

UNITED STATES CELLULAR CORP
Form 10-K
April 23, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1147325
(IRS Employer Identification No.)

8410 West Bryn Mawr, Suite 700, Chicago, Illinois 60631
(Address of principal executive offices) (Zip code)

Registrant's Telephone Number: (773) 399-8900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, \$1 par value	American Stock Exchange
8.75% Senior Notes Due 2032	New York Stock Exchange
7.5% Senior Notes Due 2034	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. 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.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of June 30, 2006, the aggregate market value of registrant's Common Shares held by nonaffiliates was approximately \$978.9 million (based upon the closing price of the Common Shares on June 30, 2006, of \$60.60, as reported by the American Stock Exchange). For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of the voting power of U.S. Cellular is an affiliate.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 28, 2007, is 54,867,197 Common Shares, \$1 par value, and 33,005,877 Series A Common Shares, \$1 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant's 2006 Annual Report to Shareholders filed as Exhibit 13 hereto, and of the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for its 2007 Annual Meeting of Shareholders filed as Exhibit 99.1 hereto, described in the cross reference sheet and table of contents attached hereto are incorporated by reference into Parts II and III of this report.

**CROSS REFERENCE SHEET
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(1) Parenthetical references are to information incorporated by reference from Exhibit 13 hereto, which includes portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2006 (Annual Report) and from Exhibit 99.1 hereto, which includes portions of the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for its 2007 Annual Meeting of Shareholders (Proxy Statement).

(2) Annual Report sections entitled Stock and Dividend Information and Consolidated Quarterly Information (Unaudited).

(3) Annual Report section entitled Selected Consolidated Financial Data.

(4) Annual Report section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations.

(5) Annual Report section entitled Market Risk.

(6) Annual Report sections entitled Consolidated Statements of Operations, Consolidated Statements of Cash Flows, Consolidated Balance Sheets, Consolidated Statements of Common Shareholders' Equity, Notes to Consolidated Financial Statements, Consolidated Quarterly Information (Unaudited), Management's Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.

(7) Proxy Statement sections entitled Election of Directors, Corporate Governance, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.

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- (8) Proxy Statement section entitled Executive and Director Compensation.
 - (9) Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans.
 - (10) Proxy Statement sections entitled Corporate Governance and Certain Relationships and Related Transactions.
 - (11) Proxy Statement section entitled Fees Paid to Principal Accountants.
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UNITED STATES CELLULAR CORPORATION

8410 WEST BRYN MAWR 1 CHICAGO, ILLINOIS 60631

TELEPHONE (773) 399-8900

PART I

Item 1. Business

United States Cellular Corporation (U.S. Cellular) provides wireless telephone service to approximately 5,815,000 customers through the operations of 201 majority-owned (consolidated) wireless licenses throughout the United States. Since 1985, when it began providing wireless service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover six market areas in 26 states as of December 31, 2006. Through a 2003 exchange transaction and Federal Communications Commission (FCC) Auction 58 (as discussed below), U.S. Cellular owns, directly and indirectly, rights to wireless licenses covering territories in two additional states and has the rights to commence service in those licensed areas in the future. The wireless licenses that U.S. Cellular currently includes in its consolidated operations cover a total population of more than one million in each market, and a total population of 55.5 million overall. The contiguous Midwest and Southwest market areas cover a total population of more than 38 million, and the Mid-Atlantic market area covers a total population of more than nine million.

U.S. Cellular s ownership interests in wireless licenses include both consolidated and investment interests in licenses covering 159 cellular metropolitan statistical areas (as designated by the U.S. Office of Management and Budget and used by the Federal Communications Commission (FCC) in designating metropolitan cellular market areas) or rural service areas (as used by the FCC in designating non-metropolitan statistical area cellular market areas) (cellular licenses) and 60 personal communications service basic trading areas (designations used by the FCC in dividing the United States into personal communications service market areas). Of those interests, U.S. Cellular owns controlling interests in 141 cellular licenses and each of the 60 personal communications service basic trading areas. As of December 31, 2006, U.S. Cellular also owned rights to acquire controlling interests in 17 additional personal communications service licenses, through an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless), now a subsidiary of Cingular Wireless LLC, which is now a subsidiary of AT&T, Inc. (formerly SBC Communications, Inc.).

U.S. Cellular manages the operations of all but two of the licenses in which it owns a controlling interest; U.S. Cellular has contracted with another wireless operator to manage the operations of these other two licensees. U.S. Cellular includes the operations of each of these two licenses in its consolidated results of operations. U.S. Cellular also manages the operations of three additional licenses in which it does not own a controlling interest, through an agreement with the controlling interest holder or holders. U.S. Cellular accounts for its interests in each of these three licenses using the equity method of accounting.

The following table summarizes the status of U.S. Cellular s interests in wireless markets at December 31, 2006. Personal communications service markets are designated as PCS.

	Total	Cellular	PCS
Consolidated markets (1)	201	141	60
Consolidated markets to be acquired pursuant to existing agreements (2)	17		17
Minority interests accounted for using equity method (3)	12	12	
Minority interests accounted for using cost method (4)	5	5	
Total markets to be owned after completion of pending transactions(5)	235	158	77

(1) U.S. Cellular owns a controlling interest in each of the 141 cellular markets and 49 personal communications service PCS markets it included in its consolidated markets at December 31, 2006. The remaining 11 consolidated PCS markets represent 11 licenses acquired through Carroll Wireless, L.P. (Carroll Wireless). U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial statement purposes, pursuant to the guidelines of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (FIN 46(R))*, as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses.

(2) U.S. Cellular owns rights to acquire majority interests in 17 additional personal communications service licenses, resulting from an exchange transaction with AT&T Wireless which closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire 21 licenses from AT&T Wireless. Four of the 21 licenses are in markets where U.S. Cellular currently owns personal communications service spectrum and, therefore, are not included in the number of consolidated markets to be acquired. Only the incremental markets are included in the number of consolidated markets to be acquired to avoid duplicate reporting of overlapping markets. The rights to acquire licenses from AT&T Wireless expire on August 1, 2008.

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(3) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the equity method. U.S. Cellular's investments in these licenses are included in Investment in unconsolidated entities in its Consolidated Balance Sheets and its proportionate share of the net income of these licenses is included in Equity in earnings of unconsolidated entities in its Consolidated Statements of Operations.

(4) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the cost method. U.S. Cellular's investments in these licenses are included in Investment in unconsolidated entities in its Consolidated Balance Sheets.

(5) Total markets to be owned after completion of pending transactions does not include the 17 licenses for which Barat Wireless was the successful bidder in Auction 66, which ended on September 18, 2006. The FCC has not yet awarded the licenses to Barat Wireless, nor is there any prescribed timeframe for the FCC to review the qualifications of Barat Wireless and award the licenses. See Wireless Systems Development *FCC Auctions* below for additional information related to Barat Wireless.

Some of the territory covered by the personal communications service licenses U.S. Cellular operates overlaps with territory covered by the cellular licenses it operates. For the purpose of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. Only non-overlapping, incremental population counts are added to the reported amount of total population in the case of an acquisition of a licensed area that overlaps a previously owned licensed area. The incremental population counts that are added in such event are referred to throughout this Form 10-K as incremental population measurements. Amounts reported in this Form 10-K as total market population do not duplicate any population counts in the case of any overlapping licensed areas U.S. Cellular owns.

U.S. Cellular owns interests in consolidated wireless licenses which cover a total population of 55.5 million as of December 31, 2006. U.S. Cellular also owns investment interests in wireless licenses which represent 1.5 million population equivalents as of that date. Population equivalents represent the population of a wireless licensed area, based on 2005 Claritas estimates, multiplied by the percentage interest that U.S. Cellular owns in an entity licensed to operate such wireless license.

U.S. Cellular believes that it is the sixth largest wireless operating company in the United States at December 31, 2006, based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. From time to time, U.S. Cellular has divested outright or included in exchanges for other wireless interests certain consolidated and investment interests which are considered less essential to its operating strategy.

Wireless systems in U.S. Cellular's consolidated markets served approximately 5,815,000 customers at December 31, 2006, and contained 5,925 cell sites. The average penetration rate in U.S. Cellular's consolidated markets, as calculated by dividing the number of U.S. Cellular customers by the total population in such markets, was 10.5% at December 31, 2006, and the number of customers who discontinued service (the churn rate) in these markets averaged 1.8% per month for the twelve months ended December 31, 2006.

U.S. Cellular was incorporated in Delaware in 1983. U.S. Cellular's executive offices are located at 8410 West Bryn Mawr, Chicago, Illinois 60631. Its telephone number is 773-399-8900. The Common Shares of U.S. Cellular are listed on the American Stock Exchange under the symbol USM. U.S. Cellular's 8.75% Senior Notes are listed on the New York Stock Exchange under the symbol UZG. U.S. Cellular's 7.5% Senior Notes are listed on the New York Stock Exchange under the symbol UZV. U.S. Cellular is a majority-owned subsidiary of Telephone and Data Systems, Inc. (AMEX symbol TDS). As of December 31, 2006, TDS owned 80.7% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controlled 95.6% of the combined voting power of both classes of common stock.

Available Information

U.S. Cellular's website is <http://www.uscellular.com>. Investors may access, free of charge, through the About Us / Investor Relations portion of the website, U.S. Cellular's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC). The public may read and copy any materials U.S.

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Cellular files with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of U.S. Cellular by accessing SEC filings at <http://www.sec.gov>.

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Possible U.S. Cellular Transaction

On a Current Report on Form 8-K dated February 17, 2005, TDS disclosed that it may possibly take action at some time in the future to offer and issue TDS Special Common Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS (a Possible U.S. Cellular Transaction).

On March 5, 2007, TDS announced that it has terminated activity with respect to a Possible U.S. Cellular Transaction.

Although TDS has terminated activity with respect to a Possible U.S. Cellular Transaction at this time, TDS reserves the right to recommence activity with respect to a Possible U.S. Cellular Transaction at any time in the future. TDS may also acquire at any time in the future the Common Shares of U.S. Cellular through open market, private purchases or otherwise, or take other action to acquire some or all of the shares of U.S. Cellular not owned by TDS, although it has no present plans to do so.

Wireless Telephone Operations

The Wireless Telephone Industry. Wireless telephone technology provides high-quality, high-capacity communications services to hand-held portable, in-vehicle and fixed location wireless telephones, using radio spectrum licensed by the FCC. Wireless telephone systems are designed for maximum mobility of the customer. Access is provided through system interconnections to local, regional, national and world-wide telecommunications networks. Wireless telephone systems also offer a full range of services, similar to those widely offered by conventional (landline) telephone companies. Data transmission capabilities offered by wireless telephone systems may be at slower speeds than those offered by landline telephone or other data service providers.

Wireless telephone systems divide each service area into smaller geographic areas or cells. Each cell is served by radio transmitters and receivers which operate on discrete radio frequencies licensed by the FCC. All of the cells in a system are connected to a computer-controlled mobile telephone switching office. Each mobile telephone switching office is connected to the landline telephone network and potentially other mobile telephone switching offices. Each conversation on a wireless phone involves a transmission over a specific set of radio frequencies from the wireless phone to a transmitter/receiver at a cell site. The transmission is forwarded from the cell site to the mobile telephone switching office and from there may be forwarded to the landline telephone network or to another wireless phone to complete the call. As the wireless telephone call moves from one cell to another, the mobile telephone switching office monitors radio signal strength and transfers the call from one cell to the next. This transfer is not noticeable to either party on the wireless telephone call.

The FCC currently grants two licenses to provide cellular telephone service in each cellular licensed area. Multiple licenses have been granted in each personal communications service licensed area, and these licensed areas overlap with cellular licensed areas. As a result, personal communications service license holders can and do compete with cellular license holders for customers. In addition, specialized mobile radio systems operators such as Sprint Nextel Corporation are providing wireless services similar to those offered by U.S. Cellular. Competition for customers also includes competing communications technologies, such as:

- conventional landline telephone,
- mobile satellite communications systems,
- radio paging, and
- high-speed wireless technologies, such as Wi-Fi and WiMAX.

Personal communications service licensees have initiated service in nearly all areas of the United States, including substantially all of U.S. Cellular's licensed areas, and U.S. Cellular expects other wireless operators to continue deployment in all of U.S. Cellular's operating regions in the future. Additionally, technologies such as enhanced specialized mobile radio are competitive with wireless service in substantially all of U.S. Cellular's markets.

The services available to wireless customers, and the sources of revenue available to wireless system operators, are similar to those provided by landline telephone companies. Customers may be charged a separate fee for system access, airtime, long-distance calls and ancillary services. Wireless system operators also provide service to customers of other operators' wireless systems while the customers are temporarily located

within the operators' service areas.

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Customers using service away from their home system are called roamers. Roaming is available because technical standards require that analog wireless telephones be compatible in all cellular market areas in the United States. Additionally, because U.S. Cellular has deployed digital radio technologies in substantially all of its service areas, its customers with digital, dual-mode (both analog and digital capabilities) or tri-mode (analog plus digital capabilities at both the cellular and personal communications service radio frequencies) wireless telephones can roam in other companies' service areas which have a compatible digital technology in place. Likewise, U.S. Cellular can provide roaming service to other companies' customers who have compatible digital wireless telephones. In all cases, the system that provides the service to roamers will generate usage revenue, at rates that have been negotiated between the serving carrier and the customer's carrier.

There have been a number of technical developments in the wireless industry since its inception. Currently, while substantially all companies' mobile telephone switching offices process information digitally, certain cellular systems utilize analog technology. Under FCC rules now in effect, the requirement to offer analog service will expire in February, 2008, provided that wireless carriers and their vendors can develop digital handsets compatible with certain types of hearing aids. During 2006, U.S. Cellular began providing hearing aid compatible handsets. All personal communications service systems utilize digital radio transmission.

Several years ago, certain digital transmission techniques were approved for implementation by the wireless industry in the United States. Time Division Multiple Access (TDMA) technology was selected as one industry standard by the wireless industry and has been deployed by many wireless operators, including U.S. Cellular in a substantial portion of its markets. Another digital technology, Code Division Multiple Access (CDMA), was deployed by U.S. Cellular in its remaining markets.

In 2002 through 2004, U.S. Cellular completed its deployment of CDMA 1XRTT technology, which improves capacity and allows for higher speed data transmission than basic CDMA, throughout all of its markets. Migration of U.S. Cellular's customers who currently use TDMA or analog handsets to CDMA compatible handsets in all of its markets is substantially complete.

U.S. Cellular believes CDMA technology is the best digital radio technology choice for its operations for the following reasons:

- TDMA technology will not be supported by manufacturers of future generations of wireless products due to limitations on the services it enables wireless companies to provide.
- CDMA technology has a lower long-term cost in relation to the spectrum efficiency it provides compared to similar costs of other technologies.
- CDMA technology provides improved coverage at most cell sites compared to other technologies.
- CDMA technology provides a more efficient evolution to a wireless network with higher data speeds, which will enable U.S. Cellular to provide enhanced data services.

The main disadvantage of CDMA technology is that it is generally not used outside of the United States. A third digital technology, Global System for Mobile Communication (GSM), is the standard technology in Europe and most other areas outside the United States. GSM technology, which is used by certain wireless companies in the United States, has certain advantages over CDMA in that GSM phones can be used more widely outside of the United States and GSM has a larger installed worldwide customer base. Since CDMA technology is not compatible with GSM or TDMA technology, U.S. Cellular customers with CDMA-based handsets may not be able to use all of their handset features when traveling through GSM- and TDMA-based networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular's customers may access CDMA service in virtually all areas of the United States.

In 2006, U.S. Cellular and others in the wireless industry changed the type of handset identifier used to track specific handset units provided to customers. Similar to a vehicle identification number, each handset now has a 32-bit electronic serial number (ESN) burned into it for purposes of tracking service activation, billing, repair and fraud detection. The current supply of ESNs is dwindling and, over time, the current system will be replaced by a 56-bit mobile equipment identifier (MEID) system. Handset vendors began manufacturing 56-bit MEID handsets in 2006, and are expected to commence shipments of such handsets in 2007.

U.S. Cellular will continue to utilize TDMA technology for the next few years in markets in which such technology is in use today. This will enable U.S. Cellular to provide TDMA-based service to its customers who still choose to use TDMA-based handsets and to roamers from other wireless providers who have TDMA-based networks. Also, since the TDMA-based network equipment has analog capabilities embedded, U.S. Cellular will continue to operate its TDMA-based networks in order to meet the FCC mandate of retaining analog capability through February 2008.

U.S. Cellular continually reviews its long-term technology plans. In late 2006, U.S. Cellular introduced a limited trial of Evolution-Data Optimized (EV-DO) technology. This technology, which increases the speed of data transmissions on the wireless network, is being deployed by certain other wireless companies. U.S. Cellular will continue to further evaluate investment in EV-DO technology in light of the revenue opportunities afforded by the deployment of such technology.

U.S. Cellular's Operations. U.S. Cellular anticipates that it will experience increases in customers served and revenues in 2007 primarily through internal growth, including growth from markets acquired or launched in 2004-2006 as these markets are more fully developed and integrated into its operations.

Expenses associated with increases in customers served and revenues will be substantial. The amount of such expenses, in combination with the gain on investments recorded in 2006, may reduce the percentage growth in operating income for 2007 on a year-over-year basis; however, U.S. Cellular anticipates that cash flows from operating activities will increase on a year-over-year basis. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular's operating income, net income and cash flows from operating activities to fluctuate from quarter to quarter.

Changes in any of several factors could impact U.S. Cellular's operating income, net income and cash flows from operating activities, and the growth rates for such measures, over the next few years. These factors include but are not limited to:

- the growth rate in U.S. Cellular's customer base;
- the usage and pricing of wireless services;
- the cost of providing wireless services, including the cost of attracting and retaining customers;
- the cost to develop operations of newly launched operating markets;
- the churn rate;
- continued capital expenditures, which are necessary to improve the quality of U.S. Cellular's network and to expand its operations into new markets;
- continued competition from other wireless licensees and other telecommunication technologies;
- continued consolidation in the wireless industry;
- the growth in the use of U.S. Cellular's **easyedge**sm brand and other brands of enhanced data services and products;
- declines in inbound roaming revenues; and
- continuing technological advances which may provide substitute or better wireless products/services and additional competitive alternatives to wireless service.

U.S. Cellular continues to build a larger presence in selected geographic areas throughout the United States where it can efficiently integrate and manage wireless telephone systems. Its wireless interests included six market areas as of December 31, 2006. See U.S. Cellular's Wireless Interests.

Wireless Systems Development

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities to

acquire additional operating markets and wireless spectrum. As part of this strategy, U.S. Cellular may from time-to-time be engaged in negotiations relating to the acquisition of companies, strategic properties or wireless spectrum. U.S. Cellular may participate as a bidder, or member of a bidding group, in auctions for wireless spectrum administered by the FCC. U.S. Cellular also has divested outright or included in exchanges for other wireless interests those markets that are not strategic to its long-term success and has redeployed capital to more strategically important parts of the business. As part of this strategy, U.S. Cellular may be engaged from time-to-time in negotiations relating to the disposition of other non-strategic properties.

U.S. Cellular may continue to make opportunistic acquisitions or exchanges in markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also seeks to acquire minority interests in licenses where it already owns the majority interest and/or operates the license. There can be no assurance that U.S. Cellular will be able to negotiate additional acquisitions or exchanges on terms acceptable to it or that regulatory approvals, where required, will be received. U.S. Cellular plans to retain minority interests in certain wireless licenses which it believes will earn a favorable return on investment. Other minority interests may be exchanged for interests in licenses which enhance U.S. Cellular's operations or may be sold for cash or other consideration. U.S. Cellular also continues to evaluate the disposition of certain controlling interests in wireless licenses which are not essential to its corporate development strategy.

FCC Auctions. From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. The FCC is required to begin the auction of spectrum in the 700 MHz band no later than January 28, 2008. Although its participation is more likely than not, U.S. Cellular has not made a final determination as to whether it will participate in the auction. U.S. Cellular has participated in certain prior FCC auctions, as discussed below.

Auction 66. U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66, which concluded on September 18, 2006. At the conclusion of the auction, Barat Wireless was the high bidder with respect to 17 licenses and bid \$127.1 million, net of its designated entity discount. Barat Wireless was qualified to receive a 25% discount available to very small businesses , which were defined as having annual gross revenues of less than \$15 million. Although the bidding in Auction 66 ended on September 18, 2006, the FCC has not yet awarded the licenses to Barat Wireless, nor is there any prescribed timeframe for the FCC to review the qualifications of Barat Wireless and award the licenses.

Barat Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2006, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of \$127.2 million to provide funding of Barat Wireless participation in Auction 66; this amount is included in Licenses on the Consolidated Balance Sheet as of December 31, 2006. U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, for financial statement purposes, pursuant to the guidelines of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Barat Wireless expected gains or losses. Pending finalization of Barat Wireless permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

Auction 58. U.S. Cellular is a limited partner in Carroll Wireless L.P. (Carroll Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on closed licenses , -or spectrum that was available only to companies included in the FCC definition of entrepreneurs, which are small businesses that have a limited amount of assets and revenues. In addition, Carroll Wireless bid on open licenses that were not subject to this restriction. With respect to these licenses, however, Carroll Wireless was qualified to receive a 25% discount available to very small businesses which were defined as having average annual gross revenues of less than \$15 million. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58 which ended on February 15, 2005. These 17 licensed areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

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

Carroll Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2006, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of \$129.9 million; of this amount, \$129.7 million is included in Licenses on the Consolidated Balance Sheet as of December 31, 2006. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial statement purposes, pursuant to the guidelines of FIN 46R, as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of up to \$1.4 million, of which \$0.1 million of funding has been provided to date, for Carroll Wireless and Carroll PCS.

Sales and Exchanges of Wireless Interests. In 2006, U.S. Cellular purchased the remaining interest in one wireless market in which it already owned a controlling interest for approximately \$19.0 million in cash, subject to a working capital adjustment.

Prior to October 3, 2006, U.S. Cellular owned approximately 14% of Midwest Wireless Communications, L.L.C., which interest was convertible into an interest of approximately 11% in Midwest Wireless Holdings, L.L.C., a privately-held wireless telecommunications company that controlled Midwest Wireless Communications. On November 18, 2005, ALLTEL Corporation (ALLTEL) announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for \$1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the holders of Midwest Wireless Holdings. These conditions were satisfied with the closing of this agreement on October 3, 2006. As a result of the sale, U.S. Cellular became entitled to receive approximately \$106.0 million in cash in consideration with respect to its interest in Midwest Wireless Communications. Of this amount, \$95.1 million was received on October 6, 2006; the remaining balance was held in escrow to secure true-up, indemnification and other adjustments and, subject to such adjustments, will be distributed in installments over a period of four to fifteen months following the closing. In the fourth quarter of 2006, U.S. Cellular recorded a gain of \$70.4 million related to the sale of its interest in Midwest Wireless Communications. The gain recognized during the fourth quarter of 2006 includes \$4.3 million received during the first four months of 2007 from the aforementioned escrow. In addition, U.S. Cellular owns 49% of an entity which, prior to October 3, 2006, owned approximately 2.9% of Midwest Wireless Holdings; U.S. Cellular accounts for that entity by the equity method. In the fourth quarter of 2006, U.S. Cellular recorded Equity in earnings of unconsolidated entities of \$6.3 million and received a cash distribution of \$6.5 million related to its ownership interest in that entity; such income and cash distribution were due primarily to the sale of the entity's interest in Midwest Wireless Holdings to ALLTEL.

License Rights Related to Exchange of Markets with AT&T Wireless. Pursuant to a transaction with AT&T Wireless which was completed on August 1, 2003, U.S. Cellular acquired rights to 21 licenses that have not yet been assigned to U.S. Cellular. These licenses, with a recorded value of \$42.0 million, are accounted for in Licenses on the Consolidated Balance Sheets. The rights to acquire licenses from AT&T Wireless expire on August 1, 2008. All asset values related to the properties acquired or pending, including license values, were determined by U.S. Cellular.

Wireless Interests and Operating Market Areas

U.S. Cellular operates its adjacent wireless systems under an organization structure in which it groups its markets into geographic market areas to offer customers large local service areas which primarily utilize U.S. Cellular's network. Customers may make outgoing calls and receive incoming calls within each market area without special roaming arrangements. In addition to the benefits it provides to customers, U.S. Cellular's operating strategy also has provided U.S. Cellular certain economies in its capital and operating costs. These economies are made possible through the reduction of outbound roaming costs and increased sharing of facilities, personnel and other costs, enabling U.S. Cellular to reduce its per customer cost of service. The extent to which U.S. Cellular benefits from these revenue enhancements and economies of operation is dependent on market conditions, population size of each market area and network engineering considerations.

The following section details U.S. Cellular's wireless interests, including those it owned or had the right to acquire as of December 31, 2006. The table presented therein lists the markets that U.S. Cellular includes in its consolidated operations, grouped according to operating market area. The operating market areas represent geographic areas in which U.S. Cellular is currently focusing its development efforts. These market areas have been devised with a long-term goal of allowing delivery of wireless service to areas of economic interest. The table also lists the markets in which U.S. Cellular owns an investment interest.

For consolidated markets, the table aggregates the total population within each operating market area, regardless of U.S. Cellular's percentage ownership, or expected percentage ownership pursuant to definitive agreements, in the licenses included in such operating market areas. Those markets in which U.S. Cellular owns or has the rights to own less than 100% of the license show U.S. Cellular's ownership percentage or expected ownership percentage; in all others, U.S. Cellular owns or has the rights to own 100% of the license. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular's ownership interest in each such license.

The total population and population equivalents measures are provided to enable comparison of the relative size of each operating market area to U.S. Cellular's consolidated operations and to enable comparison of the relative size of U.S. Cellular's consolidated markets to its investment interests, respectively. The total population of U.S. Cellular's consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems.

U.S. CELLULAR S WIRELESS INTERESTS

The table below sets forth certain information with respect to the interests in wireless markets which U.S. Cellular owned or had the right to acquire pursuant to definitive agreements as of December 31, 2006. Total markets owned or that U.S. Cellular had the right to acquire pursuant to definitive agreements does not include the 17 licenses for which Barat Wireless was the successful bidder in Auction 66, which ended on September 18, 2006. The FCC has not yet awarded the licenses to Barat Wireless, nor is there any prescribed timeframe for the FCC to review the qualifications of Barat Wireless and award the licenses.

Some of the territory covered by the personal communications service licenses U.S. Cellular owns overlaps with territory covered by the cellular licenses it owns. For the purpose of tracking amounts in the 2005 Total Population column in the table below, when U.S. Cellular acquires or agrees to acquire a licensed area that overlaps a licensed area it already owns, it does not duplicate the total population for any overlapping licensed area.

Market Area/Market	Current or Future Percentage Interest (1)	2005 Total Population (2)
<u>Markets Currently Consolidated or Which Are Expected To Be Consolidated</u>		
MIDWEST MARKET AREA:		
Chicago Major Trading Area/Michigan		
Chicago, IL-IN-MI-OH 20MHz B Block MTA # (3) (4)		
Kalamazoo, MI 20MHz A Block # (5)		
Battle Creek, MI 20MHz A Block # (5)		
Jackson, MI 10MHz A Block # (5)		
		13,119,000
Wisconsin/Minnesota		
Minneapolis-St. Paul, MN-WI 10 MHz C Block # (6)	90.00	%
Milwaukee, WI		
Madison, WI	92.50	
Columbia (WI 9)		
Appleton, WI		
Wood (WI 7)		
Rochester, MN 10MHz F Block #		
Vernon (WI 8)		
Green Bay, WI		
Racine, WI	96.08	
Kenosha, WI	99.32	
Janesville-Beloit, WI		
Door (WI 10)		
Sheboygan, WI		
La Crosse, WI	97.21	
Trempealeau (WI 6) (3)		
Pierce (WI 5) (3)		
Madison, WI 10MHz F Block #		
Milwaukee, WI 10MHz D Block #		
Milwaukee, WI 10MHz F Block # (6) (7)	90.00	
		8,253,000
Illinois/Indiana		
Indianapolis, IN 10MHz F Block # (5)		
Peoria, IL		
Rockford, IL		
Jo Daviess (IL 1)		
Bloomington-Bedford, IN 10MHz B Block # (5)		
Terre Haute, IN-IL 20MHz B Block #		
Carbondale-Marion, IL 10MHz A Block/10MHz D Block # (5)		

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Adams (IL 4) *

Mercer (IL 3)

Miami (IN 4) *(8)

85.71

Muncie, IN 10MHz B Block # (5)

Anderson, IN 10MHz B Block # (5)

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Market Area/Market	Current or Future Percentage Interest (1)	2005 Total Population (2)
Lafayette, IN 10MHz B Block #		
Columbus, IN 10MHz B Block # (5)		
Warren (IN 5) *	33.33	
Mount Vernon-Centralia, IL 10MHz A Block #		
Kokomo-Logansport, IN 10MHz B Block #		
Richmond, IN 10MHz B Block # (5)		
Vincennes-Washington, IN-IL 10MHz B Block # (5)		
Marion, IN 10MHz B Block #		
Alton, IL *		
Bloomington, IL 10MHz E Block/10MHz F Block # (7)		
Bloomington-Bedford, IN 10MHz C Block # (6) (7)	90.00	
Champaign-Urbana, IL 10MHz E Block/F Block # (7)		
Columbus, IN 10MHz C Block # (6) (7)	90.00	
Danville, IL-IN 15MHz C Block # (7)		
Decatur-Effingham, IL 10MHz E Block/10MHz F Block # (7)		
Galesburg, IL 30MHz C Block # (7)		
Indianapolis, IN 10MHz C Block # (6) (7)	90.00	
Jacksonville, IL 10MHz F Block # (7)		
Lafayette, IN 10MHz C Block # (6) (7)	90.00	
LaSalle-Peru-Ottawa-Streator, IL 10MHz C Block/10 MHz F Block # (7)		