UNITED STATES CELLULAR CORP
Form ARS
April 12, 2016

UNITED STATES CELLULAR CORPORATION

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2015
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2015, represent U.S. Cellular's annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 24, 2016 as Exhibit 13 to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2015. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

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United States Cellular Corporation and Subsidiaries Exhibit 13

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Financial Statements and Notes to Consolidated Financial Statements for the year ended December 31, 2015. This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward looking statements.

U.S. Cellular uses certain "non-GAAP financial measures" throughout the MD&A. A discussion of the reason U.S. Cellular uses these measures and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America ("GAAP") are included in the Supplemental Information section within the MD&A of this Form 10-K Report.

General

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"). U.S. Cellular's strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONS

- Serves approximately 4.9 million customers including 4.4 million postpaid and 0.4 million prepaid customers.
- Operates in 23 states.
- Employs approximately 6,400 employees.
- Headquartered in Chicago, Illinois.
- 6,297 cell sites including 3,978 owned towers in service.

Significant Financial and Operating Matters

The following is a summary of certain selected information contained in the comprehensive MD&A that follows. The overview does not contain all of the information that may be important. You should carefully read the entire MD&A and not rely solely on the highlights.

- Net income attributable to U.S. Cellular shareholders was $241.3 million in 2015, compared to a net loss of $42.8 million in 2014. The year-over-year improvement was attributable to several factors including (i) increased equipment revenues bolstered by equipment installment plan activity; (ii) reduced cost of equipment sold due to fewer equipment sales transactions overall and lower cost per unit sold; (iii) reduced selling, general and administrative expenses; and (iv) increased gains from sales and exchanges of businesses and licenses. Diluted earnings per share was $2.84 compared to a diluted loss per share of $0.51 one year ago.

§ In March 2015, U.S. Cellular announced that it would discontinue its loyalty reward program effective September 1, 2015. All unredeemed reward points expired at that time and the deferred revenue balance related to such expired points was recognized as service revenues. The amount of deferred revenue recognized upon discontinuation of this program was $58.2 million.

§ U.S. Cellular, through its limited partnership interest in Advantage Spectrum L.P. ("Advantage Spectrum"), was the provisional winning bidder for 124 licenses for an aggregate winning bid of $338.3 million in Auction 97. See Note 6 Acquisitions, Divestitures and Exchanges and Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these transactions.

§ U.S. Cellular completed license exchanges and the sale of towers outside of its operating markets. See Note 6 Acquisitions, Divestitures and Exchanges for additional information related to these transactions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

§ Total additions to Property, plant and equipment were $533.1 million, including expenditures to complete the network rollout of 4G LTE, 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.

Significant Trends and Developments

Technology and Support Systems:

§ U.S. Cellular continued to deploy 4G LTE as a result of U.S. Cellular's strategic initiative to enhance its network. 4G LTE now reaches 99% of postpaid customers and 98% of cell sites. The adoption of data-rich smartphones and connected devices is driving significant growth in data traffic. At the end of the year, 72% of postpaid customers had 4G capable devices, with the LTE network handling 81% of data traffic. Also, U.S. Cellular began user trials related to VoLTE technology to allow customers to utilize the LTE network for both voice and data services, and these trials are anticipated to continue into 2016.

§ In 2015, U.S. Cellular spent $285.8 million in cash for license acquisitions, the majority of which came from U.S. Cellular's participation in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum. Advantage Spectrum was the provisional winning bidder of 124 AWS licenses for an aggregate bid of $338.3 million, after its expected 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 have not yet been granted by the FCC. U.S. Cellular's strategy is to continue to obtain interests in and access to wireless licenses in current operating markets. This strategy will help ensure adequate spectrum to deliver a best-in-class network that meets the growing capacity and speed requirements of U.S. Cellular customers.

Asset Management:

§ U.S. Cellular continued to pursue opportunities to monetize non-strategic assets to support investment in the business. 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 in cash. The gain recognized was $3.8 million and $108.2 million in 2014 and 2015, respectively. This agreement and related transactions are referred to as the "Tower Sale."

§ Additionally, U.S. Cellular entered into various agreements to transfer certain non-operating licenses to third parties in exchange for receiving licenses in operating markets and cash. In connection with these various agreements, U.S. Cellular received cash totaling $145.0 million and recognized an aggregate pre-tax gain of $149.1 million in 2015.

§ In January 2016, U.S. Cellular entered into an agreement to purchase a 700 MHz A Block license for $36.0 million. The transaction is expected to close in the third quarter of 2016 pending regulatory approval. In February 2016, U.S. Cellular entered into multiple agreements with third parties that provide for the transfer of certain AWS and PCS spectrum licenses and approximately $30 million in cash to U.S. Cellular, in exchange for U.S. Cellular transferring certain AWS, PCS and 700 MHz licenses to the third parties. The transactions are subject to regulatory approval and other customary closing conditions, and are expected to close in 2016. Upon closing of the transactions, U.S. Cellular expects to recognize a gain.

Products and Services:

§

U.S. Cellular continued to leverage competitive value-based pricing for its plans and services, including equipment installment plan offerings. U.S. Cellular will continue to offer equipment installment plans in 2016. 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.

§ U.S. Cellular launched iconic Samsung and Apple devices and expanded the portfolio of tablets and connected devices in line with the strategic initiative to increase gross additions, reduce churn, and increase data usage.

§ U.S. Cellular continued to expand distribution through third-party national and on-line retailers. As a growing base of customers purchase wireless service outside of corporate and agent owned locations, U.S. Cellular will continue to explore new relationships with additional third-party retailers as part of the strategy to expand distribution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- § U.S. Cellular also expanded its solutions available to business and government customers, including a growing suite of machine-to-machine solutions across various categories. U.S. Cellular will continue to enhance its advanced wireless services and connected solutions for consumer, business and government customers.

Terms Used by U.S. Cellular

All defined terms in this MD&A are used as defined in the Notes to Consolidated Financial Statements, and additional terms are defined below:

- § **4G LTE** fourth generation Long-Term Evolution which is a wireless broadband technology.
- § **Auction 97** An FCC auction of AWS-3 spectrum licenses that ended in January 2015.
- § **Average Billings per Account ("ABPA")** metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts by the number of months in the period.
- § **Average Billings per User ("ABPU")** metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid customers by the number of months in the period.
- § **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.
- § **Average Revenue per User ("ARPU")** metric is 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:
  - § **Postpaid ARPU** consists of total postpaid service revenues and postpaid customers.
  - § **Service Revenue ARPU** consists of total postpaid, prepaid and reseller service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.
- § **Churn Rate** represents the percentage of the customers that disconnect service each month. These rates represent the average monthly churn rate for each respective period.
- § **FCC** Federal Communications Commission
- § **Gross Additions** represents the total number of new customers added during the period, without regard to customers who terminate service.

§ **Net Additions (Losses)** represents the total number of new customers added during the period, net of customers who terminate service during that period.

§ **Smartphone Penetration** is calculated by dividing postpaid smartphone customers by total postpaid customers.

§ **VoLTE** Voice over Long-Term Evolution which is a technology specification that defines the standards and procedures for delivering voice communication and data over 4G LTE networks.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONAL OVERVIEW

Retail Customer Composition
December 31, 2015

Postpaid Customer Results

2015-2014 Commentary

Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers at December 31, 2015. U.S. Cellular believes the increase in net additions in 2015 is a result of competitive products and services priced to offer the best value to customers, improved speed to market for product offerings, and expanded equipment installment plan offerings. U.S. Cellular also believes postpaid churn continued to decline from 2014 levels due to an improved customer experience and strong retention programs. Total retail customers at the period ended December 31, 2015, 2014 and 2013 were 4,796,000, 4,646,000 and 4,610,000, respectively.

2014-2013 Commentary

Postpaid customers comprised approximately 93% of U.S. Cellular's retail customers at December 31, 2014. Postpaid churn in 2013 and the first half of 2014 was adversely affected by the billing system conversion in 2013; however it improved over the course of 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarterly Postpaid Churn Rate

Smartphone Penetration

2015-2014 Commentary

Smartphone penetration increased to 74% of the postpaid handset customer base, up from 65% a year ago.

The percentage of postpaid handset customers with feature phones has continued to decrease from 35% in 2014 to 26% in 2015 and is expected to continue declining as handset gross additions consist primarily of smartphones. During the fourth quarter of 2015, smartphones represented 91% of total handset sales.

Continued growth in revenues and costs related to data products and services may result in increased operating expenses and the need for additional investment in spectrum, network capacity and network enhancements.

2014-2013 Commentary

Smartphone penetration increased to 65% of the postpaid handset customer base, up from 53% a year ago. This contributed to increased service revenues from data.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Postpaid ARPU/ABPU

Postpaid ARPA/ABPA

2015-2014 Commentary

Postpaid ARPU decreased in 2015 due to industry-wide price competition, including discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal partially offset by the continued adoption of smartphones and shared data plans. The increase in postpaid ARPA is the result of increased postpaid connections per account driven by increased connected device penetration.

U.S. Cellular implemented equipment installment plans on a broad basis in 2014. These plans increase equipment sales revenue as customers pay for their wireless devices in installments at a total device price that is generally higher than the device price offered to customers in conjunction with alternative plans that are subject to a service contract. Equipment installment plans also have the impact of reducing service revenues as many equipment installment plans provide for reduced monthly access charges. In order to reflect the ARPU and ARPA trend for the impact of equipment installment plans in 2014 and 2015, U.S. Cellular has also presented ARPU and ARPA plus average monthly equipment installment plan billings per customer (ABPU) and account (ABPA), respectively. U.S. Cellular believes presentation of these measures is useful in order to reflect the trends in total revenues per customer and account.

2014-2013 Commentary

The increases are a result of increased smartphone penetration, increased adoption of shared data plans, and the special issuance of loyalty rewards points which negatively impacted these metrics in 2013, partially offset by discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL OVERVIEW

The Divestiture Transaction and the NY1 & NY2 Deconsolidation were consummated in the second quarter of 2013 as further described in Note 6 Acquisitions, Divestitures and Exchanges and Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements. The information presented below includes the Divestiture Markets and the NY1 & NY2 Partnerships for the portion of 2013 prior to the respective transactions.

Components of Operating Income (Loss)

Year Ended December 31,	**2015**	2014	2013	**2015 vs. 2014**		2014 vs. 2013	
(Dollars in thousands)							
Retail service	**$ 2,994,353**	$ 3,012,984	$ 3,165,496	**$ (18,631)**	**(1)%**	$ (152,512)	(5)%
Inbound roaming	**191,801**	224,090	263,186	**(32,289)**	**(14)%**	(39,096)	(15)%
Other	**164,277**	160,863	166,091	**3,414**	**2%**	(5,228)	(3)%
Service revenues	**3,350,431**	3,397,937	3,594,773	**(47,506)**	**(1)%**	(196,836)	(5)%
Equipment sales	**646,422**	494,810	324,063	**151,612**	**31%**	170,747	53%
Total operating revenues	**3,996,853**	3,892,747	3,918,836	**104,106**	**3%**	(26,089)	(1)%
System operations (excluding Depreciation, amortization and accretion reported below)	**775,042**	769,911	763,435	**5,131**	**1%**	6,476	1%
Cost of equipment sold	**1,052,810**	1,192,669	999,000	**(139,859)**	**(12)%**	193,669	19%
Selling, general and administrative	**1,493,730**	1,591,914	1,677,395	**(98,184)**	**(6)%**	(85,481)	(5)%
	3,321,582	3,554,494	3,439,830	**(232,912)**	**(7)%**	114,664	3%
Operating cash flow*	**675,271**	338,253	479,006	**337,018**	**100%**	(140,753)	(29)%
Depreciation, amortization and	**606,455**	605,997	803,781	**458**		(197,784)	(25)%

accretion											
(Gain) loss on asset disposals, net		**16,313**		21,469		30,606		**(5,156)**	**(24)%**		(9,137)	(30)%
(Gain) loss on sale of business and other exit costs, net		**(113,555)**		(32,830)		(246,767)		**(80,725)**	**>(100)%**		213,937	87%
(Gain) loss on license sales and exchanges		**(146,884)**		(112,993)		(255,479)		**(33,891)**	**(30)%**		142,486	56%
Total operating expenses		**3,683,911**		4,036,137		3,771,971		**(352,226)**	**(9)%**		264,166	7%
Operating income (loss)	**$**	**312,942**	$	(143,390)	$	146,865	**$**	**456,332**	**>100%**	$	(290,255)	>(100)%
Adjusted EBITDA*	**$**	**852,152**	$	480,325	$	615,204	**$**	**371,827**	**77%**	$	(134,879)	(22)%
Capital expenditures	**$**	**533,053**	$	557,615	$	737,501	**$**	**(24,562)**	**(4)%**	$	(179,886)	(24)%

* Represents a non-GAAP financial measure. Refer to Supplemental Information within this MD&A for a reconciliation of this measure.

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Total Operating Revenues
(Dollars in millions)

Service revenues consist of:

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Charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data products and services ("retail service")

§

Charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming

§

Amounts received from the Federal USF

§

Tower rental revenues

Equipment revenues consist of:

§

Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

2015-2014 Commentary

Total operating revenues

Service revenues decreased as a result of (i) a decrease in retail service revenues driven by industry-wide price competition, including discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal; and (ii) reductions in inbound roaming revenue driven by lower roaming rates. Such reductions were partially offset by an increase in the average customer base, continued adoption of shared data plans, and the $58.2 million of revenue recognized in 2015 from unredeemed rewards points upon termination of U.S. Cellular's rewards program.

Revenue representing amounts received from the Federal USF for the year ended December 31, 2015 was $92.1 million, which remained flat year over year. 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 July 2014 and, therefore, as provided by the Reform Order, the phase down was suspended at 60% of the baseline amount. U.S. Cellular will continue to receive USF support at the 60% level until the FCC takes further action. At this time, U.S. Cellular cannot predict what changes that the FCC might make to the USF high cost support program and, accordingly, 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 increased due primarily to an increase in average revenue per device sold driven by sales under equipment installment plans, a mix shift to smartphones and connected devices and an increase in accessory sales, partially offset by a decrease in the number of devices sold. Equipment installment plan sales contributed $350.7 million and $190.4 million in 2015 and 2014, respectively.

System operations expenses

Maintenance, utility and cell site expenses increased $13.3 million, or 4%, reflecting higher support costs and utility usage for the expanded 4G LTE network and the completion of certain tower maintenance and repair projects.

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $19.4 million, or 11%, driven primarily by an increase in data roaming usage, partially offset by lower rates and voice volume.

Customer usage expenses decreased $27.6 million, or 13%, driven by lower fees for platform and content providers, a decrease in long distance charges driven by rate reductions, and a decrease in circuit costs from the migration to LTE.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The decrease in Cost of equipment sold is a result of an 11% reduction in devices sold and a decrease in the average cost per device sold driven by the lower cost of smartphones and connected devices. Cost of equipment sold in 2015 included $448.7 million related to equipment installment plan sales compared to $280.3 million in 2014. Loss on equipment was $406.4 million and $697.9 million for 2015 and 2014, respectively.

Selling, general and administrative expenses

Selling expenses decreased $20.5 million, or 3%, due primarily to lower agent and retail commission expenses driven by fewer activations and renewals, partially offset by increased advertising expenses.

General and administrative expenses decreased $77.7 million, or 9%, due primarily to lower consulting expenses related to the billing system and customer service operations, and lower rates for roamer administration.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense remained relatively flat year over year.

(Gain) loss on asset disposals, net

The decrease in Loss on asset disposals was due primarily to fewer write-offs and disposals of certain network assets.

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

The net gain in 2015 was due primarily to a $108.2 million gain recognized on the Tower Sale. The net gain in 2014 was due primarily to $29.3 million of gain related 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.

(Gain) loss on license sales and exchanges, net

The net gains in 2015 and 2014 were due to license sales and exchanges with third parties. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

2014-2013 Commentary

Total operating revenues

Service revenues decreased as a result of a decrease in the average customer base (including the reductions caused by the Divestiture Transaction and NY1 and NY2 Deconsolidation) and a reduction in revenues from the Federal USF. A decrease in Inbound roaming revenues caused by reductions in inbound roaming rates and voice volumes partially offset by higher inbound roaming data usage further contributed to the decrease in service revenues.

Such reductions were partially offset by increased revenues as a result of higher smartphone penetration and tower rental revenues.

Equipment sales revenues increased due to an increase in the average revenue per device sold due primarily to the implementation of equipment installment plans on a broad basis in 2014, and increases in the sales of connected devices and accessories. This increase is partially offset by a decrease in sales of other device categories, primarily the feature phone category, and the effects of the Divestiture Transaction and the NY1 & NY2 Deconsolidation. Equipment installment plan sales contributed $190.4 million and $0.8 million in 2014 and 2013, respectively.

System operations expenses

Maintenance, utility and cell site expenses increased $26.6 million, or 8%, reflecting higher support costs for the expanded 4G LTE network and completion of certain maintenance projects, partially offset by the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $5.8 million, or 3%, driven primarily by an increase in data roaming usage, partially offset by lower rates, lower voice usage, and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.

Customer usage expenses decreased $25.9 million, or 11%, driven by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation, by lower fees for platform and content providers, a decrease in long distance charges driven by rate reductions, and a decrease in circuit costs from LTE migration.

Cost of equipment sold

The increase in Cost of equipment sold was the result of a 22% increase in the average cost per device sold, which more than offset the impact of selling fewer devices. Average cost per device sold increased due to general customer preference for higher priced 4G LTE smartphones and tablets. Cost of equipment sold in 2014 includes $280.3 million related to equipment installment plan sales compared to $0.8 million in 2013. Loss on equipment was $697.9 million and $674.9 million for 2014 and 2013, respectively.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased $85.5 million, or 5%, in 2014 due to the impacts of the Divestiture Transaction, NY1 & NY2 Deconsolidation and lower consulting expenses in 2014 related to the billing system conversion in the prior year.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion decreased due to acceleration of Depreciation, amortization and accretion resulting from the Divestiture Transaction. Accelerated depreciation resulting from the Divestiture Transaction was $13.1 million and $158.5 million in 2014 and 2013, respectively.

(Gain) loss on asset disposals, net

The decrease in Loss on asset disposals was due primarily to fewer write-offs and disposals of certain network assets.

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

The net gain in 2014 and 2013 was due primarily to $29.3 million and $248.4 million of gain recognized related to the Divestiture Transaction. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges

The net gain in 2014 and 2013 was due to license sales and exchanges with third parties. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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Components of Other Income (Expense)

Year Ended December 31,	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
(Dollars in thousands)							
Operating income (loss)	$ 312,942	$ (143,390)	$ 146,865	$456,332	>100%	$ (290,255)	>(100)%
Equity in earnings of unconsolidated entities	140,083	129,764	131,949	10,319	8%	(2,185)	(2)%
Interest and dividend income	36,332	12,148	3,961	24,184	>100%	8,187	>100%
Gain (loss) on investments			18,556		N/M	(18,556)	N/M
Interest expense	(86,194)	(57,386)	(43,963)	(28,808)	(50)%	(13,423)	(31)%
Other, net	466	160	288	306	>100%	(128)	(44)%
Total investment and other income	90,687	84,686	110,791	6,001	7%	(26,105)	(24)%
Income (loss) before income taxes	403,629	(58,704)	257,656	462,333	>100%	(316,360)	>(100)%
Income tax expense (benefit)	156,334	(11,782)	113,134	168,116	>100%	(124,916)	>(100)%
Net income (loss)	247,295	(46,922)	144,522	294,217	>100%	(191,444)	>(100)%
Less: Net income (loss) attributable to noncontrolling interests, net of tax	5,948	(4,110)	4,484	10,058	>100%	(8,594)	>(100)%
Net income (loss) attributable to U.S. Cellular shareholders	$ 241,347	$ (42,812)	$ 140,038	$284,159	>100%	$ (182,850)	>(100)%

N/M Percentage change not meaningful

2015-2014 Commentary

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 $74.0 million and $71.8 million to Equity in earnings of unconsolidated entities in 2015 and 2014, respectively.

Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of $33.9 million and $8.7 million in 2015 and 2014, respectively. See Note 3 Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Interest expense

Interest expense increased from 2014 to 2015 due primarily to U.S. Cellular's issuance of $275 million of 7.25% Senior Notes in December 2014, borrowing of $225 million on its Term Loan in July 2015 and the $300 million of 7.25% Senior Notes issued in November 2015.

Income tax expense

The effective tax rates on Income before income taxes for 2015 and 2014 were 38.7% and 20.1%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2015 The effective tax rate for 2015 is consistent with a normalized tax rate inclusive of federal and state tax. There were no significant discrete items that impacted the rate.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

2014-2013 Commentary

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 LA Partnership contributed $71.8 million and $78.4 million to Equity in earnings of unconsolidated entities in 2014 and 2013, respectively.

Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of $8.7 million 2014. See Note 3 Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Gain (loss) on investments

In 2013, U.S. Cellular recognized a non-cash pre-tax gain of $18.5 million in connection with the deconsolidation of the NY1 & NY2 Partnerships. See Note 6 Acquisitions, Divestitures and Exchanges and Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest expense

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

Income tax expense

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

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

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

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facilities, and expected cash flows from operating and investing activities provide liquidity for U.S. Cellular to meet its normal day-to-day operating needs and debt service requirements for the coming year.

U.S. Cellular operates a capital-intensive business. U.S. Cellular has used internally-generated funds and also has obtained substantial funds from external sources for general corporate purposes. In the past, U.S. Cellular's existing cash and investment balances, funds available under its revolving credit facility, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating, investing and financing activities, including sales of assets or businesses, provided sufficient liquidity and financial flexibility for U.S. Cellular to meet its normal day-to-day operating needs and debt service requirements, to finance the build-out and enhancement of markets and to fund acquisitions. There is no assurance that this will be the case in the future. It may be necessary from time to time to increase the size of the existing revolving credit facility, to put in place a new credit facility, or to obtain other forms of financing in order to fund potential expenditures. U.S. Cellular's liquidity would be adversely affected if, among other things, U.S. Cellular is unable to obtain short or long-term financing on acceptable terms, U.S. Cellular makes spectrum license purchases in FCC auctions or from other parties, the LA Partnership does not resume or reduces distributions compared to prior historical levels and/or ETC and/or other regulatory support payments continue to decline. In addition, although sales of assets or businesses by U.S. Cellular have been an important source of liquidity for U.S. Cellular in recent periods, U.S. Cellular does not expect a similar level of such sales in the future, which will reduce a source of liquidity for U.S. Cellular. In recent years, U.S. Cellular's credit rating has declined to sub-investment grade.

In certain recent periods, U.S. Cellular has incurred negative free cash flow (defined as Cash flows from operating activities less Cash used for additions to property, plant and equipment) and this will continue in the future if operating results do not improve. U.S. Cellular currently expects to have negative free cash flow in 2016. U.S. Cellular may require substantial additional capital for, among other uses, funding day-to-day operating needs, working capital, acquisitions of providers of wireless telecommunications services, spectrum license or system acquisitions, system development and network capacity expansion, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. There can be no assurance that sufficient funds will continue to be available to U.S. Cellular or its subsidiaries on terms or at prices acceptable to U.S. Cellular. Insufficient cash flows from operating activities, changes in its credit ratings, defaults of the terms of debt or credit agreements, uncertainty of access to capital, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in the performance of U.S. Cellular or in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its acquisition, capital expenditure and business development programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends. U.S. Cellular cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Any of the foregoing would have an adverse impact on U.S. Cellular's businesses, financial condition or results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market investments. The primary objective of U.S. Cellular's Cash and cash equivalents is for use in its operations and acquisition, capital expenditure and business development programs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

U.S. Cellular Cash and Cash Equivalents
(Dollars in millions)

At December 31, 2015, U.S. Cellular's cash and cash equivalents totaled $715.4 million. The majority of U.S. Cellular's Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. U.S. Cellular monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Financing

Revolving Credit Facility

U.S. Cellular has a revolving credit facility available for general corporate purposes including spectrum purchases and capital expenditures, with a maximum borrowing capacity of $300 million. As of December 31, 2015, the unused capacity under this agreement was $282.5 million. U.S. Cellular did not borrow or repay any cash amounts under its revolving credit facility in 2015, and had no cash borrowings outstanding under its revolving credit facility as of December 31, 2015. The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. The covenants also prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries. There were no intercompany loans at December 31, 2015 or 2014. U.S. Cellular believes that it was in compliance as of December 31, 2015 with all of the financial and other covenants and requirements set forth in its revolving credit facility.

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

Term Loan

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 in two separate draws. Principal reductions 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. This facility was entered into for general corporate purposes, including working capital, spectrum purchases and capital expenditures.

The continued availability of the term loan facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing, that are substantially the same as those in U.S. Cellular's revolving credit facility described above. U.S. Cellular believes that it was in compliance at December 31, 2015 with all of the financial and other covenants and requirements set forth in the term loan facility.

See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

Financial Covenants

As noted above, the revolving credit facility and senior term loan facility require U.S. Cellular to comply with certain affirmative and negative covenants, including certain financial covenants. In particular, under these agreements, as amended, beginning July 1, 2014, U.S. Cellular is required to maintain the Consolidated Leverage Ratio at a level not to

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

exceed 3.75 to 1.00 for the period of the four fiscal quarters most recently ended (this was 3.00 to 1.00 prior to July 1, 2014). The maximum permitted Consolidated Leverage Ratio decreases beginning January 1, 2016 from 3.75 to 3.50, with further decreases effective July 1, 2016 and January 1, 2017 (and will return to 3.00 to 1.00 at that time). U.S. Cellular believes it was in compliance at December 31, 2015 with all such covenants. However, depending on U.S. Cellular's future financial performance, there is a risk that U.S. Cellular could fail to satisfy the financial covenants in the future. If U.S. Cellular breaches a financial or other covenant of either of these agreements, it would result in a default under that agreement, and could involve a cross-default under other debt instruments. This could in turn cause the affected lenders to accelerate the repayment of principal and accrued interest on any outstanding debt under such agreements and, if they choose, terminate the facility. If appropriate, U.S. Cellular may request the applicable lender for an amendment of financial covenants in the U.S. Cellular revolving credit facility and the U.S. Cellular term loan facility, in order to provide additional financial flexibility to U.S. Cellular, and may also seek other changes to such facilities. There is no assurance that the lenders will agree to any amendments. If the lenders agree to amendments, this may result in additional payments or higher interest rates payable to the lenders and/or additional restrictions. Restrictions in such debt instruments may limit U.S. Cellular's operating and financial flexibility.

Other Long-Term Financing

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

In November 2015, U.S. Cellular issued $300 million of 7.25% Senior Notes due in 2064 for general corporate purposes including spectrum purchases, reducing the available amount on U.S. Cellular's shelf registration statement from $500 million to $200 million. U.S. Cellular has the authority to replenish this shelf registration statement back to $500 million.

U.S. Cellular believes that it was in compliance as of December 31, 2015 with all covenants and other requirements set forth in its long-term debt indentures. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next five years represent less than 4% of the total gross long-term debt obligation at December 31, 2015. Refer to Market Risk Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt.

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

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

Credit Rating

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

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U.S. Cellular is rated at sub-investment grade. U.S. Cellular's credit ratings as of December 31, 2015, and the dates such ratings were issued/re-affirmed were as follows:

Rating Agency	Rating	Outlook
Moody's (re-affirmed November 2015)	Ba1	negative outlook
Standard & Poor's (re-affirmed November 2015)	BB	stable outlook
Fitch Ratings (re-affirmed August 2015)	BB+	stable outlook

Capital Requirements

The discussion below is intended to highlight some of the significant cash outlays expected during 2016 and beyond and to highlight the spending incurred in prior years for these items. This discussion does not include cash required to fund normal operations, and is not a comprehensive list of capital requirements. Significant cash requirements that are not routine or in the normal course of business could arise from time to time.

Capital Expenditures

U.S. Cellular makes substantial investments to acquire wireless licenses and properties and to construct and upgrade wireless telecommunications networks and facilities to remain competitive and as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities (such as 4G LTE technology) have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades of U.S. Cellular's networks to remain competitive.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, in 2015, 2014 and 2013 were as follows:

Capital Expenditures
(Dollars in millions)

In 2015, U.S. Cellular completed its deployment of 4G LTE technology in certain markets.

U.S. Cellular's capital expenditures for 2016 are expected to be approximately $500 million. These expenditures are expected to be for the following general purposes:

§ Expand and enhance network coverage, including construction of a new regional connectivity center and providing additional capacity to accommodate increased network usage, principally data usage, by current customers;

§ Deploy VoLTE 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 2016 using primarily Cash flows from operating activities, existing cash balances, borrowings under its revolving credit agreement 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 capital. 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. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum, including pursuant to FCC auctions. Cash payments for acquisitions of licenses were $285.8 million, $38.2 million and $16.5 million in 2015, 2014 and 2013, respectively.

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Cash received from divestitures in 2015, 2014 and 2013 were as follows:

Cash Payments Received from Divestitures
(Dollars in millions)

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 February 2016, U.S. Cellular filed an application to participate as a forward auction bidder for 600 MHz broadcast television spectrum licenses in an FCC auction referred to as Auction 1000. Auction 1000 is expected to commence with the broadcaster initial commitment deadline on March 29, 2016. Forward auction bidding is likely to begin a couple of months later and could continue for three months or longer. See "Regulatory Matters FCC Auction 1000." Prior to becoming a qualified bidder, U.S. Cellular must make an upfront payment, the size of which establishes its initial bidding eligibility. If U.S. Cellular is a winning bidder in the auction, it may be required to make additional payments to the FCC that may be substantial. In such event, U.S. Cellular plans to finance such payments from its existing cash balances, borrowings under its revolving credit agreement and/or additional long-term debt.

Due to the FCC's anti-collusion rules, U.S. Cellular may not disclose any details relating to its participation or information about whether or not it is a winning bidder unless and until it is announced as a winning bidder by the FCC.

Due to changes in FCC rules, U.S. Cellular will not be participating in Auction 1000 through a limited partnership that is a "designated entity" which qualifies for a discount of 25% on any licenses won in the auction, as U.S. Cellular has done in prior auctions. Instead, U.S. Cellular will be participating in the auction directly and will not qualify for any discount on licenses that may be won in the auction.

To the extent that existing competitors or new entrants acquire low-band (600 MHz) spectrum in U.S. Cellular markets in Auction 1000, U.S. Cellular could face increased competition over time from competitors that hold more efficient and superior low-band spectrum, which would have an adverse effect on U.S. Cellular's wireless competitive position.

In January 2016, U.S. Cellular entered into an agreement to purchase a 700 MHz A Block license for $36.0 million. In February 2016, U.S. Cellular entered into multiple agreements with third parties that provide for the transfer of certain AWS and PCS spectrum licenses and approximately $30 million in cash to U.S. Cellular, in exchange for U.S. Cellular transferring certain AWS, PCS and 700 MHz licenses to the third parties.

Variable Interest Entities

U.S. Cellular consolidates certain entities because they are "variable interest entities" under GAAP. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. U.S. Cellular may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Program

In 2009, the Board of Directors of U.S. Cellular authorized the repurchase from time to time of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. As of December 31, 2015, there were 4,755,298 U.S. Cellular Common Shares available for purchase under this program, which increased by 1,300,000 Common Shares on January 1, 2016. This authorization does not have an expiration date.

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There were limited U.S. Cellular share repurchases in 2015. Depending on its future financial performance, construction, development or acquisition programs, and available sources of financing, U.S. Cellular may not have sufficient liquidity or capital resources to make significant share repurchases. Therefore, there is no assurance that U.S. Cellular will make any significant amount of share repurchases in the future.

For additional information related to the current repurchase authorization and repurchases made during 2015, 2014 and 2013, see Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

CONTRACTUAL AND OTHER OBLIGATIONS

At December 31, 2015, the resources required for contractual obligations were as follows:

		Payments Due by Period			
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
(Dollars in millions)					
Long-term debt obligations1	$ 1,686.3	$ 11.3	$ 22.6	$ 22.6	$ 1,629.8
Interest payments on long-term debt obligations	3,798.7	109.1	218.2	218.2	3,253.2
Operating leases2	1,203.5	142.0	228.9	160.9	671.7
Capital leases	3.8	0.2	0.5	0.6	2.5
Purchase obligations3	1,087.1	562.7	336.9	132.9	54.6
	$ 7,779.4	$ 825.3	$ 807.1	$ 535.2	$ 5,611.8

1

Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt, net in the Consolidated Balance Sheet due to capital leases, debt issuance costs and the unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

2

Includes future lease costs related to office space, retail sites, cell sites and equipment. See Note 12

Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

3

Includes obligations payable under non-cancellable contracts, commitments for network facilities and transport services, agreements for software licensing, long-term marketing programs, and agreements with Apple to purchase certain minimum quantities of Apple iPhone products and fund marketing programs related to the Apple iPhone and iPad products.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because U.S. Cellular is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $38.5 million at December 31, 2015. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

See Note 12 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

CONSOLIDATED CASH FLOWS

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The following discussion summarizes U.S. Cellular's cash flow activities in 2015, 2014 and 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2015 Commentary

Cash Flows from Operating Activities

Cash flows from operating activities were $555.1 million in 2015. An increase in cash flows from operating activities was due primarily to improved net income and working capital factors. In 2015, increased receivables related to equipment installment plans decreased cash flows from operating activities. In the near term and as the popularity of equipment installment plans increases, U.S. Cellular expects this trend to continue.

In December 2015, as part of the Protecting Americans from Tax Hikes Act of 2015, bonus depreciation was enacted which allowed U.S. Cellular to accelerate deductions for depreciation, resulting in an overpayment of estimated tax amounts paid during 2015. Primarily as a result of this overpayment, U.S. Cellular has recorded $34.3 million of Income taxes receivable at December 31, 2015. U.S. Cellular paid income taxes, net of refunds, of $59.2 million in 2015.

Future cash flows from operating activities may be impacted by distributions from investments in unconsolidated entities. Distributions from unconsolidated entities in 2015, 2014 and 2013 were $60.0 million, $112.3 million and $125.7 million, respectively. U.S. Cellular holds a 5.5% ownership interest in the LA Partnership. In 2014 and 2013, U.S. Cellular received cash distributions of $60.5 million and $71.5 million, respectively, from the LA Partnership. U.S. Cellular did not receive any cash distributions in 2015 from the LA Partnership as U.S. Cellular was informed by the general partner that, in connection with the acquisition of a spectrum license covering the LA Partnership's market in FCC Auction 97, the LA Partnership would not make a cash distribution in 2015. This spectrum license will enhance the value of U.S. Cellular's interest in the LA Partnership. Notwithstanding the lack of a cash distribution in 2015, 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. The amount of future cash distributions from the LA Partnership are uncertain, and could be impacted by future spectrum purchases by the LA Partnership.

Cash Flows from Investing Activities

Cash flows used for investing activities were $548.7 million in 2015. U.S. Cellular makes substantial investments to acquire wireless licenses and properties and to construct and upgrade wireless telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades to U.S. Cellular's networks. Cash used for additions to property, plant and equipment totaled $580.6 million in 2015.

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 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash Flows from Financing Activities

Cash flows from financing activities were $497.4 million in 2015. In July 2015, U.S. Cellular borrowed $225 million on its Term Loan. In November 2015, U.S. Cellular issued $300 million of 7.25% Senior Notes due 2064.

2014 Commentary

Cash Flows from Operating Activities

Cash flows from operating activities were $172.3 million in 2014. Working capital factors which significantly decreased cash flows from operating activities included changes in accounts payable levels as a result of timing differences related to operating expenses and device purchases. In 2014, increased receivables related to equipment installment plans decreased cash flows from operating activities.

In December 2014, as part of the Tax Increase Prevention Act of 2014, bonus depreciation was enacted which allowed U.S. Cellular to accelerate deductions for depreciation resulting in a federal taxable loss in 2014. Primarily as a result of this federal income tax carryback, U.S. Cellular recorded $74.8 million of Income taxes receivable at December 31, 2014. U.S. Cellular paid income taxes, net of refunds, of $33.3 million in 2014.

Cash Flows from Investing Activities

Cash flows used for investing activities were $470.8 million in 2014. Cash used for additions to property, plant and equipment totaled $605.1 million in 2014. Cash received from divestitures in 2014 was $179.8 million which includes $91.8 million related to licenses and $71.1 million related to the Divestiture Transaction. See Note 6 Acquisitions,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these divestitures. U.S. Cellular realized cash proceeds of $50.0 million in 2014 related to the maturities of its investments in U.S. Treasury Notes and corporate notes. In 2014, cash used for investing activities includes a $60.0 million deposit made by Advantage Spectrum, L.P., a variable interest entity consolidated by U.S. Cellular, to the FCC for its participation in Auction 97. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash Flows from Financing Activities

Cash flows from financing activities were $167.9 million in 2014. In December 2014, U.S. Cellular issued $275 million of 7.25% Senior Notes due 2063.

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

2013 Commentary

Cash Flows from Operating Activities

Cash flows from operating activities were $290.9 million in 2013. In 2013, accounts receivable grew substantially due to issues resulting from the conversion to a new billing system. U.S. Cellular paid income taxes, net of refunds, of $157.8 million in 2013.

Cash Flows from Investing Activities

Cash flows from investing activities were $172.7 million in 2013. Cash used for additions to property, plant and equipment totaled $717.9 million in 2013. Cash received from divestitures in 2013 was $811.1 million which includes $490.6 million related to the Divestiture Transaction and $312.0 million related to FCC licenses. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these divestitures. U.S. Cellular realized cash proceeds of $100.0 million in 2013 related to the maturities of its investments in U.S. Treasury Notes and corporate notes.

Cash Flows from Financing Activities

Cash flows used for financing activities were $499.9 million in 2013. In June 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. U.S. Cellular did not pay any dividends in 2015 or 2014.

CONSOLIDATED BALANCE SHEET ANALYSIS

The following discussion addresses certain captions in the consolidated balance sheet and changes therein. This discussion is intended to highlight the significant changes and is not intended to fully reconcile the changes. Changes in financial condition during 2015 are as follows:

Cash and cash equivalents

Cash and cash equivalents increased $503.9 million driven primarily by proceeds received from the issuance of $300 million 7.25% Senior Notes and the $225 million draw on the Term Loan. Cash flow from operating activities less cash used for additions to property, plant and equipment yielded a net cash reduction of $25.5 million. Cash received from divestitures also exceeded Cash paid for acquisitions and licenses by $30.9 million.

Accounts receivable, net

Accounts receivable, net increased $115.3 million primarily as a result of a $136.7 million increase attributable to equipment installment plans. U.S. Cellular implemented equipment installment plans on a broad basis in 2014.

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Inventory, net

Inventory, net decreased $117.8 million due primarily to selling inventory on hand at December 31, 2014 and better management of purchasing and overall inventory levels based upon anticipated demand and promotional activities.

Net deferred income tax asset

Net deferred income tax asset decreased $93.1 million as a result of the early adoption of ASU 2015-17 as of December 31, 2015. The previously identified Net current deferred tax asset is now grouped with non-current deferred income tax liability in accordance with ASU 2015-17. See Note 4   Income Taxes in the Notes to Consolidated Financial Statements for more information on ASU 2015-17.

Assets held for sale

Assets held for sale decreased $107.1 million due to the closing of the Tower Sale ($50.2 million) and two license exchanges ($56.8 million). No assets were held for sale as of December 31, 2015. For more information on the Tower Sale, see Note 6   Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements.

Licenses

Licenses increased $390.8 million due primarily to an aggregate winning bid of $338.3 million in FCC Auction 97 by Advantage Spectrum and other license purchases and exchanges resulting in a net increase of $51.0 million. Auction 97 licenses won by Advantage Spectrum have not yet been granted. See Note 6   Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for more information about these transactions.

Long-term debt, net

Long-term debt, net increased $501.6 million due primarily to the $300 million 7.25% Senior Notes issued in November 2015 and $225 million Term Loan draw in July 2015. See Note 11   Debt for additional information.

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.

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

Intangible Asset Impairment

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

See Note 7   Intangible Assets in the Notes to Consolidated Financial Statements for information related to Licenses and Goodwill activity in 2015 and 2014.

Wireless Licenses

Prior to the fourth quarter of 2015, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. The eleven units of accounting consisted of four geographic units of accounting for developed operating market licenses ("built licenses") and seven geographic non-operating market licenses ("unbuilt licenses"). As part of the current year annual impairment evaluation, U.S. Cellular evaluated the aggregation criteria based on how such licenses are deployed and provide value in U.S. Cellular's operations, and current industry and market factors. It was determined that the built licenses should be aggregated into one unit of accounting. The unbuilt licenses continued to be separated into seven geographic units of accounting.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of November 1, 2015, U.S. Cellular performed a qualitative impairment assessment to determine whether it was more likely than not that the fair value of the licenses exceeded their carrying value. Given the change in the reporting units for built licenses, the qualitative assessment was performed for the following units of accounting: historical four units of accounting for built licenses, newly defined one unit of accounting for built licenses, and seven unbuilt licenses. As part of the assessment, U.S. Cellular considered several qualitative factors, including analysts' estimates of license values, recent spectrum auction results, recent U.S. Cellular transactions and other industry and market factors. Based on this assessment, U.S. Cellular concluded that it was more likely than not that the fair value of the licenses in each unit of accounting exceeded the respective carrying values. Therefore, no impairment of licenses existed and no Step 1 impairment evaluation was completed.

Goodwill

U.S. Cellular has recorded Goodwill as a result of the acquisition of wireless companies. Prior to the fourth quarter of 2015, U.S. Cellular was comprised of four reporting units based on geographic service areas. Due to the evolution of the business and the extent to which U.S. Cellular has similar customers, products and services, and operations across all geographic regions, and also operates one interdependent network, U.S. Cellular determined that it had one reporting unit as of November 1, 2015. The change in reporting units required U.S. Cellular to perform an impairment test for both the previous four reporting units and one new reporting unit as of November 1, 2015. The newly defined one reporting unit hereafter is referred to as U.S. Cellular.

Based on the results of the annual Goodwill impairment assessment performed as of November 1, 2015, the fair value of each of the historical four and U.S. Cellular reporting units exceeded their respective carrying values. Therefore, no impairment of Goodwill existed.

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

Key Assumptions	**As of November 1, 2015**
Revenue growth rate1	2.3%
Terminal revenue growth rate1	2.0%
Discount rate2	9.5%

1

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

2

The discount rate of each reporting unit was computed by calculating the weighted average cost of capital of market participants with businesses reasonably comparable to U.S. Cellular. The discount rate is dependent upon the cost of capital of other industry market participants and the company specific risk. To the extent that the weighted average cost of capital of industry participants increases or U.S. Cellular's risk in relation to its peers increases, this would decrease the estimated fair value of the reporting units. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity vs. debt, or other elements affecting the estimated cost of equity increase.

Provided all other assumptions remained the same, for the historical four reporting units, the discount rate would have to increase to a range of 9.7% to 11.0% to yield an estimated fair value of reporting units that equal their respective carrying values at November 1, 2015. Further, assuming all other assumptions remained the same, for the historical four reporting units, the terminal growth rate assumptions would need to decrease to amounts ranging from negative 1.5% to positive 1.6% to yield an estimated fair value equal to the carrying values of the respective reporting unit at November 1, 2015.

Provided all other assumptions remained the same, for the U.S. Cellular reporting unit, the discount rate would have to increase to 10.4% to yield an estimated fair value of the reporting unit that equals its carrying value at November 1, 2015. Further, assuming all other assumptions remained the same, for the U.S. Cellular reporting unit, the terminal growth rate assumption would need to decrease to negative 0.1% to yield an estimated fair value equal to the carrying value of the reporting unit at November 1, 2015.

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The Goodwill balance of U.S. Cellular and of each prior reporting unit as of November 1, 2015 and the percentage by which the estimated fair value of the corresponding reporting units exceeded the carrying values, as a percentage of carrying value, was as follows:

Reporting Unit		**Goodwill balance**	**Excess of estimated Fair Value over Carrying Value**
(Dollars in thousands)			
Prior Reporting Units:			
Central Region	$	256,786	21.2%
Mid-Atlantic Region	$	89,434	5.0%
New England Region	$	7,084	28.6%
Northwest Region	$	16,292	41.2%
New Single Reporting Unit:			
U.S. Cellular	$	369,596	19.8%

Income Taxes

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

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

The preparation of the consolidated financial statements requires U.S. Cellular to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes. These temporary differences result in deferred income tax assets and liabilities, which are included in U.S. Cellular's Consolidated Balance Sheet. U.S. Cellular must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

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

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

Equipment Installment Plans

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

Trade-In Right

U.S. Cellular values the trade-in right as a guarantee liability. This liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

the estimated fair value of the used device eligible for trade-in. U.S. Cellular reevaluates its estimate of the guarantee liability at each reporting date. A significant change in any of the aforementioned assumptions used to compute the guarantee liability would impact the amount of revenue recognized under these plans and the timing thereof. In 2015 and 2014, U.S. Cellular assumed the earliest contractual time of trade-in, or the minimum amount of payments as specified in the device installment contract, for all customers on installment contracts with trade-in rights.

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

Interest

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

Allowance for doubtful accounts

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

OTHER ITEMS

Inflation

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

Seasonality

U.S. Cellular's profitability historically has been lower in the fourth quarter as a result of significant marketing and promotional activity during the holiday season.

Recently Issued Accounting Pronouncements

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

Certain Relationships and Related Transactions

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

REGULATORY MATTERS

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

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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 related to 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 decide to apply such regulations and requirements in the future. Also, it is uncertain if internet services may be subject to the Federal 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 certain 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. TDS participated in Auction 97 indirectly through its interest in Advantage Spectrum. Advantage Spectrum applied as a "designated entity" and expects to receive bid credits resulting in a 25% discount with respect to spectrum purchased in Auction 97. 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. The FCC also has adopted a rule which would enable the FCC to recoup some or all of the bidding credits granted to any designated entity, on a license by license basis, which allowed a 10 percent or greater non-controlling interest holder in the designated entity to use 25 percent or more of its spectrum capacity during the first five years of the license term. Additionally, the amended rules make certain other changes to the FCC's competitive bidding rules.

Due to the changes in FCC rules, U.S. Cellular will not be participating in Auction 1000 (discussed below) through a limited partnership that is a "designated entity" which qualifies for a discount of 25% on any licenses won in the auction, as U.S. Cellular has done in prior auctions. Instead, U.S. Cellular will be participating in the auction directly and will not qualify for any discount on licenses that may be won in the auction.

FCC Auction 1000

The FCC has scheduled an auction of 600 MHz spectrum licenses, referred to as Auction 1000. Auction 1000 involves: (1) a "reverse auction" in which broadcast television licensees submit bids to voluntarily relinquish spectrum usage rights in exchange for payments; (2) a "repacking" of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a "forward auction" of licenses for spectrum cleared through this process to be used for wireless communications. Interested broadcasters filed their applications by January 12, 2016 and forward auction bidders, including U.S. Cellular, filed applications prior to February 10, 2016. U.S. Cellular evaluates opportunities to acquire additional spectrum in FCC auctions and thus plans to participate in the forward auction. Auction 1000 is expected to commence with the broadcaster initial commitment deadline on March 29, 2016. Forward auction bidding is likely to begin a couple of months later, and could continue for three months or longer. The FCC anti-collusion rules place certain restrictions on public disclosures and business communications with other companies relating to U.S. Cellular's participation until the down payment deadline for Auction 1000, which will be ten business days after release of the FCC's Channel Reassignment Public Notice, following the end of the forward auction. These anti-collusion rules, which could last six months or more from February 10, 2016, may restrict the conduct of certain U.S. Cellular activities with other applicants in Auction 1000 as well as with nationwide providers of wireless services which are not applicants in Auction 1000. The restrictions could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT

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

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

§ *A failure by U.S. Cellular to successfully execute its business strategy (including planned acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

§ *Uncertainty in U.S. Cellular's future cash flow and liquidity or in the ability to access capital, deterioration in the capital markets, other changes in U.S. Cellular's performance or market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases.*

§ *U.S. Cellular has a significant amount of indebtedness which could adversely affect its financial performance and in turn adversely affect its ability to make payments on its indebtedness, comply with terms of debt covenants and incur additional debt.*

§ *Changes in roaming practices or other factors could cause U.S. Cellular's roaming revenues to decline from current levels, roaming expenses to increase from current levels and/or impact U.S. Cellular's ability to service its customers in geographic areas where U.S. Cellular does not have its own network, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

§ *A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

§ *To the extent conducted by the FCC, U.S. Cellular may participate in FCC auctions of additional spectrum in the future directly or indirectly and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on U.S. Cellular.*

§ *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. Consequently, its operating results may fluctuate based on factors related primarily to conditions in this industry.*

§ *U.S. Cellular's smaller scale relative to larger competitors that may have much greater financial and other resources than U.S. Cellular could cause U.S. Cellular to be unable to compete successfully, which could adversely affect its business, financial condition or results of operations.*

§ *Changes in various business factors, including changes in demand, customer preferences and perceptions, price competition, churn from customer switching activity and other factors, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

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§ *Advances or changes in technology could render certain technologies used by U.S. Cellular obsolete, could put U.S. Cellular at a competitive disadvantage, could reduce U.S. Cellular's revenues or could increase its costs of doing business.*

§ *Complexities associated with deploying new technologies present substantial risk and U.S. Cellular investments in unproven technologies may not produce the benefits that U.S. Cellular expects.*

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

§ *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 offers customers the option to purchase certain devices under installment contracts which, compared to fixed-term service contracts, includes risks that U.S. Cellular may possibly incur greater churn, lower cash flows, increased costs and/or increased bad debts expense due to differences in contract terms, which could have an adverse impact on U.S. Cellular's financial condition or results of operations.*

§ *A failure by U.S. Cellular to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.*

§ *Difficulties involving third parties with which U.S. Cellular does business, including changes in U.S. Cellular's relationships with or financial or operational difficulties of key suppliers or independent agents and third party national retailers who market U.S. Cellular's services, could adversely affect U.S. Cellular's business, financial condition or results of operations.*

§ *U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.*

§ *A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

§

U.S. Cellular has experienced and, in the future, expects to experience cyber-attacks or other breaches of network or information technology security of varying degrees on a regular basis, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

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

§ *Changes in facts or circumstances, including new or additional information, could require U.S. Cellular to record charges 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.*

§ *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.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

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

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

See "Risk Factors" in U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2015 for a further discussion of these risks. U.S. Cellular undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

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MARKET RISK

Long-Term Debt

As of December 31, 2015, the majority of U.S. Cellular's long-term debt was in the form of fixed-rate notes with maturities ranging up to 49 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following chart presents the scheduled principal payments on long-term debt by maturity dates at December 31, 2015:

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2015:

Principal Payments Due by Period

	Long-Term Debt Obligations1	Weighted-Avg. Interest Rates on Long-Term Debt Obligations2

(Dollars in millions)			
2016	$	11.3	3.2%
2017		11.3	3.2%
2018		11.3	3.2%
2019		11.4	3.2%
2020		11.4	3.3%
After 5 years		1,631.5	6.6%
Total	$	1,688.2	6.5%

1 The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to unamortized debt issuance costs on all non-revolving debt instruments and the unamortized discount related to the 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

2 Represents the weighted average interest rates at December 31, 2015 for debt maturing in the respective periods.

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Fair Value of Long-Term Debt

At December 31, 2015 and 2014, the estimated fair value of long-term debt obligations, excluding capital lease obligations and the current portion of such long-term debt, was $1,643.9 million and $1,122.1 million, respectively. See Note 2 Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information.

Other Market Risk Sensitive Instruments

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

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SUPPLEMENTAL INFORMATION

U.S. Cellular sometimes uses information derived from consolidated financial information but not presented in its financial statements prepared in accordance with U.S. GAAP to evaluate the performance of its business. Certain of these measures are considered "non-GAAP financial measures" under U.S. Securities and Exchange Commission Rules. Specifically, U.S. Cellular has referred to the following measures in this Form 10-K Report:

§ Adjusted EBITDA

§ Operating Cash Flow

§ Free Cash Flow

§ Adjusted Free Cash Flow

Below is a reconciliation of each of these measures:

Adjusted EBITDA and Operating Cash Flow

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and accretion), is defined as net income adjusted for the items set forth in the reconciliation. Operating cash flow is defined as net income adjusted for the items set forth in the reconciliation. Adjusted EBITDA and Operating cash flow exclude these items in order to show operating results on a more comparable basis from period to period. From time to time, U.S. Cellular may exclude other items from Adjusted EBITDA and/or Operating cash flow if such items help reflect operating results on a more comparable basis. U.S. Cellular does not intend to imply that any such items that are excluded are non-recurring, infrequent or unusual; such items may occur in the future. Adjusted EBITDA and Operating cash flow are not measures of financial performance under GAAP and should not be considered as alternatives to net income as indicators of the company's operating performance or as alternatives to cash flows from operating activities, determined in accordance with GAAP, as indicators of cash flows or as measures of liquidity. U.S. Cellular believes Adjusted EBITDA and Operating cash flow are useful measures of U.S. Cellular's operating results before significant recurring non-cash charges, gains and losses, and other items as indicated below.

		2015		2014		2013
(Dollars in thousands)						
Net income (loss) (GAAP)	**$**	**247,295**	$	(46,922)	$	144,522
Add back:						
Income tax expense (benefit)		**156,334**		(11,782)		113,134
Interest expense		**86,194**		57,386		43,963
Depreciation, amortization and accretion		**606,455**		605,997		803,781
EBITDA		**1,096,278**		604,679		1,105,400
Add back:						

(Gain) loss on sale of business and other exit costs, net	**(113,555)**	(32,830)	(246,767)
(Gain) loss on license sales and exchanges	**(146,884)**	(112,993)	(255,479)
(Gain) loss on asset disposals, net	**16,313**	21,469	30,606
(Gain) loss on investments			(18,556)
Adjusted EBITDA	**852,152**	480,325	615,204
Deduct:			
Equity in earnings of unconsolidated entities	**140,083**	129,764	131,949
Interest and dividend income	**36,332**	12,148	3,961
Other, net	**466**	160	288
Operating cash flow	**675,271**	338,253	479,006
Deduct:			
Depreciation, amortization and accretion	**606,455**	605,997	803,781
(Gain) loss on sale of business and other exit costs, net	**(113,555)**	(32,830)	(246,767)
(Gain) loss on license sales and exchanges	**(146,884)**	(112,993)	(255,479)
(Gain) loss on asset disposals, net	**16,313**	21,469	30,606
Operating income (loss) (GAAP)	**$ 312,942**	$ (143,390)	$ 146,865

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Free Cash Flow and Adjusted Free Cash Flow

The following table presents Free cash flow and Adjusted free cash flow. Free cash flow is defined as Cash flows from operating activities less Cash used for additions to property, plant and equipment. 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. Free cash flow and Adjusted free cash flow are non-GAAP financial measures 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.

	2015	2014	2013
(Dollars in thousands)			
Cash flows from operating activities	**$ 555,114**	$ 172,342	$ 290,897
Less: Cash used for additions to property, plant and equipment	**580,593**	605,083	717,862
Free cash flow	**$ (25,479)**	$ (432,741)	$ (426,965)
Add: Sprint Cost Reimbursement1	**29,974**	71,097	10,560
Adjusted free cash flow	**$ 4,495**	$ (361,644)	$ (416,405)

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

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UNITED STATES CELLULAR CORPORATION CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31,	2015	2014	2013
(Dollars and shares in thousands, except per share amounts)			
Operating revenues			
Service	$ **3,350,431**	$ 3,397,937	$ 3,594,773
Equipment sales	**646,422**	494,810	324,063
Total operating revenues	**3,996,853**	3,892,747	3,918,836
Operating expenses			
System operations (excluding Depreciation, amortization and accretion reported below)	**775,042**	769,911	763,435
Cost of equipment sold	**1,052,810**	1,192,669	999,000
Selling, general and administrative (including charges from affiliates of $96.2 million, $91.1 million and $99.2 million in 2015, 2014 and 2013)	**1,493,730**	1,591,914	1,677,395
Depreciation, amortization and accretion	**606,455**	605,997	803,781
(Gain) loss on asset disposals, net	**16,313**	21,469	30,606
(Gain) loss on sale of business and other exit costs, net	**(113,555)**	(32,830)	(246,767)
(Gain) loss on license sales and exchanges, net	**(146,884)**	(112,993)	(255,479)
Total operating expenses	**3,683,911**	4,036,137	3,771,971
Operating income (loss)	**312,942**	(143,390)	146,865
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	**140,083**	129,764	131,949
Interest and dividend income	**36,332**	12,148	3,961
Gain (loss) on investments			18,556
Interest expense	**(86,194)**	(57,386)	(43,963)
Other, net	**466**	160	288
Total investment and other income	**90,687**	84,686	110,791
Income (loss) before income taxes	**403,629**	(58,704)	257,656
Income tax expense (benefit)	**156,334**	(11,782)	113,134
Net income (loss)	**247,295**	(46,922)	144,522

Less: Net income (loss) attributable to noncontrolling interests, net of tax		**5,948**		(4,110)		4,484
Net income (loss) attributable to U.S. Cellular shareholders	**$**	**241,347**	$	(42,812)	$	140,038
Basic weighted average shares outstanding		**84,248**		84,213		83,968
Basic earnings (loss) per share attributable to U.S. Cellular shareholders	**$**	**2.86**	$	(0.51)	$	1.67
Diluted weighted average shares outstanding		**84,891**		84,213		84,730
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	**$**	**2.84**	$	(0.51)	$	1.65
Special dividend per share to U.S. Cellular shareholders	**$**		$		$	5.75

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

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UNITED STATES CELLULAR CORPORATION CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Cash flows from operating activities			
Net income (loss)	**$ 247,295**	$ (46,922)	$ 144,522
Add (deduct) adjustments to reconcile net income (loss) to net cash flows from operating activities			
Depreciation, amortization and accretion	**606,455**	605,997	803,781
Bad debts expense	**105,745**	101,282	98,864
Stock-based compensation expense	**24,748**	22,383	15,844
Deferred income taxes, net	**55,306**	57,604	(75,348)
Equity in earnings of unconsolidated entities	**(140,083)**	(129,764)	(131,949)
Distributions from unconsolidated entities	**60,041**	112,336	125,660
(Gain) loss on asset disposals, net	**16,313**	21,469	30,606
(Gain) loss on sale of business and other exit costs, net	**(113,555)**	(32,830)	(246,767)
(Gain) loss on license sales and exchanges	**(146,884)**	(112,993)	(255,479)
(Gain) loss on investments			(18,556)
Noncash interest expense	**1,621**	1,155	1,059
Other operating activities	**(400)**	26	646
Changes in assets and liabilities from operations			
Accounts receivable	**(95,730)**	12,547	(291,168)
Equipment installment plans receivable	**(133,734)**	(188,829)	(591)
Inventory	**117,764**	(28,878)	(82,422)
Accounts payable	**4,931**	(98,177)	85,346
Customer deposits and deferred revenues	**(36,612)**	33,524	66,344
Accrued taxes	**33,569**	(99,483)	30,037
Accrued interest	**4,047**	1,307	273
Other assets and liabilities	**(55,723)**	(59,412)	(9,805)
Net cash provided by operating activities	**555,114**	172,342	290,897
Cash flows from investing activities			
Cash used for additions to property, plant and equipment	**(580,593)**	(605,083)	(717,862)
Cash paid for acquisitions and licenses	**(285,807)**	(38,150)	(16,540)
Cash received from divestitures and exchanges	**316,729**	179,842	811,120
Cash received for investments		50,000	100,000
Federal Communications Commission deposit		(60,000)	
Other investing activities	**1,003**	2,619	(3,969)
Net cash provided by (used in) investing activities	**(548,668)**	(470,772)	172,749

Cash flows from financing activities

Issuance of long-term debt		**525,000**		275,000		
Repayment of borrowing under revolving credit facility				(150,000)		
Borrowing under revolving credit facility				150,000		
Common shares reissued for benefit plans, net of tax payments		**2,167**		830		5,784
Common shares repurchased		**(6,188)**		(18,943)		(18,544)
Payment of debt issuance costs		**(13,005)**		(9,644)		(23)
Acquisition of assets in common control transaction		**(2,437)**		(76,298)		
Dividends paid						(482,270)
Distributions to noncontrolling interests		**(6,369)**		(3,056)		(3,766)
Payments to acquire additional interest in subsidiaries		**(2,108)**				(1,005)
Other financing activities		**357**		(11)		(115)
Net cash provided by (used in) financing activities		**497,417**		167,878		(499,939)
Net increase (decrease) in cash and cash equivalents		**503,863**		(130,552)		(36,293)
Cash and cash equivalents						
Beginning of period		**211,513**		342,065		378,358
End of period	**$**	**715,376**	$	211,513	$	342,065

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

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UNITED STATES CELLULAR CORPORATION CONSOLIDATED BALANCE SHEET ASSETS

December 31,		2015		2014
(Dollars in thousands)				
Current assets				
Cash and cash equivalents	$	**715,376**	$	211,513
Accounts receivable				
Customers and agents, less allowances of $44,876 and $37,654, respectively		**608,202**		466,048
Roaming		**20,130**		23,865
Affiliated		**253**		994
Other, less allowances of $830 and $859, respectively		**43,634**		66,051
Inventory, net		**149,307**		267,068
Prepaid expenses		**80,794**		59,744
Net deferred income tax asset				93,058
Other current assets		**53,946**		90,834
Total current assets		**1,671,642**		1,279,175
Assets held for sale				107,055
Licenses		**1,834,212**		1,443,438
Goodwill		**369,596**		370,151
Investments in unconsolidated entities		**363,383**		283,014
Property, plant and equipment				
In service and under construction		**7,668,736**		7,458,740
Less: Accumulated depreciation		**5,019,803**		4,730,523
Property, plant and equipment, net		**2,648,933**		2,728,217
Other assets and deferred charges		**172,212**		251,259
Total assets	$	**7,059,978**	$	6,462,309

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

December 31,	2015	2014
(Dollars and shares in thousands)		
Current liabilities		
Current portion of long-term debt	$ **11,313**	$ 46
Accounts payable		
Affiliated	**10,170**	9,774
Trade	**274,807**	306,845
Customer deposits and deferred revenues	**250,983**	287,562
Accrued taxes	**28,448**	36,652
Accrued compensation	**67,770**	66,162
Other current liabilities	**104,447**	149,853
Total current liabilities	**747,938**	856,894
Liabilities held for sale		20,934
Deferred liabilities and credits		
Net deferred income tax liability	**820,731**	859,867
Other deferred liabilities and credits	**290,949**	284,002
Long-term debt, net	**1,628,507**	1,126,860
Commitments and contingencies		
Noncontrolling interests with redemption features	**1,097**	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 84,359 shares (33,006 Series A Common and 51,353 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	**1,496,453**	1,472,558
Treasury shares, at cost, 3,715 and 3,994 Common Shares, respectively	**(156,535)**	(169,139)
Retained earnings	**2,132,521**	1,910,498

Total U.S. Cellular shareholders' equity		**3,560,513**		3,301,991
Noncontrolling interests		**10,243**		10,611
Total equity		**3,570,756**		3,312,602
Total liabilities and equity	**$**	**7,059,978**	$	6,462,309

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

	U.S. Cellular Shareholders						
(Dollars in thousands)	Series A Common and Common shares	Additional paid-in capital	Treasury shares	Retained earnings	Total U.S. Cellular shareholders' equity	Noncontrolling interests	Total equity
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				241,347	241,347		241,347
Net income attributable to noncontrolling interests classified as equity						340	340
Repurchase of Common Shares			(6,188)		(6,188)		(6,188)
Incentive and compensation plans		186	18,792	(16,887)	2,091		2,091
Stock-based compensation awards		23,843			23,843		23,843
Tax windfall (shortfall) from stock awards		(1,014)			(1,014)		(1,014)
Distributions to noncontrolling interests						(708)	(708)
Acquisition of assets in common control		885		(2,437)	(1,552)		(1,552)

transaction							
Adjust investment in subsidiaries for noncontrolling interest purchases		(5)			(5)		(5)
December 31, 2015	$ 88,074	$ 1,496,453	$ (156,535)	$ 2,132,521	$ 3,560,513	$ 10,243	$ 3,570,756

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

	U.S. Cellular Shareholders						
(Dollars in thousands)	Series A Common and Common shares	Additional paid-in capital	Treasury shares	Retained earnings	Total U.S. Cellular shareholders' equity	Noncontrolling interests	Total equity
December 31, 2013	$ 88,074	$ 1,424,729	$ (164,692)	$ 2,043,095	$ 3,391,206	$ 18,391	$ 3,409,597
Add (Deduct)							
Net loss attributable to U.S. Cellular shareholders				(42,812)	(42,812)		(42,812)
Net loss attributable to noncontrolling interests classified as equity						(4,787)	(4,787)
Repurchase of Common Shares			(18,943)		(18,943)		(18,943)
Incentive and compensation plans			14,496	(13,518)	978		978
Stock-based compensation awards		21,078			21,078		21,078
Tax windfall (shortfall) from stock awards		(1,161)			(1,161)		(1,161)
Distributions to noncontrolling interests						(2,993)	(2,993)
Acquisition of assets in common control transaction		29,141		(76,267)	(47,126)		(47,126)

Adjust investment in subsidiaries for noncontrolling interest purchases		(1,229)			(1,229)		(1,229)
December 31, 2014	$ 88,074	$ 1,472,558	$ (169,139)	$ 1,910,498	$ 3,301,991	$ 10,611	$ 3,312,602

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

	U.S. Cellular Shareholders						
(Dollars in thousands)	Series A Common and Common shares	Additional paid-in capital	Treasury shares	Retained earnings	Total U.S. Cellular shareholders' equity	Noncontrolling interests	Total equity
December 31, 2012	$ 88,074	$ 1,412,453	$ (165,724)	$ 2,399,052	$ 3,733,855	$ 61,392	$ 3,795,247
Add (Deduct)							
Net income attributable to U.S. Cellular shareholders				140,038	140,038		140,038
Net income attributable to noncontrolling interests classified as equity						4,251	4,251
Common and Series A Common Shares dividends				(482,270)	(482,270)		(482,270)
Repurchase of Common Shares			(18,544)		(18,544)		(18,544)
Incentive and compensation plans		222	19,576	(13,725)	6,073		6,073
Stock-based compensation awards		15,467			15,467		15,467
Tax windfall (shortfall) from stock awards		(3,267)			(3,267)		(3,267)
Distributions to noncontrolling interests						(3,576)	(3,576)
		(146)			(146)	94	(52)

Adjust investment in subsidiaries for noncontrolling interest purchases		
Deconsolidation of partnerships	(43,770)	(43,770)