UNITED STATES CELLULAR CORP
Form 10-Q
August 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 2014
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**62-1147325**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

8410 West Bryn Mawr, Chicago, Illinois 60631

(Address of principal executive offices) (Zip code)

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

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

• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	x	o

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

Large accelerated filer	o	Accelerated filer	x	Non-accelerated filer	o	Smaller reporting company	o

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	o	x

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

Class	**Outstanding at June 30, 2014**
Common Shares, $1 par value	51,301,351 Shares
Series A Common Shares, $1 par value	33,005,877 Shares

United States Cellular Corporation

Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2014

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Part I. Financial Information

Item 1. Financial Statements

United States Cellular Corporation

Consolidated Statement of Operations

(Unaudited)

(Dollars and shares in thousands, except per share amounts)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating revenues				
Service	$ 843,473	$ 910,966	$ 1,697,086	$ 1,907,315
Equipment sales	114,300	84,164	186,498	169,561
Total operating revenues	957,773	995,130	1,883,584	2,076,876
Operating expenses				
System operations (excluding Depreciation, amortization and accretion reported below)	187,131	192,267	367,738	408,566
Cost of equipment sold	271,978	217,070	542,452	458,761
Selling, general and administrative (including charges from affiliates of $22.9 million and $25.0 million, respectively, for the three months, and $44.1 million and $48.5 million, respectively, for the six months)	404,252	404,127	799,816	824,207
Depreciation, amortization and accretion	148,337	202,580	316,090	392,425
(Gain) loss on asset disposals, net	6,893	9,018	8,827	14,452
(Gain) loss on sale of business and other exit costs, net	(10,511)	(249,024)	(17,411)	(242,093)

(Gain) loss on license sales and exchanges		-		-		(91,446)		-
Total operating expenses		1,008,080		776,038		1,926,066		1,856,318
Operating income (loss)		(50,307)		219,092		(42,482)		220,558
Investment and other income (expense)								
Equity in earnings of unconsolidated entities		33,120		35,602		70,195		62,437
Interest and dividend income		1,573		969		2,457		1,872
Gain (loss) on investments		-		18,527		-		18,527
Interest expense		(14,336)		(10,154)		(29,198)		(21,064)
Other, net		100		321		186		106
Total investment and other income		20,457		45,265		43,640		61,878
Income (loss) before income taxes		(29,850)		264,357		1,158		282,436
Income tax expense (benefit)		(10,399)		120,682		2,205		128,051
Net income (loss)		(19,451)		143,675		(1,047)		154,385
Less: Net income (loss) attributable to noncontrolling interests, net of tax		(662)		284		(1,740)		6,080
Net income (loss) attributable to U.S. Cellular shareholders	$	(18,789)	$	143,391	$	693	$	148,305
Basic weighted average shares outstanding		84,341		83,845		84,277		83,842
Basic earnings (loss) per share attributable to U.S. Cellular shareholders	$	(0.22)	$	1.71	$	0.01	$	1.77
Diluted weighted average shares outstanding		84,341		84,661		85,041		84,655
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	$	(0.22)	$	1.69	$	0.01	$	1.75
Special dividend per share to U.S. Cellular shareholders	$	-	$	5.75	$	-	$	5.75

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

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United States Cellular Corporation

Consolidated Statement of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
(Dollars in thousands)		
Cash flows from operating activities		
Net income (loss)	$ (1,047)	$ 154,385
Add (deduct) adjustments to reconcile net income to cash flows from operating activities		
Depreciation, amortization and accretion	316,090	392,425
Bad debts expense	49,083	32,715
Stock-based compensation expense	10,560	6,530
Deferred income taxes, net	(13,267)	(26,527)
Equity in earnings of unconsolidated entities	(70,195)	(62,437)
Distributions from unconsolidated entities	65,565	45,370
(Gain) loss on asset disposals, net	8,827	14,452
(Gain) loss on sale of business and other exit costs, net	(17,411)	(242,093)
(Gain) loss on investments	-	(18,527)
(Gain) loss on license sales and exchanges	(91,446)	-
Noncash interest expense	540	526
Other operating activities	57	489
Changes in assets and liabilities from operations		
Accounts receivable	52,471	(1,544)
Inventory	38,329	(7,644)
Accounts payable - trade	(34,666)	67,457
Accounts payable - affiliate	(1,934)	4,734
Customer deposits and deferred revenues	10,793	8,663
Accrued taxes	(20,280)	147,566
Accrued interest	61	176
Other assets and liabilities	(89,270)	(68,131)
	212,860	448,585
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(262,397)	(323,157)
Cash paid for acquisitions and licenses	(17,245)	(14,150)
Cash received from divestitures	125,905	480,000
Cash received for investments	10,000	-

Other investing activities		836		3,993
		(142,901)		146,686
Cash flows from financing activities				
Repayment of long-term debt		(28)		(71)
Common shares reissued for benefit plans, net of tax payments		830		(2,206)
Common shares repurchased		(8,298)		(18,425)
Dividends paid		-		(482,270)
Distributions to noncontrolling interests		(482)		(3,292)
Other financing activities		12		56
		(7,966)		(506,208)
Net increase in cash and cash equivalents		61,993		89,063
Cash and cash equivalents				
Beginning of period		342,065		378,358
End of period	$	404,058	$	467,421

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

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United States Cellular Corporation

Consolidated Balance Sheet — Assets

(Unaudited)

(Dollars in thousands)	June 30, 2014	December 31, 2013
Current assets		
Cash and cash equivalents	$ 404,058	$ 342,065
Short-term investments	40,035	50,104
Accounts receivable		
Customers and agents, less allowances of $33,601 and $59,206, respectively	368,597	467,255
Roaming	32,138	30,136
Affiliated	1,244	980
Other, less allowances of $747 and $1,032, respectively	78,509	88,224
Inventory, net	199,859	238,188
Prepaid expenses	63,836	65,596
Net deferred income tax asset	99,105	99,105
Other current assets	20,908	19,538
	1,308,289	1,401,191
Assets held for sale	-	16,027
Investments		
Licenses	1,437,831	1,401,126
Goodwill	387,524	387,524
Investments in unconsolidated entities	270,215	265,585
	2,095,570	2,054,235
Property, plant and equipment		
In service and under construction	7,670,466	7,717,512
Less: Accumulated depreciation	4,909,062	4,860,992
	2,761,404	2,856,520
Other assets and deferred charges	133,704	117,735
Total assets	$ 6,298,967	$ 6,445,708

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

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United States Cellular Corporation

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in thousands)		June 30, 2014		December 31, 2013
Current liabilities				
Current portion of long-term debt	$	46	$	166
Accounts payable				
Affiliated		9,937		11,243
Trade		348,223		405,583
Customer deposits and deferred revenues		267,533		256,740
Accrued taxes		51,249		73,820
Accrued compensation		54,993		66,566
Other current liabilities		139,229		192,055
		871,210		1,006,173
Deferred liabilities and credits				
Net deferred income tax liability		822,205		836,297
Other deferred liabilities and credits		318,793		315,073
Long-term debt		876,715		878,032
Commitments and contingencies		-		-
Noncontrolling interests with redemption features		911		536
Equity				
U.S. Cellular shareholders' equity				
Series A Common and Common Shares				
Authorized 190,000 shares (50,000 Series A Common and 140,000 Common Shares)				
Issued 88,074 shares (33,006 Series A Common and 55,068 Common Shares)				
Outstanding 84,307 shares (33,006 Series A Common and 51,301 Common Shares) and 84,205 shares (33,006 Series A Common and 51,199 Common Shares), respectively				
Par Value ($1 per share) ($33,006 Series A Common and $55,068 Common Shares)		88,074		88,074

Additional paid-in capital		1,434,045		1,424,729
Treasury shares, at cost, 3,767 and 3,869 Common Shares, respectively		(161,137)		(164,692)
Retained earnings		2,032,355		2,043,095
Total U.S. Cellular shareholders' equity		3,393,337		3,391,206
Noncontrolling interests		15,796		18,391
Total equity		3,409,133		3,409,597
Total liabilities and equity	$	6,298,967	$	6,445,708
The accompanying notes are an integral part of these consolidated financial statements.				

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United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders							
(Dollars in thousands)	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	Total U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2013	$ 88,074	$ 1,424,729	$ (164,692)	$ 2,043,095	$ 3,391,206	$ 18,391	$ 3,409,597
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	-	-	-	693	693	-	693
Net income (loss) attributable to noncontrolling interests classified as equity	-	-	-	-	-	(2,136)	(2,136)
Repurchase of Common Shares	-	-	(8,598)	-	(8,598)	-	(8,598)
Incentive and compensation plans	-	-	12,153	(11,433)	720	-	720
Stock-based compensation	-	9,845	-	-	9,845	-	9,845

awards							
Tax windfall (shortfall) from stock awards	-	(529)	-	-	(529)	-	(529)
Distributions to noncontrolling interests	-	-	-	-	-	(459)	(459)
Balance, June 30, 2014	$ 88,074	$ 1,434,045	$ (161,137)	$ 2,032,355	$ 3,393,337	$ 15,796	$ 3,409,133

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

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United States Cellular Corporation

Consolidated Statement of Changes in Equity

(Unaudited)

	U.S. Cellular Shareholders						
(Dollars in thousands)	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	Total U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2012	$ 88,074	$ 1,412,453	$ (165,724)	$ 2,399,052	$ 3,733,855	$ 61,392	$ 3,795,247
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders	-	-	-	148,305	148,305	-	148,305
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	6,061	6,061
Common and Series A Common Shares dividends	-	-	-	(482,270)	(482,270)		(482,270)
Repurchase of Common Shares	-	-	(18,425)	-	(18,425)	-	(18,425)
	-	222	6,976	(9,182)	(1,984)	-	(1,984)

Incentive and compensation plans							
Stock-based compensation awards	-	6,530	-	-	6,530	-	6,530
Tax windfall (shortfall) from stock awards	-	(746)	-	-	(746)	-	(746)
Distributions to noncontrolling interests	-	-	-	-	-	(3,292)	(3,292)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	(31)	-	-	(31)	-	(31)
Deconsolidation of partnerships	-	-	-	-	-	(43,770)	(43,770)
Balance, June 30, 2013	$ 88,074	$ 1,418,428	$ (177,173)	$ 2,055,905	$ 3,385,234	$ 20,391	$ 3,405,625

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

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United States Cellular Corporation

Notes to Consolidated Financial Statements

1. Basis of Presentation

United States Cellular Corporation ("U.S. Cellular"), a Delaware Corporation, is an 84%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

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

The consolidated financial statements included herein have been prepared by U.S. Cellular, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, U.S. Cellular believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in U.S. Cellular's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2013.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of June 30, 2014 and December 31, 2013, the results of operations for the three and six months ended June 30, 2014 and 2013, and cash flows and changes in equity for the six months ended June 30, 2014 and 2013. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and six months ended June 30, 2014 and 2013 equaled net income. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”). ASU 2014-08 changes the requirements and disclosures for reporting discontinued operations. U.S. Cellular is required to adopt the provisions of ASU 2014-08 effective January 1, 2015, but early adoption is permitted. U.S. Cellular adopted the provisions of ASU 2014-08 upon its issuance. The adoption of ASU 2014-08 did not have a significant impact on U.S. Cellular’s financial position or results of operations.

On May 28, 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. U.S. Cellular is required to adopt the provisions of ASU 2014-09 effective January 1, 2017. Early adoption is prohibited. U.S. Cellular is evaluating what effects the adoption of ASU 2014-09 will have on U.S. Cellular’s financial position and results of operations.

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. 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 guarantee liability, if applicable. For certain installment plans, after a specified period of time, the customer may have the right to upgrade to a new device and have the remaining unpaid installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. U.S. Cellular values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device, the customer’s estimated remaining installment contract balance at the time of trade-in and the fair value of the device being traded-in at the time of trade-in. As of June 30, 2014, the short-term guarantee liability and imputed interest liability related to equipment installment plans of $15.3 million is recorded in Customer deposits and deferred revenues in the Consolidated Balance Sheet and the long-term imputed interest liability related to equipment installment plans of $0.7 million is recorded in Other deferred liabilities and credits in the Consolidated Balance Sheet. As of June 30, 2014, short-term equipment installment plan receivables of $23.9 million are included in Accounts receivable – customers and agents in the Consolidated Balance Sheet and long-term equipment installment plan receivables of $19.8 million are included in Other assets and deferred charges in the Consolidated Balance Sheet.

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U.S. Cellular equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of twelve months or less, U.S. Cellular does not impute interest. For equipment installment plans with a duration of greater than twelve months, U.S. Cellular imputes interest and recognizes such interest income over the duration of the plan as a component of Interest and dividend income.

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $25.4 million and $51.8 million for the three and six months ended June 30, 2014, respectively, and $28.1 million and $60.2 million for the three and six months ended June 30, 2013, respectively.

2. Fair Value Measurements

As of June 30, 2014 and December 31, 2013, U.S. Cellular did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, U.S. Cellular has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	Level within the Fair Value Hierarchy	June 30, 2014		December 31, 2013	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 404,058	$ 404,058	$ 342,065	$ 342,065
Short-term investments					
U.S. Treasury Notes	1	40,035	40,035	50,104	50,104
Long-term debt					
	1	342,000	348,703	342,000	309,852

	6.95% Senior Notes													
	6.7% Senior Notes	2			532,583			550,727			532,449			507,697

Short-term investments are designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. Long-term debt excludes capital lease obligations and the current portion of Long-term debt.

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair value of Long-term debt was estimated using market prices for the 6.95% Senior Notes, and discounted cash flow analysis using an estimated yield to maturity of 6.59% for the 6.7% Senior Notes at June 30, 2014.

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3. Income Taxes

U.S. Cellular is included in a consolidated federal income tax return and in certain state income tax returns with other members of the TDS consolidated group. For financial statement purposes, U.S. Cellular and its subsidiaries compute their income tax expense as if they comprised a separate affiliated group and were not included in the TDS consolidated group.

U.S. Cellular’s overall effective tax rate on Income (loss) before income taxes for the three and six months ended June 30, 2014 was 34.8% and 190.4%, respectively, and for the three and six months ended June 30, 2013 was 45.7% and 45.3%, respectively.

The unusually high effective tax rate for the six months ended June 30, 2014 resulted from the relatively low amount of Income (loss) before income taxes in this period, which magnified the effective rate impact of discrete tax expense items.

The effective tax rates for the three and six months ended June 30, 2013 reflected incremental deferred tax expense related to the NY1 & NY2 Deconsolidation (as described in Note 7 — Investments in Unconsolidated Entities) and the Divestiture Transaction (as described in Note 5 — Acquisitions, Divestitures and Exchanges) in 2013.

4. Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Dollars and shares in thousands, except per share amounts)				
Net income (loss) attributable to U.S. Cellular shareholders	$ (18,789)	$ 143,391	$ 693	$ 148,305
Weighted average number of shares used in basic earnings (loss) per share	84,341	83,845	84,277	83,842
Effects of dilutive securities:				
Stock options	-	226	193	201
Restricted stock units	-	590	571	612
Weighted average number of shares used in diluted earnings (loss) per share	84,341	84,661	85,041	84,655
Basic earnings (loss) per share attributable to U.S. Cellular shareholders	$ (0.22)	$ 1.71	$ 0.01	$ 1.77
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	$ (0.22)	$ 1.69	$ 0.01	$ 1.75

Certain Common Shares issuable upon the exercise of stock options or vesting of restricted stock units were not included in average diluted shares outstanding for the calculation of Diluted earnings (loss) per share attributable to U.S. Cellular shareholders because their effects were antidilutive. The number of such Common Shares excluded, if any, is shown in the table below.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Shares in thousands)				
Stock options	3,559	2,437	1,820	2,041
Restricted stock units	1,191	208	141	221

5. Acquisitions, Divestitures and Exchanges

Divestiture Transaction

On November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Corp., fka Sprint Nextel Corporation ("Sprint"). Pursuant to the Purchase and Sale Agreement, on May 16, 2013, U.S. Cellular transferred customers and certain PCS license spectrum to Sprint in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets ("Divestiture Markets") in consideration for $480 million in cash. The Purchase and Sale Agreement also contemplated certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the "Divestiture Transaction."

Pursuant to the Purchase and Sale Agreement, U.S. Cellular and Sprint also entered into certain other agreements, including customer and network transition services agreements, which require U.S. Cellular to provide customer, billing and network services to Sprint for a period of up to 24 months after the May 16, 2013 closing date. Sprint will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular's estimated costs, including applicable overhead allocations. These services were substantially complete as of March 31, 2014. In addition, these agreements require Sprint to reimburse U.S. Cellular up to $200 million (the "Sprint Cost Reimbursement") for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to $175 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to $25 million of the Sprint Cost Reimbursement will be recorded in System operations in the Consolidated Statement of Operations. For the six months ended June 30, 2014, $34.1 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

Financial impacts of the Divestiture Transaction are classified in the Consolidated Statement of Operations within Operating income. The table below describes the amounts U.S. Cellular has recognized and expects to recognize in the Consolidated Statement of Operations between the date the Purchase and Sale Agreement was signed and the end of the transition services period.

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(Dollars in thousands)	Expected Period of Recognition	Projected Range		Cumulative Amount Recognized as of June 30, 2014	Actual Amount Recognized Six Months Ended June 30, 2014	Actual Amount Recognized Six Months Ended June 30, 2013	Actual Amount Recognized Three Months Ended June 30, 2014	R E
(Gain) loss on sale of business and other exit costs, net								
Proceeds from Sprint								
Purchase price	2013	$ (480,000)	$ (480,000)	$ (480,000)	$ -	$ (480,000)	$ -	$
Sprint Cost Reimbursement	2013-2015	(120,000)	(175,000)	(96,835)	(49,194)	(8)	(4,563)	
Net assets transferred	2013	213,593	213,593	213,593	-	213,593	-	
Non-cash charges for the write-off and write-down of property under construction and related assets	2012-2015	10,000	15,000	11,013	338	81	(5)	
Employee related costs including severance, retention and outplacement	2012-2014	13,000	16,000	14,129	(133)	3,103	(71)	
Contract termination costs	2012-2015	90,000	120,000	90,417	30,833	16,605	(6,254)	
Transaction costs	2012-2014	5,000	7,000	6,027	462	3,719	253	
Total (Gain) loss on sale of		$ (268,407)	$ (283,407)	$ (241,656)	$ (17,694)	$ (242,907)	$ (10,640)	$

business and other exit costs, net													
Depreciation, amortization and accretion expense													
Incremental depreciation, amortization and accretion, net of salvage values	2012-2014		211,656		211,656		211,656		13,085		88,324		-
(Increase) decrease in Operating income		$	(56,751)	$	(71,751)	$	(30,000)	$	(4,609)	$	(154,583)	$	(10,640)	$

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Incremental depreciation, amortization and accretion, net of salvage values represents amounts recorded in the specified time periods as a result of a change in estimate for the remaining useful life and salvage value of certain assets and a change in estimate which accelerated the settlement dates of certain asset retirement obligations in conjunction with the Divestiture Transaction. Specifically, for the periods indicated, this is estimated depreciation, amortization and accretion recorded on assets and liabilities of the Divestiture Markets after the execution of the Purchase and Sale Agreement on November 6, 2012 less depreciation, amortization and accretion that would have been recorded on such assets and liabilities in the normal course, absent the Divestiture Transaction.

As a result of the transaction, U.S. Cellular recognized the following amounts in the Consolidated Balance Sheet:

		Six Months Ended June 30, 2014			
(Dollars in thousands)	**Balance December 31, 2013**	**Costs Incurred**	**Cash Settlements (1)**	**Adjustments (2)**	**Balance June 30, 2014**
Accrued compensation					
Employee related costs including severance, retention, outplacement	$ 2,053	$ 180	$ (908)	$ (313)	$ 1,012
Other current liabilities					
Contract termination costs	$ 13,992	$ 16,691	$ (12,887)	$ 2,091	$ 19,887
Other deferred liabilities and credits					
Contract termination costs	$ 30,849	$ 23,773	$ (2,424)	$ (19,898)	$ 32,300

(1) Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities on the Consolidated Statement of Cash Flows.

(2) Adjustment to liability represents changes to previously accrued amounts.

Other Acquisitions, Divestitures and Exchanges

On May 23, 2014, U.S. Cellular entered into a License Purchase and Customer Recommendation Agreement with Airadigm Communications, Inc. (“Airadigm”). TDS owns 100% of the common stock of Airadigm. The Agreement provides that Airadigm will transfer 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 at closing. The transaction also includes a program in which Airadigm would earn a migration fee from U.S. Cellular for each Airadigm customer who becomes a U.S. Cellular customer. Since both parties to this transaction are controlled by TDS, upon closing, U.S. Cellular will record the transferred assets at Airadigm's net book value of $15.2 million. The difference between the consideration paid and the net book value of the transferred assets will be recorded as a reduction of U.S. Cellular's Retained earnings. The transaction is subject to certain conditions. Subject to the satisfaction or (if permitted) waiver of all conditions, the transaction is expected to close during the third quarter of 2014.

On March 5, 2014, U.S. Cellular sold the majority of its St. Louis area non-operating market spectrum license for $92.3 million. A gain of $75.8 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations in the first quarter of 2014.

On February 14, 2014, U.S. Cellular completed an exchange whereby U.S. Cellular received one E block PCS spectrum license covering Milwaukee, WI in exchange for one D block PCS spectrum license covering Milwaukee, WI. The exchange of licenses provided U.S. Cellular with spectrum to meet anticipated future capacity and coverage requirements. No cash, customers, network assets, other assets or liabilities were included in the exchange. As a result of this transaction, U.S. Cellular recognized a gain of $15.7 million, representing the difference between the $15.9 million fair value of the license surrendered, calculated using a market approach valuation method, and the $0.2 million carrying value of the license surrendered. This gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations in the first quarter of 2014.

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6. Intangible Assets

Changes in U.S. Cellular's Licenses for the six months ended June 30, 2014 are presented below. There was no change to Goodwill during the six months ended June 30, 2014.

Licenses		
(Dollars in thousands)		
Balance, beginning of period	$	1,401,126
Acquisitions		20,986
Exchanges, net		15,719
Balance, end of period	$	1,437,831

7. Investments in Unconsolidated Entities

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
(Dollars in thousands)								
Revenues	$	1,629,724	$	1,544,564	$	3,250,114	$	3,015,756
Operating expenses		1,204,588		1,095,809		2,334,226		2,130,433
Operating income		425,136		448,755		915,888		885,323
Other income, net		640		1,113		2,403		1,711
Net income	$	425,776	$	449,868	$	918,291	$	887,034

NY1 & NY2 Deconsolidation

U.S. Cellular holds a 60.00% interest in St. Lawrence Seaway RSA Cellular Partnership ("NY1") and a 57.14% interest in New York RSA 2 Cellular Partnership ("NY2") (together with NY1, the "Partnerships"). The remaining interests in the Partnerships are held by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). Prior to April 3, 2013, because U.S. Cellular owned a greater than 50% interest in each of these Partnerships and based on U.S. Cellular's rights under the Partnership Agreements, U.S. Cellular consolidated the financial results of these Partnerships in accordance with GAAP.

On April 3, 2013, U.S. Cellular entered into an agreement with Verizon Wireless relating to the Partnerships. The agreement amends the Partnership Agreements in several ways which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, U.S. Cellular deconsolidated the Partnerships effective as of April 3, 2013 and thereafter reported them as equity method investments in its consolidated financial statements ("NY1 & NY2 Deconsolidation"). After the NY1 & NY2 Deconsolidation, U.S. Cellular retained the same ownership percentages in the Partnerships and continues to report the same percentages of income from the Partnerships. Effective April 3, 2013, U.S. Cellular's income from the Partnerships is reported in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations.

8. Variable Interest Entities (VIEs)

U.S. Cellular consolidates variable interest entities in which it has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb VIE losses and the right to receive benefits that are significant to the VIE. U.S. Cellular reviews these criteria initially at the time it enters into agreements and subsequently when reconsideration events occur.

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Consolidated VIEs

As of June 30, 2014, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

- Aquinas Wireless L.P. (“Aquinas Wireless”); and
- King Street Wireless L.P. (“King Street Wireless”) and King Street Wireless, Inc., the general partner of King Street Wireless.

The power to direct the activities that most significantly impact the economic performance of Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs consent of the limited partner, a U.S. Cellular subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, U.S. Cellular has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that U.S. Cellular is the primary beneficiary of the VIEs in accordance with GAAP. Accordingly, these VIEs are consolidated.

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

			June 30, 2014		December 31, 2013
(Dollars in thousands)					
Assets					
	Cash and cash equivalents		$ 2,466		$ 2,076
	Other current assets		71		1,184
	Licenses		311,476		310,475
	Property, plant and equipment, net		15,311		18,600
	Other assets and deferred charges		148		511
		Total assets	$ 329,472		$ 332,846
Liabilities					
	Current liabilities		$ 29		$ 46

	Deferred liabilities and credits		1,689		3,139
	Total liabilities	$	1,718	$	3,185

Other Related Matters

Aquinas Wireless and King Street Wireless were formed to participate in Federal Communications Commission (“FCC”) auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to those described in the “Risk Factors” in U.S. Cellular’s Form 10-K for the year ended December 31, 2013.

U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless.

U.S. Cellular may agree to make additional capital contributions and/or advances to Aquinas Wireless and King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in various auctions. U.S. Cellular may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or long-term debt. There is no assurance that U.S. Cellular will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

There were no capital contributions or advances made to Aquinas Wireless or King Street Wireless or their general partners in the six months ended June 30, 2014 and 2013.

9. Common Share Repurchases

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date.

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Share repurchases made under this authorization were as follows:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
(Dollar amounts and shares in thousands)		
Number of shares	212	496
Average cost per share	$ 40.49	$ 37.16
Amount	$ 8,598	$ 18,425

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Item 2. 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") as of June 30, 2014.

U.S. Cellular provides wireless telecommunications services to approximately 4.7 million customers in 23 states. As of June 30, 2014, U.S. Cellular's average penetration rate in its consolidated operating markets was 14.7%. 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.

The following discussion and analysis should be read in conjunction with U.S. Cellular's interim consolidated financial statements and notes included in Item 1 above, and with the description of U.S. Cellular's business, its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2013.

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.

Financial and operating highlights in the six months ended June 30, 2014 included the following:

- 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.

- In February 2014, U.S. Cellular completed a license exchange in Milwaukee. 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.

The following operating information is presented for Core Markets. 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 5 — Acquisitions, Divestitures and Exchanges and Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

- Total customers were 4,653,000 at June 30, 2014, including 4,500,000 retail customers (97% of total).

- Retail customer net losses were 110,000 in the first six months of 2014 compared to net losses of 47,000 in 2013. In the postpaid category, there were net losses of 119,000 in 2014, compared to net losses of 86,000 in 2013. Postpaid defections increased due to billing system conversion issues and aggressive promotions by other carriers. Prepaid net additions were 9,000 in 2014 compared to net additions of 39,000 in 2013. The decline resulted from lower net additions in the national retail channel.

- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of June 30, 2014. The postpaid churn rate was 2.0% in 2014 compared to 1.6% in 2013. Billing system conversion issues and aggressive competitive offerings contributed to the increase in postpaid churn. The prepaid churn rate was 6.7% in 2014 compared to 5.8% in 2013.

- Billed average revenue per user ("ARPU") increased to $53.62 in 2014 from $50.97 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 $60.23 in 2014 from $57.52 in 2013 due primarily to an increase in postpaid ARPU, offset by a decrease in inbound roaming revenue.

- Postpaid customers on smartphone service plans increased to 55% as of June 30, 2014 compared to 46% as of June 30, 2013. In addition, smartphones represented 73% of all devices sold in 2014 compared to 64% in 2013.

- Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings for equipment installment plans. For the three months ended June 30, 2014, 15% of total smartphone sales to customers were made under an equipment installment plan.

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

- Retail service revenues of $1,510.9 million decreased $175.5 million, or 10%, in 2014 due to a decrease of 799,000 in the average number of customers (including approximately 500,000 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 $212.9 million. At June 30, 2014, Cash and cash equivalents and Short-term investments totaled $444.1 million and there were no outstanding borrowings under the revolving credit facility.

- Total additions to Property, plant and equipment were $233.5 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 20% year-over-year to 6,183 primarily as a result of the NY1 & NY2 Deconsolidation and the deactivation of certain cell sites in the Divestiture Markets.

- Operating income (loss) decreased $263.0 million, to a loss of $42.5 million in 2014. The (Gain) loss on license sales and exchanges and the (Gain) loss on sale of business and other exit costs contributed $108.9 million and $242.1 million to operating income in 2014 and 2013, respectively. Without these items, operating income decreased $129.8 million due to lower service revenues and higher equipment subsidies, which were partially offset by lower system operations, selling, general and administrative, and depreciation, amortization and accretion expense.

- Net income (loss) attributable to U.S. Cellular shareholders decreased $147.6 million to $0.7 million in 2014 compared to $148.3 million in 2013, due primarily to the net impact of lower operating income and a decrease in Gain (loss) on investments. Basic earnings (loss) per share and Diluted earnings (loss) per share were $0.01 in 2014, which was $1.76 and $1.74 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 continue to be implemented to address these issues, and customer service and sales operations response times have improved. However, any future operational problems associated with the new billing system could have adverse effects on U.S. Cellular's business (in areas such as overall customer satisfaction, customer attrition, uncollectible accounts receivable, gross customer additions, or operating expenses). All of these factors could have a material adverse effect on U.S. Cellular's results of operations or cash flows;

- Impacts of selling Apple iPhone 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;

- Potential increases in prepaid customers, who generally generate lower ARPU and higher churn, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;

- 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 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;

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- 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.

Pro Forma Financial Information

Refer to U.S. Cellular’s Form 8-K filed on August 2, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and six months ended June 30, 2013, as if the transactions had occurred at the beginning of the period.

REGULATORY DEVELOPMENTS

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 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

In May 2014, the FCC issued a notice of proposed rulemaking seeking comments on revised net neutrality rules. The revised proposed rules are substantially similar to rules adopted in 2010 that were vacated by a U.S. Court of Appeals in January 2014 (as described in our Form 10-K for the year ended December 31, 2013), except that they include certain changes intended to allow the revised proposed rules to be sustained considering the Court's decision. In particular, whereas the vacated rules prohibited fixed (i.e., cable and telephone) Internet Service Providers from engaging in "unreasonable discrimination" in transmitting internet traffic, the revised proposed rules would prohibit those carriers from engaging in "commercially unreasonable practices." The FCC is also considering applying that standard to wireless Internet Service Providers, which were not subject to the former "unreasonable discrimination" standard. All types of Internet Service Providers previously were and would again be prohibited from "blocking" access to lawful Internet services, and remain subject to "transparency" requirements which were not vacated by the Court of Appeals. The FCC also now proposes to "enhance" those transparency requirements to provide for greater disclosure of network management practices. The FCC proceeding is currently pending, and we cannot predict the outcome of the proceeding.

FCC Spectrum Auction 97

The FCC has scheduled an auction of AWS-3 spectrum licenses, referred to as Auction 97, to begin on November 13, 2014. U.S. Cellular evaluates opportunities to acquire additional spectrum in FCC auctions and may participate as a bidder or member of a bidding group. If U.S. Cellular participates, information relating to this will be disclosed at a later time, subject to FCC rules. In such event, applicable FCC anti-collusion rules will place certain restrictions on public disclosures and business communications with other companies relating to U.S. Cellular's participation, commencing on the application deadline of September 12, 2014 until the down payment deadline for Auction 97, which will be the later of January 7, 2015 or ten business days after release of the auction closing public notice. These anti-collusion rules, which could last three to four months or more, may restrict the normal conduct of U.S. Cellular's disclosures and/or business communications by U.S. Cellular relating to the auction. The restrictions could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

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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 for subsequent divestitures or deconsolidations. Unless otherwise noted, figures reported in Results of Operations are representative of consolidated results.

As of or for Six Months Ended June 30,				2014			2013	
Retail Customers								
	Postpaid							
		Total at end of period		4,148,000			4,412,000	
		Gross additions		387,000			356,000	
		Net additions (losses)		(119,000)			(194,000)	
		ARPU(1)	$	57.18		$	54.80	
		Churn rate(2)		2.0	%		1.9	%
		Smartphone penetration(3)		55.3	%		45.5	%
	Prepaid							
		Total at end of period		352,000			381,000	
		Gross additions		150,000			181,000	
		Net additions (losses)		9,000			16,000	
		ARPU(1)	$	33.18		$	32.76	
		Churn rate(2)		6.7	%		6.6	%
Total customers at end of period				4,653,000			4,968,000	
Billed ARPU(1)			$	53.62		$	51.15	
Service revenue ARPU(1)			$	60.23		$	57.85	
Smartphones sold as a percent of total devices sold				72.8	%		63.7	%
Total Population								
	Consolidated markets(4)			54,817,000			84,025,000	
	Consolidated operating markets(4)			31,729,000			31,822,000	
Market penetration at end of period								
	Consolidated markets(5)			8.5	%		5.9	%
	Consolidated operating markets(5)			14.7	%		15.6	%
Capital expenditures (000s)			$	233,508		$	286,907	
Total cell sites in service				6,183			7,748	

Owned towers	4,457	4,411

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 six months ended June 30, 2013.

As of or for Six Months Ended June 30,				**2014**			**2013**	
Retail Customers								
	Postpaid							
		Total at end of period		4,148,000			4,412,000	
		Gross additions		387,000			341,000	
		Net additions (losses)		(119,000)			(86,000)	
		ARPU(1)	$	57.18		$	54.34	
		Churn rate(2)		2.0	%		1.6	%
		Smartphone penetration(3)		55.3	%		45.5	%
	Prepaid							
		Total at end of period		352,000			381,000	
		Gross additions		150,000			167,000	
		Net additions (losses)		9,000			39,000	
		ARPU(1)	$	33.18		$	32.36	
		Churn rate(2)		6.7	%		5.8	%
Total customers at end of period				4,653,000			4,968,000	
Billed ARPU(1)			$	53.62		$	50.97	
Service revenue ARPU(1)			$	60.23		$	57.52	
Smartphones sold as a percent of total devices sold				72.8	%		64.0	%
Total Population								
	Consolidated markets(4)			54,817,000			84,025,000	
	Consolidated operating markets(4)			31,729,000			31,822,000	
Market penetration at end of period								
	Consolidated markets(5)			8.5	%		5.9	%
	Consolidated operating markets(5)			14.7	%		15.6	%
Capital expenditures (000s)			$	233,508		$	279,073	
Total cell sites in service				6,183			6,113	
Owned towers				3,892			3,846	

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(1) 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 retail service or “billed” revenues (total postpaid, prepaid and reseller service revenues) and postpaid, prepaid and reseller customers.

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

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

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

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

(5) 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 penetration is due primarily to a lower denominator as a result of the license divestitures described in footnote (4) above.

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Components of Operating Income							
Six Months Ended June 30,		**2014**		**2013**		**Change**	**Percentage Change**
(Dollars in thousands)							
Retail service	$	1,510,918	$	1,686,399	$	(175,481)	(10) %
Inbound roaming		107,706		130,907		(23,201)	(18) %
Other		78,462		90,009		(11,547)	(13) %
Service revenues		1,697,086		1,907,315		(210,229)	(11) %
Equipment sales		186,498		169,561		16,937	10 %
Total operating revenues		1,883,584		2,076,876		(193,292)	(9) %
System operations (excluding Depreciation, amortization and accretion reported below)		367,738		408,566		(40,828)	(10) %
Cost of equipment sold		542,452		458,761		83,691	18 %
Selling, general and administrative		799,816		824,207		(24,391)	(3) %
Depreciation, amortization and accretion		316,090		392,425		(76,335)	(19) %
(Gain) loss on asset disposals, net		8,827		14,452		(5,625)	(39) %
(Gain) loss on sale of business and other exit costs, net		(17,411)		(242,093)		224,682	93 %
(Gain) loss on license sales and exchanges		(91,446)		-		(91,446)	N/M
Total operating expenses		1,926,066		1,856,318		69,748	4 %
Operating income (loss)	$	(42,482)	$	220,558	$	(263,040)	>(100) %
N/M - Not meaningful							

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 Universal Service Fund ("USF").

Retail service revenues

Retail service revenues decreased by $175.5 million, or 10%, in 2014 to $1,510.9 million due 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.

Billed ARPU increased to $53.62 in 2014 from $51.15 in 2013. This overall increase is due primarily to an increase in postpaid ARPU to $57.18 in 2014 from $54.80 in 2013, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

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. In addition, 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 $23.2 million, or 18%, in 2014 to $107.7 million. The decrease was due primarily to a $17.6 million impact related to the Divestiture Transaction and NY1 & NY2 Deconsolidation. 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.

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Other revenues

Other revenues decreased by $11.5 million, or 13%, in 2014 compared to 2013, due primarily to a $14.2 million decrease in eligible telecommunications carriers (“ETC”) support.

Pursuant to the FCC's Reform Order (“Reform Order”), U.S. Cellular’s current ETC support is being phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational by July 2014. Therefore, 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 the Phase II Mobility Fund is operational. At this time, U.S. Cellular cannot predict the net effect of the FCC’s changes to the USF high cost support program in the Reform Order. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular’s business, financial condition or results of operations.

Equipment sales revenues

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 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. In addition, 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 $16.9 million, or 10%, in 2014 to $186.5 million. In the Core Markets, equipment sales revenues increased by $24.6 million due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans), partially offset by the sale of fewer devices, primarily in the feature phone category. The increase in equipment sales revenues in the Core Markets was partially offset by the effects of the Divestiture Transaction and the NY1 & NY2 Deconsolidation.

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.

System operations expenses decreased $40.8 million, or 10%, to $367.7 million. Key components of the net changes in System operations expense were as follows:

- Customer usage expenses decreased by $24.4 million, or 19%, driven by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation and decreases in network costs due to lower rates for long distance usage and lower fees for platform and content providers.

- Maintenance, utility and cell site expenses decreased $13.2 million, or 7%, driven primarily by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation and lower headcount, partially offset by costs related to 4G LTE support.

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased $3.2 million, or 4%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation, lower voice usage and lower rates, offset by higher data roaming usage in the Core Markets.

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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 more efficient 4G LTE network from the 3G network.

Cost of equipment sold

Cost of equipment sold increased by $83.7 million, or 18%, in 2014 to $542.5 million. The increase was driven by a 36% increase in the average cost per device sold, 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. Smartphones sold as a percentage of total devices sold were 73% and 64% in 2014 and 2013, respectively. The total number of devices sold decreased by 11%, partially due to the Divestiture Transaction.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $356.0 million and $289.2 million for 2014 and 2013, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers under the standard contract/subsidy model the industry has operated with for many years. However, U.S. Cellular expects the introduction of the equipment installment plans to offset the increases in 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.

Key components of the $24.4 million, or 3%, decrease to $799.8 million were as follows:

- Selling and marketing expense decreased by $7.0 million, or 2%, due primarily to the effects of the Divestiture Transaction and NY1 & NY2 Deconsolidation, offset by increases in advertising and commissions expenses.

- General and administrative expense decreased by $17.4 million, or 4%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation and lower consulting expenses related to the billing system conversion in the prior year, offset by an increase in bad debts expense.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased $76.3 million, or 19%, in 2014 to $316.1 million due primarily to the higher amount of accelerated depreciation, amortization and accretion in the Divestiture Markets that occurred in 2013. The impact of the acceleration was $13.1 million in 2014 compared to $88.3 million in 2013. 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 in both 2014 and 2013 due primarily to the write-off and disposals of certain network assets.

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

The net gain in both 2014 and 2013 resulted from the Divestiture Transaction. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges

The net gain in 2014 resulted from the sale of the St. Louis area non-operating market license and the license exchange in Milwaukee. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)				
Six Months Ended June 30,	**2014**	**2013**	**Change**	**Percentage Change**
(Dollars in thousands, except per share amounts)				
Operating income (loss)	$ (42,482)	$ 220,558	$ (263,040)	>(100)%
Equity in earnings of unconsolidated entities	70,195	62,437	7,758	12 %
Interest and dividend income	2,457	1,872	585	31 %
Gain (loss) on investments	-	18,527	(18,527)	N/M
Interest expense	(29,198)	(21,064)	(8,134)	(39) %
Other, net	186	106	80	75 %
Total investment and other income	43,640	61,878	(18,238)	(29) %
Income before income taxes	1,158	282,436	(281,278)	(100) %
Income tax expense	2,205	128,051	(125,846)	(98) %
Net income	(1,047)	154,385	(155,432)	>(100)%
Less: Net income (loss) attributable to noncontrolling interests, net of tax	(1,740)	6,080	(7,820)	>(100)%
Net income attributable to U.S. Cellular shareholders	$ 693	$ 148,305	$ (147,612)	(100) %
Basic earnings per share attributable to U.S. Cellular shareholders	$ 0.01	$ 1.77	$ (1.76)	(99) %
Diluted earnings per share attributable to U.S. Cellular shareholders	$ 0.01	$ 1.75	$ (1.74)	(99) %

N/M - Not meaningful

Equity in earnings of unconsolidated entities

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $39.6 million and $40.4 million to Equity in earnings of unconsolidated entities in 2014 and 2013, 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 $13.7 million and $8.6 million in 2014 and 2013, respectively. See Note 7 – Investments in Unconsolidated Entities 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

The increase in interest expense was due primarily to a decrease in capitalized interest related to network and systems projects. Interest cost capitalized was $2.0 million and $10.2 million for 2014 and 2013, respectively.

Income tax expense

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of 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.

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Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Components of Operating Income (Loss)				
Three Months Ended June 30,	**2014**	**2013**	**Change**	**Percentage Change**
(Dollars in thousands)				
Retail service	$ 746,117	$ 802,408	$ (56,291)	(7)%
Inbound roaming	57,580	65,033	(7,453)	(11)%
Other	39,776	43,525	(3,749)	(9)%
Service revenues	843,473	910,966	(67,493)	(7)%
Equipment sales	114,300	84,164	30,136	36 %
Total operating revenues	957,773	995,130	(37,357)	(4)%
System operations (excluding Depreciation, amortization and accretion reported below)	187,131	192,267	(5,136)	(3)%
Cost of equipment sold	271,978	217,070	54,908	25 %
Selling, general and administrative	404,252	404,127	125	-
Depreciation, amortization and accretion	148,337	202,580	(54,243)	(27)%
(Gain) loss on asset disposals, net	6,893	9,018	(2,125)	(24)%
(Gain) loss on sale of business and other exit costs, net	(10,511)	(249,024)	238,513	96 %
Total operating expenses	1,008,080	776,038	232,042	30 %
Operating income (loss)	$ (50,307)	$ 219,092	$ (269,399)	>(100)%

Operating Revenues

Retail service revenues

Retail service revenues decreased $56.3 million, or 7%, to $746.1 million in 2014 due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction) partially offset by an increase in billed ARPU.

Billed ARPU increased to $53.36 in 2014 compared to $50.60 in 2013. The overall increase is due primarily to an increase in postpaid ARPU to $56.82 in 2014 from $54.18 in 2013, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

Inbound roaming revenues

Inbound roaming revenues decreased by $7.5 million, or 11%, to $57.6 million in 2014 compared to 2013. The decrease was due in part to a $3.4 million impact related to the Divestiture Transaction. 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.

Other revenues

Other revenues decreased by $3.7 million, or 9%, to $39.8 million, due primarily to a $6.4 million decrease in ETC revenues. ETC revenues decreased due to the phase down of USF support as described in Results of Operations – U.S. Cellular for the six months ended June 30, 2014.

Equipment sales revenues

Equipment sales revenues increased by $30.1 million, or 36%, in 2014 to $114.3 million. The increase was due primarily to activity in the Core Markets, which reflected an increase in the average revenue per device sold (including the impact of sales under equipment installment plans), partially offset by the sale of fewer devices, primarily in the feature phone category. The increase in equipment sales revenues in the Core Markets was partially offset by the effects of the Divestiture Transaction.

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Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

Key components of the $5.1 million, or 3%, decrease to $187.1 million were as follows:

- Customer usage expense decreased $6.8 million, or 11%, driven by the impacts of the Divestiture Transaction and lower fees for platform and content providers.

- Maintenance, utility and cell site expenses decreased $1.1 million, or 1%, due primarily to the impacts of the Divestiture Transaction and lower headcount, partially offset by costs related to 4G LTE support.

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $2.7 million, or 7%, due primarily to an increase in data usage, partially offset by a decrease in voice usage, lower rates, and the impacts of the Divestiture Transaction.

Cost of equipment sold

Cost of equipment sold increased by $54.9 million, or 25%, to $272.0 million in 2014 due primarily to an increase of 34% in the average cost per device sold due to general customer preference for higher-priced 4G LTE smartphones. The increase in average cost per device sold was partially offset by fewer device sales in the Core Markets and impacts of the Divestiture Transaction.

Selling, general and administrative expenses

Selling, general and administrative expenses were essentially flat year over year. Key components of Selling, general and administrative expenses were as follows:

- Selling and marketing expense increased by $2.5 million, or 1%, due primarily to an increase in commission and personnel expenses, partially offset by the effects of the Divestiture Transaction.

- General and administrative expense decreased by $2.4 million, or 1%, due primarily to the Divestiture Transaction and lower consulting expenses related to the billing system conversion in the prior year, offset by an increase in bad debts expense.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased $54.2 million, or 27%, in 2014 to $148.3 million due primarily to the higher amount of accelerated depreciation, amortization and accretion in the Divestiture Markets that occurred in 2013. The impact of the acceleration was $50.3 million in 2013.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss in both 2014 and 2013 due primarily to the write-off and disposals of certain network assets.

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

The net gain in both 2014 and 2013 resulted from the Divestiture Transaction. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)							
Three Months Ended June 30,		**2014**		**2013**		**Change**	**Percentage Change**
(Dollars in thousands, except per share amounts)							
Operating income (loss)	$	(50,307)	$	219,092	$	(269,399)	>(100)%
Equity in earnings from unconsolidated entities		33,120		35,602		(2,482)	(7)%
Interest and dividend income		1,573		969		604	62 %
Gain (loss) on investments		-		18,527		(18,527)	N/M
Interest expense		(14,336)		(10,154)		(4,182)	41 %
Other, net		100		321		(221)	(69)%
Total investment and other income		20,457		45,265		(24,808)	(55)%
Income (loss) before income taxes		(29,850)		264,357		(294,207)	>(100)%
Income tax expense (benefit)		(10,399)		120,682		(131,081)	>(100)%
Net income (loss)		(19,451)		143,675		(163,126)	>(100)%
Less: Net income (loss) attributable to noncontrolling interests, net of tax		(662)		284		(946)	>(100)%
Net income (loss) attributable to U.S. Cellular	$	(18,789)	$	143,391	$	(162,180)	>(100)%
Basic earnings (loss) per share attributable to U.S. Cellular shareholders	$	(0.22)	$	1.71	$	(1.93)	>(100)%
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	$	(0.22)	$	1.69	$	(1.91)	>(100)%
N/M - Not meaningful							

Equity in earnings of unconsolidated entities

U.S. Cellular's investment in the LA Partnership contributed $18.4 million and $19.8 million to Equity in earnings of unconsolidated entities in 2014 and 2013, respectively.

Interest expense

The increase in interest expense was due primarily to a decrease in capitalized interest related to network and systems projects. Capitalized interest was $1.1 million and $5.5 million for 2014 and 2013, respectively.

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

The decrease from 2013 to 2014 is due primarily to lower income in certain partnerships in 2014.

Income tax expense (benefit)

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in income tax expense (benefit) and the overall effective tax rate on Income (loss) before income taxes.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL RESOURCES

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, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize U.S. Cellular's cash flow activities for the six months ended June 30, 2014 and 2013.

			2014			**2013**
(Dollars in thousands)						
Cash flows from (used in):						
	Operating activities	$	212,860		$	448,585
	Investing activities		(142,901)			146,686
	Financing activities		(7,966)			(506,208)
Net increase in cash and cash equivalents		$	61,993		$	89,063

Cash Flows from Operating Activities

Cash flows from operating activities were $212.9 million in 2014 and $448.6 million in 2013. This decrease was due primarily to lower earnings excluding gains recognized on sale of business and license sales and exchanges. Also contributing to this decrease were changes in Accounts payable balances driven primarily by payment timing differences related to operating expenses and device purchases. The above decreases in Cash flows from operating activities were partially offset by a decrease in inventory levels and a decrease in Accounts receivable balances in 2014. The decrease in Accounts receivable balances was driven by the high receivables at December 31, 2013 resulting from the conversion to a new billing system in the third quarter of 2013, and the subsequent decrease of Accounts receivable balances to more normal levels during 2014. This decrease in Accounts receivable balances during 2014 was partially offset by increases in equipment installment plan receivables.

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.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures) totaled $233.5 million in 2014 and $286.9 million in 2013. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows and excludes amounts accrued in Accounts payable for capital expenditures at June 30, 2014 and includes amounts paid in the current period that were accrued at December 31, 2013. Cash used for additions to property, plant and equipment totaled $262.4 million in 2014 and $323.2 million in 2013. See "Capital Expenditures" in Liquidity and Capital Resources below for additional information on capital expenditures.

Cash payments for acquisitions of licenses were $17.2 million and $14.2 million in 2014 and 2013, respectively.

Cash received from divestitures in 2014 and 2013 was as follows.

Cash Received from Divestitures	**2014**			**2013**	
(Dollars in thousands)					
Licenses	$	91,789		$	-
Businesses		34,116			480,000
Total	$	125,905		$	480,000

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

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In 2014, U.S. Cellular realized proceeds of $10.0 million related to the maturities of certain of its investments in U.S. Treasury Notes.

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.

Payments for repurchases of Common Shares required $8.3 million and $18.4 million in 2014 and 2013, respectively. See Note 9 — Common Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

U.S. Cellular did not pay any dividends in 2014. 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.

Adjusted Free Cash Flow

The following table presents Adjusted free cash flow. Adjusted free cash flow is defined as Cash flows from operating activities, 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 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. The prior manner of calculating free cash flow has been adjusted to include the Sprint Cost Reimbursement. The reason for this is that the Sprint decommissioning cash outflows are included in “Cash flows from operating activities,” but the reimbursements from Sprint related to those outflows are not included in this caption.

Six Months Ended June 30,	**2014**			**2013**	
(Dollars in thousands)					
Cash flows from operating activities	$	212,860		$	448,585

Add: Sprint Cost Reimbursement (1)			34,116			-
Less: Cash used for additions to property, plant and equipment			262,397			323,157
	Adjusted free cash flow	$	(15,421)		$	125,428
(1)	See Note 5 — 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 AND CAPITAL RESOURCES

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facility and expected cash flows from operating and investing activities provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs for the foreseeable future. However, these sources may not be adequate to fund future expenditures, including spectrum license auctions, that the company could potentially elect to make. It may be necessary 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 construction, development and acquisition programs.

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.

The following table summarizes U.S. Cellular’s cash and investments as of June 30, 2014.		
(Dollars in thousands)		
Cash and cash equivalents	$	404,058
Short-term investments	$	40,035

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Cash and Cash Equivalents

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 June 30, 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.

Short-term Investments

Short-term investments consist of U.S. Treasury Notes which are designated as held-to-maturity investments and are recorded at amortized cost in the Consolidated Balance Sheet. For these investments, U.S. Cellular's objective is to earn a higher rate of return on funds that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk. See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information on Short-term investments.

Revolving Credit Facility

U.S. Cellular has a revolving credit facility available for general corporate purposes.

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At June 30, 2014, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

In April 2014, two of the nationally recognized credit rating agencies downgraded the U.S. Cellular corporate and senior debt credit ratings. In July 2014, one of the nationally recognized credit rating agencies downgraded the U.S. Cellular corporate and senior debt credit ratings. After these downgrades, two of the nationally recognized credit rating agencies rated U.S. Cellular at sub-investment grade. One of the nationally recognized credit rating agencies rated U.S. Cellular at investment grade.

U.S. Cellular's interest cost on its revolving credit facility may be subject to increase if its current credit rating from nationally recognized credit rating agencies is lowered, and may be subject to decrease if the rating is raised. The April and July 2014 downgrades will increase the commitment fee on the revolving credit facility by 0.075% per annum. The downgrades also will increase the interest rate on any borrowings by 0.25% per annum. The credit facility does not cease to be available nor does the maturity date accelerate solely as a result of a downgrade in U.S. Cellular's credit rating. However, downgrades in U.S. Cellular's credit rating could adversely affect its ability to renew the credit facility or obtain access to other credit facilities in the future.

The following table summarizes the terms of U.S. Cellular's revolving credit facility as of June 30, 2014:

(Dollars in millions)		
Maximum borrowing capacity	$	300.0
Letters of credit outstanding	$	17.5
Amount borrowed	$	-
Amount available for use	$	282.5
Agreement date		December 2010
Maturity date		December 2017

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 June 30, 2014 or 2013. U.S. Cellular believes that it was in compliance as of June 30, 2014 with all of the financial covenants and requirements set forth in its revolving credit facility.

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As more fully described on U.S. Cellular’s Form 8-K dated July 24, 2014, to provide for additional financial flexibility, U.S. Cellular entered into an amendment to the revolving credit facility agreement which increased the Consolidated Leverage Ratio (the ratio of Consolidated Funded Indebtedness to Consolidated Earnings before interest, taxes, depreciation and amortization (“EBITDA”)) that U.S. Cellular is required to maintain. Beginning July 1, 2014, U.S. Cellular is required to maintain the Consolidated Leverage Ratio at a level not to exceed 3.75 to 1.00 for the period of the four fiscal quarters most recently ended (this was 3.00 to 1.00 prior to July 1, 2014). The terms of the amendment decrease the maximum permitted Consolidated Leverage Ratio beginning January 1, 2016, with further decreases effective July 1, 2016 and January 1, 2017 (and will return to 3.00 to 1.00 at that time). For the twelve months ended June 30, 2014, the actual Consolidated Leverage Ratio was 2.00 to 1.00. Future changes in U.S. Cellular’s financial condition could negatively impact its ability to meet the financial covenants and requirements in its revolving credit facility agreement.

Long-Term Financing

There were no material changes to Long-Term Financing as disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular’s Form 10-K for the year ended December 31, 2013.

U.S. Cellular’s long-term debt indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular’s credit rating. However, a downgrade in U.S. Cellular’s credit rating could adversely affect its ability to obtain long-term debt financing in the future. U.S. Cellular believes that it was in compliance as of June 30, 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 remainder of 2014 and the next four years represent less than 1% of the total long-term debt obligation at June 30, 2014. Refer to Market Risk — Long-Term Debt in U.S. Cellular’s Form 10-K for the year ended December 31, 2013 for additional information regarding required principal payments and the weighted average interest rates related to U.S. Cellular’s Long-term debt.

Capital Expenditures

U.S. Cellular’s capital expenditures for 2014 are expected to be approximately $640 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance network coverage in its service areas, 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 2014 using primarily Cash flows from operating activities and, as necessary, existing cash balances and short-term investments.

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 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 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions.

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 8 — Variable Interest Entities (VIEs) 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.

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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 and 2013, see Note 9 — Common Share Repurchases 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

There were no material changes outside the ordinary course of business between December 31, 2013 and June 30, 2014 to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in U.S. Cellular's Form 10-K for the year ended December 31, 2013.

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 and U.S. Cellular's Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in U.S. Cellular's Form 10-K for the year ended December 31, 2013. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the six months ended June 30, 2014.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As previously disclosed, in December 2013, TDS initially proposed to have Airadigm Communications, Inc. ("Airadigm") sell to U.S. Cellular the FCC spectrum licenses, towers and customers in certain Airadigm markets for $110 million in cash. Because TDS owns 100% of the common stock of Airadigm and approximately 84% of the common stock of U.S. Cellular, this proposal was a related party transaction. Accordingly, the U.S. Cellular Board of Directors formed a Special Committee comprised entirely of independent and disinterested directors with exclusive authority to consider, negotiate and, if appropriate, approve any such transaction with Airadigm without any further involvement of the full board. The U.S. Cellular Special Committee engaged independent financial advisors and legal counsel. The transaction was negotiated between representatives of TDS and Airadigm, on the one hand, and the Special Committee and its representatives, on the other hand. The U.S. Cellular Special Committee also received a fairness opinion from its independent financial advisor. Following these events, the Special Committee approved a License Purchase and Customer Recommendation Agreement between U.S. Cellular and Airadigm, which was entered into on May 23, 2014, as disclosed in Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements.

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that U.S. Cellular intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully described under “Risk Factors” in U.S. Cellular’s Form 10-K for the year ended December 31, 2013. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in U.S. Cellular’s Form 10-K for the year ended December 31, 2013, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to U.S. Cellular’s business.

- *Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular’s revenues or increase its costs to compete.*

- *A failure by U.S. Cellular to successfully execute its business strategy (including planned acquisitions, 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.*

- *A failure by U.S. Cellular’s service offerings to meet customer expectations, including any continuing issues relating to the conversion to the new Billing and Operational Support System ("B/OSS") in the third quarter of 2013, could limit U.S. Cellular’s ability to attract and retain customers and 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 could result in higher churn and higher bad debts expense.*

- *U.S. Cellular's system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in a loss of existing customers and revenues and impair U.S. Cellular's ability to add new customers and revenues.*

- *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 would 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.*

- *Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on U.S. Cellular's business, financial condition or results of operations.*

- *An inability to attract and/or retain highly competent management, technical, sales and other personnel could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

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- *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.*

- *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.*

- *A significant portion of U.S. Cellular's revenues is derived from customers who buy services through independent agents and third-party national retailers who market U.S. Cellular's services on a commission basis. If U.S. Cellular's relationships with these agents or third-party national retailers are seriously harmed, its business, financial condition or results of operations could be adversely affected.*

- *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.*

- *Financial difficulties (including bankruptcy proceedings) or other operational difficulties of U.S. Cellular's key suppliers, termination or impairment of U.S. Cellular's relationships with such suppliers, or a failure by U.S. Cellular to manage its supply chain effectively could result in delays or termination of U.S. Cellular's receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which 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, including breaches of network or information technology security, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events 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.*

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- *Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission ("SEC"). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, 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.*

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Refer to the disclosure under Market Risk in U.S. Cellular's Form 10-K for the year ended December 31, 2013 for additional information, including information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt. There have been no material changes to such information since December 31, 2013.

See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of U.S. Cellular's Long-term debt as of June 30, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

U.S. Cellular maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to U.S. Cellular's management, including its principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), U.S. Cellular carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of U.S. Cellular's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, U.S. Cellular's principal executive officer and principal financial officer concluded that U.S. Cellular's disclosure controls and procedures were effective as of June 30, 2014, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting are updated as necessary to accommodate modifications to our business processes and accounting procedures. There have been no changes in U.S. Cellular's internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

Refer to the disclosure under Legal Proceedings in U.S. Cellular's Form 10-K for the year ended December 31, 2013. There have been no material changes to such information since December 31, 2013.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect U.S. Cellular's business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2013, may not be the only risks that could affect U.S. Cellular. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect U.S. Cellular's business, financial condition and/or operating results. Subject to the foregoing, U.S. Cellular has not identified for disclosure any material changes to the risk factors as previously disclosed in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2013, except as follows:

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U.S. Cellular offers customers the option to purchase certain devices under installment contracts, which could result in higher churn and higher bad debts expense.

Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings of equipment installment plans. Such plans offer customers the option to purchase certain devices under installment contracts over a period of up to 24 months. U.S. Cellular expects that sales of devices under these plans, when compared to sales of devices made under the traditional subsidy model, will reduce retail service revenue and ARPU but increase equipment revenue. Compared to equipment sales made under the traditional subsidy model, these equipment installment plans involve different considerations regarding marketing, sales, customer retention and renewal, device replacement, customer churn, cash flows, accounting and other business considerations, including business risks. U.S. Cellular does not have significant experience in these new plans or a sufficient history to determine how these plans will affect U.S. Cellular's business, financial position or results of operations. In particular, customers on such plans can discontinue their service at any time without penalty, other than the obligation of any residual commitment they may have for unpaid service or for amounts due under the installment contract for the device. U.S. Cellular could experience reduced revenues and increased marketing costs to acquire new customers if it experiences an increase in churn, which could reduce its margins and operational and financial performance. In addition, customers who purchase their devices through equipment installment plans have the option to pay for their devices in installments over a period of up to 24 months. As a result, these plans subject U.S. Cellular to increased risks relating to consumer credit, which could result in an increase in bad debts expense. These plans may be particularly sensitive to changes in general economic conditions and declines in the credit quality of customers. There is no assurance that such plans will not have an adverse effect on U.S. Cellular's business, financial position or results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 – 30, 2014	51,169	$	41.04	51,169	4,018,917
May 1 – 31, 2014	50,439		41.58	50,439	3,968,478
June 1 – 30, 2014	51,950		40.44	51,950	3,916,528
Total for or as of the end of the quarter ended June 30, 2014	153,558	$	41.01	153,558	3,916,528

The following is additional information with respect to the foregoing authorization:

i. The date the program was announced was November 20, 2009 by Form 8-K.

ii. The amount approved was up to 1,300,000 U.S. Cellular Common Shares on an annual basis in 2009 and continuing each year thereafter on a cumulative basis.

iii. There is no expiration date for the program.

iv. The authorization did not expire during the second quarter of 2014.

v. U.S. Cellular did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the second quarter of 2014.

Item 5. Other Information.

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

U.S. Cellular did not borrow or repay any amounts under its revolving credit facility in the second quarter of 2014. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of June 30, 2014.

A description of U.S. Cellular's revolving credit facility is included under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated December 17, 2010, as such description is amended by Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated July 24, 2014, and is incorporated by reference herein.

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Item 6. Exhibits.

Exhibit 2.1 — License Purchase and Customer Recommendation Agreement dated as of May 23, 2014 by and between United States Cellular Corporation and Airadigm Communications Inc., is hereby incorporated by reference to Exhibit 2.1 to U.S. Cellular's Current Report on Form 8-K dated May 23, 2014.

Exhibit 4.1 — Third Amendment dated July 24, 2014 to Revolving Credit Agreement dated December 17, 2010, is hereby incorporated by reference to U.S. Cellular's Current Report on Form 8-K dated July 24, 2014.

Exhibit 10.1 — Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Kenneth R. Meyers, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

Exhibit 10.2 — Form of Long-Term Incentive Plan Stock Option Award Agreement for Kenneth R. Meyers, is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 4 — Earnings Per Share in the Notes to Consolidated Financial Statements.

Exhibit 12 — Statement regarding computation of ratio of earnings to fixed charges.

Exhibit 31.1 — Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 — Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 — Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 — Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 101.INS — XBRL Instance Document

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE — XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL — XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB — XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in U.S. Cellular's Form 10-K for the year ended December 31, 2013. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2013 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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SIGNATURES

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

		UNITED STATES CELLULAR CORPORATION		
		(Registrant)		
Date:	August 1, 2014		/s/ Kenneth R. Meyers	
			Kenneth R. Meyers President and Chief Executive Officer (principal executive officer)	
Date:	August 1, 2014		/s/ Steven T. Campbell	
			Steven T. Campbell Executive Vice President-Finance, Chief Financial Officer and Treasurer (principal financial officer)	
Date:	August 1, 2014		/s/ Douglas D. Shuma	
			Douglas D. Shuma Chief Accounting Officer (principal accounting officer)	
Date:	August 1, 2014		/s/ Kristin A. MacCarthy	
			Kristin A. MacCarthy	

			Vice President and Controller		