

UNITED STATES CELLULAR CORP
Form 10-Q
July 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from
to

Commission file number 1-9712

UNITED STATES CELLULAR CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

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

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.

- 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).

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

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

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

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

| Class | Outstanding at June 30, 2015 |
|---------------------------------------|------------------------------|
| Common Shares, \$1 par value | 51,341,340 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, 2015

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Part I. Financial Information

Item 1. Financial Statements

United States Cellular Corporation

Consolidated Statement of Operations

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-------------|
| (Dollars and shares in thousands, except per share amounts) | 2015 | 2014 | 2015 | 2014 |
| Operating revenues | | | | |
| Service | \$824,373 | \$843,473 | \$1,652,584 | \$1,697,086 |
| Equipment sales | 151,294 | 114,300 | 288,328 | 186,498 |
| Total operating revenues | 975,667 | 957,773 | 1,940,912 | 1,883,584 |
| Operating expenses | | | | |
| System operations (excluding Depreciation, amortization and accretion reported below) | 196,276 | 187,131 | 386,953 | 367,738 |
| Cost of equipment sold | 253,671 | 271,978 | 491,972 | 542,452 |
| Selling, general and administrative (including charges from affiliates of \$24.0 million | 362,971 | 404,252 | 731,939 | 799,816 |

and \$22.9 million,

respectively, for the three months, and \$43.7 million and

\$44.1 million, respectively, for the six months)

| | | | | |
|---|----------|-----------|-----------|-----------|
| Depreciation, amortization and accretion | 150,581 | 148,337 | 297,666 | 316,090 |
| (Gain) loss on asset disposals, net | 5,399 | 6,893 | 9,650 | 8,827 |
| (Gain) loss on sale of business and other exit costs, net | (1,705) | (10,511) | (113,182) | (17,411) |
| (Gain) loss on license sales and exchanges, net | (25) | – | (122,898) | (91,446) |
| Total operating expenses | 967,168 | 1,008,080 | 1,682,100 | 1,926,066 |
| Operating income (loss) | 8,499 | (50,307) | 258,812 | (42,482) |
| Investment and other income (expense) | | | | |
| Equity in earnings of unconsolidated entities | 35,584 | 33,120 | 70,055 | 70,195 |
| Interest and dividend income | 8,969 | 1,573 | 16,535 | 2,457 |
| Interest expense | (20,154) | (14,336) | (40,118) | (29,198) |
| Other, net | 91 | 100 | 196 | 186 |
| Total investment and other income | 24,490 | 20,457 | 46,668 | 43,640 |
| Income (loss) before income taxes | 32,989 | (29,850) | 305,480 | 1,158 |

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| | | | | |
|--|--------|----------|---------|---------|
| Income tax expense (benefit) | 13,079 | (10,399) | 120,580 | 2,205 |
| Net income (loss) | 19,910 | (19,451) | 184,900 | (1,047) |
| Less: Net income (loss) attributable to noncontrolling interests, net of tax | 558 | (662) | 5,484 | (1,740) |
| Net income (loss) attributable to U.S. Cellular shareholders | 19,352 | (18,789) | 179,416 | 693 |
| Basic weighted average shares outstanding | 84,293 | 84,341 | 84,168 | 84,277 |
| Basic earnings (loss) per share attributable to U.S. Cellular shareholders | \$0.23 | \$(0.22) | \$2.13 | \$0.01 |
| Diluted weighted average shares outstanding | 84,892 | 84,341 | 84,849 | 85,041 |
| Diluted earnings (loss) per share attributable to U.S. Cellular shareholders | \$0.23 | \$(0.22) | \$2.11 | \$0.01 |

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)

| (Dollars in thousands) | Six Months Ended | |
|---|------------------|-----------|
| | June 30, 2015 | 2014 |
| Cash flows from operating activities | | |
| Net income (loss) | \$184,900 | \$(1,047) |
| Add (deduct) adjustments to reconcile net income (loss) to cash flows | | |
| from operating activities | | |
| Depreciation, amortization and accretion | 297,666 | 316,090 |
| Bad debts expense | 51,973 | 49,083 |
| Stock-based compensation expense | 11,913 | 10,560 |
| Deferred income taxes, net | (16,549) | (13,267) |
| Equity in earnings of unconsolidated entities | (70,055) | (70,195) |
| Distributions from unconsolidated entities | 27,214 | 65,565 |
| (Gain) loss on asset disposals, net | 9,650 | 8,827 |
| (Gain) loss on sale of business and other exit costs, net | (113,182) | (17,411) |
| (Gain) loss on license sales and exchanges, net | (122,898) | (91,446) |
| Noncash interest expense | 795 | 540 |
| Other operating activities | (387) | 57 |
| Changes in assets and liabilities from operations | | |
| Accounts receivable | 4,669 | 79,148 |
| Equipment installment plans receivable | (65,124) | (47,971) |
| Inventory | 131,667 | 38,329 |
| Accounts payable | 25,404 | (36,600) |
| Customer deposits and deferred revenues | (7,284) | 10,793 |
| Accrued taxes | 138,804 | (20,280) |
| Accrued interest | 392 | 61 |
| Other assets and liabilities | (65,599) | (67,976) |
| | 423,969 | 212,860 |
| Cash flows from investing activities | | |
| Cash used for additions to property, plant and equipment | (259,235) | (262,397) |
| Cash paid for acquisitions and licenses | (279,656) | (17,245) |
| Cash received from divestitures and exchanges | 281,573 | 125,905 |
| Cash received for investments | — | 10,000 |
| Other investing activities | 1,125 | 836 |
| | (256,193) | (142,901) |
| Cash flows from financing activities | | |

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| | | |
|---|-----------|-----------|
| Common shares reissued for benefit plans, net of tax payments | (1,570) | 830 |
| Common shares repurchased | (2,302) | (8,298) |
| Payment of debt issuance costs | (3,080) | – |
| Acquisition of towers in common control transaction | (2,437) | – |
| Distributions to noncontrolling interests | (5,872) | (482) |
| Other financing activities | (1,746) | (16) |
| | (17,007) | (7,966) |
| Net increase in cash and cash equivalents | 150,769 | 61,993 |
| Cash and cash equivalents | | |
| Beginning of period | 211,513 | 342,065 |
| End of period | \$362,282 | \$404,058 |

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)

| | June 30, | December |
|--|-----------|-------------|
| (Dollars in thousands) | 2015 | 31, 2014 |
| Current assets | | |
| Cash and cash equivalents | \$362,282 | \$211,513 |
| Accounts receivable | | |
| Customers and agents, less allowances of \$39,942 and \$37,654, respectively | 489,832 | 466,048 |
| Roaming | 26,439 | 23,865 |
| Affiliated | 359 | 994 |
| Other, less allowances of \$843 and \$859, respectively | 45,838 | 66,051 |
| Inventory, net | 135,401 | 267,068 |
| Prepaid expenses | 73,319 | 59,744 |
| Net deferred income tax asset | 77,969 | 93,058 |
| Other current assets | 18,144 | 90,834 |
| | 1,229,583 | 1,279,175 |
| Assets held for sale | 22,203 | 107,055 |

| | | |
|--|-------------|-----------|
| Investments | | |
| Licenses | 1,827,656 | 1,443,438 |
| Goodwill | 369,596 | 370,151 |
| Investments in unconsolidated entities | 325,857 | 283,014 |
| | 2,523,109 | 2,096,603 |
| Property, plant and equipment | | |
| In service and under construction | 7,420,889 | 7,458,740 |
| Less: | | |
| Accumulated depreciation | 4,795,074 | 4,730,523 |
| | 2,625,815 | 2,728,217 |
| Other assets and deferred charges | 195,909 | 276,218 |
| Total assets | \$6,596,619 | 6,487,268 |

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)

| | June 30, 2015 | December 31, 2014 |
|--|------------------|-------------------------|
| (Dollars and shares in thousands) | | |
| Current liabilities | | |
| Current portion of long-term debt | \$57 | \$46 |
| Accounts payable | | |
| Affiliated | 11,892 | 9,774 |
| Trade | 274,844 | 306,845 |
| Customer deposits and deferred revenues | 280,715 | 287,562 |
| Accrued taxes | 97,537 | 36,652 |
| Accrued compensation | 54,533 | 66,162 |
| Other current liabilities | 108,996 | 149,853 |
| | 828,574 | 856,894 |
| Liabilities held for sale | — | 20,934 |
| Deferred liabilities and credits | | |
| Net deferred income tax liability | 827,339 | 859,867 |
| Other deferred liabilities and credits | 290,302 | 284,002 |
| Long-term debt | 1,151,999 | 1,151,819 |
| Commitments and contingencies | — | — |
| Noncontrolling interests with redemption features | 1,178 | 1,150 |
| 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 84,347 shares (33,006 Series A Common and 51,341 Common Shares) and 84,080 shares (33,006 Series A Common and 51,074 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 | 1,484,753 | 1,472,558 |
| Treasury shares, at cost, 3,727 and 3,994 Common Shares, respectively | (157,795) | (169,139) |
| Retained earnings | 2,072,000 | 1,910,498 |
| Total U.S. Cellular shareholders' equity | 3,487,032 | 3,301,991 |

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| | | |
|------------------------------|-------------|-------------|
| Noncontrolling interests | 10,195 | 10,611 |
| Total equity | 3,497,227 | 3,312,602 |
| Total liabilities and equity | \$6,596,619 | \$6,487,268 |

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 Series A (Dollars in thousands) | Common Shares | Additional Paid-In Capital | Treasury Shares | Retained Earnings | Total U.S. Cellular Shareholders' Equity | Noncontrolling Interests | Total Equity |
|--|------------------|----------------------------------|--------------------|----------------------|---|-----------------------------|--------------|
| Balance, December 31, 2014 | \$88,074 | \$1,472,558 | \$(169,139) | \$1,910,498 | \$3,301,991 | \$10,611 | \$3,312,602 |
| Add (Deduct) Net income attributable to U.S. Cellular shareholders | – | – | – | 179,416 | 179,416 | – | 179,416 |
| Net loss attributable to noncontrolling interests | – | – | – | – | – | (183) | (183) |
| classified as equity Repurchase of Common Shares | – | – | (2,302) | – | (2,302) | – | (2,302) |
| Incentive and compensation | 186 | – | 13,646 | (15,477) | (1,645) | – | (1,645) |

| | | | | | | |
|----------------|----------|-------------|-------------|-------------|-------------|-------------|
| plans | | | | | | |
| Stock-based | | | | | | |
| compensation | 11,436 | – | – | 11,436 | – | 11,436 |
| awards | | | | | | |
| Tax | | | | | | |
| windfall | | | | | | |
| (shortfall) | (307) | – | – | (307) | – | (307) |
| from | | | | | | |
| stock | | | | | | |
| awards | | | | | | |
| Distributions | | | | | | |
| to | | | | | | |
| noncontrolling | – | – | – | – | (233) | (233) |
| interests | | | | | | |
| Acquisition | | | | | | |
| of | | | | | | |
| towers | | | | | | |
| in | – | 885 | – | (2,437) | (1,552) | – |
| common | | | | | | |
| control | | | | | | |
| transaction | | | | | | |
| Adjust | | | | | | |
| investment | | | | | | |
| in | | | | | | |
| subsidiaries | | | | | | |
| for | | | | | | |
| noncontrolling | (5) | – | – | (5) | – | (5) |
| interest | | | | | | |
| purchases | | | | | | |
| Balance, | | | | | | |
| June | | | | | | |
| 30, | \$88,074 | \$1,484,753 | \$(157,795) | \$2,072,000 | \$3,487,032 | \$10,195 |
| 2015 | | | | | | \$3,497,227 |

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 Series A (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 loss attributable to noncontrolling interests | – | – | – | – | – | (2,136) | (2,136) |
| classified as equity | | | | | | | |
| 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) | (529) | – | – | (529) | – | (529) |
| from | | | | | | |
| stock | | | | | | |
| awards | | | | | | |
| Distributions | | | | | | |
| to | | | | | | |
| noncontrolling | – | – | – | – | (459) | (459) |
| interests | | | | | | |
| Balance, | | | | | | |
| June | \$88,074 | \$1,434,045 | \$(161,137) | \$2,032,355 | \$3,393,337 | \$15,796 |
| 30, | | | | | | |
| 2014 | | | | | | \$3,409,133 |

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. Certain prior year amounts have been reclassified to conform to the 2015 presentation.

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, 2014.

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, 2015 and December 31, 2014, the results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows and changes in equity for the six months ended June 30, 2015 and 2014. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and six months ended June 30, 2015 and 2014 equaled net income for these periods. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

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. ASU 2014-09 has an effective date of January 1, 2017. However, on July 9, 2015, the FASB affirmed a proposal to defer the effective date for one year to January 1, 2018. Under this proposal, early adoption as of January 1, 2017 also would be permissible; however, U.S. Cellular does not intend to adopt early. U.S. Cellular is evaluating the effects that adoption of ASU 2014-09 will have on its financial position, results of operations, and disclosures.

On August 27, 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 requires U.S. Cellular to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. U.S. Cellular is required to adopt the provisions of ASU 2014-15 for the annual period ending December 31, 2016, but early adoption is permitted. The adoption of ASU 2014-15 will not impact U.S. Cellular's financial position or results of operations but may impact future disclosures.

On February 18, 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation: Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models. Additionally, ASU 2015-02 changes certain criteria for identifying variable interest entities. U.S. Cellular is required to adopt the provisions of ASU 2015-02 effective January 1, 2016. Early adoption is permitted. U.S. Cellular expects that certain consolidated subsidiaries that are not defined as variable interest entities under current accounting guidance will be defined as variable interest entities under the provisions of ASU 2015-02. However, U.S. Cellular does not expect the adoption of ASU 2015-02 to change the group of entities which U.S. Cellular is required to consolidate in its financial statements. Accordingly, U.S. Cellular does not expect the adoption of ASU 2015-02 to impact its financial position or results of operations. However, additional disclosures are expected.

On April 7, 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires certain debt issuance costs to be presented in the balance sheet as an offset to the related debt obligation. U.S. Cellular is required to apply the provisions of this update effective January 1, 2016 on a retrospective basis. Early adoption is permitted. As of June 30, 2015, U.S. Cellular had \$27.3 million in debt issuance costs classified as Other assets and deferred charges that, upon adoption of the new standard, would be reclassified as an offset to Long-term debt.

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On July 22, 2015, the FASB issued Accounting Standards Update 2015-11, Inventory: Simplifying the Measurement of Inventory (“ASU 2015-11), which requires inventory to be measured at the lower of cost or net realizable value. U.S. Cellular is required to adopt ASU 2015-11 on January 1, 2017. Early adoption is permitted. U.S. Cellular is evaluating the effects that adoption of ASU 2015-11 will have on its financial position and results of operations.

Amounts Collected from Customers and Remitted to Governmental Authorities

U.S. Cellular records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$20.0 million and \$41.2 million for the three and six months ended June 30, 2015, respectively, and \$25.4 million and \$51.8 million for the three and six months ended June 30, 2014, respectively.

2. Fair Value Measurements

As of June 30, 2015 and December 31, 2014, U.S. Cellular did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

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

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, 2015 | | December 31, 2014 | | |
|---------------------------------------|---------------|------------|-------------------|------------|-----------|
| | Book Value | Fair Value | Book Value | Fair Value | |
| (Dollars in thousands) | | | | | |
| Cash and cash equivalents | 1 | \$362,282 | \$362,282 | \$211,513 | \$211,513 |
| Long-term debt | | | | | |
| Retail | 2 | 617,000 | 614,846 | 617,000 | 608,462 |
| Institutional | 2 | 532,866 | 503,732 | 532,722 | 513,647 |

The fair value of Cash and cash equivalents approximate their book values due to the short-term nature of these financial instruments. Long-term debt excludes capital lease obligations and the current portion of Long-term debt. The fair value of "Retail" Long-term debt was estimated using market prices for the 6.95% Senior Notes and 7.25% Senior Notes. U.S. Cellular's "Institutional" debt consists of the 6.7% Senior Notes which are traded over the counter. U.S. Cellular estimated the fair value of its Institutional debt through a discounted cash flow analysis using an estimated yield to maturity of 7.44% and 7.25% at June 30, 2015 and December 31, 2014, respectively.

3. Equipment Installment Plans

U.S. Cellular offers customers the option to purchase certain devices under an equipment installment contract over a period of up to 24 months. Under certain equipment installment plans, the customer has the right to upgrade to a new device after a specified period of time and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. U.S. Cellular values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. As of June 30, 2015 and December 31, 2014, the guarantee liability related to these plans was \$80.2 million and \$57.5 million, respectively, and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

U.S. Cellular equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of greater than twelve months, U.S. Cellular imputes interest.

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The following table summarizes unbilled equipment installment plan receivables as of June 30, 2015 and December 31, 2014. Such amounts are presented on the Consolidated Balance Sheet as Accounts receivable – customers and agents (short-term portion) and Other assets and deferred charges (long-term portion).

| (Dollars in thousands) | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Short-term portion of unbilled equipment installment plan receivables, gross | \$208,955 | \$127,400 |
| Short-term portion of unbilled deferred interest | (19,488) | (16,365) |
| Short-term portion of unbilled allowance for credit losses | (7,404) | (3,686) |
| Short-term portion of unbilled equipment installment plan receivables, net | \$182,063 | \$107,349 |
| Long-term portion of unbilled equipment installment plan receivables, gross | \$73,548 | \$89,435 |
| Long-term portion of unbilled deferred interest | (1,136) | (2,791) |

| | | |
|--|---------|---------|
| Long-term portion of unbilled allowance for credit losses | (5,176) | (6,065) |
|--|---------|---------|

| | | |
|--|----------|----------|
| Long-term portion of unbilled equipment installment plan receivables, net | \$67,236 | \$80,579 |
|--|----------|----------|

U.S. Cellular assesses the collectability of equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors. To mitigate credit risk, U.S. Cellular requires certain customers who desire to purchase equipment under an installment plan to make a down payment.

U.S. Cellular recorded out-of-period adjustments during the six months ended June 30, 2015 due to errors related to equipment installment plan transactions that were attributable to 2014. U.S. Cellular has determined that these adjustments were not material to the prior quarterly or annual periods, and also were not material to the current period or anticipated full year 2015 results. These equipment installment plan adjustments had the impact of reducing Equipment sales revenues by \$5.7 million and \$6.2 million, and Income before income taxes by \$5.3 million and \$5.8 million, for the three and six months ended June 30, 2015, respectively.

4. 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, 2015 was 39.6% and 39.5%, respectively, and for the three and six months ended June 30, 2014 was 34.8% and 190.4%, 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 that period, which magnified the effective rate impact of discrete tax expense items.

5. 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

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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 | | Six Months Ended | |
|--|--------------------|-------------|------------------|---------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| (Dollars and shares in thousands, except per share amounts) | | | | |
| Net income (loss) attributable to U.S. Cellular shareholders | \$ 19,352 | \$ (18,789) | \$ 179,416 | \$ 693 |
| Weighted average number of shares used in basic | 84,293 | 84,341 | 84,168 | 84,277 |
| earnings (loss) per share | | | | |
| Effects of dilutive securities: | | | | |
| Stock options | 166 | – | 159 | 193 |
| Restricted stock units | 433 | – | 522 | 571 |
| Weighted average number of shares used in diluted | 84,892 | 84,341 | 84,849 | 85,041 |
| earnings (loss) per share | | | | |
| Basic earnings (loss) per share attributable to U.S. Cellular shareholders | \$ 0.23 | \$ (0.22) | \$ 2.13 | \$ 0.01 |
| Diluted earnings (loss) per share attributable to U.S. Cellular shareholders | \$ 0.23 | \$ (0.22) | \$ 2.11 | \$ 0.01 |

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.

| | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|-------|------------------|-------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| (Shares in thousands) | | | | |
| Stock options | 3,539 | 3,559 | 2,953 | 1,820 |
| Restricted stock units | 85 | 1,191 | 205 | 141 |

6. Acquisitions, Divestitures and Exchanges

Divestiture Transaction

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

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. As of June 30, 2015, U.S. Cellular had received a cumulative total of \$104.8 million pursuant to the Sprint Cost Reimbursement. For the six months ended June 30, 2015 and 2014, \$23.2 million and \$34.1 million, respectively, of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures and exchanges in the Consolidated Statement of Cash Flows.

For the six months ended June 30, 2015 and 2014, as a result of the Divestiture Transaction, U.S. Cellular recognized gains of \$5.9 million and \$17.7 million, respectively, in (Gain) loss on sale of business and other exit costs, net. For the three months ended June 30, 2015 and 2014, U.S. Cellular recognized gains of \$1.5 million and \$10.6 million, respectively.

Other Acquisitions, Divestitures and Exchanges

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- In March 2015, U.S. Cellular exchanged certain of its unbuilt PCS licenses for certain other PCS licenses located in U.S. Cellular's existing operating markets and \$117.0 million of cash. As of the transaction date, the licenses received in the transaction had an estimated fair value, per a market approach, of \$43.5 million. A gain of \$125.2 million was recorded in (Gain) loss on license sales and exchanges, net in the Consolidated Statement of Operations in the first quarter of 2015.
- An FCC auction of AWS-3 spectrum licenses, referred to as Auction 97, ended in January 2015. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum L.P. ("Advantage Spectrum"). Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of \$338.3 million, after its designated entity discount of 25%. Advantage Spectrum's bid amount, less the initial deposit amount of \$60.0 million paid in 2014, was paid to the FCC in March 2015. These licenses are expected to be granted by the FCC during the latter half of 2015. See Note 9 — Variable Interest Entities for additional information.
- In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for \$159.0 million. This transaction was accomplished in two closings. The first closing occurred in December 2014 and included the sale of 236 towers, without tenants, for \$10.0 million. On this same date, U.S. Cellular received \$7.5 million in earnest money. At the time of the first closing, a \$3.8 million gain was recorded. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received \$141.5 million in additional cash proceeds and recorded a gain of \$107.7 million in (Gain) loss on sale of business and other exit costs, net.
- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain PCS and AWS licenses for certain other PCS and AWS licenses and \$28.0 million of cash. This license exchange was accomplished in two closings. The first closing occurred in December 2014 at which time U.S. Cellular received licenses with an estimated fair value, per a market approach, of \$51.5 million, recorded a \$21.7 million gain and recorded an \$18.3 million deferred credit in Other current liabilities. The license that was transferred to the counterparty in the second closing had a net book value of \$22.2 million and was classified as "Assets held for sale" in the Consolidated Balance Sheet as of June 30, 2015. The second closing occurred in July 2015. At the time of the second closing, U.S. Cellular received \$28.0 million in cash, recognized the deferred credit from the first closing and recorded a \$24.1 million gain on this part of the license exchange.

7. Intangible Assets

Changes in U.S. Cellular's Licenses for the six months ended June 30, 2015 are presented below. There were no significant changes to Goodwill during the six months ended June 30, 2015.

Licenses

(Dollars in
thousands)

Balance

December 31, 2014 \$ 1,443,438

2014

Acquisitions (1) 339,656

43,485

| | |
|--------------|-------------|
| Exchanges | |
| (2) | |
| Other | 1,077 |
| Balance June | \$1,827,656 |
| 30, 2015 | |

- (1) Amount includes payments totaling \$338.3 million made by Advantage Spectrum to the FCC for licenses in which it was the provisional winning bidder in Auction 97. See Note 6 — Acquisitions, Divestitures and Exchanges, and Note 9 — Variable Interest Entities for further information. Amount represents licenses received in the March 2015 PCS license exchange. See Note 6 — Acquisitions, Divestitures and Exchanges for further information.
- (2) Licenses disposed of in the exchange were previously removed from the Licenses balance and reflected in Assets held for sale in the Consolidated Balance Sheet as of December 31, 2014.

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8. 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, | |
|------------------------|-----------------------------|--------------|---------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| (Dollars in thousands) | | | | |
| Revenues | \$ 1,720,964 | \$ 1,629,724 | \$ 3,450,785 | \$ 3,250,114 |
| Operating expenses | 1,276,758 | 1,204,588 | 2,563,479 | 2,334,226 |
| Operating income | 444,206 | 425,136 | 887,306 | 915,888 |
| Other income, net | (10,451) | 640 | (5,623) | 2,403 |
| Net income | \$ 433,755 | \$ 425,776 | \$ 881,683 | \$ 918,291 |

9. Variable Interest Entities

U.S. Cellular consolidates variable interest entities (VIEs) 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.

Consolidated VIEs

As of June 30, 2015, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities that most significantly impact the economic performance of Advantage Spectrum, 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 the 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.

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

| | June 30, 2015 | December 31, 2014 |
|------------------------------------|------------------|-------------------------|
| (Dollars in thousands) | | |
| Assets | | |
| Cash and cash equivalents | \$2,069 | \$2,588 |
| Other current assets | 211 | 278 |
| Licenses (1) | 651,281 | 312,977 |
| Property, plant and equipment, net | 9,636 | 10,671 |
| Other assets and deferred charges | 150 | 60,059 |
| Total assets | \$663,347 | \$386,573 |
| Liabilities | | |
| Current liabilities | \$83 | \$110 |
| Deferred liabilities and credits | 567 | 622 |
| Total liabilities | \$650 | \$732 |

Includes payments totaling \$338.3 million made by Advantage Spectrum to the FCC as described below.

Other Related Matters

In March 2015, King Street Wireless made a \$60.0 million distribution to its investors. Of this distribution, \$6.0 million was provided to King Street Wireless, Inc. and \$54.0 million was provided to U.S. Cellular.

An FCC auction of AWS-3 spectrum licenses, referred to as Auction 97, ended in January 2015. U.S. Cellular participated in Auction 97 indirectly through its interest in Advantage Spectrum. A subsidiary of U.S. Cellular is a limited partner in Advantage Spectrum. Advantage Spectrum qualified as a "designated entity," and thereby was eligible for bid credits with respect to spectrum purchased in Auction 97. Advantage Spectrum was the winning bidder for 124 licenses for an aggregate bid of \$338.3 million, after its designated entity discount of 25%. This amount is classified as Licenses in U.S. Cellular's Consolidated Balance Sheet. Advantage Spectrum's bid amount, less the initial deposit of \$60.0 million paid in 2014, plus certain other charges totaling \$2.3 million, were paid to the FCC

in March 2015. To help fund this payment, U.S. Cellular made loans and capital contributions to Advantage Spectrum and Frequency Advantage totaling \$280.6 million for the six months ended June 30, 2015. There were no capital contributions, loans or advances made to U.S. Cellular's VIEs during the six months ended June 30, 2014.

Advantage Spectrum, Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. 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, 2014.

U.S. Cellular may agree to make additional capital contributions and/or advances to Advantage Spectrum, Aquinas Wireless or 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 other long-term debt. There is no assurance that U.S. Cellular will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

10. 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, 2015 2014 | |
|---|---|---------|
| (Dollar amounts and shares in thousands, except per share data) | | |
| Number of shares | 66 | 212 |
| Average cost per share | \$34.77 | \$40.49 |
| Amount | \$2,302 | \$8,598 |

11. Subsequent Events

In January 2015, U.S. Cellular entered into a senior term loan credit facility. In July 2015, U.S. Cellular borrowed the full amount of \$225 million available under this facility. These funds will be used for general corporate purposes, including working capital, spectrum purchases and capital expenditures. Amounts borrowed will be due and payable in quarterly installments of \$2.8 million beginning in March 2016 through December 2021, and the remaining unpaid balance will be due and payable in January 2022.

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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, 2015.

U.S. Cellular provides wireless telecommunications services to approximately 4.8 million customers in 23 states. As of June 30, 2015, U.S. Cellular's average penetration rate in its consolidated operating markets was 15%. 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, local and convenient points of distribution, 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, 2014.

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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 for the six months ended June 30, 2015 included the following:

- Total customers were 4,779,000 at June 30, 2015, including 4,692,000 retail customers (98% of total).
- In March 2015, U.S. Cellular completed a license exchange of certain of its unbuilt PCS licenses for certain other PCS licenses and \$117.0 million in cash. As a result of this transaction, a gain of \$125.2 million was recorded in (Gain) loss on license sales and exchanges, net in the Consolidated Statement of Operations.
- In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership in Advantage Spectrum, L.P. ("Advantage Spectrum"). Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of \$338.3 million, after its designated entity discount of 25%. Advantage Spectrum's bid amount, less the initial deposit amount of \$60.0 million paid in 2014, was paid to the FCC in March 2015. See Note 6 — Acquisitions, Divestitures and Exchanges and Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.
- In December 2014, U.S. Cellular entered into an agreement to sell 595 towers outside of its operating markets for \$159.0 million in cash. Concurrently, U.S. Cellular closed on the sale of 236 towers, without tenants, for \$10.0 million in cash and received \$7.5 million in earnest money. In January 2015, U.S. Cellular closed on the sale of the remaining 359 towers, primarily with tenants, and received \$141.5 million in additional cash proceeds. U.S. Cellular recorded a gain of \$107.7 million on this transaction for the six months ended June 30, 2015. An additional gain of \$3.8 million had been recognized at the time of the first closing in December 2014.
- Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings for equipment installment plans. In the six months ended June 30, 2015, 41% of total devices sold to postpaid customers were made under equipment installment plans.
- Retail customer net additions were 46,000 in 2015 compared to net losses of 110,000 in 2014. In the postpaid category, there were net additions of 26,000 in 2015, compared to net losses of 119,000 in 2014. Postpaid results improved significantly due to effective pricing, promotions and retention programs as well as enhanced device offerings and the resolution of billing system conversion issues. In the prepaid category, net additions were 20,000 in 2015 compared to 9,000 in 2014.
- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of June 30, 2015. The postpaid churn rate was 1.4% in 2015 compared to 2.0% in 2014. The prepaid churn rate was 5.5% in 2015 compared to 6.7% in 2014.
- Billed average revenue per user ("ARPU") decreased to \$51.80 in 2015 from \$53.62 in 2014 reflecting a decrease in postpaid ARPU due to discounts offered on shared data plans for customers on equipment installment plans and those providing their own device at the time of activation or renewal. Service revenue ARPU decreased to \$57.79 in 2015 from \$60.23 in 2014 due primarily to a decrease in postpaid ARPU.
- Postpaid billed average revenue per account ("ARPA") increased to \$134.39 in 2015 from \$131.92 in 2014 due to increased adoption of shared data plans and an increase in the number of devices per account.

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- Postpaid handset customers on smartphone service plans increased to 69% as of June 30, 2015 compared to 58% as of June 30, 2014. In addition, smartphones represented 86% of all handsets sold in 2015 compared to 79% in 2014.
- Retail service revenues of \$1,481.2 million decreased \$29.7 million, or 2%, in 2015 due to a decrease in postpaid ARPU.
- Equipment sales revenues increased by \$101.8 million, or 55%, to \$288.3 million in 2015 due to additional sales of smartphones under equipment installment plans and higher sales of accessories.
- Total operating revenues increased \$57.3 million, or 3%, to \$1,940.9 million in 2015 due to higher equipment sales revenues, partially offset by lower retail service revenues and inbound roaming revenues.
- Operating income increased \$301.3 million, to \$258.8 million in 2015. Gain (loss) on license sales and exchanges, net and Gain (loss) on sale of business and other exit costs, net contributed \$236.1 million and \$108.9 million to operating income in 2015 and 2014, respectively. Excluding these gains, operating income increased \$174.0 million due to lower loss on equipment sold, selling, general and administrative expenses, and depreciation, amortization and accretion expense, which were partially offset by lower service revenues and higher system operations expense.

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- Net income attributable to U.S. Cellular shareholders increased \$178.7 million to \$179.4 million in 2015 compared to \$0.7 million in 2014, due primarily to the impact of higher operating income. Basic earnings per share and Diluted earnings per share were \$2.13 and \$2.11 in 2015, which was \$2.12 and \$2.10 higher, respectively, than in 2014.
- Cash flows from operating activities were \$424.0 million. At June 30, 2015, Cash and cash equivalents totaled \$362 million and the revolving credit and senior term loan facilities provided borrowing capacity of \$507.5 million. In July 2015, U.S. Cellular borrowed \$225 million under the senior term loan credit facility (“Term Loan”).
- Total additions to Property, plant and equipment were \$200.1 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 increased 0.6% year-over-year to 6,223.

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

- Effects of industry competition on service and equipment pricing;
- Impacts of selling devices under equipment installment plans, including potential variability in the number of customers choosing to sign an equipment installment contract as well as uncertainties related to the number, timing and realizable value of device trade-ins under equipment installment plans;
- Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;
- 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;
- Rapid growth in the demand for new data devices and services which may result in increased operating expenses and the need for additional investment in spectrum, network capacity and enhancements;
- Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;
- Uncertainty related to various Federal Communications Commission (“FCC”) rules and proceedings, and litigation relating thereto;
- The ability to negotiate satisfactory 4G LTE data roaming agreements with additional wireless operators; and
- The effects of the following:
 - 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. In the fourth quarter of 2014, U.S. Cellular entered into certain arrangements pursuant to which U.S. Cellular now outsources certain support functions for its B/OSS to a third-party vendor. B/OSS is a complex system and any future operational problems with the system, including any failure by the vendor to provide the required level of service under the outsourcing arrangements, could have adverse effects on U.S. Cellular’s results of operations or cash flows;
 - In September 2014, U.S. Cellular entered into a definitive agreement to sell certain non-operating licenses (“unbuilt licenses”) in exchange for receiving licenses in its operating markets and cash. The license exchange was accomplished in two closings. The first closing occurred in December 2014. The second closing occurred in July 2015. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated

Financial Statements for additional information related to this transaction.

- In March 2015, U.S. Cellular announced that it would discontinue its loyalty rewards program on September 1, 2015. At that time, any unredeemed rewards points will expire and any deferred revenue balance related to the program will be recognized as operating revenues. At this time, U.S. Cellular is unable to predict the impact that termination of the program will have on future redemptions or operating revenues. Redemptions during the six months ended June 30, 2015 totaled \$30.1 million, and the deferred revenue balance at June 30, 2015 was \$81.1 million.
- U.S. Cellular holds a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership (“LA Partnership”). U.S. Cellular has been informed by the general partner of the LA Partnership that the LA Partnership will not make a cash distribution in 2015. U.S. Cellular currently expects that it might receive a cash distribution in the latter half of 2016, although the amount of any such distribution is uncertain.

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REGULATORY MATTERS

The discussion below includes updates related to recent regulatory developments. These updates should be read in conjunction with the disclosures previously provided under “Regulatory Matters” in U.S. Cellular’s Form 10-K for the year ended December 31, 2014.

FCC Net Neutrality Order

In February 2015, the FCC adopted an Open Internet Order relating to new net neutrality rules. The rules became effective in June 2015. The order reclassified high-speed, or broadband, internet access service as a “telecommunication service,” making it subject to common carrier regulation under Title II of the Communications Act of 1934. The order applies equally to fixed and wireless broadband internet service providers and thus applies to internet broadband services provided by telephone, cable and wireless providers.

The rules prohibit (i) blocking (broadband providers may not block access to legal content, applications, services, or non-harmful devices); (ii) throttling (broadband providers may not impair or degrade lawful Internet traffic on the basis of content, applications, services, or non-harmful devices); and (iii) paid prioritization (broadband providers may not favor some lawful internet traffic over other lawful traffic in exchange for consideration, i.e., internet “fast lanes” are prohibited). Also, internet service providers may not prioritize content and services of their affiliates. In addition, the FCC has now asserted jurisdiction over internet traffic exchange, so interconnection arrangements will now be subject to a statutory requirement that all charges, practices, classifications, and regulations for and in connection with interconnection must be just and reasonable. The rules also include a general conduct standard that will be applied on a case-by-case basis to address questionable practices as they occur that unreasonably interfere with or unreasonably disadvantage lawful content, applications, services, or devices to be used by end users (individuals or entities that use a broadband internet access service), or made available by edge providers (individuals or entities that provide any content, application, or service over the internet, and any individual or entity that provides a device used for accessing any content, application, or service over the internet). Although broadband internet access providers will be allowed to engage in reasonable network management practices, it is uncertain what practices will be permitted by the FCC. The order also expands the FCC’s current internet transparency rules.

All of these requirements will be subject to FCC enforcement and potential third-party claims for damages or equitable relief. Under Title II, the FCC will have broad regulatory authority over internet services and internet service providers. Although the FCC indicated that it will forbear from a number of utility-style regulations, such as rate regulation, tariffs, and unbundling requirements, the FCC could determine to apply such regulations and requirements in the future. Also, it is uncertain if internet services may be subject to the Federal Universal Service Fund (“USF”) contributions or taxation in the future as a result of the reclassification under Title II. Lawsuits have been filed challenging the net neutrality rules and the FCC’s decision to reclassify broadband internet access service under Title II. U.S. Cellular cannot predict the outcome of these proceedings or the impact on its business.

Changes to FCC’s Designated Entity Rules

U.S. Cellular participated in prior FCC spectrum auctions through limited partnerships that qualified as “designated entities” under FCC rules and, as such, were eligible for bid credit discounts of 25% with respect to licenses won in the auctions. In July 2015, the FCC adopted a Report and Order that amended the FCC’s designated entity rules. The amended rules include caps on bid credits that designated entities may receive in future auctions and modify the attribution rules. The amended rules also restrict certain joint bidding agreements but permit certain other arrangements involving more than one party. Additionally, the amended rules make certain other changes to the FCC’s

competitive bidding rules. U.S. Cellular will be evaluating how these amended rules may impact future FCC spectrum auctions and its potential participation through a designated entity.

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RESULTS OF OPERATIONS

Summary Operating Data for U.S. Cellular Consolidated Markets

| As of or for Six Months Ended June 30, | 2015 | 2014 |
|--|------------|------------|
| Retail Customers | | |
| Postpaid | | |
| Total at end of period | 4,324,000 | 4,148,000 |
| Gross additions | 391,000 | 387,000 |
| Net additions (losses) | 26,000 | (119,000) |
| ARPU(1) | \$54.24 | \$57.18 |
| ARPA(2) | \$134.39 | \$131.92 |
| Churn rate(3) | 1.4% | 2.0% |
| Smartphone penetration(4) | 69.1% | 58.4% |
| Prepaid | | |
| Total at end of period | 368,000 | 352,000 |
| Gross additions | 138,000 | 150,000 |
| Net additions | 20,000 | 9,000 |
| ARPU(1) | \$35.90 | \$33.18 |
| Churn rate(3) | 5.5% | 6.7% |
| Total customers at end of period | 4,779,000 | 4,653,000 |
| Billed ARPU(1) | \$51.80 | \$53.62 |
| Service revenue ARPU(1) | \$57.79 | \$60.23 |
| Smartphones sold as a percent of total handsets sold | 86.2% | 78.6% |
| Total Population | | |
| Consolidated markets(5) | 45,737,000 | 54,817,000 |
| Consolidated operating markets(5) | 31,814,000 | 31,729,000 |
| Market penetration at end of period | | |
| Consolidated markets(6) | 10.4% | 8.5% |
| Consolidated operating markets(6) | 15.0% | 14.7% |
| Capital expenditures (000s) | \$200,126 | \$233,508 |
| Total cell sites in service | 6,223 | 6,183 |
| Owned towers in service | 3,940 | 4,457 |

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

- a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
- b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.

- c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.
 - d. Service revenue ARPU consists of total postpaid, prepaid and reseller service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.
2. Average Revenue per Account (“ARPA”) metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts by the number of months in the period.
 3. 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.
 4. Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding connected devices. Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid handset customers.
 5. The decrease in the population of Consolidated markets is due primarily to the license exchange transactions of certain non-operating licenses in North Carolina in December 2014 and Illinois and Indiana in March 2015. Total Population is used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (6) below.
 6. Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas.

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Components of Operating Income (Loss)

| Six Months Ended June 30, (Dollars in thousands) | 2015 | 2014 | Change | Percentage Change |
|---|-------------|-------------|------------|-------------------|
| Retail service | \$1,481,228 | \$1,510,918 | \$(29,690) | (2)% |
| Inbound roaming | 89,373 | 107,706 | (18,333) | (17)% |
| Other | 81,983 | 78,462 | 3,521 | 4% |
| Service revenues | 1,652,584 | 1,697,086 | (44,502) | (3)% |
| Equipment sales | 288,328 | 186,498 | 101,830 | 55% |
| Total operating revenues | 1,940,912 | 1,883,584 | 57,328 | 3% |
| System operations (excluding Depreciation, amortization and accretion reported below) | 386,953 | 367,738 | 19,215 | 5% |
| Cost of equipment sold | 491,972 | 542,452 | (50,480) | (9)% |
| Selling, general and administrative | 731,939 | 799,816 | (67,877) | (8)% |
| Depreciation, amortization and accretion | 297,666 | 316,090 | (18,424) | (6)% |
| (Gain) loss on asset disposals, net | 9,650 | 8,827 | 823 | 9% |
| (Gain) loss on sale of business and other exit costs, net | (113,182) | (17,411) | (95,771) | >(100)% |
| (Gain) loss on license sales and exchanges, net | (122,898) | (91,446) | (31,452) | (34)% |
| Total operating expenses | 1,682,100 | 1,926,066 | (243,966) | (13)% |
| Operating income (loss) | \$258,812 | \$(42,482) | \$301,294 | >100% |

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"), tower

rental revenue, and revenue from spectrum leases.

Retail service revenues

Retail service revenues decreased by \$29.7 million, or 2%, in 2015 to \$1,481.2 million due to a decrease in billed ARPU, partially offset by an increase in U.S. Cellular's average customer base.

Billed ARPU decreased to \$51.80 in 2015 from \$53.62 in 2014. This overall decrease is due primarily to a decrease in postpaid ARPU to \$54.24 in 2015 from \$57.18 in 2014, due to discounts offered on shared data plans for customers on equipment installment plans and those providing their own device at the time of activation or renewal.

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

Inbound roaming revenues

Inbound roaming revenues decreased by \$18.3 million, or 17%, in 2015 to \$89.4 million. The decrease was due to lower rates for both voice and data and a decline in voice volume.

Other revenues

Other revenues increased by \$3.5 million, or 4%, in 2015 compared to 2014 primarily due to increases in revenue from spectrum leases and revenue share from mobile applications.

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Pursuant to the FCC's Reform Order ("Reform Order"), U.S. Cellular's current Federal USF support is being phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational as of September 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. Revenues representing amounts received from the Federal USF for the three and six months ended June 30, 2015 were \$23.0 million and \$46.1 million, respectively. 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 to agents. All Equipment sales revenues are recorded net of estimated 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. 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.

Equipment sales revenues increased \$101.8 million, or 55%, to \$288.3 million in 2015. The increase is due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans and a mix shift to smartphones and connected devices) and an increase in sales of accessories, partially offset by a decrease in total unit sales of 12%. Equipment sales revenues in 2015 include \$136.9 million related to equipment installment plan sales compared to \$33.6 million in 2014. See Note 3 — Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

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 increased \$19.2 million, or 5%, to \$387.0 million. The primary factor in the overall increase was expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming; these expenses increased \$19.5 million, or 24%, due primarily to an increase in data roaming usage. Changes in other key components of System operations expenses were largely offsetting.

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

Cost of equipment sold

Cost of equipment sold decreased by \$50.5 million, or 9%, to \$492.0 million in 2015. The decrease was driven primarily by a 12% reduction in the total number of devices sold, partially offset by a slight increase in the average cost per device sold (reflecting the mix shift to smartphones and connected devices) and higher sales of accessories. Cost of equipment sold in 2015 includes \$191.4 million related to equipment installment plan sales compared to \$47.4 million in 2014.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$203.6 million and \$356.0 million for 2015 and 2014, respectively. The \$152.3 million decrease in loss on equipment was driven by higher equipment installment plan sales which have a lower loss per device. In addition, lower handset sales contributed to the decline in loss on equipment. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as iconic data-centric wireless devices continue to increase in cost and wireless carriers continue to use pricing as a means of competitive differentiation. However, U.S. Cellular expects sales of devices under equipment installment plans, and certain devices such as tablets under non-subsidized plans, will offset loss on equipment to some degree.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise

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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 \$67.9 million, or 8%, decrease to \$731.9 million were as follows:

- Selling and marketing expense decreased by \$16.6 million, or 5%, due primarily to decreases in labor and commissions expenses, partially offset by increases in advertising expenses.
- General and administrative expense decreased by \$51.3 million, or 12%, due primarily to lower consulting expenses related to the billing system updates and customer service operations and lower rates for roaming administration.

Depreciation, amortization and accretion expenses

Depreciation, amortization and accretion decreased \$18.4 million, or 6%, in 2015 to \$297.7 million due primarily to the cessation of accelerated depreciation, amortization and accretion in the Divestiture Markets, which 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 2015 and 2014 due primarily to write-offs and disposals of certain network assets.

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

The net gain of \$113.2 million in 2015 was due primarily to a \$107.7 million gain recognized from the sale of towers to a third party which closed in January 2015. The net gain of \$17.4 million in 2014 resulted from the continuing impact of the Divestiture Transaction. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges, net

The net gain of \$122.9 million in 2015 was due primarily to the license exchange of certain of U.S. Cellular's PCS licenses for certain other PCS licenses and cash. The net gain of \$91.4 million in 2014 resulted from the sale of the St. Louis area non-operating market license and the license exchange in Milwaukee. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)

| Six Months Ended June 30, | 2015 | 2014 | Change | Percentage Change |
|--|-----------|------------|-----------|----------------------|
| (Dollars in thousands, except per share amounts) | | | | |
| Operating income (loss) | \$258,812 | \$(42,482) | \$301,294 | >100% |
| Equity in earnings of unconsolidated entities | 70,055 | 70,195 | (140) | - |
| Interest and dividend income | 16,535 | 2,457 | 14,078 | >100% |
| Interest expense | (40,118) | (29,198) | (10,920) | (37)% |
| Other, net | 196 | 186 | 10 | 5% |
| Total investment and other income | 46,668 | 43,640 | 3,028 | 7% |
| Income before income taxes | 305,480 | 1,158 | 304,322 | >100% |
| Income tax expense | 120,580 | 2,205 | 118,375 | >100% |
| Net income (loss) | 184,900 | (1,047) | 185,947 | >100% |
| Less: Net income (loss) attributable to noncontrolling interests, net of tax | 5,484 | (1,740) | 7,224 | >100% |
| Net income attributable to U.S. Cellular shareholders | \$179,416 | \$693 | \$178,723 | >100% |
| Basic earnings per share | \$2.13 | \$0.01 | \$2.12 | >100% |

attributable to

U.S. Cellular
shareholders

Diluted
earnings per
share

| | | | | |
|-----------------|--------|--------|--------|-------|
| attributable to | \$2.11 | \$0.01 | \$2.10 | >100% |
|-----------------|--------|--------|--------|-------|

U.S. Cellular
shareholders

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method.

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$39.3 million and \$39.6 million to Equity in earnings of unconsolidated entities in 2015 and 2014, respectively. See Note 8 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest and dividend income

Interest and dividend income increased \$14.1 million in 2015 to \$16.5 million for the six months ended June 30, 2015. This increase is due to imputed interest income recognized on equipment installment plans. See Note 3 — Equipment Installment Plans in the Notes to the Consolidated Financial Statements for additional information.

Interest expense

The increase in interest expense was due primarily to interest expense related to the \$275 million of 7.25% Unsecured Notes which were sold in December 2014. Interest cost capitalized was \$1.7 million and \$2.0 million for 2015 and 2014, respectively.

Income tax expense

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

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

The increase from 2014 to 2015 is due primarily to higher income from certain partnerships in 2015.

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RESULTS OF OPERATIONS — U.S. CELLULAR

Components of Operating Income (Loss)

| Three Months Ended June 30, (Dollars in thousands) | 2015 | 2014 | Change | Percentage Change |
|---|-----------|------------|------------|-------------------|
| Retail service | \$734,740 | \$746,117 | \$(11,377) | (2)% |
| Inbound roaming | 49,044 | 57,580 | (8,536) | (15)% |
| Other | 40,589 | 39,776 | 813 | 2% |
| Service revenues | 824,373 | 843,473 | (19,100) | (2)% |
| Equipment sales | 151,294 | 114,300 | 36,994 | 32% |
| Total operating revenues | 975,667 | 957,773 | 17,894 | 2% |
| System operations (excluding Depreciation, amortization and accretion reported below) | 196,276 | 187,131 | 9,145 | 5% |
| Cost of equipment sold | 253,671 | 271,978 | (18,307) | (7)% |
| Selling, general and administrative | 362,971 | 404,252 | (41,281) | (10)% |
| Depreciation, amortization and accretion | 150,581 | 148,337 | 2,244 | 2% |
| (Gain) loss on asset disposals, net | 5,399 | 6,893 | (1,494) | (22)% |
| (Gain) loss on sale of business and other exit costs, net | (1,705) | (10,511) | 8,806 | 84% |
| (Gain) loss on license sales and exchanges, net | (25) | — | (25) | N/M |
| Total operating expenses | 967,168 | 1,008,080 | (40,912) | (4)% |
| Operating income (loss) | \$8,499 | \$(50,307) | \$58,806 | >100% |

N/M - Not meaningful

Operating Revenues

Retail service revenues

Retail service revenues decreased by \$11.4 million, or 2%, in 2015 to \$734.7 million due to a decrease in billed ARPU, partially offset by an increase in U.S. Cellular's average customer base.

Billed ARPU decreased to \$51.29 in 2015 from \$53.36 in 2014 due primarily to a decrease in postpaid ARPU to \$53.62 in 2015 from \$56.82 in 2014, due to discounts offered on shared data plans for customers on equipment

installment plans and those providing their own device at the time of activation or renewal.

Inbound roaming revenues

Inbound roaming revenues decreased by \$8.5 million, or 15%, in 2015 to \$49.0 million. The decrease was due to lower rates for both voice and data and a decline in voice volume.

Other revenues

Other revenues increased by \$0.8 million, or 2%, in 2015 compared to 2014 due to increases in revenue from spectrum leases and revenue share from mobile applications.

Equipment sales revenues

Equipment sales revenues increased \$37.0 million, or 32%, to \$151.3 million in 2015. The increase is due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans and a mix shift to smartphones and connected devices) and an increase in sales of accessories, partially offset by a decrease in total unit sales of 10%. Equipment sales revenues in 2015 include \$68.9 million related to equipment installment plan sales compared to \$30.5 million in 2014. See Note 3 — Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses increased \$9.1 million, or 5%, to \$196.3 million. The primary factor in the overall increase was expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming; these expenses increased \$10.8 million, or 25%,

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due primarily to an increase in data roaming usage. Changes in other key components of System operations expenses were largely offsetting.

Cost of equipment sold

Cost of equipment sold decreased by \$18.3 million, or 7%, to \$253.7 million in 2015. The decrease was driven primarily by a 10% decrease in the total number of devices sold, partially offset by a slight increase in the average cost per device sold (reflecting the mix shift to smartphones and connected devices) and higher sales of accessories. Cost of equipment sold in 2015 includes \$104.7 million related to equipment installment plan sales compared to \$44.1 million in 2014.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$102.4 million and \$157.7 million for 2015 and 2014, respectively. The \$55.3 million decrease in loss on equipment was driven by higher equipment installment plan sales which have a lower loss per device. In addition, lower handset sales contributed to the decline in loss on equipment.

Selling, general and administrative expenses

Key components of the \$41.3 million, or 10%, decrease to \$363.0 million were as follows:

- Selling and marketing expense decreased by \$6.9 million, or 4%, due primarily to decreases in labor and commissions, partially offset by increases in advertising expenses.
- General and administrative expense decreased by \$34.4 million, or 15%, due primarily to lower consulting expenses related to the billing system updates and customer service operations, lower rates for roaming administration and a decrease in bad debts expense.

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

The net gains of \$1.7 million in 2015 and \$10.5 million in 2014 were due primarily to the continuing impact of the Divestiture Transaction. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)

| Three Months Ended June 30, | 2015 | 2014 | Change | Percentage Change |
|--|----------|------------|----------|-------------------|
| (Dollars in thousands, except per share amounts) | | | | |
| Operating income (loss) | \$8,499 | \$(50,307) | \$58,806 | >100% |
| Equity in earnings of unconsolidated entities | 35,584 | 33,120 | 2,464 | 7% |
| Interest and dividend income | 8,969 | 1,573 | 7,396 | >100% |
| Interest expense | (20,154) | (14,336) | (5,818) | (41)% |
| Other, net | 91 | 100 | (9) | (9)% |
| Total investment and other income | 24,490 | 20,457 | 4,033 | 20% |
| Income before income taxes | 32,989 | (29,850) | 62,839 | >100% |
| Income tax expense (benefit) | 13,079 | (10,399) | 23,478 | >100% |
| Net income (loss) | 19,910 | (19,451) | 39,361 | >100% |
| Less: Net income (loss) attributable to noncontrolling interests, net of tax | 558 | (662) | 1,220 | >100% |
| Net income (loss) attributable to U.S. Cellular shareholders | \$19,352 | \$(18,789) | \$38,141 | >100% |

| | | | | |
|---|--------|----------|--------|-------|
| Basic earnings (loss) per share attributable to | \$0.23 | \$(0.22) | \$0.45 | >100% |
|---|--------|----------|--------|-------|

U.S. Cellular
shareholders

| | | | | |
|--|--------|----------|--------|-------|
| Diluted earnings (loss) per share attributable to | \$0.23 | \$(0.22) | \$0.45 | >100% |
|--|--------|----------|--------|-------|

U.S. Cellular
shareholders

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method.

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$19.4 million and \$18.4 million to Equity in earnings of unconsolidated entities in 2015 and 2014, respectively. See Note 8 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest and dividend income

Interest and dividend income increased \$7.4 million in 2015 to \$9.0 million for the three months ended June 30, 2015. This increase is due to imputed interest income recognized on equipment installment plans. See Note 3 — Equipment Installment Plans in the Notes to the Consolidated Financial Statements for additional information.

Interest expense

The increase in interest expense was due primarily to interest expense related to the \$275 million of 7.25% Unsecured Notes which were sold in December 2014. Interest cost capitalized was \$0.9 million and \$1.1 million for 2015 and 2014, respectively.

Income tax expense (benefit)

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

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

The increase from 2014 to 2015 is due primarily to higher income from certain partnerships in 2015.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and dispositions of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The table below and the following discussion summarize U.S. Cellular's cash flow activities for the six months ended June 30, 2015 and 2014.

| | 2015 | 2014 |
|---|-----------|-----------|
| (Dollars in thousands) | | |
| Cash flows from (used in): | | |
| Operating activities | \$423,969 | \$212,860 |
| Investing activities | (256,193) | (142,901) |
| Financing activities | (17,007) | (7,966) |
| Net increase in cash and cash equivalents | \$150,769 | \$61,993 |

Cash Flows from Operating Activities

An increase in cash flows from operating activities was due primarily to working capital factors. These factors included a \$159.1 million change in accrued taxes attributable to changes in income tax payments and refunds, as well as changes in current tax expense. With regard to payments and refunds, U.S. Cellular received income tax refunds, net of payments, of \$8.4 million in 2015 whereas U.S. Cellular paid net income taxes, net of refunds, of \$33.9 million in 2014. U.S. Cellular recorded current income tax expense of \$132.3 million and \$15.5 million in 2015 and 2014, respectively. The \$116.8 million increase is largely attributable to current tax accrued on the sale and exchange of certain PCS licenses, as well as the sale of towers in 2015. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information. The working capital factors also included a significant reduction of inventory, which resulted in a cash flow increase of \$93.3 million.

U.S. Cellular holds a 5.5% ownership interest in the LA Partnership. U.S. Cellular has been informed by the general partner of the LA Partnership that, in connection with the acquisition of a spectrum license covering the LA Partnership's market in FCC Auction 97, the LA Partnership will not make a cash distribution in 2015.

Notwithstanding the lack of a cash distribution, U.S. Cellular will be obligated to make tax payments on its share of any taxable income reported by the LA Partnership in 2015 and beyond. U.S. Cellular currently expects that it might receive a cash distribution in the latter half of 2016, although the amount of any such distribution is uncertain. During the six months ended June 30, 2014 and the twelve months ended December 31, 2014, U.S. Cellular received cash distributions of \$35.8 million and \$60.5 million, respectively, from the LA Partnership.

U.S. Cellular's future federal income tax liabilities associated with the benefits realized in prior periods from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. Currently, there is no federal bonus depreciation deduction allowed for 2015 and future periods. Therefore, depending on U.S. Cellular's future pretax income levels, U.S. Cellular's federal income tax payments could increase in 2015 and remain at a higher level for several years as the amount of U.S. Cellular's federal tax depreciation deductions decrease. This expectation of potentially higher federal income tax payments in 2015 and subsequent years assumes

that federal bonus depreciation provisions are not enacted in 2015 or future periods. To the extent further federal bonus depreciation provisions are enacted, this expectation would change.

Cash Flows from Investing Activities

U.S. Cellular makes substantial investments to acquire wireless licenses and properties and to construct and upgrade wireless telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades of U.S. Cellular's networks.

Cash used for additions to property, plant and equipment totaled \$259.2Error! Bookmark not defined. million in 2015 and \$262.4 million in 2014, and is reported in the Consolidated Statement of Cash Flows. Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, totaled \$200.1 million in 2015 and \$233.5 million in 2014. See "Capital Expenditures" below for additional information on capital expenditures.

During 2015, a \$278.3 million payment was made by Advantage Spectrum L.P. to the FCC for licenses for which it was the provisional winning bidder. See Note 6 — Acquisitions, Divestitures and Exchanges and Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

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Cash received from Divestitures and Exchanges, which is a component of cash flows from investing activities in the Consolidated Statement of Cash Flows, is shown below.

| | 2015 | 2014 |
|------------------------|------------|------------|
| (Dollars in thousands) | | |
| Licenses | \$ 117,000 | \$ 91,789 |
| Businesses (1) | 164,573 | 34,116 |
| Total | \$ 281,573 | \$ 125,905 |

(1) Amount includes cash proceeds received from the sale of 359 towers and reimbursements related to the Divestiture Transaction.

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

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 distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from reissuance of Common Shares pursuant to stock-based compensation plans. In July 2015, U.S. Cellular borrowed \$225 million on its Term Loan. See “Financing” section below for additional discussion.

Adjusted Free Cash Flow

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

| Six Months Ended June 30, | 2015 | 2014 |
|--------------------------------------|------------|------------|
| (Dollars in thousands) | | |
| Cash flows from operating activities | \$ 423,969 | \$ 212,860 |
| Add: Sprint Cost Reimbursement (1) | 23,174 | 34,116 |

| | | |
|--|-----------|------------|
| Less: Cash used for additions to property, plant and equipment | 259,235 | 262,397 |
| Adjusted free cash flow | \$187,908 | \$(15,421) |

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

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

LIQUIDITY

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

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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, 2015, the majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. U.S. Cellular monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Financing

As of June 30, 2015, U.S. Cellular's unused capacity under its revolving credit facility was \$282.5 million. This agreement matures in December 2017. Additionally, U.S. Cellular had \$225.0 million in unused capacity under its Term Loan as of June 30, 2015. In July 2015, U.S. Cellular borrowed \$225 million on this Term Loan. Amounts borrowed under the Term Loan will be due and payable in quarterly installments of \$2.8 million beginning in March 2016 through December 2021, and the remaining unpaid balance will be due and payable in January 2022. U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its revolving credit facility and Term Loan.

U.S. Cellular has in place an effective \$500 million shelf registration statement on Form S-3 to issue senior or subordinated debt securities.

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

The long-term debt payments due for the remainder of 2015 and the next four years represent less than 1% of U.S. Cellular's total long-term debt obligation measured as of June 30, 2015. Including the \$225 million Term Loan drawn in July 2015, the long-term debt payments due for the remainder of 2015 and the next four years represent less than 4% of U.S. Cellular's total long-term debt obligation.

Capital Expenditures

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

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

- Develop and enhance office systems.

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

Acquisitions, Divestitures and Exchanges

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

Variable Interest Entities

U.S. Cellular consolidates certain entities because they are “variable interest entities” under accounting principles generally accepted in the United States of America (“GAAP”). See Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. U.S. Cellular may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless L.P. Aquinas Wireless L.P. has not yet developed long-term business plans. Advantage Spectrum L.P. will develop its long-term business plans after it is granted licenses by the FCC. The licenses are expected to be granted by the FCC during the latter half of 2015.

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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 2015 and 2014, see Note 10 — 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, 2014 and June 30, 2015 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, 2014. U.S. Cellular borrowed \$225 million under the Term Loan in July 2015. See Note 11 — Subsequent Events in the Notes to Consolidated Financial Statements for additional information.

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.

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APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

U.S. Cellular prepares its consolidated financial statements in accordance with GAAP. U.S. Cellular's significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and U.S. Cellular's Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in U.S. Cellular's Form 10-K for the year ended December 31, 2014. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the six months ended June 30, 2015.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The closing of the sale of 359 towers in January 2015 as discussed in Note 6 — Acquisitions, Divestitures and Exchanges to the Consolidated Financial Statements included a related party transaction with Airadigm Communications, Inc., a subsidiary of TDS. The information relating to this related party transaction was disclosed in Note 6 to the Consolidated Financial Statements of U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2014 and is incorporated by reference herein.

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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, 2014. 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, 2014, 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.
- U.S. Cellular offers customers the option to purchase certain devices under installment contracts, which creates certain risks and uncertainties which could have an adverse impact on U.S. Cellular’s financial condition or results of operations.
- Changes in roaming practices or other factors could cause U.S. Cellular’s roaming revenues to decline from current levels and/or impact U.S. Cellular’s ability to service its customers in geographic areas where U.S. Cellular does not have its own network, which could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.
- A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.
- To the extent conducted by the Federal Communications Commission (“FCC”), U.S. Cellular is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC’s anti-collusion rules, which could have an adverse effect on U.S. Cellular.
- Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular’s business, financial condition or results of operations.

- An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- U.S. Cellular's assets are concentrated in the U.S. wireless telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.
- U.S. Cellular's lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.
- Changes in various business factors could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- Advances or changes in technology could render certain technologies used by U.S. Cellular obsolete, could put U.S. Cellular at a competitive disadvantage, could reduce U.S. Cellular's revenues or could increase its costs of doing business.
- Complexities associated with deploying new technologies present substantial risk.

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- U.S. Cellular is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.
- Performance under device purchase agreements could have a material adverse impact on U.S. Cellular's business, financial condition or results of operations.
- Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its licenses, goodwill and/or physical assets.
- Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- U.S. Cellular's investments in unproven technologies may not produce the benefits that U.S. Cellular expects.
- A failure by U.S. Cellular to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.
- Difficulties involving third parties with which U.S. Cellular does business, including changes in U.S. Cellular's relationships with or financial or operational difficulties of key suppliers or independent agents and third party national retailers who market U.S. Cellular services, could adversely affect U.S. Cellular's business, financial condition or results of operations.
- U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.
- A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- Cyber-attacks or other breaches of network or information technology security could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.
- Changes in facts or circumstances, including new or additional information, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede U.S. Cellular's access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- Uncertainty of U.S. Cellular's ability to access capital, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs.
- Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.
- The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

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

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- 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.

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, 2014 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, 2014. U.S. Cellular borrowed \$225 million under the Term Loan in July 2015.

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, 2015.

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, 2015, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting continue to be updated as necessary to accommodate modifications to our business processes and accounting procedures. As previously disclosed in U.S. Cellular's Form 10-K for the year ended December 31, 2014, U.S. Cellular entered into certain arrangements in the latter part of the fourth quarter of 2014 pursuant to which U.S. Cellular now outsources certain support functions for its Billing and Operational Support System ("B/OSS") to a third-party vendor. In accordance with this change and effective January 1, 2015, U.S. Cellular

is placing reliance on certain third-party controls with respect to the B/OSS environment. There have been no other changes in internal controls over financial reporting that have occurred during the quarter ended June 30, 2015 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, 2014. There have been no material changes to such information since December 31, 2014.

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, 2014, 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, 2014, 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, 2014.

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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 maximum number of shares that may yet be purchased under the program was approximately 4.9 million as of June 30, 2015. There were no purchases made by or on behalf of U.S. Cellular, and no 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.

The following is additional information with respect to the Common Share 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 2015.
- 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 2015.

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 2015 or through the filing date of this Form 10-Q. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of June 30, 2015 or as of the filing date of this Form 10-Q.

A description of U.S. Cellular's revolving credit facility is included 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.

U.S. Cellular did not borrow any amounts under its term loan facility and did not have any amounts outstanding under this facility in the second quarter of 2015. However, during July 2015, U.S. Cellular borrowed \$225 million under this facility.

A description of U.S. Cellular's term loan facility is included in U.S. Cellular's Current Report on Form 8-K dated January 21, 2015, as amended July 20, 2015, and is incorporated by reference herein.

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Item 6. Exhibits.

Exhibit 4.1 — Term Loan Credit Agreement dated as of January 21, 2015 between U.S. Cellular and CoBank ACB, including exhibits, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated January 21, 2015.

Exhibit 10.1 — Form of Long-Term Incentive Plan Stock Option Award Agreement for Officers other than the President and CEO, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.2 — Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Officers other than the President and CEO, is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.3 — Form of Long-Term Incentive Plan Stock Option Award Agreement for the President and CEO, is hereby incorporated by reference to Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.4 — Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for the President and CEO, is hereby incorporated by reference to Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.5 — United States Cellular Corporation 2015 Officer Annual Incentive Plan effective January 1, 2015, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated April 17, 2015.

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 5 — 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, 2014. Reference is made to U.S. Cellular's Form 10-K for the year ended December 31, 2014 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: July 31, 2015 /s/ Kenneth R. Meyers
Kenneth R. Meyers

President and Chief Executive Officer

(principal executive officer)

Date: July 31, 2015 /s/ Steven T. Campbell
Steven T. Campbell

Executive Vice President-Finance,

Chief Financial Officer and Treasurer

(principal financial officer)

Date: July 31, 2015 /s/ Douglas D. Shuma
Douglas D. Shuma

Chief Accounting Officer

(principal accounting officer)

Date: July 31, 2015 /s/ Kristin A. MacCarthy
Kristin A. MacCarthy

Vice President and Controller