

UNITED STATES CELLULAR CORP  
Form 10-Q  
November 02, 2018

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 September 30, 2018

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 jurisdiction of incorporation or organization) (IRS Employer Identification No.)

8410 West Bryn Mawr, Chicago, Illinois 60631

(Address of principal executive offices) (Zip code)

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

YesNo

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 every Interactive Data File  
required to be submitted 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 such files).

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

Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

Outstanding at  
Class September 30,  
2018

Common  
Shares,  
\$1 52,856,065  
par  
value  
Series  
A

Common  
Shares, 33,051,877  
\$1  
par  
value

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United States Cellular Corporation

Quarterly Report on Form 10-Q  
For the Period Ended September 30, 2018

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United States Cellular Corporation  
Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Executive Overview

The following discussion and analysis compares United States Cellular Corporation's (U.S. Cellular) financial results for the three and nine months ended September 30, 2018, to the three and nine months ended September 30, 2017. It should be read in conjunction with U.S. Cellular's interim consolidated financial statements and notes included herein, 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, 2017. Certain numbers included herein are rounded to millions for ease of presentation; however, certain calculated amounts and percentages are determined using the unrounded numbers.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects," and similar expressions. 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" and each such measure is identified in 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.

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General

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 82%-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 5.1 million connections including 4.5 million postpaid, 0.5 million prepaid and 0.1 million reseller and other connections

Operates in 22 states

Employs approximately 5,700 associates

6,506 cell sites including 4,119 owned towers in service

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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 2018, U.S. Cellular continues to execute on its strategies to protect its current customer base, grow revenues, drive improvements in the overall cost structure, and invest in its network and online platforms. Strategic efforts include: U.S. Cellular continues to offer economical and competitively priced service plans and devices to its customers, and is focused on increasing revenues from sales of related products such as accessories and device protection plans and from new services such as fixed wireless broadband. In addition, U.S. Cellular is focused on expanding its solutions available to business and government customers, including a growing suite of connected machine-to-machine solutions and software applications across various categories.

U.S. Cellular continues to devote efforts to enhance its network capabilities. VoLTE technology has been launched successfully in California, Iowa, Oregon, Washington and Wisconsin, and deployments in several additional operating markets will occur in early 2019. VoLTE technology allows customers to utilize a 4G LTE network for both voice and data services, and offers enhanced services such as high definition voice and simultaneous voice and data sessions. In addition, the deployment of VoLTE technology expands U.S. Cellular's ability to offer roaming services to other wireless carriers.

U.S. Cellular is committed to continuous technology innovation as demonstrated by its ongoing evaluation of 5G technology. U.S. Cellular continues to be engaged in efforts related to the development of 5G standards and identifying potential use cases for the technology. In addition, U.S. Cellular has successfully tested 5G technology in both indoor and outdoor environments and plans to conduct a trial utilizing 5G standards and equipment on its core LTE network commencing in the fourth quarter of 2018. When deployed commercially, 5G technology is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency.

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 actively seeks attractive opportunities to acquire wireless spectrum, including pursuant to FCC auctions.

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Terms Used by U.S. Cellular

The following is a list of definitions of certain industry terms that are used throughout this document:

4G LTE – fourth generation Long-Term Evolution which is a wireless broadband technology.

5G – fifth generation 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.

Auctions 1000, 1001, and 1002 – Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and concluded in 2017 involving: (1) a “reverse auction” in which broadcast television licensees submitted 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).

ASU 2014 -09 – the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, including any subsequent modifications to such guidance. This ASU replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers.

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. Connections include all types of devices that connect directly to the U.S. Cellular network.

Connected Devices – non-handset devices that connect directly to the U.S. Cellular network. Connected devices include products such as tablets, watches, modems, and hotspots.

EBITDA – refers to earnings before interest, taxes, depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted EBITDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

Eligible Telecommunications Carrier (ETC) – designation by states for providing specified services in “high cost” areas which enables participation in universal service support mechanisms.

Free Cash Flow – non-GAAP metric defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

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 agreements with device manufacturers and software developers which 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.

OIBDA – refers to operating income before depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted OIBDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

Partial Economic Areas – service areas of certain FCC licenses based on geography.

Postpaid Average Billings per Account (Postpaid ABPA) – non-GAAP metric which 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. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

Postpaid Average Billings per User (Postpaid ABPU) – non-GAAP metric which 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. See Supplemental Information Relating to Non-GAAP Financial Measures

within this MD&A for additional information.

Postpaid Average Revenue per Account (Postpaid ARPA) – metric which 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 which 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.

Tax Act – refers to comprehensive federal tax legislation enacted on December 22, 2017, which made broad changes to the U.S. tax code. Now titled H.R.1, the Tax Act was originally identified as the Tax Cuts and Jobs Act of 2017.

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.



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## Operational Overview

As of  
September 2018      2017  
30,  
Retail Connections –  
End of Period  
Postpaid 4,466,000 4,513,000  
Prepaid 528,000 515,000  
Total 4,994,000 5,028,000

	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Postpaid Activity and Churn				
Gross Additions				
Handsets	133,000	139,000	340,000	357,000
Connected Devices	39,000	52,000	107,000	154,000
Total Gross Additions	172,000	191,000	447,000	511,000
Net Additions (Losses)				
Handsets	15,000	29,000	3,000	20,000
Connected Devices	(16,000 )	6,000	(55,000 )	11,000
Total Net Additions (Losses)	(1,000 )	35,000	(52,000 )	31,000
Churn	1.29	% 1.16	% 1.24	% 1.19

Postpaid net additions decreased for the three and nine months ended September 30, 2018, when compared to the same period last year, due to lower gross additions, as well as an increase in tablet churn. U.S. Cellular believes lower gross additions resulted from aggressive, industry-wide promotional activity on handsets and, in part, reflects U.S. Cellular's decision to curtail promotions of heavily discounted tablets.

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## Postpaid Revenue

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Average Revenue Per User (ARPU)	\$45.31	\$43.41	\$44.79	\$44.46
Average Billings Per User (ABPU) <sup>1</sup>	\$59.41	\$54.71	\$58.07	\$55.21

Average Revenue Per Account (ARPA) \$119.42 \$116.36 \$118.71 \$119.26

Average Billings Per Account (ABPA) <sup>1</sup> \$156.57 \$146.65 \$153.92 \$148.12

<sup>1</sup> Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of these measures.

On January 1, 2018, U.S. Cellular adopted the provisions of ASU 2014-09, using a modified retrospective method. Under this method, the new accounting standard is applied only to the most recent period presented, recognizing the cumulative effect of the accounting change as an adjustment to retained earnings at January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details.

Postpaid ARPU and Postpaid ARPA increased for the three months ended September 30, 2018, when compared to the same period last year, due to several factors including: having proportionately more handset connections, which on a per-unit basis contribute more revenue than connected device connections; a shift in mix to higher-priced service plans; and increases in device protection plan and regulatory recovery revenues. Such factors were partially offset by the impact of adopting the provisions of ASU 2014-09. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the three months ended September 30, 2018, by \$0.23 and \$0.61, respectively.

Postpaid ARPU increased for the nine months ended September 30, 2018, when compared to the same period last year, due to the reasons mentioned above. Postpaid ARPA slightly decreased for the nine months ended September 30, 2018, due primarily to a decrease in postpaid connections per account driven by higher tablet churn. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the nine months ended September 30, 2018, by \$0.39 and \$1.03, respectively.

Under equipment installment plans, customers pay for their wireless devices in installments over a period of time. In order to show the trend in estimated cash collections from postpaid customer billings for service and equipment, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly installment plan billings per connection and account, respectively.

Postpaid ABPU and ABPA increased for the three and nine months ended September 30, 2018, due primarily to (i) an increase in equipment installment plan billings driven by increased penetration of equipment installment plans and (ii) a higher average cost per device sold.

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## Financial Overview

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018 <sup>1</sup>	2017	2018 vs. 2017	%	2018 <sup>1</sup>	2017	2018 vs. 2017	%
(Dollars in millions)								
Retail service	\$659	\$636	4	%	\$1,960	\$1,940	1	%
Inbound roaming	50	37	35	%	116	94	23	%
Other	50	64	(22)	%	148	189	(22)	%
Service revenues	759	737	3	%	2,224	2,223	—	
Equipment sales	242	226	7	%	692	639	8	%
Total operating revenues	1,001	963	4	%	2,916	2,862	2	%
System operations (excluding Depreciation, amortization and accretion reported below)	200	185	8	%	566	549	3	%
Cost of equipment sold	258	261	(1)	%	716	749	(4)	%
Selling, general and administrative	346	350	(1)	%	1,014	1,041	(2)	%
Depreciation, amortization and accretion	160	153	4	%	478	460	4	%
Loss on impairment of goodwill	—	370	N/M		—	370	N/M	
(Gain) loss on asset disposals, net	3	5	(36)	%	5	14	(61)	%
(Gain) loss on sale of business and other exit costs, net	—	(1)	N/M		—	(1)	N/M	
(Gain) loss on license sales and exchanges, net	—	—	N/M		(18)	(19)	6	%
Total operating expenses	967	1,323	(27)	%	2,761	3,163	(13)	%
Operating income (loss)	\$34	\$(360)	N/M		\$155	\$(301)	N/M	
Net income (loss)	\$37	\$(298)	N/M		\$143	\$(259)	N/M	
Adjusted OIBDA (Non-GAAP) <sup>2</sup>	\$197	\$167	18	%	\$620	\$523	18	%
Adjusted EBITDA (Non-GAAP) <sup>2</sup>	\$243	\$204	19	%	\$750	\$631	19	%
Capital expenditures	\$118	\$112	6	%	\$274	\$257	7	%

N/M - Percentage change not meaningful

<sup>1</sup> As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

<sup>2</sup> Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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Operating Revenues

Three Months Ended September 30, 2018, and 2017

(Dollars in millions)

Operating Revenues

Nine Months Ended September 30, 2018, and 2017

(Dollars in millions)

Service revenues consist of:

Retail Service - Charges for access, airtime, 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 Service - Amounts received from the Federal USF and tower rental revenues. Imputed interest on equipment installment plan contracts is included in 2017; however, it is not included in 2018 due to the impact of adopting the provisions of ASU 2014-09

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

Retail service revenues increased for the three and nine months ended September 30, 2018, primarily as a result of the changes in Postpaid ARPU as previously discussed in the Operational Overview section. In the nine months comparison, an increase in the average number of connections also was a factor.

Inbound roaming revenues increased for the three and nine months ended September 30, 2018, primarily driven by higher data usage, partially offset by lower rates.

Other service revenues decreased for the three and nine months ended September 30, 2018, reflecting the exclusion of imputed interest income in 2018 due to the impact of adopting the provisions of ASU 2014-09. The impact of imputed interest income was \$19 million and \$52 million for the three and nine months ended September 30, 2017. Federal USF revenues remained flat at \$23 million and \$69 million for the three and nine months ended September 30, 2018. See the Regulatory Matters section in this MD&A for a description of the Phase II Connect America Mobility Fund (MF2 Order) and its expected impacts on U.S. Cellular's current Federal USF support.

Equipment sales revenues increased for the three and nine months ended September 30, 2018, due to the impact of adopting the provisions of ASU 2014-09, an increase in the average revenue per device sold, and a mix shift from feature phones and connected devices to higher end smartphone devices. Such factors were partially offset by a decrease in the number of devices sold and a reduction in guarantee liability amortization for equipment installment contracts as a result of changes in plan offerings.

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See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details on the financial statement impact of ASU 2014-09.

## System operations expenses

System operations expenses increased for the three and nine months ended September 30, 2018, due to an increase in roaming expenses primarily driven by higher data roaming usage, partially offset by lower rates. Also contributing to the increase were higher maintenance, utility and cell site expenses largely reflecting the growth in cell sites and other network facilities as U.S. Cellular continues to add capacity, enhance quality, and deploy new technologies.

## Cost of equipment sold

Cost of equipment sold decreased for the three and nine months ended September 30, 2018, due primarily to a decrease in the number of devices sold, as well as the impact of adopting the provisions of ASU 2014-09. Such factors were partially offset by increases due to a higher average cost per device sold as well as a mix shift from feature phones and connected devices to higher cost smartphones.

## Depreciation, amortization and accretion

Depreciation, amortization, and accretion increased for the three and nine months ended September 30, 2018, due to additional network assets being placed into service as well as an increase in amortization expense related to billing system upgrades.

## Loss on impairment of goodwill

During the third quarter of 2017, U.S. Cellular recorded a \$370 million loss on impairment of goodwill.

## (Gain) loss on asset disposals, net

Loss on asset disposals, net decreased primarily as a result of fewer disposals of certain network assets.

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

Net gains in 2018 and 2017 were due to gains recognized on license sale and exchange transactions with various third parties.

## Components of Other Income (Expense)

	Three Months Ended September 30, 2018				Nine Months Ended September 30, 2018			
	2018 <sup>1</sup>	2017	vs.		2018 <sup>1</sup>	2017	vs.	
(Dollars in millions)								
Operating income (loss)	\$34	\$(360)	N/M		\$155	\$(301)	N/M	
Equity in earnings of unconsolidated entities	42	35	19 %		120	101	18 %	
Interest and dividend income	4	2	N/M		10	6	61 %	
Interest expense	(29)	(28)	(2)%		(87)	(85)	(3)%	
Other, net	—	—	(7)%		—	1	N/M	
Total investment and other income	17	9	93 %		43	23	88 %	
Income (loss) before income taxes	51	(351)	N/M		198	(278)	N/M	

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Income tax expense (benefit)	14	(53 )	N/M	55	(19 )	N/M
Net income (loss)	37	(298 )	N/M	143	(259 )	N/M
Less: Net income attributable to noncontrolling interests, net of tax	1	1	40 %	14	2	N/M
Net income (loss) attributable to U.S. Cellular shareholders	\$36	\$(299)	N/M	\$129	\$(261)	N/M
N/M - Percentage change not meaningful						

<sup>1</sup> As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

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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 \$17 million in earnings of unconsolidated entities for the three months ended September 30, 2018 and 2017, respectively, and \$58 million and \$50 million for the nine months ended September 30, 2018 and 2017, respectively. See Note 8 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Income tax expense

The effective tax rate on Income before income taxes for the three and nine months ended September 30, 2018, was 28.2% and 27.7%, respectively. The effective tax rate for the three and nine months ended September 30, 2017, was not meaningful due primarily to the recognition of a loss on impairment of goodwill during the third quarter of 2017. Due to difficulty in reliably projecting an annual tax rate, U.S. Cellular calculated income taxes for nine months ended September 30, 2017, based on an estimated year-to-date tax rate.

See Note 5 — Income Taxes in the Notes to Consolidated Financial Statements for additional information related to income taxes. The bonus depreciation provision of the Tax Act is expected to substantially reduce U.S. Cellular's current federal income tax liability in 2018.

Net income attributable to noncontrolling interests, net of tax

Net income attributable to noncontrolling interests, net of tax increased during the nine months ended September 30, 2018, due primarily to an out-of-period adjustment recorded in the first quarter of 2018. U.S. Cellular determined that this adjustment was not material to any of the periods impacted. See Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

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## 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 agreement, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating and certain 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. See Market Risk for additional information regarding maturities of long-term debt.

Although U.S. Cellular currently has a significant cash balance, U.S. Cellular has incurred negative free cash flow at times in the past and this could occur in the future. However, U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit agreement, receivables securitization agreement and expected cash flows from operating and investing activities will provide sufficient liquidity for U.S. Cellular to meet its normal day-to-day operating needs and debt service requirements for the coming year.

U.S. Cellular may require substantial additional capital for, among other uses, funding day-to-day operating needs including working capital, acquisitions of providers of wireless telecommunications services, spectrum license or system acquisitions, capital expenditures, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. U.S. Cellular plans to participate in spectrum auctions in 2019 (see Regulatory Matters - Millimeter Wave Spectrum Auctions), as well as expects capital expenditures to increase in 2019 relative to 2018 levels, due primarily to investments to enhance network capacity and begin deploying 5G. It may be necessary from time to time to increase the size of the existing revolving credit agreement, to put in place a new credit agreement, 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, the LA Partnership discontinues or reduces distributions compared to historical levels, or Federal USF and/or other regulatory support payments decline. In addition, although sales of assets or businesses by U.S. Cellular have been an important source of liquidity in prior periods, U.S. Cellular does not expect a similar level of such sales in the future.

U.S. Cellular's credit rating currently is sub-investment grade. 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 business, 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.

## Cash and Cash Equivalents

(Dollars in millions)



At September 30, 2018, U.S. Cellular's Cash and cash equivalents totaled \$730 million compared to \$352 million at December 31, 2017.

The majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that purchase only debt issued by the U.S. Treasury or U.S. government agencies across a range of eligible money market investments that may include, but are not limited to, government agency repurchase agreements, government agency debt, U.S. Treasury repurchase agreements, U.S. Treasury debt, and other securities collateralized by U.S. government 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.

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Financing

In May 2018, U.S. Cellular entered into a new \$300 million revolving credit agreement with certain lenders and other parties. Amounts under the new revolving credit agreement are available for general corporate purposes, including spectrum purchases and capital expenditures, and may be borrowed, repaid and reborrowed from time to time until maturity in May 2023. As a result of the new agreement, U.S. Cellular's previous revolving credit agreement due to expire in June 2021 was terminated. As of September 30, 2018, there were no outstanding borrowings under the revolving credit agreement, except for letters of credit, and the unused borrowing capacity was \$298 million. See Note 9 — Debt in the Notes to Consolidated Financial Statements for additional information.

In May 2018, U.S. Cellular also amended its senior term loan credit agreement 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 agreement and the senior term loan credit agreement as of September 30, 2018.

U.S. Cellular, through its subsidiaries, also has a receivables securitization agreement to permit securitized borrowings using its equipment installment plan receivables for general corporate purposes. The unused capacity under this agreement was \$200 million as of September 30, 2018, subject to sufficient collateral to satisfy the asset borrowing base provisions of the agreement. As of September 30, 2018, the USCC Master Note Trust (Trust) held \$48 million of assets available to be pledged as collateral for the receivables securitization agreement. U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its receivables securitization agreement as of that date.

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

Long-term debt payments due for the remainder of 2018 and the next four years are \$210 million, which represent 13% of the total gross long-term debt obligation at September 30, 2018.

Capital Expenditures

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, for the nine months ended September 30, 2018 and 2017, were as follows:

Capital Expenditures  
(Dollars in millions)

U.S. Cellular's capital expenditures for the nine months ended September 30, 2018 and 2017, were \$274 million and \$257 million, respectively.

Capital expenditures for the full year 2018 are expected to be approximately \$500 million. These expenditures are expected to be used principally for the following purposes:

Enhance and maintain network coverage, including continuing to deploy VoLTE technology in certain markets and providing additional capacity to accommodate increased network usage, principally data usage, by current customers; and

Invest in information technology to support existing and new services and products.

U.S. Cellular plans to finance its capital expenditures program for 2018 using primarily Cash flows from operating activities, existing cash balances and, if required, its receivables securitization and/or revolving credit agreements.

Acquisitions, Divestitures and Exchanges

U.S. Cellular may be engaged from time to time in negotiations (subject to all applicable regulations) 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 actively seeks attractive opportunities to acquire 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.

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Variable Interest Entities

U.S. Cellular consolidates certain “variable interest entities” as defined under GAAP. See Note 10 — 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 additional capital contributions and/or advances to these variable interest entities in future periods 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. However, there were no share repurchases made under this program in the nine months ended September 30, 2018, or in the year ended December 31, 2017.

As of September 30, 2018, the total cumulative amount of U.S. Cellular Common Shares authorized to be purchased is 5,900,849. 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, 2017 and September 30, 2018, 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, 2017.

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, results of operations, liquidity, capital expenditures or capital resources.

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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, and short-term and long-term debt financing to fund its acquisitions (including spectrum 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 nine months ended September 30, 2018 and 2017.

2018 Commentary

U.S. Cellular's Cash, cash equivalents and restricted cash increased \$380 million in 2018. Net cash provided by operating activities was \$600 million in 2018 due to net income of \$143 million plus non-cash items of \$436 million and distributions received from unconsolidated entities of \$90 million, including \$33 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased net cash by \$69 million. The working capital changes were primarily influenced by an increase in equipment installment plan receivables. The adoption of ASU 2014-09 on January 1, 2018, caused fluctuations in working capital items in the Consolidated Balance Sheet; however, the adoption of ASU 2014-09 had no impact on the Consolidated Statement of Cash Flows.

Cash flows used for investing activities were \$203 million. Cash paid in 2018 for additions to property, plant and equipment totaled \$277 million. This was partially offset by cash received from the redemption of short-term Treasury bills of \$50 million and Cash received from divestitures and exchanges of \$23 million.

Cash flows used for financing activities were \$17 million, reflecting ordinary activity such as the scheduled repayments of debt.

2017 Commentary

U.S. Cellular's Cash, cash equivalents and restricted cash decreased \$88 million in 2017. Net cash provided by operating activities was \$394 million in 2017 due to net income adjusted for non-cash items of \$477 million and distributions received from unconsolidated entities of \$85 million, including \$30 million in distributions from the LA Partnership. The non-cash items included \$370 million loss on impairment of goodwill. The increase was partially offset by changes in working capital items which decreased cash by \$168 million. The working capital changes were due to a \$164 million increase in equipment installment plan receivables.

Cash flows used for investing activities were \$472 million. Cash paid for additions to property, plant and equipment in 2017 totaled \$252 million. Cash paid for acquisitions and licenses was \$189 million which included the remaining \$186 million due to the FCC for licenses U.S. Cellular won in Auction 1002. Cash paid for investments was \$50 million which included the purchase of short-term Treasury bills. This was partially offset by Cash received from divestitures and exchanges of \$19 million.

Cash flows used for financing activities were \$10 million, primarily for scheduled repayments of debt.

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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 2018 were as follows:

Cash and cash equivalents

See the Consolidated Cash Flow Analysis above for a discussion of cash and cash equivalents.

Short-term investments

Short-term investments decreased \$50 million due to the maturity of U.S. Treasury Bills with original maturities of six months.

Assets held for sale

Assets held for sale increased \$32 million due primarily to the transfer of Licenses to Assets held for sale as a result of an exchange agreement that U.S. Cellular entered into in the third quarter of 2018. This exchange agreement is expected to close in 2019.

Other assets and deferred charges

Other assets and deferred charges increased \$156 million due primarily to the creation of contract assets and contract cost assets as a result of the adoption of ASU 2014-09. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Customer deposits and deferred revenues

Customer deposits and deferred revenues decreased \$40 million due primarily to the reclassification of certain deferred revenues to Other current assets to reflect the net contract position for each customer contract on the Consolidated Balance Sheet as required by ASU 2014-09, which was adopted on January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Deferred income tax liability, net

Deferred income tax liability, net, increased \$49 million due primarily to the adoption of ASU 2014-09 increasing the net basis of assets on a U.S. GAAP basis without a corresponding increase in tax basis, as well as the impact of full expensing of qualified property additions following the enactment of the Tax Act.

Treasury shares

Treasury shares decreased \$36 million due primarily to restricted stock units vesting and the exercise of stock options.

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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

Adjusted OIBDA

Free cash flow

Postpaid ABPU

Postpaid ABPA

Following are explanations of each of these measures.

EBITDA, Adjusted EBITDA and Adjusted OIBDA

EBITDA, Adjusted EBITDA and Adjusted OIBDA are defined as net income (loss) adjusted for the items set forth in the reconciliation below. EBITDA, Adjusted EBITDA and Adjusted OIBDA are not measures of financial performance under GAAP and should not be considered as alternatives to Net income (loss) or Cash flows from operating activities, 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 Adjusted OIBDA as measurements of profitability and, therefore, reconciliations to Net income (loss) are deemed appropriate. Management believes Adjusted EBITDA and Adjusted OIBDA 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, and gains and losses, while Adjusted OIBDA 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 EBITDA, Adjusted EBITDA and Adjusted OIBDA to the corresponding GAAP measure, Net income (loss).

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	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018 <sup>1</sup>	
	2017		2017	
(Dollars in millions)				
Net income (loss) (GAAP)	\$37	\$(298)	\$143	\$(259)
Add back:				
Income tax expense (benefit)	14	(53)	55	(19)
Interest expense	29	28	87	85
Depreciation, amortization and accretion	160	153	478	460
EBITDA (Non-GAAP)	240	(170)	763	267
Add back or deduct:				
Loss on impairment of goodwill	—	370	—	370
(Gain) loss on asset disposals, net	3	5	5	14
(Gain) loss on sale of business and other exit costs, net	—	(1)	—	(1)
(Gain) loss on license sales and exchanges, net	—	—	(18)	(19)
Adjusted EBITDA (Non-GAAP)	243	204	750	631
Deduct:				
Equity in earnings of unconsolidated entities	42	35	120	101
Interest and dividend income	4	2	10	6
Other, net	—	—	—	1
Adjusted OIBDA (Non-GAAP)	197	167	620	523
Deduct:				
Depreciation, amortization and accretion	160	153	478	460
Loss on impairment of goodwill	—	370	—	370
(Gain) loss on asset disposals, net	3	5	5	14
(Gain) loss on sale of business and other exit costs, net	—	(1)	—	(1)
(Gain) loss on license sales and exchanges, net	—	—	(18)	(19)
Operating income (loss) (GAAP)	\$34	\$(360)	\$155	\$(301)

As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this <sup>1</sup> method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

## Free Cash Flow

The following table presents 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. Free cash flow is a non-GAAP financial measure which U.S. Cellular believes may be useful to investors and other users of its financial information in evaluating liquidity, specifically, the amount of net cash generated by business operations after deducting Cash paid for additions to property, plant and equipment.

Nine  
Months  
Ended  
September  
30,  
2018 2017

(Dollars in millions)



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Cash flows from operating activities (GAAP)	\$600	\$394
Less: Cash paid for additions to property, plant and equipment	277	252
Free cash flow (Non-GAAP)	\$323	\$142

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## Postpaid ABPU and Postpaid ABPA

U.S. Cellular presents Postpaid ABPU and Postpaid ABPA to reflect estimated cash collections from postpaid customer billings for both service and equipment 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 sales revenues received from customers.

	Three Months Ended September 30, 2018 <sup>1</sup> 2017		Nine Months Ended September 30, 2018 <sup>1</sup> 2017	
(Dollars and connection counts in millions)				
Calculation of Postpaid ARPU				
Postpaid service revenues	\$607	\$586	\$1,806	\$1,791
Average number of postpaid connections	4.47	4.50	4.48	4.48
Number of months in period	3	3	9	9
Postpaid ARPU (GAAP metric)	\$45.31	\$43.41	\$44.79	\$44.46
Calculation of Postpaid ABPU				
Postpaid service revenues	\$607	\$586	\$1,806	\$1,791
Equipment installment plan billings	189	152	536	433
Total billings to postpaid connections	\$796	\$738	\$2,342	\$2,224
Average number of postpaid connections	4.47	4.50	4.48	4.48
Number of months in period	3	3	9	9
Postpaid ABPU (Non-GAAP metric)	\$59.41	\$54.71	\$58.07	\$55.21
Calculation of Postpaid ARPA				
Postpaid service revenues	\$607	\$586	\$1,806	\$1,791
Average number of postpaid accounts	1.70	1.68	1.69	1.67
Number of months in period	3	3	9	9
Postpaid ARPA (GAAP metric)	\$119.42	\$116.36	\$118.71	\$119.26
Calculation of Postpaid ABPA				
Postpaid service revenues	\$607	\$586	\$1,806	\$1,791
Equipment installment plan billings	189	152	536	433
Total billings to postpaid accounts	\$796	\$738	\$2,342	\$2,224
Average number of postpaid accounts	1.70	1.68	1.69	1.67
Number of months in period	3	3	9	9
Postpaid ABPA (Non-GAAP metric)	\$156.57	\$146.65	\$153.92	\$148.12

Numbers may not foot due to rounding.

As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this <sup>1</sup> method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

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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, 2017.

Recent Accounting Pronouncements

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

Regulatory Matters

FCC Mobility Fund Phase II Order

In October 2011, the FCC adopted its USF/Intercarrier Compensation Transformation Order (USF Order). Pursuant to this order, U.S. Cellular's then current Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The USF Order contemplated the establishment of a new mobile USF program and provided for a pause in the phase down if that program was not timely implemented by July 2014. The Phase II Connect America Mobility Fund (MF2) was not operational as of July 2014 and, therefore, as provided by the USF Order, the phase down was suspended at 60% of the baseline amount until such time as the FCC had taken steps to establish the MF2. In February 2017, the FCC adopted the MF2 Order addressing the framework for MF2 and the resumption of the phase down. The MF2 Order establishes a support fund of \$453 million annually for ten years to be distributed through a market-based, multi-round reverse auction. For areas that receive support under MF2, legacy support to MF2 Auction winners will terminate and be replaced with MF2 support effective the first day of the month following release of the public notice closing the auction. Legacy support in areas where the legacy support recipient is not an MF2 winner will be subject to phase down over two years unless there is no winner in a particular census block, in which case it will be continued for one legacy support recipient only. The MF2 Order further states that the phase down of legacy support for areas that were not eligible for support under MF2 will commence on the first day of the month following the completion of the auction and will conclude two years later.

In August 2017, the FCC adopted the MF2 Challenge Process Order, which laid out procedures for establishing areas that would be eligible for support under the MF2 program. This included a collection process to be followed by a challenge window, a challenge response window, and finally adjudication of any coverage disputes. In September 2017, the FCC issued a public notice initiating the collection of 4G LTE coverage data. Responses submitting the collected data were due on January 4, 2018.

On February 27, 2018, the FCC issued public notices providing detailed challenge procedures and a schedule for the challenge process. Pursuant to these notices, the challenge window began on March 29, 2018, and, including the effect of a ninety day extension, is scheduled to close on November 26, 2018. No earlier than thirty days after the FCC processes the challenges, it will open a thirty-day challenge response window. Following the challenge response window, the FCC will adjudicate any disputes. This entire process must be completed before an auction can be commenced.

U.S. Cellular cannot predict at this time when the MF2 auction will occur, when the phase down period for its existing legacy support from the Federal USF will commence, or whether the MF2 auction will provide opportunities to U.S. Cellular to offset any loss in existing support. U.S. Cellular currently expects that its legacy support will continue at the 2017 level through 2018.

Millimeter Wave Spectrum Auctions

At its open meeting on August 2, 2018, the FCC adopted a public notice establishing procedures for two auctions of spectrum licenses in the 28 GHz and 24 GHz bands. The 28 GHz auction (Auction 101) will commence on November 14, 2018, and will offer two 425 MHz licenses in the 28 GHz band over portions of the United States that do not have incumbent licensees. Following the completion of Auction 101, the FCC will commence the 24 GHz auction (Auction 102), which will offer up to seven 100 MHz licenses in the 24 GHz band in Partial Economic Areas covering most of the United States. U.S. Cellular filed applications to participate in both auctions on September 18, 2018.

At the same meeting on August 2, 2018, the FCC adopted a Further Notice of Proposed Rulemaking in preparation for an additional Millimeter Wave auction offering licenses in the 37, 39 and 47 GHz bands. FCC statements indicate plans to hold this auction in the second half of 2019.

**The Connect America Fund Phase II Auction**

On July 24, 2018, bidding began in Auction 903, a reverse auction to award universal service support under the Connect America Fund Phase II program. This auction will award support in markets where support was previously declined by the price-cap incumbent local exchange carriers. On March 30, 2018, U.S. Cellular filed an application to participate in Auction 903, and on June 25, 2018, the FCC announced U.S. Cellular as a qualified bidder. The auction concluded on August 21, 2018, and the FCC subsequently announced winning bidders. U.S. Cellular was not awarded support in the auction.

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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, 2017. Each of the following risks could have a material adverse effect on U.S. Cellular’s business, financial condition or results of operations. 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, 2017, 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, financial condition or results of operations.

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 for additional spectrum or for funding in certain Universal Service programs 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.

Failure by U.S. Cellular to timely or fully comply with any existing applicable legislative and/or regulatory requirements or changes thereto 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 and revenue 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 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.

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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.

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, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

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 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.

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 relating to adjustments of amounts reflected 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.