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UNITED STATES CELLULAR CORPORATION

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2014
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2014, represent U.S. Cellular's annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 25, 2015 as Exhibit 13 to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2014. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

Exhibit 13

United States Cellular Corporation and Subsidiaries

Financial Reports Contents

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

United States Cellular Corporation ("U.S. Cellular") owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 84%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The following discussion and analysis should be read in conjunction with U.S. Cellular's audited consolidated financial statements and the description of U.S. Cellular's business included in Item 1 of the U.S. Cellular Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2014. The discussion and analysis contained herein refers to consolidated data and results of operations, unless otherwise noted.

OVERVIEW

The following is a summary of certain selected information contained in the comprehensive Management's Discussion and Analysis of Financial Condition and Results of Operations that follows. The overview does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

In its consolidated operating markets, U.S. Cellular serves approximately 4.8 million customers in 23 states. As of December 31, 2014, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.0%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in its current operating markets and in areas that are adjacent to or in close proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular believes that the acquisition of additional licenses within its current operating markets will enhance its network capacity to meet its customers' increased demand for data services. In addition, 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.

Financial and operating highlights in 2014 included the following:

- Total customers were 4,760,000 at December 31, 2014, including 4,646,000 retail customers (98% of total).

- Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings for equipment installment plans. In 2014, 24% of total device sales to postpaid customers were made under equipment installment plans.

- In December 2014, U.S. Cellular sold $275 million of 7.25% Unsecured Senior Notes due 2063 and will use the proceeds for general corporate purposes, including spectrum purchases and capital expenditures. See Note 11 Debt for additional details.

- In December 2014, U.S. Cellular entered into an agreement to sell 595 towers outside of its Core Markets for approximately $159 million. Concurrently, U.S. Cellular closed on the sale of 236 towers, without tenants, for $10.0 million, recorded a gain of $3.8 million to (Gain) loss on sale of business and other exit costs, net and received $7.5 million in earnest money. The closing for the remaining 359 towers, primarily with tenants, occurred in January 2015, at which time U.S. Cellular received $141.5 million in additional cash proceeds and recorded a gain of approximately $107 million.

- In December 2014, U.S. Cellular completed a license exchange primarily in Oklahoma, North Carolina and Tennessee. As a result of this transaction, a gain of $21.7 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

- In March 2014, U.S. Cellular sold the majority of its St. Louis area non-operating market license for $92.3 million. As a result of this sale, a gain of $75.8 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

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In February 2014, U.S. Cellular completed a license exchange in Wisconsin. As a result of this transaction, a gain of $15.7 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

In 2014, Core Markets information is the same as Consolidated Markets information. However, because the Divestiture Transaction and the NY1 & NY2 Deconsolidation were consummated in the second quarter of 2013, the Consolidated Markets in the first six months of 2013 include information with respect to the Divestiture Markets and the NY1 & NY2 Partnerships. Accordingly, the following operating information is presented for Core Markets to permit a comparison of 2014 to 2013 excluding the Divestiture Markets and the NY1 & NY2 Partnerships. As used here, Core Markets is defined as all consolidated markets in which U.S. Cellular currently conducts business and, therefore, excludes the Divestiture Markets and the NY1 & NY2 Partnerships. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the Divestiture Transaction and other retained assets from the Divestiture Markets. See Note 6 Acquisitions, Divestitures and Exchanges and Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Highlights in the twelve months ended December 31, 2014 for Core Markets included the following:

Retail customer net additions were 36,000 in 2014 compared to net losses of 215,000 in 2013. In the postpaid category, there were net additions of 31,000 in 2014, compared to net losses of 217,000 in 2013. Prepaid net additions were 5,000 in 2014 compared to net additions of 2,000 in 2013.

Postpaid customers comprised approximately 93% of U.S. Cellular's retail customers as of both December 31, 2014 and December 31, 2013, respectively. The postpaid churn rate was 1.8% in 2014 and 1.7% in 2013. Postpaid churn in the first half of 2014 was adversely affected by the billing system conversion in 2013; however, it steadily improved over the course of the year and was 1.6% for the three months ended December 31, 2014. The prepaid churn rate was 6.4% in 2014 and 6.7% in 2013.

Billed average revenue per user ("ARPU") increased to $53.49 in 2014 from $50.82 in 2013 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU increased to $60.32 in 2014 from $57.66 in 2013 due primarily to an increase in postpaid and prepaid ARPU.

Postpaid customers on smartphone service plans increased to 60% as of December 31, 2014 compared to 51% as of December 31, 2013. In addition, smartphones represented 81% of all handsets sold in 2014 compared to 73% in 2013.

The following financial information is presented for U.S. Cellular consolidated results:

Retail service revenues of $3,013.0 million decreased $152.5 million year-over-year, due to a decrease of 456,000 in the average number of retail customers (including approximately 250,000 due to the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.

Cash flows from operating activities were $172.3 million in 2014 compared to $290.9 million in 2013. At December 31, 2014, Cash and cash equivalents and Short-term investments totaled $211.5 million and the revolving credit facility provided borrowing capacity of $282.5 million.

Total additions to Property, plant and equipment were $557.6 million, including expenditures to deploy fourth generation Long-term Evolution ("4G LTE") equipment, construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores, and enhance billing and other customer management related systems and platforms. Total cell sites in service decreased 11% year-over-year to 6,220 primarily as a result of the deactivation of certain cell sites in the Divestiture Markets.

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Operating income (loss) decreased $290.3 million to a loss of $143.4 million in 2014 from income of $146.9 million in 2013. The gain on license sales and exchanges and the gain on sale of business and other exit costs contributed $145.8 million and $502.2 million to operating income in 2014 and 2013, respectively. Without these items, operating income (loss) improved by $66.2 million due to higher equipment revenue and lower selling, general and administrative, and depreciation, amortization and accretion expenses, which were partially offset by lower service revenues and higher cost of equipment sold.

Net income (loss) attributable to U.S. Cellular shareholders decreased $182.9 million to a net loss of $42.8 million in 2014 compared to net income of $140.0 million in 2013, due primarily to the net impact of lower operating income, higher interest expense, and a decrease in gain on investments. Basic earnings (loss) per share and Diluted earnings (loss) per share were $(0.51) in 2014, which was $2.18 and $2.16 lower, respectively, than in 2013.

U.S. Cellular anticipates that its future results may be affected by the following factors:

Effects of industry competition on service and equipment pricing;

U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System ("B/OSS") in the third quarter of 2013. Intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. System enhancements and other measures were implemented to address these issues, and customer service and sales operations response times have improved to expected levels. In addition, in the fourth quarter of 2014, U.S. Cellular entered into certain arrangements pursuant to which U.S. Cellular now outsources certain support functions for its B/OSS to a third-party vendor. B/OSS is a complex system and any future operational problems with the system, including any failure by the vendor to provide the required level of service under the outsourcing arrangements, could have adverse effects on U.S. Cellular's results of operations or cash flows;

Impacts of selling Apple products;

Impacts of selling devices under equipment installment plans;

Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;

Expanded distribution of products and services in third-party national retailers;

The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers;

Continued growth in revenues and costs related to data products and services and declines in revenues from voice services;

Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in spectrum, network capacity and enhancements;

Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;

Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC");

The ability to negotiate satisfactory 4G LTE data roaming agreements with other wireless operators;

In September 2014, U.S. Cellular entered into agreements to sell certain non-operating licenses ("unbuilt licenses") in exchange for receiving licenses in its operating markets and cash. These transactions are subject to regulatory approval and are expected to close in 2015. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information related to these transactions;

In January 2015, U.S. Cellular entered into a term loan credit agreement providing a $225.0 million senior term loan credit facility which will be used for general corporate purposes, including spectrum purchases and capital expenditures; and

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership in Advantage Spectrum, L.P. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Pro Forma Financial Information

Refer to U.S. Cellular's Form 8-K filed on February 26, 2014 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and twelve months ended December 31, 2013, as if the transactions had occurred at the beginning of the respective periods.

REGULATORY MATTERS

FCC Interoperability Order

On October 25, 2013, the FCC adopted a Report and Order and Order of Proposed Modification confirming a voluntary industry agreement on interoperability in the Lower 700 MHz spectrum band. The FCC's Report and Order laid out a roadmap for the voluntary commitments of AT&T and DISH Network Corporation ("DISH") to become fully binding. The FCC implemented the AT&T commitments in an Order adopted in the first quarter of 2014 that modified AT&T's Lower 700 MHz licenses. Pursuant to these commitments, AT&T will begin incorporating changes in its network and devices that will foster interoperability across all paired spectrum blocks in the Lower 700 MHz Band and support LTE roaming on AT&T networks for carriers with compatible Band 12 devices, consistent with the FCC's rules on roaming. AT&T will be implementing the foregoing changes in phases starting with network software enhancement taking place possibly through the third quarter of 2015 with the AT&T Band 12 device roll-out to follow. In late 2014, AT&T made filings with and reaffirmed to the FCC its commitment under this Order. In addition, the FCC has adopted changes in its technical rules for certain unpaired spectrum licensed to AT&T and DISH in the Lower 700 MHz band to enhance prospects for Lower 700 MHz interoperability. AT&T's network and devices currently interoperate across only two of the three paired blocks in the Lower 700 MHz band. U.S. Cellular's LTE deployment, carried out in conjunction with its partner, King Street Wireless, utilizes spectrum in all three of these blocks and, consequently, was not interoperable with the AT&T configuration. U.S. Cellular believes that the FCC action will broaden the ecosystem of devices available to U.S. Cellular's customers over time.

FCC Net Neutrality Proposal

Currently, internet services are subject to substantially less regulation than traditional common carrier telecommunications services under federal law and generally are not subject to state or local government regulation because they are currently classified as an "information service" by the FCC under the Communications Act. Internet services provided by wireless carriers may also be subject to less regulation than by other telecommunications companies. However, in 2009, the FCC initiated a rulemaking proceeding designed to codify its existing "Net Neutrality" principles to regulate how internet service providers manage applications and content that traverse their networks. In December 2010, the FCC adopted a net neutrality rule based on its Title I "ancillary" authority under the Communications Act. Among other things, these rules prohibited all internet providers from blocking consumers' access to lawful websites or applications that compete with the provider's voice or video telephony services, subject to reasonable network management. The rules subjected the providers of fixed but not wireless broadband internet access to a prohibition on "unreasonable discrimination" in transmitting internet traffic over their networks, subject to reasonable network management. On January 14, 2014, the U.S. Court of Appeals for the District of Columbia Circuit vacated the foregoing "anti-blocking" and "anti-discrimination" portions of the FCC's net neutrality rules. In May 2014, the FCC proposed revised rules, substantially similar to the vacated rules, except that the revised proposed rules would replace the prohibition of "unreasonable discrimination" with a prohibition on "commercially unreasonable practices." Following public comments on such rules and the urging of President Obama, in February 2015 the FCC chairman instead proposed applying "Title II" or telecommunications common carrier regulation to both fixed and wireless internet service providers to prevent "paid prioritization" of internet traffic to end users and to restrict wireless carriers from limiting the capacity of certain high volume data users to use the data network. If the FCC adopts such proposed rules, it is expected that they will be challenged in litigation. U.S. Cellular cannot predict the outcome of these proceedings.

FCC Spectrum Auction 97

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum L.P. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

FCC Reform Order

The Telecommunications Act authorizes and directs the FCC to establish a Universal Service Fund ("USF"), to preserve and advance universal access to telecommunications services in rural and high-cost areas of the country. All carriers with interstate and international revenues must contribute to the USF. Carriers are free to pass on the cost of such contributions to their customers. In 2014, U.S. Cellular contributed $78.9 million into the federal USF and passed on the cost of such contributions to its customers.

Telecommunications companies may be designated by states, or in some cases by the FCC, as an Eligible Telecommunications Carrier ("ETC") to receive universal service support payments if they provide specified services in "high cost" areas. U.S. Cellular has been designated as an ETC in certain states and received approximately $92.1 million in high cost support for service to high cost areas in 2014.

In 2011, the FCC released an order ("Reform Order") to: reform its universal service and intercarrier compensation mechanisms; establish a new, broadband-focused support mechanism; and propose further rules to advance reform. Pursuant to the FCC's Reform Order, U.S. Cellular's ETC support has been phased down by 40% since July 1, 2012. As provided by the Reform Order, the phase down is currently suspended and U.S. Cellular will continue to receive 60% of its baseline support until a new fund provided in the Reform Order is operational. Further proceedings including litigation may also be possible. At this time, U.S. Cellular cannot predict the net effect of further changes to the USF high cost support program under the Reform Order.

Multiple appeals of the Reform Order were consolidated and argued in the U.S. Court of Appeals for the 10th Circuit on November 19, 2013. The court ruled in favor of the FCC and U.S. Cellular filed a Petition of Certiorari on November 25, 2014 with the United States Supreme Court. At this time, U.S. Cellular cannot predict whether the Supreme Court will accept the case or the timing or outcome of any such decision should the Court permit the appeal.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that U.S. Cellular pays to wireline phone companies to transport and terminate calls that originate on their networks, which will reduce U.S. Cellular's operating expenses. The reductions in intercarrier charges are to increase over the next five to ten years, further reducing U.S. Cellular's operating expenses.

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RESULTS OF OPERATIONS

Summary Operating Data for U.S. Cellular Consolidated Markets

Following is a table of summarized operating data for U.S. Cellular's Consolidated Markets. Consolidated Markets herein refers to markets which U.S. Cellular currently consolidates, or previously consolidated in the periods presented, and is not adjusted in prior periods presented for subsequent divestitures or deconsolidations. Unless otherwise noted, figures reported in Results of Operations are representative of consolidated results.

As of or for the Year Ended December 31,	2014	2013	2012
Retail Customers			
Postpaid			
Total at end of period	4,298,000	4,267,000	5,134,000
Gross additions	940,000	697,000	880,000
Net additions (losses)	31,000	(325,000)	(165,000)
ARPU(1)	$ 56.75	$ 54.31	$ 54.32
ARPA(2)	$ 133.19	$ 120.92	$ 123.27
Churn rate(3)	1.8%	1.8%	1.7%
Smartphone penetration(4)	59.8%	50.8%	41.8%
Prepaid			
Total at end of period	348,000	343,000	423,000
Gross additions	274,000	309,000	368,000
Net additions (losses)	5,000	(21,000)	118,000
ARPU(1)	$ 34.07	$ 31.44	$ 33.26
Churn rate(3)	6.4%	7.0%	6.0%
Total customers at end of period	4,760,000	4,774,000	5,798,000
Billed ARPU(1)	$ 53.49	$ 50.73	$ 50.81
Service revenue ARPU(1)	$ 60.32	$ 57.61	$ 58.70
Smartphones sold as a percent of total handsets sold	81.3%	72.8%	58.7%
Total Population			
Consolidated markets(5)	50,906,000	58,013,000	93,244,000
Consolidated operating markets(5)	31,729,000	31,759,000	46,966,000
Market penetration at end of period			
Consolidated markets(6)	9.4%	8.2%	6.2%
Consolidated operating markets(6)	15.0%	15.0%	12.3%
Capital expenditures (000s)	$ 557,615	$ 737,501	$ 836,748
Total cell sites in service	6,220	6,975	8,028
Owned towers in service	4,281	4,448	4,408

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Summary Operating Data for U.S. Cellular Core Markets

Following is a table of summarized operating data for U.S. Cellular's Core Markets. For comparability, Core Markets as presented here excludes the results of the Divestiture Markets and NY1 and NY2 Partnerships as of or for the twelve months ended December 31, 2013 and December 31, 2012.

As of or for the Year Ended December 31,	2014	2013	2012
Retail Customers			
Postpaid			
Total at end of period	4,298,000	4,267,000	4,496,000
Gross additions	940,000	682,000	746,000
Net additions (losses)	31,000	(217,000)	(92,000)
ARPU(1)	$ 56.75	$ 54.23	$ 53.65
ARPA(2)	$ 133.19	$ 115.00	$ 120.78
Churn rate(3)	1.8%	1.7%	1.5%
Smartphone penetration(4)	59.8%	50.8%	41.1%
Prepaid			
Total at end of period	348,000	343,000	342,000
Gross additions	274,000	295,000	288,000
Net additions (losses)	5,000	2,000	124,000
ARPU(1)	$ 34.07	$ 31.45	$ 32.98
Churn rate(3)	6.4%	6.7%	5.2%
Total customers at end of period	4,760,000	4,774,000	5,022,000
Billed ARPU(1)	$ 53.49	$ 50.82	$ 50.54
Service revenue ARPU(1)	$ 60.32	$ 57.66	$ 58.49
Smartphones sold as a percent of total handsets sold	81.3%	73.0%	58.9%
Total Population			
Consolidated markets(5)	50,906,000	58,013,000	83,384,000
Consolidated operating markets(5)	31,729,000	31,759,000	31,445,000
Market penetration at end of period			
Consolidated markets(6)	9.4%	8.2%	6.0%
Consolidated operating markets(6)	15.0%	15.0%	16.0%
Capital expenditures (000s)	$ 557,615	$ 735,082	$ 768,884
Total cell sites in service	6,220	6,161	6,130
Owned towers in service	3,951	3,883	3,847

(1) Average Revenue per User ("ARPU") metrics are calculated by dividing a revenue base by an average number of customers by the number of months in the period. These revenue bases and customer populations are shown below:

a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.

b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.

c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.

d. Service revenue ARPU consists of total postpaid, prepaid and reseller service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

(2) Average Revenue per Account ("ARPA") metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts by the number of months in the period.

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(3) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnects service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.

(4) Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding connected devices. Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.

(5) The decrease in the population of consolidated markets is due primarily to the divestiture of the Mississippi Valley non-operating license in October 2013, the majority of the St. Louis area non-operating market license in March 2014, and certain non-operating licenses in North Carolina in December 2014. Total Population is used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (6) below.

(6) Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas. The increase in consolidated markets penetration is due primarily to a lower denominator as a result of the license divestitures described in footnote (5) above.

Components of Operating Income (Loss)

Year Ended December 31, (Dollars in thousands)	2014	Increase (Decrease)	Percentage Change	2013	Increase (Decrease)	Percentage Change	2012
Retail service	$ 3,012,984	$ (152,512)	(5)%	$ 3,165,496	$ (382,483)	(11)%	$ 3,547,979
Inbound roaming	224,090	(39,096)	(15)%	263,186	(85,531)	(25)%	348,717
Other	160,863	(5,228)	(3)%	166,091	(36,069)	(18)%	202,160
Service revenues	3,397,937	(196,836)	(5)%	3,594,773	(504,083)	(12)%	4,098,856
Equipment sales	494,810	170,747	53%	324,063	(29,165)	(8)%	353,228
Total operating revenues	3,892,747	(26,089)	(1)%	3,918,836	(533,248)	(12)%	4,452,084
System operations (excluding Depreciation, amortization and accretion reported below)	769,911	6,476	1%	763,435	(183,370)	(19)%	946,805
Cost of equipment sold	1,192,669	193,669	19%	999,000	63,053	7%	935,947
Selling, general and administrative	1,591,914	(85,481)	(5)%	1,677,395	(87,538)	(5)%	1,764,933
Depreciation, amortization and accretion	605,997	(197,784)	(25)%	803,781	195,148	32%	608,633
(Gain) loss on asset disposals, net	21,469	9,137	30%	30,606	(12,518)	(69)%	18,088
(Gain) loss on sale of business and other exit costs, net	(32,830)	(213,937)	(87)%	(246,767)	267,789	>100%	21,022
(Gain) loss on license sales and exchanges	(112,993)	(142,486)	(56)%	(255,479)	255,479	N/M	
Total operating expenses	4,036,137	264,166	7%	3,771,971	(523,457)	(12)%	4,295,428
Operating income (loss)	$ (143,390)	$ (290,255)	>(100)%	$ 146,865	$ (9,791)	(6)%	$ 156,656

N/M Percentage change not meaningful

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Operating Revenues

Service revenues

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data products and services, provided to U.S. Cellular's retail customers and to end users through third party resellers ("retail service");
(ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming; and (iii) amounts received from the Federal USF.

Retail service revenues

Retail service revenues decreased by $152.5 million, or 5%, to $3,013.0 million due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation), partially offset by an increase in billed ARPU.

In 2013, Retail service revenues decreased by $382.5 million, or 11%, to $3,165.5 million due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) and a slight decrease in billed ARPU. In the fourth quarter of 2013, U.S. Cellular issued loyalty reward points with a value of $43.5 million as a loyalty bonus in recognition of the inconvenience experienced by customers during U.S. Cellular's billing system conversion in 2013. The value of the loyalty bonus reduced Operating revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Billed ARPU increased to $53.49 in 2014 from $50.73 in 2013. This overall increase is due primarily to an increase in postpaid ARPU to $56.75 in 2014 from $54.31 in 2013 and an increase in prepaid ARPU to $34.07 in 2014 from $31.44 in 2013, reflecting an increase in smartphone penetration and corresponding revenues from data products and services, partially offset by lower monthly service billings for customers on equipment installment plans. Billed ARPU in 2013 was relatively flat compared to $50.81 in 2012. An increase in smartphone adoption and corresponding revenues from data products and services drove higher ARPU; however, this growth was offset by the special issuance of loyalty rewards points in the fourth quarter of 2013, which negatively impacted billed ARPU for the year by $0.70.

U.S. Cellular expects continued pressure on retail service revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage. In addition, beginning in the second quarter of 2014, U.S. Cellular expanded its offerings of equipment installment plans. To the extent that customers adopt these plans, U.S. Cellular expects an increase in equipment sales revenues. However, certain of the equipment installment plans provide the customer with a reduction in the monthly access charge for the device; thus, to the extent that existing customers adopt such plans, U.S. Cellular expects a reduction in retail service revenues and ARPU.

Inbound roaming revenues

Inbound roaming revenues decreased by $39.1 million, or 15% in 2014 to $224.1 million. The decrease was due in part to a $17.6 million impact related to the Divestiture Transaction and NY1 & NY2 Deconsolidation recorded in 2013. The remaining decrease in the Core Markets was due to a decrease in rates and a decline in voice volume, partially offset by higher data usage. U.S. Cellular expects modest growth in data volume, declining voice volumes and declining rates which likely will result in declining inbound roaming revenues in the near term. Both inbound and outbound roaming rates are subject to periodic revision; further, U.S. Cellular is negotiating 4G LTE roaming rates with several carriers which could materially affect roamer revenues and expenses going forward.

Inbound roaming revenues decreased by $85.5 million, or 25% in 2013 to $263.2 million. The decrease was due primarily to lower rates ($47.9 million) and the impacts of the Divestiture Transaction and NY1 &

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NY2 Deconsolidation ($37.6 million). Data volume increased year-over year but the impact of this increase was offset by the combined impacts of lower volume for voice and lower rates for both data and voice. The decline in roaming revenues was offset by a decline in roaming expense also due to lower rates.

Other revenues

Other revenues of $160.9 million in 2014 decreased by $5.2 million, or 3%, compared to 2013 due to a $14.8 million decrease in ETC support, partially offset by an increase in tower rental revenue. Tower rental revenue was $55.5 million and $45.7 million in 2014 and 2013, respectively. In 2013, Other revenues decreased by $36.1 million, or 18%, due primarily to a decrease in ETC support.

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices and related accessories to both new and existing customers, as well as revenues from sales of wireless devices and accessories to agents. All Equipment sales revenues are recorded net of rebates.

U.S. Cellular offers a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices; in addition, customers on currently offered rate plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers.

Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings of equipment installment plans. To the extent that customers adopt these plans, U.S. Cellular expects an increase in equipment sales revenues. However, certain of the equipment installment plans provide the customer with a reduction in the monthly access charge for the device; thus, to the extent that existing customers adopt such plans, U.S. Cellular expects a reduction in retail service revenues and ARPU.

Equipment sales revenues increased $170.7 million, or 53%, to $494.8 million in 2014. Equipment sales revenues in 2014 include $190.4 million related to equipment installment plan sales. The increase is due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans) and sales of connected devices and accessories. This increase is partially offset by a decrease in the sales of other device categories, primarily the feature phone category, and the effects of the Divestiture Transaction and the NY1 & NY2 Deconsolidation.

The decrease in 2013 equipment sales revenues of $29.2 million, or 8%, to $324.1 million was driven primarily by selling fewer devices, partially due to the Divestiture Transaction. Declines in volume were offset by an increase of 12% in average revenue per device. Average revenue per wireless device sold increased due to a continued shift in customer preference to higher priced smartphones.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses (excluding Depreciation, amortization and accretion) include charges from telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for cell site rent and maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers.

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System operations expenses increased $6.5 million, or 1%, to $769.9 million in 2014 and decreased $183.4 million, or 19%, to $763.4 million in 2013. Key components of the net changes in System operations expenses were as follows:

Maintenance, utility and cell site expenses increased $26.6 million, or 8%, in 2014 and decreased $61.6 million, or 15%, in 2013. The increase in 2014 reflects higher support costs for the expanded 4G LTE network and completion of certain maintenance projects deferred from 2013, partially offset by the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. The decrease in 2013 is driven primarily by impacts of the Divestiture Transaction and reductions in expenses related to 3G equipment support and network costs, offset by increases in charges related to 4G LTE equipment and network costs.

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $5.8 million, or 3%, in 2014 and decreased $64.1 million, or 27%, in 2013. The increase in 2014 is driven primarily by an increase in data roaming usage, partially offset by lower rates, lower voice usage, and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. The decrease in 2013 is due primarily to lower rates for both voice and data and lower voice volume, which more than offset increased data roaming usage, as well as the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.

Customer usage expenses decreased by $25.9 million, or 11%, in 2014, and $57.7 million, or 19%, in 2013. The decrease in 2014 is driven by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation, lower volume and rates for long distance usage and lower fees for platform and content providers, partially offset by LTE migration costs. The decrease in 2013 is driven by impacts of the Divestiture Transaction and decreases in intercarrier charges as a result of the FCC's Reform Order and certain data costs, partially offset by increases due to network costs for 4G LTE.

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

Cost of equipment sold

Cost of equipment sold increased $193.7 million, or 19%, in 2014 and $63.1 million, or 7% in 2013. In both years, the increase was driven primarily by an increase in the average cost per wireless device sold (22% in 2014 and 33% in 2013), which more than offset the impact of selling fewer devices. Average cost per device sold increased due to general customer preference for higher priced 4G LTE smartphones and tablets. Smartphones sold as a percentage of total devices sold were 73%, 68% and 56% in 2014, 2013 and 2012, respectively. The total number of devices sold decreased by 3% and 18% in 2014 and 2013, respectively, partially due to the Divestiture Transaction.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $697.9 million, $674.9 million and $582.7 million for 2014, 2013 and 2012, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as iconic data-centric wireless devices continue to increase in cost and wireless carriers continue to use device availability and pricing as a means of competitive differentiation. However, U.S. Cellular expects that sales of wireless devices under equipment installment plans and, for certain devices such as tablets, under non-subsidized plans, will offset loss on equipment to some degree.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising expenses. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Selling, general and administrative expenses decreased by $85.5 million to $1,591.9 million in 2014 and by $87.5 million to $1,677.4 million in 2013. Key components of the net changes in Selling, general and administrative expenses were as follows:

2014

- General and administrative expenses decreased by $79.7 million, or 8%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation and lower consulting expenses related to the billing system conversion in the prior year.

- Selling and marketing expenses decreased by $5.7 million, or 1%, due primarily to lower agent, employee and facilities costs as a result of the Divestiture Transaction, partially offset by increases in advertising expense and commissions; higher commissions reflected increases in gross additions, renewals and accessory sales volumes.

2013

- Selling and marketing expenses decreased by $75.7 million, or 9%, primarily from lower commission expenses, more cost-effective advertising spending and reduced employee and facilities costs as a result of the Divestiture Transaction.

- General and administrative expenses decreased by $11.8 million, or 1%, driven by corporate cost containment and reduction initiatives and reduced spending as a result of the Divestiture Transaction, offset by costs associated with launching the new billing system of $55.8 million and higher bad debts expense of $31.5 million due to higher customer accounts receivable balances resulting from billing issues experienced after the system conversion.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense decreased $197.8 million, or 25%, in 2014, due primarily to the higher amount of accelerated depreciation, amortization and accretion in the Divestiture Markets that occurred in 2013. Depreciation, amortization and accretion expense increased $195.1 million, or 32%, in 2013 due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was $13.1 million and $158.5 million in 2014 and 2013, respectively. The accelerated depreciation, amortization and accretion in the Divestiture Markets was completed in the first quarter of 2014.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss of $21.5 million in 2014 and $30.6 million in 2013 due primarily to losses resulting from the write-off and disposals of certain network assets.

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

(Gain) loss on sale of business and other exit costs, net was a gain of $32.8 million in 2014 and $246.8 million in 2013, both primarily related to the Divestiture Transaction. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges

(Gain) loss on license sales and exchanges was a net gain in 2014 resulting from the sale of the St. Louis area non-operating market license and the license exchanges primarily in Wisconsin, Oklahoma, North Carolina and Tennessee. The gain in 2013 resulted from the sale of the Mississippi Valley non-operating market license for $308.0 million, which resulted in a pre-tax gain of $250.6 million. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)

Year Ended December 31, (Dollars in thousands)	2014	Increase/ (Decrease)	Percentage Change	2013	Increase/ (Decrease)	Percentage Change	2012
Operating income (loss)	$ (143,390)	$ (290,255)	>(100)%	$ 146,865	$ (9,791)	(6)%	$ 156,656
Equity in earnings of unconsolidated entities	129,764	(2,185)	(2)%	131,949	41,585	46%	90,364
Interest and dividend income	12,148	8,187	>100%	3,961	317	9%	3,644
Gain (loss) on investments		(18,556)	N/M	18,556	22,274	>100%	(3,718)
Interest expense	(57,386)	13,423	31%	(43,963)	1,570	4%	(42,393)
Other, net	160	(128)	(44)%	288	(212)	(42)%	500
Total investment and other income	84,686	(26,105)	(24)%	110,791	62,394	>100%	48,397
Income (loss) before income taxes	(58,704)	(316,360)	>(100)%	257,656	52,603	26%	205,053
Income tax expense (benefit)	(11,782)	(124,916)	>(100)%	113,134	49,157	77%	63,977
Net income (loss)	(46,922)	(191,444)	>(100)%	144,522	3,446	2%	141,076
Less: Net income (loss) attributable to noncontrolling interests, net of tax	(4,110)	(8,594)	>(100)%	4,484	(25,586)	(85)%	30,070
Net income (loss) attributable to U.S. Cellular shareholders	$ (42,812)	$ (182,850)	>(100)%	$ 140,038	$ 29,032	26%	$ 111,006

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 $71.8 million, $78.4 million and $67.2 million to Equity in earnings of unconsolidated entities in 2014, 2013 and 2012, respectively.

On April 3, 2013, U.S. Cellular deconsolidated the NY1 & NY2 Partnerships and began reporting them as equity method investments in its consolidated financial statements as of that date. Equity in earnings of the NY1 & NY2 Partnerships was $29.0 million and $24.7 million in 2014 and 2013, respectively. See Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest and dividend income

In 2014, Interest and dividend income increased by $8.2 million due primarily to imputed interest income recognized on equipment installment plans. See Note 3 Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Gain (loss) on investments

In 2013, in connection with the deconsolidation of the NY1 & NY2 Partnerships, U.S. Cellular recognized a non-cash pre-tax gain of $18.5 million.

Interest expense

In 2014, interest expense increased by $13.4 million from 2013 due primarily to a decrease in capitalized interest related to network and systems projects. Interest cost capitalized was $6.2 million and $18.4 million for 2014 and 2013, respectively. Interest expense in 2013 as compared to

2012 was relatively flat.

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Income tax expense

The effective tax rates on Income before income taxes for 2014, 2013 and 2012 were 20.1%, 43.9% and 31.2%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2014 Includes tax expense of $6.4 million related to valuation allowance recorded against certain state deferred tax assets. The effective tax rate in 2014 is lower due to the effect of this item combined with the loss in 2014 in Income (loss) before income taxes.

2013 Includes tax expense of $20.4 million related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction, and a tax benefit of $5.4 million resulting from statute of limitation expirations.

2012 Includes tax benefits of $12.1 million resulting from statute of limitation expirations and $5.3 million resulting from corrections relating to a prior period.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for a discussion of income tax expense and the overall effective tax rate on Income before income taxes.

Net income (loss) attributable to noncontrolling interests, net of tax

The decrease from 2013 to 2014 is due primarily to the elimination of the noncontrolling interest as a result of the NY1 & NY2 Deconsolidation on April 3, 2013 and lower income from certain partnerships in 2014.

INFLATION

Management believes that inflation affects U.S. Cellular's business to no greater or lesser extent than the general economy.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on recently issued accounting pronouncements.

In general, recently issued accounting pronouncements did not have and are not expected to have a significant effect on U.S. Cellular's financial condition and results of operations, except for Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* U.S. Cellular is evaluating the effects of adoption of this standard on its financial condition and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

U.S. Cellular operates a capital-and marketing-intensive business. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The table below and the following discussion summarize U.S. Cellular's cash flow activities in 2014, 2013 and 2012.

(Dollars in thousands)	2014	2013	2012
Cash flows from (used in)			
Operating activities	$ 172,342	$ 290,897	$ 899,291
Investing activities	(470,772)	172,749	(896,611)
Financing activities	167,878	(499,939)	(48,477)
Net decrease in cash and cash equivalents	$ (130,552)	$ (36,293)	$ (45,797)

Cash Flows from Operating Activities

Cash flows from operating activities were $172.3 million in 2014 and $290.9 million in 2013. The net decrease reflected higher earnings excluding the gains recognized on the sale of businesses and the gains recognized on license sales and exchanges, which had the impact of improving cash flows from operating activities, more than offset by changes in working capital, which had the impact of decreasing cash flows from operating activities. Working capital factors which significantly decreased cash flows from operating activities included changes in accounts payable levels year-over-year as a result of timing differences related to operating expenses and device purchases. In December 2014, as part of the Tax Increase Prevention act of 2014, bonus depreciation was enacted which allowed U.S. Cellular to take certain additional deductions for depreciation resulting in a federal taxable loss in 2014. Such taxable loss will be carried back to prior tax years to refund tax amounts previously paid. Primarily as a result of this federal income tax carryback, U.S. Cellular has recorded $74.8 million of Income taxes receivable at December 31, 2014. U.S. Cellular paid income taxes of $33.3 million and $157.8 million in 2014 and 2013, respectively. In 2013, accounts receivable grew substantially due to issues resulting from the conversion to a new billing system. In 2014, the higher accounts receivable balances resulting from the billing system conversion decreased to more normal levels; however, this decrease was partially offset by increased receivables related to equipment installment plan sales which are expected to increase in the near term.

Cash flows from operating activities were $290.9 million in 2013 and $899.3 million in 2012. This decrease was due primarily to changes in accounts receivable, income tax payments (net of refunds), and inventory. The changes in accounts receivable balances were due primarily to billing delays encountered during the conversion to a new billing system in the third quarter of 2013. Net income tax payments of $157.8 million were recorded in 2013 compared to net income tax refunds of $58.6 million in 2012. The net refunds in 2012 were primarily related to a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. The change in inventory was due primarily to higher costs per unit related to 4G LTE smartphones.

Cash Flows from Investing Activities

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 of U.S. Cellular's networks.

Cash used for additions to property, plant and equipment totaled $605.1 million, $717.9 million and $826.4 million in 2014, 2013 and 2012, respectively, and is reported in the Consolidated Statement of Cash Flows. Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, totaled $557.6 million in 2014, $737.5 million in 2013 and $836.7 million in 2012. See "Capital Expenditures" below for additional information on capital expenditures.

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Cash payments for acquisitions of licenses were $38.2 million, $16.5 million and $122.7 million in 2014, 2013 and 2012, respectively.

Cash received from divestitures in 2014, 2013 and 2012 were as follows:

Cash Received from Divestitures (Dollars in thousands)	2014	2013	2012
Licenses	$ 91,789	$ 311,989	$
Businesses	88,053	499,131	49,932
Total	$ 179,842	$ 811,120	$ 49,932

See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these acquisitions and divestitures.

In 2012, U.S. Cellular invested $120.0 million in U.S. Treasury Notes. U.S. Cellular realized cash proceeds of $50.0 million, $100.0 million, and $125.0 million in 2014, 2013, and 2012, respectively, related to the maturities of its investments in U.S. Treasury Notes and corporate notes.

In 2014, cash used for investing activities includes a $60.0 million deposit made by Advantage Spectrum, L.P., a variable interest entity consolidated by U.S. Cellular, to the FCC for its participation in Auction 97. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash Flows from Financing Activities

Cash flows from financing activities include proceeds from and repayments of short-term and long-term debt, dividends to shareholders, distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from reissuance of Common Shares pursuant to stock-based compensation plans.

In December 2014, U.S. Cellular issued $275.0 million of 7.25% Senior Notes due 2063, and paid related debt issuance costs of $9.2 million.

On September 10, 2014, U.S. Cellular purchased licenses from Airadigm Communications, Inc. ("Airadigm"). TDS owns 100% of the common stock of Airadigm. Upon closing, Airadigm transferred to U.S. Cellular FCC spectrum licenses and certain tower assets in certain markets in Wisconsin, Iowa, Minnesota and Michigan, in consideration for $91.5 million in cash. Since both parties to this transaction are controlled by TDS, U.S. Cellular recorded the transferred assets at Airadigm's net book value of $15.2 million. The $76.3 million difference between the consideration paid and the net book value of the transferred assets was recorded as an Acquisition of licenses in common control transaction cash outflow from financing activities. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to this transaction.

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. U.S. Cellular did not pay any dividends in 2014 or 2012.

Adjusted Free Cash Flow

The following table presents Adjusted free cash flow. Adjusted free cash flow is defined as Cash flows from operating activities (which includes cash outflows related to the Sprint decommissioning), as adjusted for cash proceeds from the Sprint Cost Reimbursement (which are included in Cash flows from investing activities in the Consolidated Statement of Cash Flows), less Cash used for additions to property, plant and equipment. Adjusted 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 the

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amount of cash generated by business operations (including cash proceeds from the Sprint Cost Reimbursement), after Cash used for additions to property, plant and equipment.

(Dollars in thousands)	2014	2013	2012
Cash flows from operating activities	$ 172,342	$ 290,897	$ 899,291
Add: Sprint Cost Reimbursement(1)	71,097	10,560	
Less: Cash used for additions to property, plant and equipment	605,083	717,862	826,400
Adjusted free cash flow	$ (361,644)	$ (416,405)	$ 72,891

(1) See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to the Sprint Cost Reimbursement.

See Cash flows from Operating Activities and Cash flows from Investing Activities for additional information related to the components of Adjusted free cash flow.

LIQUIDITY

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facility and term loan facility and expected cash flows from operating and investing activities provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal day-to-day operating needs. However, these resources may not be adequate to fund all future expenditures that the company could potentially elect to make such as acquisitions of spectrum licenses in FCC auctions and other acquisition, construction and development programs. It may be necessary from time to time to increase the size of the existing revolving credit facility, to put in place new facilities, or to obtain other forms of financing in order to fund these potential expenditures. To the extent that sufficient funds are not available to U.S. Cellular or its subsidiaries on terms or at prices acceptable to U.S. Cellular, it could require U.S. Cellular to reduce its acquisition, construction and development programs.

U.S. Cellular's profitability historically has been lower in the fourth quarter as a result of significant marketing and promotional activities during the holiday season. Additionally, U.S. Cellular expects lower cash flows from operating activities in the near term as the popularity of its equipment installment plans increases. U.S. Cellular cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets, U.S. Cellular financial performance and/or prospects or other factors could restrict U.S. Cellular's liquidity and availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its capital expenditure, acquisition or share repurchase programs. Such reductions could have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Cash and Cash Equivalents

At December 31, 2014, U.S. Cellular's cash and cash equivalents totaled $211.5 million. Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of U.S. Cellular's Cash and cash equivalents investment activities is to preserve principal. At December 31, 2014, the majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. U.S. Cellular monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Financing

Revolving Credit Facility

U.S. Cellular has a revolving credit facility available for general corporate purposes including spectrum purchases and capital expenditures, with a maximum borrowing capacity of $300.0 million. As of December 31, 2014, the unused capacity under this agreement was $282.5 million. The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. The covenants also prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries. There were no intercompany loans at December 31, 2014 or 2013. U.S. Cellular believes that it was in compliance as of December 31, 2014 with all of the financial covenants and requirements set forth in its revolving credit facility.

See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information regarding the revolving credit facility.

Term Loan Facility

On January 21, 2015, U.S. Cellular entered into a term loan credit facility relating to $225.0 million in debt. The term loan must be drawn in one or more advances by the six month anniversary of the date of the agreement; amounts not drawn by that time will cease to be available. Amounts repaid or prepaid under the term loan facility may not be reborrowed. The maturity date of the term loan would accelerate in the event of a change in control.

The term loan is available for general corporate purposes including spectrum purchases and capital expenditures. The term loan is unsecured except for a lien on all equity which U.S. Cellular may have in the loan administrative agent, CoBank ACB, subject to certain limitations. The continued availability of the term loan facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing, that are substantially the same as those in the U.S. Cellular revolving credit facility described above.

See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information regarding the term loan facility.

Long-Term Financing

U.S. Cellular has an effective shelf registration statement on Form S-3 to issue senior or subordinated debt securities. The proceeds from any such issuance may be used for general corporate purposes, including: the possible reduction of other long-term debt, spectrum purchases, and capital expenditures; in connection with acquisition, construction and development programs; the reduction of short-term debt; for working capital; to provide additional investments in subsidiaries; or the repurchase of shares. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time senior or subordinated debt securities in one or more offerings. The ability of U.S. Cellular to complete an offering pursuant to such shelf registration statement is subject to market conditions and other factors at the time.

In December 2014, U.S. Cellular sold and issued $275 million of 7.25% Senior Notes due in 2063 for general corporate purposes including spectrum purchases and capital expenditures, reducing the available amount on U.S. Cellular's shelf registration statement from $500 million to $225 million. U.S. Cellular has the authority to replenish this shelf registration statement back to $500 million.

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U.S. Cellular believes that it was in compliance as of December 31, 2014 with all financial covenants and other requirements set forth in its long-term debt indentures. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next five years represent less than 1% of the total long-term debt obligation at December 31, 2014. Refer to Market Risk Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt.

U.S. Cellular, at its discretion, may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information on Long-term financing.

Credit Rating

In certain circumstances, U.S. Cellular's interest cost on its revolving credit and term loan facilities may be subject to increase if its current credit ratings from nationally recognized credit rating agencies are lowered, and may be subject to decrease if the ratings are raised. U.S. Cellular's facilities do not cease to be available nor do the maturity dates accelerate solely as a result of a downgrade in credit rating. However, a downgrade U.S. Cellular's credit rating could adversely affect its ability to renew the facilities or obtain access to other credit facilities in the future.

In 2014, nationally recognized credit rating agencies downgraded the U.S. Cellular corporate and senior debt credit ratings. After these downgrades, U.S. Cellular is rated at sub-investment grade. U.S. Cellular's credit ratings as of December 31, 2014, and the dates such ratings were issued/re-affirmed were as follows:

Moody's (issued November 26, 2014)	Ba1	negative outlook
Standard & Poor's (issued November 24, 2014)	BB	stable outlook
Fitch Ratings (re-affirmed November 24, 2014)	BB+	stable outlook

Capital Expenditures

U.S. Cellular's capital expenditures for 2015 are expected to be approximately $600 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance network coverage, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- Continue to deploy 4G LTE technology in certain markets;
- Expand and enhance the retail store network; and
- Develop and enhance office systems.

U.S. Cellular plans to finance its capital expenditures program for 2015 using primarily Cash flows from operating activities and, as necessary, existing cash balances, short-term investments, borrowings under its revolving credit agreement, term loan and/or other long-term debt.

Acquisitions, Divestitures and Exchanges

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 investment. As part of this

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strategy, U.S. Cellular reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those interests that are not strategic to its long-term success. As a result, U.S. Cellular may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions, including expected pre-tax cash proceeds from such transactions in 2015.

Variable Interest Entities

U.S. Cellular consolidates certain entities because they are "variable interest entities" under accounting principles generally accepted in the United States of America ("GAAP"). See Note 13 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.

FCC Spectrum Auction 97

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum. Advantage Spectrum was the provisional winning bidder of 124 licenses for an aggregate bid of $338.3 million, net of its anticipated designated entity discount of 25%. On or prior to March 2, 2015, Advantage Spectrum is required to pay the FCC for its bid amount, less the initial deposit of $60.0 million, plus certain other charges totaling $2.3 million. Advantage Spectrum expects to fund this capital requirement with loans and contributions made by U.S. Cellular. U.S. Cellular plans to use a portion of the proceeds received from the issuance of its 7.25% Senior Notes and term loan facility to provide these loans and contributions to Advantage Spectrum.

Common Share Repurchase Program

In the past year, U.S. Cellular has repurchased and expects to continue to repurchase its Common Shares, subject to its repurchase program. For additional information related to the current repurchase authorization and repurchases made during 2014, 2013 and 2012, see Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Contractual and Other Obligations

At December 31, 2014, the resources required for contractual obligations were as follows:

	Payments Due by Period				
(Dollars in millions)	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
Long-term debt obligations(1)	$ 1,161.0	$	$	$	$ 1,161.0
Interest payments on long-term debt obligations	2,762.8	80.2	160.4	160.4	2,361.8
Operating leases(2)	1,278.6	139.3	233.5	165.3	740.5
Capital leases	3.9	0.2	0.4	0.4	2.9
Purchase obligations(3)	1,684.3	804.0	670.9	133.8	75.6
	$ 6,890.6	$ 1,023.7	$ 1,065.2	$ 459.9	$ 4,341.8

(1) Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to capital leases and the

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$11.3 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information

(2) Includes future lease costs related to office space, retail sites, cell sites and equipment. See Note 12 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

(3) Includes obligations payable under non-cancellable contracts, commitments for network facilities and transport services, agreements for software licensing, long-term marketing programs, and agreements with Apple to purchase certain minimum quantities of Apple iPhone products and fund marketing programs related to the Apple iPhone and iPad products. As described more fully in Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, U.S. Cellular expects to incur network-related exit costs in the Divestiture Markets as a result of the transaction, including: (i) costs to decommission cell sites and mobile telephone switching office ("MTSO") sites, (ii) costs to terminate real property leases and (iii) costs to terminate certain network access arrangements in the subject markets. The impacts of these exit activities on U.S. Cellular's purchase obligations are reflected in the table above only to the extent that agreements were consummated at December 31, 2014.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because U.S. Cellular is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $36.1 million at December 31, 2014. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

Agreements

On November 25, 2014, U.S. Cellular executed a Master Statement of Work and certain other documents with Amdocs Software Systems Limited ("Amdocs"), effective October 1, 2014, that inter-relate with but rearrange the structure under previous Amdocs Agreements. The agreement provides that U.S. Cellular will now outsource to Amdocs certain support functions for its Billing and Operational Support System ("B/OSS"). Such functions include application support, billing operations and some infrastructure services. The agreement has a term through September 30, 2019, subject to five one-year renewal periods at U.S. Cellular's option. The total estimated amount to be paid to Amdocs with respect to the agreement during the initial five-year term is approximately $110 million (exclusive of travel and expenses and subject to certain potential adjustments).

During 2013, U.S. Cellular entered into agreements with Apple to purchase certain minimum quantities of Apple iPhone products and fund marketing programs related to the Apple iPhone and iPad products over a three-year period beginning in November 2013. Based on current forecasts, U.S. Cellular estimates that the remaining contractual commitment as of December 31, 2014 under these agreements is approximately $818 million. At this time, U.S. Cellular expects to meet its contractual commitments with Apple.

Off-Balance Sheet Arrangements

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

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.

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Management believes the application of the following critical accounting policies and the estimates required by such application reflect its most significant judgments and estimates used in the preparation of U.S. Cellular's consolidated financial statements. Management has discussed the development and selection of each of the following accounting policies and related estimates and disclosures with the Audit Committee of U.S. Cellular's Board of Directors.

Intangible Asset Impairment

Goodwill and licenses represent a significant component of U.S. Cellular consolidated assets. These assets are considered to be indefinite lived assets and are therefore not amortized but tested annually for impairment. U.S. Cellular performs annual impairment testing of Goodwill and Licenses, as required by GAAP, as of November 1 of each year. Significant negative events, such as changes in any of the assumptions described below as well as decreases in forecasted cash flows, could result in an impairment in future periods.

See Note 7 Intangible Assets in the Notes to Consolidated Financial Statements for information related to Goodwill and Licenses activity in 2014 and 2013.

Goodwill

Based on the results of the U.S. Cellular annual Goodwill impairment assessment performed as of November 1, 2014, the fair value of each of the reporting units exceeded their respective carrying values. Therefore, no impairment of Goodwill existed.

For purposes of impairment testing of Goodwill in 2014 and 2013, U.S. Cellular identified four reporting units based on geographic service areas.

A discounted cash flow approach was used to value each reporting unit, using value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of U.S. Cellular specific assumptions. However, the discount rate used in the analysis accounts for any additional risk a market participant might place on integrating U.S. Cellular into its operations at the level of cash flows assumed under this approach. The most significant assumptions made in this process were the revenue growth rate (shown as a compound annual growth rate in the table below), the terminal revenue growth rate, the discount rate and capital expenditures as a percentage of revenue (shown as a simple average in the table below). There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on these key assumptions, which are described below. These assumptions were as follows:

Key Assumptions	November 1, 2014
Revenue growth rate(1)	1.6%
Terminal revenue growth rate(1)	2.0%
Discount rate(2)	10.5%
Capital expenditures as a percentage of revenue(3)	16.5%

(1)
There are risks that could negatively impact the projected revenue growth rates, including, but not limited to: the success of new and existing products/services, competition, operational difficulties and churn.

(2)
The discount rate of each reporting unit was computed by calculating the weighted average cost of capital of market participants with businesses reasonably comparable to U.S. Cellular. The discount rate is dependent upon the cost of capital of other industry market participants and the company specific risk. To the extent that the weighted average cost of capital of industry participants increases or U.S. Cellular's risk in relation to its peers

increases, this would decrease the estimated fair value of the reporting units. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

(3)

Capital expenditures generally include costs to develop the network. To the extent costs associated with these capital expenditures increase at a rate higher than expected and disproportionate to forecasted future revenues, this could negatively impact future cash flows.

Provided all other assumptions remained the same, the discount rate would have to increase to a range of 11.1% to 12.5% to yield estimated fair values of reporting units that equal their respective carrying values at November 1, 2014. Further, assuming all other assumptions remained the same, the terminal growth rate assumptions would need to decrease to amounts ranging from negative 3.2% to positive 0.6% to yield estimates of fair value equal to the carrying values of the respective reporting unit at November 1, 2014.

The carrying value of each U.S. Cellular reporting unit as of November 1, 2014 and the percentage by which its estimated fair value exceeded carrying value was as follows:

Reporting Unit	Carrying Value	Excess of estimated Fair Value over Carrying Value
(Dollars in millions)		
Central Region	$ 1,793	10.1%
Mid-Atlantic Region	491	18.2%
New England Region	202	30.0%
Northwest Region	160	36.3%
Total	$ 2,646	

Wireless Licenses

As of November 1, 2014, the estimated fair value of the licenses in each unit of accounting exceeded their carrying value. Therefore, no impairment of licenses existed. U.S. Cellular tests licenses for impairment at the level of reporting referred to as a unit of accounting. For purposes of its impairment testing of licenses as of November 1, 2014 and November 1, 2013, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. In both 2014 and 2013, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

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Developed operating market licenses ("built licenses")

U.S. Cellular applies the build-out method to estimate the fair values of built licenses. The most significant assumptions applied for purposes of the licenses impairment assessment were as follows:

Key Assumptions	November 1, 2014
Build-out period(1)	5 years
Discount rate(2)	8.75%
Terminal revenue growth rate	2.0%
Terminal capital expenditures as a percentage of revenue	14.5%
Customer penetration rates	12.0-16.3%

(1) The build-out period represents the estimated time to perform a hypothetical build of the network. Changes in the estimated build-out period can occur as a result of changes in resources and technology. Such changes could negatively or positively impact the results.

(2) The discount rate used in the valuation of licenses is less than the discount rate used in the valuation of reporting units for purposes of goodwill impairment testing. The discount rate used for licenses includes a reduced company-specific risk premium as it is assumed a market participant starting a greenfield build would construct and operate its network in an optimal manner and would not be constrained by the current network and operations associated with a mature wireless company. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt and the cost of equity. The cost of equity takes into consideration the average risk specific to individual market participants. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

As of November 1, 2014, the fair values of the built licenses units of accounting exceeded their respective carrying values by amounts ranging from 12.8% to 42.9%. The discount rate would have to increase to a range of 9.0% to 9.3% to yield estimated fair values of licenses in the respective units of accounting that equal their respective carrying values at November 1, 2014.

Non-operating market licenses ("unbuilt licenses")

For purposes of performing impairment testing of unbuilt licenses, the fair value of the unbuilt licenses is assumed to have changed by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period. There was no impairment loss recognized related to unbuilt licenses as a result of the November 1, 2014 licenses impairment test.

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Carrying Value of Licenses

The carrying value of licenses at November 1, 2014 was as follows:

Unit of Accounting(1)		Carrying Value
(Dollars in millions)		
Built licenses		
Central Region	$	804
Mid-Atlantic Region		234
New England Region		102
Northwest Region		68
Unbuilt licenses		
New England		1
North Northwest		3
South Northwest		2
North Central		51
South Central		22
East Central		87
Mid-Atlantic		17
Total(2)	$	1,391

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(1) U.S. Cellular participated in spectrum auctions indirectly through its interests in Aquinas Wireless L.P. ("Aquinas Wireless") and King Street Wireless L.P. ("King Street Wireless"), collectively, the "limited partnerships." Interests in other limited partnerships that participated in spectrum auctions have since been acquired. Each limited partnership participated in and was awarded spectrum licenses in one of two separate spectrum auctions (FCC Auctions 78 and 73). All of the units of accounting above, except New England, include licenses awarded to the limited partnerships.

(2) Between the November 1, 2014 impairment test date and the December 31, 2014 Consolidated Balance Sheet date, U.S. Cellular obtained licenses through a license exchange in the amount of $51 million and capitalized interest on certain licenses pursuant to current network build-outs in the amount of $1 million.

Income Taxes

U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. TDS and U.S. Cellular are parties to a Tax Allocation Agreement which provides that U.S. Cellular and its subsidiaries be included with the TDS affiliated group in a consolidated federal income tax return and in state income or franchise tax returns in certain situations. For financial statement purposes, U.S. Cellular and its subsidiaries calculate their income, income tax and credits as if they comprised a separate affiliated group. Under the Tax Allocation Agreement, U.S. Cellular remits its applicable income tax payments to TDS.

The amounts of income tax assets and liabilities, the related income tax provision and the amount of unrecognized tax benefits are critical accounting estimates because such amounts are significant to U.S. Cellular's financial condition and results of operations.

The preparation of the consolidated financial statements requires U.S. Cellular to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes. These temporary differences result in deferred income tax assets and liabilities, which are included in U.S. Cellular's Consolidated

Balance Sheet. U.S. Cellular must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

U.S. Cellular recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for details regarding U.S. Cellular's income tax provision, deferred income taxes and liabilities, valuation allowances and unrecognized tax benefits, including information regarding estimates that impact income taxes.

Loyalty Reward Program

See the Revenue Recognition section of Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for additional description of this program and the related accounting.

U.S. Cellular follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is deferred. The amount allocated to the loyalty points is based on the estimated retail price of the products and services for which points may be redeemed, as well as U.S. Cellular's estimate of the percentage of loyalty points that will be redeemed for each product or service. A significant change in any of the aforementioned assumptions used would impact the amount of revenue deferred and recognized under the loyalty reward program.

Revenue is recognized at the time of customer redemption or when such points have been depleted via an account maintenance charge. As a result of the accumulation of historical experience, beginning in the fourth quarter of 2013, U.S. Cellular began recognizing breakage under the proportional model. Prior to the fourth quarter of 2013, breakage was not recognized until incurred. Under the proportional model, U.S. Cellular allocates a portion of the estimated future breakage to each redemption and records revenue proportionally.

U.S. Cellular periodically reviews and if necessary, revises the redemption and depletion rates under this model as appropriate based on history and related future expectations. In 2014 and 2013, U.S. Cellular recognized $20.6 million and $16.8 million, respectively, in revenues related to estimated and actual breakage.

Equipment Installment Plans

U.S. Cellular offers customers the option to purchase certain devices under installment contracts over a period of up to 24 months and, under certain of these plans, offers the customer a trade-in right. Customers on an installment contract that elect to trade-in their device, will receive a credit in the amount of the outstanding balance of the installment contract, provided the subscriber trades-in an eligible used device in good working condition and purchases a new device from U.S. Cellular. Equipment revenue under these contracts is recognized at the time the device is delivered to the end-user customer for the selling price of the device, net of any deferred imputed interest or trade-in right, if applicable.

Trade-In Right

U.S. Cellular values the trade-in right as a guarantee liability. This liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the estimated fair value of the used device eligible for trade-in. U.S. Cellular reevaluates its estimate of the guarantee liability at each reporting date. A significant change in any of the aforementioned assumptions used to compute the guarantee liability would impact the amount of revenue recognized under these plans and the timing thereof. For the year ended December 31, 2014, U.S. Cellular assumed the earliest contractual time of trade-in, or 12 months, for all customers on installment contracts with trade-in rights.

When a customer exercises the trade-in option, the difference between the outstanding receivable balance forgiven and the fair value of the used device is recorded as a reduction to the guarantee liability. If the customer does not exercise the trade-in option at the time he or she is eligible, U.S. Cellular begins amortizing the liability and records this amortization as additional operating revenue.

Interest

U.S. Cellular equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of greater than twelve months, U.S. Cellular imputes interest using a market rate and recognizes such interest income over the duration of the plan as a component of Interest and dividend income. Changes in the imputed interest rate would impact the amount of revenue recognized under these plans.

Allowance

U.S. Cellular maintains an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make payments due under the equipment installment plans. The allowance is estimated based on historical experience, account aging and other factors that could affect collectability. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. To the extent that actual loss experience differs significantly from historical trends, the required allowance amounts could differ from the original estimates.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Note 18 Related Parties and Note 19 Certain Relationships and Related Transactions in the Notes to Consolidated Financial Statements.

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward-looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, but are not limited to, the following risks:

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, 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.

U.S. Cellular offers customers the option to purchase certain devices under installment contracts, which creates certain risks and uncertainties which could have an adverse impact on U.S. Cellular's financial condition or results of operations.

Changes in roaming practices or other factors could cause U.S. Cellular's roaming revenues to decline 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 Federal Communications Commission ("FCC"), U.S. Cellular is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on U.S. Cellular.

Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular's business, financial condition or results of operations.

An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

U.S. Cellular's assets are concentrated in the U.S. wireless telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.

U.S. Cellular's lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.

Changes in various business 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.

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U.S. Cellular is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.

Performance under device purchase agreements could have a material adverse impact on U.S. Cellular's business, financial condition or results of operations.

Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its licenses, goodwill and/or physical assets.

Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

U.S. Cellular's investments in unproven technologies may not produce the benefits that U.S. Cellular expects.

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 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.

Cyber-attacks or other breaches of network or information technology security could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.

Changes in facts or circumstances, including new or additional information, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede U.S. Cellular's access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Uncertainty of U.S. Cellular's ability to access capital, deterioration in the capital markets, other changes in 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.

Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent U.S. Cellular from using necessary technology to provide products or services or subject U.S. Cellular to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

There are potential conflicts of interests between TDS and U.S. Cellular.

Certain matters, such as control by TDS and provisions in the U.S. Cellular Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.

Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.

See "Risk Factors" in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2014 for a further discussion of these risks. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

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MARKET RISK

Long-Term Debt

As of December 31, 2014, the majority of U.S. Cellular's long-term debt was in the form of fixed-rate notes with maturities ranging up to 49 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2014:

	Principal Payments Due by Period	
(Dollars in millions)	Long-Term Debt Obligations(1)	Weighted-Avg. Interest Rates on Long-Term Debt Obligations(2)
2015	$	9.7%
2016	0.1	9.7%
2017	0.1	9.7%
2018	0.1	9.7%
2019	0.1	9.7%
After 5 years	1,162.7	6.9%
Total	$ 1,163.1	6.9%

(1) The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to the $11.3 million unamortized discount related to the 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the weighted average interest rates at December 31, 2014 for debt maturing in the respective periods.

Fair Value of Long-Term Debt

At December 31, 2014 and 2013, the estimated fair value of long-term debt obligations, excluding capital lease obligations and the current portion of such long-term debt, was $1,122.1 million and $817.5 million, respectively. The fair value of long-term debt, excluding capital lease obligations and the current portion of such long-term debt, was estimated using market prices for the 6.95% Senior Notes at December 31, 2014 and 2013 and 7.25% Senior Notes at December 31, 2014 and a discounted cash flow analysis for the 6.7% Senior Notes at December 31, 2014 and 2013.

Other Market Risk Sensitive Instruments

The substantial majority of U.S. Cellular's other market risk sensitive instruments (as defined in item 305 of SEC Regulation S-K) are short-term, including Cash and cash equivalents. Accordingly, U.S. Cellular believes that a significant change in interest rates would not have a material effect on such other market risk sensitive instruments.

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Consolidated Statement of Operations

Year Ended December 31, (Dollars and shares in thousands, except per share amounts)	**2014**	**2013**	**2012**
Operating revenues			
Service	$ 3,397,937	$ 3,594,773	$ 4,098,856
Equipment sales	494,810	324,063	353,228
Total operating revenues	3,892,747	3,918,836	4,452,084
Operating expenses			
System operations (excluding Depreciation, amortization and accretion reported below)	769,911	763,435	946,805
Cost of equipment sold	1,192,669	999,000	935,947
Selling, general and administrative (including charges from affiliates of $91.1 million, $99.2 million and $104.3 million in 2014, 2013 and 2012)	1,591,914	1,677,395	1,764,933
Depreciation, amortization and accretion	605,997	803,781	608,633
(Gain) loss on asset disposals, net	21,469	30,606	18,088
(Gain) loss on sale of business and other exit costs, net	(32,830)	(246,767)	21,022
(Gain) loss on license sales and exchanges	(112,993)	(255,479)	
Total operating expenses	4,036,137	3,771,971	4,295,428
Operating income (loss)	(143,390)	146,865	156,656
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	129,764	131,949	90,364
Interest and dividend income	12,148	3,961	3,644
Gain (loss) on investments		18,556	(3,718)
Interest expense	(57,386)	(43,963)	(42,393)
Other, net	160	288	500
Total investment and other income (expense)	84,686	110,791	48,397
Income (loss) before income taxes	(58,704)	257,656	205,053
Income tax expense (benefit)	(11,782)	113,134	63,977
Net income (loss)	(46,922)	144,522	141,076
Less: Net income (loss) attributable to noncontrolling interests, net of tax	(4,110)	4,484	30,070
Net income (loss) attributable to U.S. Cellular shareholders	$ (42,812)	$ 140,038	$ 111,006
Basic weighted average shares outstanding	84,213	83,968	84,645
Basic earnings (loss) per share attributable to U.S. Cellular shareholders	$ (0.51)	$ 1.67	$ 1.31
Diluted weighted average shares outstanding			

84,213