Cellular announced by Form 8-K that the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Exchange Act, pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date. U.S. Cellular did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the second quarter of 2016.

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

| Period                                                              | Total Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of Shares<br>Purchased as Part of Publicly<br>Announced Plans or<br>Programs | Maximum Number of Shares<br>that May Yet Be Purchased<br>Under the Plans or Programs |
|---------------------------------------------------------------------|----------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| April 1 – 30, 2016                                                  | –                                      | \$ –                               | –                                                                                         | 6,008,437                                                                            |
| May 1 – 31, 2016                                                    | –                                      | –                                  | –                                                                                         | 6,008,437                                                                            |
| June 1 – 30, 2016                                                   | –                                      | –                                  | –                                                                                         | 6,008,437                                                                            |
| Total for or as of the<br>end of the quarter<br>ended June 30, 2016 | –                                      | \$ –                               | –                                                                                         | 6,008,437                                                                            |

Table of Contents

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 entered into a new revolving credit agreement on June 15, 2016. A description of U.S. Cellular's revolving credit facility is included in U.S. Cellular's Current Report on Form 8-K dated June 15, 2016, and is incorporated by reference herein.

U.S. Cellular did not borrow or repay any cash amounts under its revolving credit facility in the second quarter of 2016 or through the filing date of this Form 10-Q. U.S. Cellular had no cash borrowings outstanding under its revolving credit facility as of June 30, 2016 or as of the filing date of this Form 10-Q.



Table of Contents

Exhibits

|              |                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 4.1  | Revolving Credit Agreement, among U.S. Cellular, Toronto Dominion (Texas) LLC, as administrative agent, and the other lenders thereto, dated as of June 15, 2016, including Schedules and Exhibits, including the form of the subsidiary Guaranty and Subordination Agreement, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Form 8-K dated June 15, 2016.         |
| Exhibit 4.2  | Amended and Restated Term Loan Credit Agreement, among U.S. Cellular and CoBank, ACB, as administrative agent, and the other lenders thereto, dated as of June 15, 2016, including Schedules and Exhibits, including the forms of the subsidiary Guaranty and Subordination Agreement, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Form 8-K dated June 15, 2016. |
| Exhibit 10.1 | Form of 2013 Long-Term Incentive Plan Stock Option Award Agreement for Officers other than the President and CEO, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated March 14, 2016.                                                                                                                                                  |
| Exhibit 10.2 | Form of 2013 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Officers other than the President and CEO, is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated March 14, 2016.                                                                                                                                         |
| Exhibit 10.3 | Form of 2013 Long-Term Incentive Plan Stock Option Award Agreement for the President and CEO, is hereby incorporated by reference to Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated March 14, 2016.                                                                                                                                                                      |
| Exhibit 10.4 | Form of 2013 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for the President and CEO, is hereby incorporated by reference to Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated March 14, 2016.                                                                                                                                                             |
| Exhibit 10.5 | United States Cellular Corporation 2016 Officer Annual Incentive Plan effective January 1, 2016, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated June 7, 2016.                                                                                                                                                                     |
| Exhibit 10.6 | U.S. Cellular 2013 Long-Term Incentive Plan, is hereby incorporated by reference from Exhibit B to the U.S. Cellular definitive proxy statement dated April 12, 2016, which was filed with the SEC on Schedule 14A on April 12, 2016.                                                                                                                                                      |
| Exhibit 10.7 | Amendment No. 1 to U.S. Cellular 2013 Long-Term Incentive Plan, is hereby incorporated by reference from Exhibit A to the U.S. Cellular definitive proxy statement dated April 12, 2016, which was filed with the SEC on Schedule 14A on April 12, 2016.                                                                                                                                   |
| Exhibit 11   | Statement regarding computation of per share earnings is included herein as Note 4 — Earnings Per Share in the Notes to Consolidated Financial Statements.                                                                                                                                                                                                                                 |
| Exhibit 12   | Statement regarding computation of ratio of earnings to fixed charges.                                                                                                                                                                                                                                                                                                                     |
| Exhibit 31.1 | Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.                                                                                                                                                                                                                                                                                  |

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|                    |                                                                                                                         |
|--------------------|-------------------------------------------------------------------------------------------------------------------------|
| Exhibit<br>31.2    | Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.               |
| Exhibit<br>32.1    | Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| Exhibit<br>32.2    | Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| Exhibit<br>101.INS | XBRL Instance Document                                                                                                  |
| Exhibit<br>101.SCH | XBRL Taxonomy Extension Schema Document                                                                                 |
| Exhibit<br>101.PRE | XBRL Taxonomy Presentation Linkbase Document                                                                            |
| Exhibit<br>101.CAL | XBRL Taxonomy Calculation Linkbase Document                                                                             |
| Exhibit<br>101.LAB | XBRL Taxonomy Label Linkbase Document                                                                                   |
| Exhibit<br>101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                    |

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in U.S. Cellular's Form 10-K for the year ended December 31, 2015. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2015 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

Table of Contents

Form 10-Q Cross Reference Index

Item Number

Page No.

Part I. Financial Information

|                |                                                                                                                                                          |                                                  |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <u>Item 1.</u> | <u>Financial</u><br><u>Statements</u><br><u>(Unaudited)</u><br><u>Notes to</u><br><u>Consolidated</u><br><u>Financial</u><br><u>Statements</u>           | <u>23 - 28</u><br><br><br><br><br><u>29 - 36</u> |
| <u>Item 2.</u> | <u>Management's</u><br><u>Discussion</u><br><u>and Analysis</u><br><u>of Financial</u><br><u>Condition and</u><br><u>Results of</u><br><u>Operations</u> | <u>1 - 22</u>                                    |
| <u>Item 3.</u> | <u>Quantitative</u><br><u>and</u><br><u>Qualitative</u><br><u>Disclosures</u><br><u>About Market</u><br><u>Risk</u>                                      | <u>22</u>                                        |
| <u>Item 4.</u> | <u>Controls and</u><br><u>Procedures</u>                                                                                                                 | <u>37</u>                                        |

Part II. Other Information

|                 |                                                                                                                      |           |
|-----------------|----------------------------------------------------------------------------------------------------------------------|-----------|
| <u>Item 1.</u>  | <u>Legal</u><br><u>Proceedings</u>                                                                                   | <u>37</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u>                                                                                                  | <u>22</u> |
| <u>Item 2.</u>  | <u>Unregistered</u><br><u>Sales of</u><br><u>Equity</u><br><u>Securities and</u><br><u>Use of</u><br><u>Proceeds</u> | <u>37</u> |

Item 5.    Other    38  
              Information

Item 6.    Exhibits    39

Signatures                    41

40

Table of Contents

SIGNATURES

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

UNITED STATES CELLULAR  
CORPORATION  
(Registrant)

Date: August 5, 2016 /s/ Kenneth R. Meyers  
Kenneth R. Meyers

President and Chief Executive Officer  
  
(principal executive officer)

Date: August 5, 2016 /s/ Steven T. Campbell  
Steven T. Campbell

Executive Vice President-Finance,  
  
Chief Financial Officer and Treasurer  
  
(principal financial officer)

Date: August 5, 2016 /s/ Douglas D. Shuma  
Douglas D. Shuma

Chief Accounting Officer  
  
(principal accounting officer)

Date: August 5, 2016 /s/ Kristin A. MacCarthy  
Kristin A. MacCarthy

Vice President and Controller

