

UNITED STATES CELLULAR CORP  
 Form 10-Q  
 May 02, 2014

<b>UNITED STATES</b>															
<b>SECURITIES AND EXCHANGE COMMISSION</b>															
<b>Washington, D.C. 20549</b>															
<b>FORM 10-Q</b>															
<b>(Mark One)</b>															
<input checked="" type="checkbox"/>	<b>QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>														
<b>For the quarterly period ended March 31, 2014</b>															
<b>OR</b>															
<input type="checkbox"/>	<b>TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>														
<b>For the transition period from</b> _____ <b>to</b> _____															
<b>Commission file number 1-9712</b>															
<b>UNITED STATES CELLULAR CORPORATION</b>															
(Exact name of Registrant as specified in its charter)															
<b>Delaware</b>								<b>62-1147325</b>							
(State or other jurisdiction of incorporation or organization)								(IRS Employer Identification No.)							
<b>8410 West Bryn Mawr, Chicago, Illinois 60631</b>															
(Address of principal executive offices) (Zip code)															
Registrant's telephone number, including area code: <b>(773) 399-8900</b>															
<b>Indicate by check mark</b>														<b>Yes</b>	<b>No</b>
• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.														x	o

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<ul style="list-style-type: none"> <li>whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).</li> </ul>														x	o
<ul style="list-style-type: none"> <li>whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.</li> </ul>															
Large accelerated filer		o		Accelerated filer		x		Non-accelerated filer		o		Smaller reporting company		o	
<ul style="list-style-type: none"> <li>whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).</li> </ul>														o	x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.															
<b>Class</b>								<b>Outstanding at March 31, 2014</b>							
Common Shares, \$1 par value								51,178,608 Shares							
Series A Common Shares, \$1 par value								33,005,877 Shares							

<b>United States Cellular Corporation</b>			
<b>Quarterly Report on Form 10-Q</b>			
<b>For the Quarterly Period Ended March 31, 2014</b>			
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<b>United States Cellular Corporation</b>					
<b><u>Consolidated Statement of Operations</u></b>					
<b>(Unaudited)</b>					
<b>Three Months Ended</b>					
<b>March 31,</b>					
<b>(Dollars and shares in thousands, except per share amounts)</b>		<b>2014</b>		<b>2013</b>	
<b>Operating revenues</b>					
	Service	\$	853,613	\$	996,349
	Equipment sales		72,198		85,397
	Total operating revenues		925,811		1,081,746
<b>Operating expenses</b>					
	System operations (excluding Depreciation, amortization and accretion reported below)		180,607		216,299
	Cost of equipment sold		270,474		241,691
	Selling, general and administrative (including charges from affiliates of \$21.2 million and \$23.5 million, respectively)		395,564		420,080
	Depreciation, amortization and accretion		167,753		189,845
	(Gain) loss on asset disposals, net		1,934		5,434
	(Gain) loss on sale of business and other exit costs, net		(6,900)		6,931
	(Gain) loss on license sales and exchanges		(91,446)		-
	Total operating expenses		917,986		1,080,280
<b>Operating income</b>			7,825		1,466
<b>Investment and other income (expense)</b>					
	Equity in earnings of unconsolidated entities		37,075		26,835
	Interest and dividend income		884		903
	Interest expense		(14,862)		(10,910)
	Other, net		86		(215)
	Total investment and other income		23,183		16,613
<b>Income before income taxes</b>			31,008		18,079
	Income tax expense		12,604		7,369

<b>Net income</b>				18,404			10,710
	Less: Net income (loss) attributable to noncontrolling interests, net of tax			(1,078)			5,796
<b>Net income attributable to U.S. Cellular shareholders</b>			\$	19,482		\$	4,914
<b>Basic weighted average shares outstanding</b>				84,213			83,838
<b>Basic earnings per share attributable to U.S. Cellular shareholders</b>			\$	0.23		\$	0.06
<b>Diluted weighted average shares outstanding</b>				85,065			84,588
<b>Diluted earnings per share attributable to U.S. Cellular shareholders</b>			\$	0.23		\$	0.06
The accompanying notes are an integral part of these consolidated financial statements.							

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<b>United States Cellular Corporation</b>					
<b><u>Consolidated Statement of Cash Flows</u></b>					
<b><u>(Unaudited)</u></b>					
<b>Three Months Ended</b>					
<b>March 31,</b>					
<b>(Dollars in thousands)</b>			<b>2014</b>		<b>2013</b>
<b>Cash flows from operating activities</b>					
	Net income		\$	18,404	\$ 10,710
	Add (deduct) adjustments to reconcile net income to net cash flows from operating activities				
		Depreciation, amortization and accretion		167,753	189,845
		Bad debts expense		20,492	16,910
		Stock-based compensation expense		4,955	5,036
		Deferred income taxes, net		(4,817)	7,048
		Equity in earnings of unconsolidated entities		(37,075)	(26,835)
		Distributions from unconsolidated entities		12,818	5,836
		(Gain) loss on asset disposals, net		1,934	5,434
		(Gain) loss on sale of business and other exit costs, net		(6,900)	6,931
		(Gain) loss on license sales and exchanges		(91,446)	-
		Noncash interest expense		269	262
		Other operating activities		47	250
	Changes in assets and liabilities from operations				
		Accounts receivable		81,980	33,611
		Inventory		19,306	16,750
		Accounts payable - trade		(38,245)	4,644
		Accounts payable - affiliate		(2,312)	(1,933)
		Customer deposits and deferred revenues		(1,510)	8,862
		Accrued taxes		(15,403)	6,175
		Accrued interest		9,182	9,201
		Other assets and liabilities		(75,896)	(75,122)
				63,536	223,615
<b>Cash flows from investing activities</b>					
	Cash used for additions to property, plant and equipment			(109,498)	(151,024)
	Cash paid for acquisitions and licenses			(9,135)	(14,150)
	Cash received from divestitures			103,042	-
	Cash received for investments			10,000	-
	Other investing activities			584	3,654

					(5,007)			(161,520)
<b>Cash flows from financing activities</b>								
	Repayment of long-term debt				(23)			(61)
	Common shares reissued for benefit plans, net of tax payments				316			123
	Common shares repurchased				(2,000)			(18,425)
	Distributions to noncontrolling interests				(346)			(2,396)
	Other financing activities				-			2
					(2,053)			(20,757)
<b>Net increase in cash and cash equivalents</b>								
					56,476			41,338
<b>Cash and cash equivalents</b>								
	Beginning of period				342,065			378,358
	End of period				\$ 398,541		\$	419,696
The accompanying notes are an integral part of these consolidated financial statements.								



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<b>United States Cellular Corporation</b>				
<b>Consolidated Balance Sheet — Assets</b>				
<b>(Unaudited)</b>				
<b>(Dollars in thousands)</b>		<b>March 31,</b>		<b>December 31,</b>
		<b>2014</b>		<b>2013</b>
<b>Current assets</b>				
	Cash and cash equivalents	\$ 398,541		\$ 342,065
	Short-term investments	40,056		50,104
	Accounts receivable			
	Customers and agents, less allowances of \$52,431 and \$59,206, respectively	352,366		467,255
	Roaming	26,833		30,136
	Affiliated	667		980
	Other, less allowances of \$713 and \$1,032, respectively	104,605		88,224
	Inventory, net	218,882		238,188
	Prepaid expenses	65,510		65,596
	Net deferred income tax asset	99,105		99,105
	Other current assets	19,702		19,538
		1,326,267		1,401,191
<b>Assets held for sale</b>				
		-		16,027
<b>Investments</b>				
	Licenses	1,425,945		1,401,126
	Goodwill	387,524		387,524
	Investments in unconsolidated entities	289,842		265,585
		2,103,311		2,054,235
<b>Property, plant and equipment</b>				
	In service and under construction	7,715,292		7,717,512
	Less: Accumulated depreciation	4,939,072		4,860,992
		2,776,220		2,856,520
<b>Other assets and deferred charges</b>				
		132,536		117,735
<b>Total assets</b>				
		\$ 6,338,334		\$ 6,445,708
The accompanying notes are an integral part of these consolidated financial statements.				



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<b>United States Cellular Corporation</b>					
<b>Consolidated Balance Sheet — Liabilities and Equity</b>					
<b>(Unaudited)</b>					
<b>(Dollars and shares in thousands)</b>				<b>March 31,</b>	<b>December 31,</b>
				<b>2014</b>	<b>2013</b>
<b>Current liabilities</b>					
	Current portion of long-term debt			\$ 166	\$ 166
	Accounts payable				
		Affiliated		9,266	11,243
		Trade		347,459	405,583
	Customer deposits and deferred revenues			255,230	256,740
	Accrued taxes			58,574	73,820
	Accrued compensation			35,930	66,566
	Other current liabilities			161,446	192,055
				868,071	1,006,173
<b>Deferred liabilities and credits</b>					
	Net deferred income tax liability			830,960	836,297
	Other deferred liabilities and credits			330,467	315,073
<b>Long-term debt</b>				878,127	878,032
<b>Commitments and contingencies</b>				-	-
<b>Noncontrolling interests with redemption features</b>				543	536
<b>Equity</b>					
	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 84,185 shares (33,006 Series A Common and 51,179 Common Shares) and 84,205 shares (33,006 Series A Common and 51,199 Common Shares), respectively			
		Par Value (\$1 per share) (\$33,006 Series A Common and \$55,068 Common Shares)		88,074	88,074

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		Additional paid-in capital		1,429,148			1,424,729
		Treasury shares, at cost, 3,889 and 3,869 Common Shares, respectively		(165,577)			(164,692)
		Retained earnings		2,061,561			2,043,095
		Total U.S. Cellular shareholders' equity		3,413,206			3,391,206
		Noncontrolling interests		16,960			18,391
		Total equity		3,430,166			3,409,597
		<b>Total liabilities and equity</b>		<b>\$ 6,338,334</b>		<b>\$</b>	<b>6,445,708</b>
The accompanying notes are an integral part of these consolidated financial statements.							

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United States Cellular Corporation									
<u>Consolidated Statement of Changes in Equity</u>									
<u>(Unaudited)</u>									
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		
<b>Balance, December 31, 2013</b>	\$ 88,074	\$ 1,424,729	\$ (164,692)	\$ 2,043,095	\$ 3,391,206	\$ 18,391	\$ 3,409,597		
Add (Deduct)									
Net income attributable to U.S. Cellular shareholders	-	-	-	19,482	19,482	-	19,482		
Net income (loss) attributable to noncontrolling interests classified as equity	-	-	-	-	-	(1,107)	(1,107)		
Repurchase of Common Shares	-	-	(2,300)	-	(2,300)	-	(2,300)		
Incentive and compensation plans	-	-	1,415	(1,016)	399	-	399		
Stock-based compensation	-	4,576	-	-	4,576	-	4,576		

awards														
Tax windfall (shortfall) from stock awards	-	(157)	-	-	(157)	-	-	(157)	-	(157)				
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-	(324)	(324)				
<b>Balance, March 31, 2014</b>	\$ 88,074	\$ 1,429,148	\$ (165,577)	\$ 2,061,561	\$ 3,413,206	\$ 16,960	\$ 3,430,166							

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

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United States Cellular Corporation									
Consolidated Statement of Changes in Equity									
(Unaudited)									
U.S. Cellular Shareholders									
(Dollars in thousands)	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	Total U.S. Cellular Shareholders Equity	Noncontrolling Interests	Total Equity		
Balance, December 31, 2012	\$ 88,074	\$ 1,412,453	\$ (165,724)	\$ 2,399,052	\$ 3,733,855	\$ 61,392	\$ 3,795,247		
Add (Deduct)									
Net income attributable to U.S. Cellular shareholders	-	-	-	4,914	4,914	-	4,914		
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	5,822	5,822		
Repurchase of Common Shares	-	-	(18,425)	-	(18,425)	-	(18,425)		
Incentive and compensation plans	-	-	764	(641)	123	-	123		
Stock-based compensation awards	-	5,036	-	-	5,036	-	5,036		

Tax windfall (shortfall) from stock awards	-	(181)	-	-	(181)	-	(181)
Distributions to noncontrolling interests	-	-	-	-	-	(2,396)	(2,396)
<b>Balance, March 31, 2013</b>	<b>\$ 88,074</b>	<b>\$ 1,417,308</b>	<b>\$ (183,385)</b>	<b>\$ 2,403,325</b>	<b>\$ 3,725,322</b>	<b>\$ 64,818</b>	<b>\$ 3,790,140</b>
The accompanying notes are an integral part of these consolidated financial statements.							



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**United States Cellular Corporation**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

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

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

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

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

Recently Issued Accounting Pronouncements

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

#### Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$26.4 million and \$32.1 million for the three months ended March 31, 2014, and 2013, respectively.

## **2. Fair Value Measurements**

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

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	Level within the Fair Value Hierarchy	March 31, 2014				December 31, 2013			
		Book Value		Fair Value		Book Value		Fair Value	
<b>(Dollars in thousands)</b>									
Cash and cash equivalents	1	\$ 398,541		\$ 398,541		\$ 342,065		\$ 342,065	
Short-term investments									
U.S. Treasury Notes	1	40,056		40,056		50,104		50,104	
Long-term debt									
6.95% Senior Notes	1	342,000		347,062		342,000		309,852	
6.7% Senior Notes	2	532,515		531,869		532,449		507,697	

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

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair value of Long-term debt was estimated using market prices for the 6.95% Senior Notes, and discounted cash flow analysis using an estimated yield to maturity of 6.91% for the 6.7% Senior Notes at March 31, 2014.

### 3. Income Taxes

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

U.S. Cellular's overall effective tax rate on Income before income taxes for the three months ended March 31, 2014 and 2013 was 40.6% and 40.8%, respectively.

**4. Earnings Per Share**

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

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

	Three Months Ended			
	March 31,			
	2014		2013	
<b>(Dollars and shares in thousands, except per share amounts)</b>				
Net income attributable to U.S. Cellular shareholders	\$	19,482	\$	4,914
Weighted average number of shares used in basic earnings per share		84,213		83,838
Effects of dilutive securities:				
Stock options		203		151
Restricted stock units		649		599
Weighted average number of shares used in diluted earnings per share		85,065		84,588
Basic earnings per share attributable to U.S. Cellular shareholders	\$	0.23	\$	0.06
Diluted earnings per share attributable to U.S. Cellular shareholders	\$	0.23	\$	0.06

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

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		<b>Three Months Ended</b>		
		<b>March 31,</b>		
		<b>2014</b>		<b>2013</b>
<b>(Shares in thousands)</b>				
Stock options		1,276		2,226
Restricted stock units		-		1

On June 25, 2013, U.S. Cellular paid a special cash dividend of \$5.75 per share, for an aggregate amount of \$482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Outstanding U.S. Cellular stock options and restricted stock unit awards were equitably adjusted for the special cash dividend. The impact of such adjustments on the earnings per share calculation was reflected for all periods presented.

**5. Acquisitions, Divestitures and Exchanges**Divestiture Transaction

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

Pursuant to the Purchase and Sale Agreement, U.S. Cellular and Sprint also entered into certain other agreements, including customer and network transition services agreements, which require U.S. Cellular to provide customer, billing and network services to Sprint for a period of up to 24 months after the May 16, 2013 closing date. Sprint will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular’s estimated costs, including applicable overhead allocations. These services were substantially complete as of March 31, 2014. In addition, these agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to \$175 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to \$25 million of the Sprint Cost Reimbursement will be recorded in System operations in the Consolidated Statement of Operations. For the three months ended March 31, 2014, \$11.3 million of the Sprint Cost Reimbursement had been

received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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

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(Dollars in thousands)		Expected Period of Recognition	Projected Range			Cumulative Amount Recognized as of March 31, 2014	Actual Amount Recognized Three Months Ended March 31, 2014	Actual Amount Recognized Three Months Ended March 31, 2013
<b>(Gain) loss on sale of business and other exit costs, net</b>								
Proceeds from Sprint								
	Purchase price	2013	\$ (480,000)	\$ (480,000)	\$ (480,000)	\$ -	\$ -	
	Sprint Cost Reimbursement	2013-2015	(120,000)	(175,000)	(92,272)	(44,631)	-	
Net assets transferred		2013	213,593	213,593	213,593	-	-	
Non-cash charges for the write-off and write-down  of property under construction and related assets		2012-2014	10,000	15,000	11,018	343	222	
Employee related costs including severance,  retention and outplacement		2012-2014	12,000	18,000	14,200	(62)	3,050	
Contract termination costs		2012-2015	100,000	130,000	96,671	37,087	2,900	
Transaction costs		2012-2014	5,000	7,000	5,774	209	918	
Total (Gain) loss on sale of business and other  exit costs, net			\$ (259,407)	\$ (271,407)	\$ (231,016)	\$ (7,054)	\$ 7,090	
<b>Depreciation, amortization and accretion expense</b>								
Incremental depreciation, amortization and		2012-2014	210,000	220,000	211,656	13,085	38,046	

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accretion, net of salvage values													
<b>(Increase) decrease in Operating income</b>			\$ (49,407)		\$ (51,407)		\$ (19,360)		\$ 6,031		\$ 45,136		

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

As a result of the transaction, U.S. Cellular recognized the following amounts in the Consolidated Balance Sheet:																	
<b>Three Months Ended March 31, 2014</b>																	
<b>(Dollars in thousands)</b>		<b>Balance December 31, 2013</b>				<b>Costs Incurred</b>				<b>Cash Settlements (1)</b>			<b>Adjustments (2)</b>			<b>Balance March 31, 2014</b>	
<b>Accrued compensation</b>																	
	Employee related costs including severance, retention, outplacement	\$ 2,053				\$ 169				\$ (701)			\$ (231)			\$ 1,290	
<b>Other current liabilities</b>																	
	Contract termination costs	\$ 13,992				\$ 12,673				\$ (5,950)			\$ 792			\$ 21,507	
<b>Other deferred liabilities and credits</b>																	
	Contract termination costs	\$ 30,849				\$ 24,073				\$ (1,924)			\$ (8,614)			\$ 44,384	
(1)		Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities on the Consolidated Statement of Cash Flows.															
(2)		Adjustment to liability represents changes to previously accrued amounts.															

Other Acquisitions, Divestitures and Exchanges

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

Statement of Operations for the three months ended March 31, 2014.

On February 14, 2014, U.S. Cellular completed an exchange whereby U.S. Cellular received one E block PCS spectrum license covering Milwaukee, WI in exchange for one D block PCS spectrum license covering Milwaukee, WI. The exchange of licenses provided U.S. Cellular with spectrum to meet anticipated future capacity and coverage requirements. No cash, customers, network assets, other assets or liabilities were included in the exchange. As a result of this transaction, U.S. Cellular recognized a gain of \$15.7 million, representing the difference between the \$15.9 million fair value of the license surrendered, calculated using a market approach valuation method, and the \$0.2 million carrying value of the license surrendered. This gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations for the three months ended March 31, 2014.

Table of Contents**6. Intangible Assets**

Changes in U.S. Cellular's Licenses for the three months ended March 31, 2014 and 2013 are presented below. There were no significant changes to Goodwill during the periods presented.

<u>Licenses</u>					
			<b>March 31, 2014</b>		<b>March 31, 2013</b>
<b>(Dollars in thousands)</b>					
Balance, beginning of period		\$	1,401,126	\$	1,456,794
	Acquisitions		9,100		14,150
	Exchanges, net		15,719		-
Balance, end of period		\$	1,425,945	\$	1,470,944

**7. Investments in Unconsolidated Entities**

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

	The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of U.S. Cellular's equity method investments.					
	<b>Three Months Ended March 31,</b>					
		<b>2014</b>			<b>2013</b>	
<b>(Dollars in thousands)</b>						
Revenues	\$	1,620,402		\$	1,471,192	
Operating expenses		1,137,209			1,034,624	
Operating income		483,193			436,568	
Other income, net		1,764			598	
Net income	\$	484,957		\$	437,166	

NY1 & NY2 Deconsolidation

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

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

#### **8. Variable Interest Entities (VIEs)**

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

#### Consolidated VIEs

As of March 31, 2014, U.S. Cellular holds a variable interest in and consolidates the following VIEs under GAAP:

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

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

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

		<b>March 31,</b>		<b>December 31,</b>	
		<b>2014</b>		<b>2013</b>	
<b>(Dollars in thousands)</b>					
<b>Assets</b>					
	Cash and cash equivalents	\$	2,325	\$	2,076
	Other current assets		1,126		1,184
	Licenses		310,475		310,475
	Property, plant and equipment, net		16,940		18,600
	Other assets and deferred charges		511		511
	Total assets	\$	331,377	\$	332,846
<b>Liabilities</b>					
	Current liabilities	\$	135	\$	46
	Deferred liabilities and credits		2,122		3,139
	Total liabilities	\$	2,257	\$	3,185

Other Related Matters

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

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

There were no capital contributions or advances made to Aquinas Wireless or King Street Wireless or their general partners in the three months ended March 31, 2014 and 2013.

U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless. Aquinas Wireless is still in the process of developing long-term business plans.

## **9. Noncontrolling Interests**

U.S. Cellular’s consolidated financial statements include certain noncontrolling interests that meet the GAAP definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships and limited liability companies (“LLCs”), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and U.S. Cellular in accordance with the respective partnership and LLC agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2107.

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The estimated aggregate amount that would be due and payable to settle all of these noncontrolling interests (“settlement value”), assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on March 31, 2014, net of estimated liquidation costs, is \$21.9 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. U.S. Cellular currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at March 31, 2014 was \$14.4 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is due primarily to the unrecognized appreciation of the noncontrolling interest holders’ share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders’ share, nor U.S. Cellular’s share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

**10. Common Share Repurchases**

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

Share repurchases made under this authorization were as follows:

	<b>Three Months Ended</b>			
	<b>March 31,</b>			
	<b>2014</b>			<b>2013</b>
<b>(Dollars amounts and shares in thousands)</b>				
Number of shares		59		496
Average cost per share	\$	39.13	\$	37.16
Amount	\$	2,300	\$	18,425

**11. Supplemental Cash Flow Disclosures**

U.S. Cellular and several of its wholly-owned subsidiaries participated in FCC Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to \$40.1 million in one-time support from the Mobility Fund.

These funds will reduce the carrying amount of the assets to which they relate or will offset operating expenses. U.S. Cellular has received \$13.4 million in support funds as of March 31, 2014, of which \$9.4 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and \$4.0 million reduced the carrying amount of the assets to which they relate, which are included in Property, plant and equipment in the Consolidated Balance Sheet.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

United States Cellular Corporation ("U.S. Cellular") owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 84%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS") as of March 31, 2014.

U.S. Cellular provides wireless telecommunications services to approximately 4.7 million customers in 23 states. As of March 31, 2014, U.S. Cellular's average penetration rate in its consolidated operating markets was 14.8%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network.

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

**OVERVIEW**

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

Financial and operating highlights in the three months ended March 31, 2014 included the following:

- In March 2014, U.S. Cellular sold the majority of its St. Louis area non-operating market license for \$92.3 million. As a result of this sale, a gain of \$75.8 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.
- In February 2014, U.S. Cellular completed a license exchange in Milwaukee. As a result of this transaction, a gain of \$15.7 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of

Operations.

- Total consolidated customers were 4,684,000 at March 31, 2014, including 4,530,000 retail customers (97% of total).

The following operating information is presented for Core Markets. As used here, Core Markets is defined as all consolidated markets in which U.S. Cellular currently conducts business and, therefore, excludes the Divestiture Markets and the NY1 & NY2 Partnerships. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the Divestiture Transaction and other retained assets from the Divestiture Markets. See Note 5 — Acquisitions, Divestitures and Exchanges and Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

- Retail customer net losses were 80,000 in 2014 compared to net losses of 2,000 in 2013. In the postpaid category, there were net losses of 93,000 in 2014, compared to net losses of 33,000 in 2013. Postpaid defections increased due to billing system conversion issues and aggressive promotions by other carriers. Prepaid net additions were 13,000 in 2014 compared to net additions of 31,000 in 2013. The decline resulted from lower net additions in the national retail channel.
- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of March 31, 2014. The postpaid churn rate was 2.3% in 2014 compared to 1.6% in 2013. Billing system conversion issues and aggressive competitive offerings contributed to the increase in postpaid churn. The prepaid churn rate was 6.9% in 2014 compared to 5.6% in 2013.
- Billed average revenue per user ("ARPU") increased to \$53.93 in 2014 from \$50.93 in 2013 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU increased to \$60.19 in 2014 from \$57.14 in 2013 due primarily to an increase in postpaid ARPU, offset by decreases in inbound roaming revenue and prepaid ARPU.
- Postpaid customers on smartphone service plans increased to 53% as of March 31, 2014 compared to 43% as of March 31, 2013. In addition, smartphones represented 73% of all devices sold in 2014 compared to 62% in 2013.

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

- Retail service revenues of \$764.8 million decreased \$119.2 million, or 13%, in 2014 due to a decrease of 1,036,000 in the average number of customers (including approximately 750,000 due to the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.
- Cash flows from operating activities were \$63.5 million. At March 31, 2014, Cash and cash equivalents and Short-term investments totaled \$438.6 million and there were no outstanding borrowings under the revolving credit facility.
- Total additions to Property, plant and equipment were \$89.6 million, including expenditures to deploy fourth generation Long-term Evolution (“4G LTE”) equipment, construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores, and enhance billing and other customer management related systems and platforms. Total cell sites in service decreased 23% year-over-year to 6,165 primarily as a result of the NY1 & NY2 Deconsolidation and the deactivation of certain cell sites in the Divestiture Markets.
- Operating income increased \$6.4 million, to \$7.8 million in 2014. Excluding the (gain) loss on license sales and exchanges, operating income decreased due to lower service revenues and higher equipment subsidies exceeding reductions in operating expenses.
- Net income attributable to U.S. Cellular shareholders increased \$14.6 million to \$19.5 million in 2014 compared to \$4.9 million in 2013, due primarily to the net impact of higher operating income and interest expense. Basic earnings per share and Diluted earnings per share were \$0.23 in 2014, which was \$0.17 higher than in 2013.

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

- Effects of industry competition on service and equipment pricing;
- U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System (“B/OSS”) in the third quarter of 2013. Intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. System enhancements continue to be implemented to address these issues, and customer service and sales operations response times have improved. However, any future

operational problems associated with the new billing system could have adverse effects on U.S. Cellular's business (in areas such as overall customer satisfaction, customer attrition, uncollectible accounts receivable, gross customer additions, or operating expenses). All of these factors could have a material adverse effect on U.S. Cellular's results of operations or cash flows;

- Impacts of selling Apple iPhone products;
- Impacts of selling devices under retail installment contracts;
- Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;
- Expanded distribution of products and services in third-party national retailers;
- Potential increases in prepaid customers, who generally generate lower ARPU and higher churn, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;
- The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers;
- Continued growth in revenues and costs related to data products and services and declines in revenues from voice services;
- Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in network capacity and enhancements;
- Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;

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

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

### **Pro Forma Financial Information**

Refer to U.S. Cellular's Form 8-K filed on May 3, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three months ended March 31, 2013, as if the transactions had occurred at the beginning of the period.

## **REGULATORY DEVELOPMENTS**

### **FCC Interoperability Order**

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

## **RESULTS OF OPERATIONS**

### **Summary Operating Data for U.S. Cellular Consolidated Markets**

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

<b>As of or for Three Months Ended March 31,</b>		<b>2014</b>		<b>2013</b>	
<b>Retail Customers</b>					
<b>Postpaid</b>					
	Total at end of period	4,174,000		5,060,000	
	Gross additions	197,000		191,000	
	Net additions (losses)	(93,000)		(74,000)	
	ARPU(1)	\$ 57.59		\$ 54.85	
	Churn rate(2)	2.3 %		1.7 %	
	Smartphone penetration(3)(4)	53.1 %		43.5 %	
<b>Prepaid</b>					
	Total at end of period	356,000		446,000	
	Gross additions	85,000		104,000	
	Net additions (losses)	13,000		23,000	
	ARPU(1)	\$ 32.22		\$ 33.31	
	Churn rate(2)	6.9 %		6.2 %	
<b>Total customers at end of period</b>		4,684,000		5,736,000	
<b>Billed ARPU(1)</b>		\$ 53.93		\$ 51.13	
<b>Service revenue ARPU(1)</b>		\$ 60.19		\$ 57.63	
<b>Smartphones sold as a percent of total devices sold</b>		73.0 %		61.7 %	
<b>Total Population</b>					
	Consolidated markets(5)	54,817,000		93,943,000	
	Consolidated operating markets(5)	31,729,000		47,440,000	
<b>Market penetration at end of period</b>					
	Consolidated markets(6)	8.5 %		6.1 %	
	Consolidated operating markets(6)	14.8 %		12.1 %	
<b>Capital expenditures (000s)</b>		\$ 89,581		\$ 118,410	
<b>Total cell sites in service</b>		6,165		8,027	
<b>Owned towers</b>		4,448		4,411	

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<b>Summary Operating Data for U.S. Cellular Core Markets</b>							
Following is a table of summarized operating data for U.S. Cellular's Core Markets. For comparability, Core Markets as presented here excludes the results of the Divestiture Markets and NY1 and NY2 Partnerships as of or for the three months ended March 31, 2013.							
<b>As of or for Three Months Ended March 31,</b>				<b>2014</b>		<b>2013</b>	
<b>Retail Customers</b>							
<b>Postpaid</b>							
Total at end of period				4,174,000		4,463,000	
Gross additions				197,000		176,000	
Net additions (losses)				(93,000)		(33,000)	
ARPU(1)				\$ 57.59		\$ 54.21	
Churn rate(2)				2.3 %		1.6 %	
Smartphone penetration(3)(4)				53.1 %		43.0 %	
<b>Prepaid</b>							
Total at end of period				356,000		373,000	
Gross additions				85,000		91,000	
Net additions (losses)				13,000		31,000	
ARPU(1)				\$ 32.22		\$ 32.92	
Churn rate(2)				6.9 %		5.6 %	
<b>Total customers at end of period</b>				<b>4,684,000</b>		<b>5,005,000</b>	
<b>Billed ARPU(1)</b>				<b>\$ 53.93</b>		<b>\$ 50.93</b>	
<b>Service revenue ARPU(1)</b>				<b>\$ 60.19</b>		<b>\$ 57.14</b>	
<b>Smartphones sold as a percent of total devices sold</b>				<b>73.0 %</b>		<b>62.1 %</b>	
<b>Total Population</b>							
Consolidated markets(5)				54,817,000		84,025,000	
Consolidated operating markets(5)				31,729,000		31,822,000	
<b>Market penetration at end of period</b>							
Consolidated markets(6)				8.5 %		6.0 %	
Consolidated operating markets(6)				14.8 %		15.7 %	
<b>Capital expenditures (000s)</b>				<b>\$ 89,581</b>		<b>\$ 107,907</b>	
<b>Total cell sites in service</b>				<b>6,165</b>		<b>6,113</b>	
<b>Owned towers</b>				<b>3,883</b>		<b>3,846</b>	

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

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



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

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

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

(3) Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding tablets.

(4) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.

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(5) Used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (6) below.

(6) Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas.

<b>Components of Operating Income</b>									
<b>Three Months Ended March 31,</b>		<b>2014</b>		<b>2013</b>		<b>Change</b>		<b>Percentage Change</b>	
<b>(Dollars in thousands)</b>									
Retail service		\$	764,801	\$	883,991	\$	(119,190)	(13)	%
Inbound roaming			50,126		65,874		(15,748)	(24)	%
Other			38,686		46,484		(7,798)	(17)	%
	Service revenues		853,613		996,349		(142,736)	(14)	%
Equipment sales			72,198		85,397		(13,199)	(15)	%
	Total operating revenues		925,811		1,081,746		(155,935)	(14)	%
System operations (excluding Depreciation, amortization and accretion reported below)									
			180,607		216,299		(35,692)	(17)	%
Cost of equipment sold			270,474		241,691		28,783	12	%
Selling, general and administrative			395,564		420,080		(24,516)	(6)	%
Depreciation, amortization and accretion			167,753		189,845		(22,092)	(12)	%
(Gain) loss on asset disposals, net			1,934		5,434		(3,500)	(64)	%
(Gain) loss on sale of business and other exit costs, net			(6,900)		6,931		(13,831)	>(100)	%
(Gain) loss on license sales and exchanges			(91,446)		-		(91,446)	N/M	
	Total operating expenses		917,986		1,080,280		(162,294)	(15)	%
	Operating income	\$	7,825	\$	1,466	\$	6,359	>100	%

**Operating Revenues***Service revenues*

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

***Retail service revenues***

Retail service revenues decreased by \$119.2 million, or 13%, in 2014 to \$764.8 million due to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.

Billed ARPU increased to \$53.93 in 2014 from \$51.13 in 2013. This overall increase is due primarily to an increase in postpaid ARPU to \$57.59 in 2014 from \$54.85 in 2013, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

U.S. Cellular expects continued pressure on revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage. In addition, beginning in the second quarter of 2014, U.S. Cellular expanded its offerings involving equipment installment contracts. To the extent customers adopt these plans, U.S. Cellular expects it to reduce retail service revenue and ARPU and increase equipment revenue.

***Inbound roaming revenues***

Inbound roaming revenues decreased by \$15.7 million, or 24%, in 2014 to \$50.1 million. The decrease was due primarily to the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.

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***Other revenues***

Other revenues decreased by \$7.8 million, or 17%, in 2014 compared to 2013, due primarily to decreases in eligible telecommunications carriers (“ETC”) support.

Pursuant to the FCC's Reform Order (“Reform Order”), U.S. Cellular’s current ETC support is being phased down at the rate of 20% per year beginning July 1, 2012. If the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and U.S. Cellular will continue to receive 60% of its baseline support until the Phase II Mobility Fund is operational. At this time, U.S. Cellular cannot predict the net effect of the FCC’s changes to the USF high cost support program in the Reform Order. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular’s business, financial condition or results of operations.

***Equipment sales revenues***

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

U.S. Cellular offers a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices; in addition, customers on currently offered rate plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings involving equipment installment contracts. To the extent customers adopt these plans, U.S. Cellular expects it to reduce retail service revenue and ARPU and increase equipment revenue. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers.

Equipment sales revenues decreased \$13.2 million, or 15%, in 2014 to \$72.2 million. The decrease was due primarily to the effects of the Divestiture Transaction and the NY1 & NY2 Deconsolidation and fewer device sales in the Core Markets, primarily feature phones. The decrease also reflected a reduction in average revenue per device sold due to industry price competition.

## Operating Expenses

### *System operations expenses (excluding Depreciation, amortization and accretion)*

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

System operations expenses decreased \$35.7 million, or 17%, to \$180.6 million. Key components of the net changes in System operations expense were as follows:

- Customer usage expenses decreased by \$17.7 million, or 25%, driven by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation and decreases in certain data costs due to 4G LTE migration and lower fees for platform and content providers.
- Maintenance, utility and cell site expenses decreased \$12.2 million, or 12%, driven primarily by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation and lower headcount.
- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$5.9 million, or 13%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation. Such expenses also decreased in the Core Markets due to lower voice volume, offset by an increase in data roaming usage.

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.

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***Cost of equipment sold***

Cost of equipment sold increased by \$28.8 million, or 12%, in 2014 to \$270.5 million. The increase was driven by a 37% increase in the average cost per device sold, which more than offset the impact of selling fewer devices. Average cost per device sold increased due to general customer preference for higher-priced 4G LTE smartphones. Smartphones sold as a percentage of total devices sold were 73.0% and 61.7% in 2014 and 2013, respectively. The total number of devices sold decreased by 16%, primarily due to the Divestiture Transaction.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$198.3 million and \$156.3 million for 2014 and 2013, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers under the standard contract/subsidy model the industry has operated with for many years. However, U.S. Cellular is beginning to offer new equipment pricing constructs such as installment plans which U.S. Cellular expects will mitigate loss on equipment to some degree.

***Selling, general and administrative expenses***

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

Key components of the \$24.5 million, or 6%, decrease to \$395.6 million were as follows:

- Selling and marketing expense decreased by \$5.5 million, or 3%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation, offset by increases in commissions and advertising expenses.
- General and administrative expense decreased by \$19.0 million, or 8%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation, offset by an increase in bad debts expense.

***Depreciation, amortization and accretion***

Depreciation, amortization and accretion decreased \$22.1 million, or 12%, in 2014 to \$167.8 million due primarily to the higher amount of accelerated depreciation, amortization and accretion in the Divestiture Markets that occurred in 2013. The impact of the acceleration was \$13.1 million in 2014 compared to \$38.1 million in 2013. The accelerated depreciation, amortization and accretion in the Divestiture Markets was completed in the first quarter of 2014.

***(Gain) loss on asset disposals, net***

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

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

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

***(Gain) loss on license sales and exchanges***

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

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<b>Components of Other Income (Expense)</b>							
<b>Three Months Ended March 31,</b>	<b>2014</b>		<b>2013</b>		<b>Change</b>		<b>Percentage</b>
<b>(Dollars in thousands, except per share amounts)</b>							<b>Change</b>
Operating income	\$	7,825	\$	1,466	\$	6,359	>100%
Equity in earnings of unconsolidated entities		37,075		26,835		10,240	38%
Interest and dividend income		884		903		(19)	(2)%
Interest expense		(14,862)		(10,910)		(3,952)	(36)%
Other, net		86		(215)		301	>100%
Total investment and other income		23,183		16,613		6,570	40%
Income before income taxes		31,008		18,079		12,929	72%
Income tax expense		12,604		7,369		5,235	71%
Net income		18,404		10,710		7,694	72%
Less: Net income (loss) attributable to noncontrolling interests, net of tax		(1,078)		5,796		(6,874)	>(100)%
Net income attributable to U.S. Cellular shareholders	\$	19,482	\$	4,914	\$	14,568	>100%
Basic earnings per share attributable to U.S. Cellular shareholders	\$	0.23	\$	0.06	\$	0.17	>100%
Diluted earnings per share attributable to U.S. Cellular shareholders	\$	0.23	\$	0.06	\$	0.17	>100%

*Equity in earnings of unconsolidated entities*



U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$21.2 million and \$20.6 million to Equity in earnings of unconsolidated entities in 2014 and 2013, respectively.

On April 3, 2013, U.S. Cellular deconsolidated the NY1 & NY2 Partnerships and began reporting them as equity method investments in its consolidated financial statements as of that date. See Note 7 – Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information. In 2014, U.S. Cellular's investments in the NY1 & NY2 Partnerships contributed \$8.0 million.

***Interest expense***

The increase in interest expense was due primarily to a decrease in capitalized interest related to network and systems projects. Interest cost capitalized was \$0.9 million and \$4.7 million for 2014 and 2013, respectively.

***Income tax expense***

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the overall effective tax rate on Income before income taxes.

***Net income 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.

Table of Contents**RECENT ACCOUNTING PRONOUNCEMENTS**

Recent accounting pronouncements are not expected to have a significant effect on U.S. Cellular's financial condition or results of operations. See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for additional information.

**FINANCIAL RESOURCES**

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize U.S. Cellular's cash flow activities for the three months ended March 31, 2014 and 2013.

		2014		2013	
<b>(Dollars in thousands)</b>					
Cash flows from (used in):					
	Operating activities	\$	63,536	\$	223,615
	Investing activities		(5,007)		(161,520)
	Financing activities		(2,053)		(20,757)
Net increase in cash and cash equivalents		\$	56,476	\$	41,338

**Cash Flows from Operating Activities**

Cash flows from operating activities were \$63.5 million in 2014 and \$223.6 million in 2013, including net income tax payments of \$32.0 million in 2014 and net income tax refunds of \$0.2 million in 2013. This decrease was due primarily to lower earnings excluding gains recognized on sale of business and license sales and exchanges. Also contributing to this decrease were changes in Accounts payable balances driven primarily by payment timing differences related to operating expenses and device purchases. The above decreases in Cash flows from operating activities were partially offset by changes in Accounts receivable balances as the high receivables at December 31, 2013 resulting from the conversion to a new billing system have begun to decline towards more normal levels.

**Cash Flows from Investing Activities**

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

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures) totaled \$89.6 million in 2014 and \$118.4 million in 2013. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows and excludes amounts accrued in Accounts payable for capital expenditures at March 31, 2014 and includes amounts paid in the current period that were accrued at December 31, 2013. Cash used for additions to property, plant and equipment totaled \$109.5 million in 2014 and \$151.0 million in 2013. See "Capital Expenditures" in Liquidity and Capital Resources below for additional information on capital expenditures.

Cash payments for acquisitions of licenses were \$9.1 million and \$14.2 million in 2014 and 2013, respectively.

Cash received from divestitures in 2014 was as follows. No cash was received for divestitures in 2013.		
	2014	
<b>Cash Received from Divestitures</b>		
<b>(Dollars in thousands)</b>		
Licenses	\$	91,789
Businesses		11,253
Total	\$	103,042

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

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

Table of Contents**Cash Flows from Financing Activities**

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

Payments for repurchases of Common Shares required \$2.0 million and \$18.4 million in 2014 and 2013, respectively. See Note 10 — Common Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

**Free Cash Flow**

The following table presents Free cash flow. Free cash flow is defined as Cash flows from operating activities less Cash used for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure which U.S. Cellular believes may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations, after Cash used for additions to property, plant and equipment.

<b>Three Months Ended March 31,</b>	<b>2014</b>		<b>2013</b>	
<b>(Dollars in thousands)</b>				
Cash flows from operating activities	\$	63,536	\$	223,615
Cash used for additions to property, plant and equipment		(109,498)		(151,024)
Free cash flow	\$	(45,962)	\$	72,591
See Cash Flows from Operating Activities and Cash Flows from Investing Activities for additional information related to the components of Free cash flow.				

**LIQUIDITY AND CAPITAL RESOURCES**

U.S. Cellular believes that existing cash and investment balances, funds available under its revolving credit facility and expected cash flows from operating and investing activities provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs for the foreseeable future. In addition, U.S. Cellular may access

public and private capital markets to help meet its financing needs.

U.S. Cellular cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets, U.S. Cellular financial performance and/or prospects or other factors could restrict U.S. Cellular's liquidity and availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its capital expenditure, acquisition or share repurchase programs. Such reductions could have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

The following table summarizes U.S. Cellular's cash and investments as of March 31, 2014.		
<b>(Dollars in thousands)</b>		
Cash and cash equivalents	\$	398,541
Short-term investments	\$	40,056

### Cash and Cash Equivalents

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

### Short-term Investments

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

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See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information on Short-term investments.

**Revolving Credit Facility**

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

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At March 31, 2014, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

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

U.S. Cellular's interest cost on its revolving credit facility may be subject to increase if its current credit rating from nationally recognized credit rating agencies is lowered, and may be subject to decrease if the rating is raised. The April 2014 downgrades will not affect the interest cost on the revolving credit facility. The credit facility would not cease to be available nor would the maturity date accelerate solely as a result of a downgrade in U.S. Cellular's credit rating. However, a further downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew the credit facility or obtain access to other credit facilities in the future.

The following table summarizes the terms of U.S. Cellular's revolving credit facility as of March 31, 2014:			
<b>(Dollars in millions)</b>			
Maximum borrowing capacity	\$		300.0
Letters of credit outstanding	\$		17.6
Amount borrowed	\$		-
Amount available for use	\$		282.4
Agreement date			December 2010
Maturity date			December 2017

The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. The covenants also prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries. There were no intercompany loans at March 31, 2014 or 2013. U.S. Cellular believes that it was in compliance as of March 31, 2014 with all of the financial covenants and requirements set forth in its revolving credit facility.

### **Long-Term Financing**

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

U.S. Cellular's long-term debt indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in U.S. Cellular's credit rating. However, a downgrade in U.S. Cellular's credit rating could adversely affect its ability to obtain long-term debt financing in the future. U.S. Cellular believes that it was in compliance as of March 31, 2014 with all financial covenants and other requirements set forth in its long-term debt indentures. U.S. Cellular has not failed to make nor does it expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the remainder of 2014 and the next four years represent less than 1% of the total long-term debt obligation at March 31, 2014. Refer to Market Risk — Long-Term Debt in U.S. Cellular's Form 10-K for the year ended December 31, 2013 for additional information regarding required principal payments and the weighted average interest rates related to U.S. Cellular's Long-term debt.

### **Capital Expenditures**

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

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





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- Expand and enhance the retail store network; and
- Develop and enhance office systems.

U.S. Cellular plans to finance its capital expenditures program for 2014 using primarily Cash flows from operating activities and, as necessary, existing cash balances and short-term investments.

## **Acquisitions, Divestitures and Exchanges**

U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, U.S. Cellular reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum. In addition, U.S. Cellular may seek to divest outright or include in exchanges for other wireless interests those interests that are not strategic to its long-term success. As a result, U.S. Cellular may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions.

## **Variable Interest Entities**

U.S. Cellular consolidates certain entities because they are “variable interest entities” under accounting principles generally accepted in the United States of America (“GAAP”). See Note 8 — Variable Interest Entities (VIEs) in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. U.S. Cellular may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

## **Common Share Repurchase Program**

In the past year, U.S. Cellular has repurchased and expects to continue to repurchase its Common Shares, subject to its repurchase program. For additional information related to the current repurchase authorization and repurchases made during 2014 and 2013, see Note 10 — Common Share Repurchases in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### **Contractual and Other Obligations**

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

### **Off-Balance Sheet Arrangements**

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

### **APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

U.S. Cellular prepares its consolidated financial statements in accordance with GAAP. U.S. Cellular's significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and U.S. Cellular's Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in U.S. Cellular's Form 10-K for the year ended December 31, 2013. There were no material changes to U.S. Cellular's application of critical accounting policies and estimates during the three months ended March 31, 2014.

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***PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995***

***SAFE HARBOR CAUTIONARY STATEMENT***

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

- *Intense competition in the markets in which U.S. Cellular operates could adversely affect U.S. Cellular’s revenues or increase its costs to compete.*
- *A failure by U.S. Cellular to successfully execute its business strategy (including planned acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.*
- *A failure by U.S. Cellular’s service offerings to meet customer expectations, including any continuing issues relating to the conversion to the new Billing and Operational Support System (“B/OSS”) in the third quarter of 2013, could limit U.S. Cellular’s ability to attract and retain customers and could have an adverse effect on U.S. Cellular’s business, financial condition or results of operations.*

- *U.S. Cellular's system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*
- *Changes in roaming practices or other factors could cause U.S. Cellular's roaming revenues to decline from current levels and/or impact U.S. Cellular's ability to service its customers in geographic areas where U.S. Cellular does not have its own network, which would have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *A failure by U.S. Cellular to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *To the extent conducted by the Federal Communications Commission ("FCC"), U.S. Cellular is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on U.S. Cellular.*
- *Changes in the regulatory environment or a failure by U.S. Cellular to timely or fully comply with any applicable regulatory requirements could adversely affect U.S. Cellular's business, financial condition or results of operations.*
- *Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on U.S. Cellular's business, financial condition or results of operations.*
- *An inability to attract and/or retain highly competent management, technical, sales and other personnel could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular's assets are concentrated in the U.S. wireless telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.*

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- *U.S. Cellular's lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.*
- *Changes in various business factors could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Advances or changes in technology could render certain technologies used by U.S. Cellular obsolete, could put U.S. Cellular at a competitive disadvantage, could reduce U.S. Cellular's revenues or could increase its costs of doing business.*
- *Complexities associated with deploying new technologies present substantial risk.*
- *U.S. Cellular is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.*
- *Performance under device purchase agreements could have a material adverse impact on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in U.S. Cellular's enterprise value, changes in the market supply or demand for wireless licenses, adverse developments in the business or the industry in which U.S. Cellular is involved and/or other factors could require U.S. Cellular to recognize impairments in the carrying value of its licenses, goodwill and/or physical assets.*
- *Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of U.S. Cellular's business could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *A significant portion of U.S. Cellular's revenues is derived from customers who buy services through independent agents who market U.S. Cellular's services on a commission basis and third-party national retailers. If U.S. Cellular's relationships with these agents or third-party national retailers are seriously harmed, its business, financial condition or results of operations could be adversely affected.*

- *U.S. Cellular's investments in unproven technologies may not produce the benefits that U.S. Cellular expects.*
- *A failure by U.S. Cellular to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.*
- *Financial difficulties (including bankruptcy proceedings) or other operational difficulties of U.S. Cellular's key suppliers, termination or impairment of U.S. Cellular's relationships with such suppliers, or a failure by U.S. Cellular to manage its supply chain effectively could result in delays or termination of U.S. Cellular's receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect U.S. Cellular's business, financial condition or results of operations.*
- *U.S. Cellular has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on U.S. Cellular's financial condition or results of operations.*
- *A failure by U.S. Cellular to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *The market price of U.S. Cellular's Common Shares is subject to fluctuations due to a variety of factors.*
- *Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission ("SEC"). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*

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- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require U.S. Cellular to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede U.S. Cellular's access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Uncertainty of U.S. Cellular's ability to access capital, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to U.S. Cellular, which could require U.S. Cellular to reduce its construction, development or acquisition programs.*
- *Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent U.S. Cellular from using necessary technology to provide products or services or subject U.S. Cellular to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.*
- *There are potential conflicts of interests between TDS and U.S. Cellular.*

- *Certain matters, such as control by TDS and provisions in the U.S. Cellular Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of U.S. Cellular.*
- *Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from U.S. Cellular's forward-looking estimates by a material amount.*



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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**MARKET RISK**

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

See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of U.S. Cellular's Long-term debt as of March 31, 2014.

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

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

As required by SEC Rule 13a-15(b), U.S. Cellular carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of U.S. Cellular's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, U.S. Cellular's principal executive officer and principal financial officer concluded that U.S. Cellular's disclosure controls and procedures were effective as of March 31, 2014, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting are updated as necessary to accommodate modifications to our business processes and accounting procedures. There have been no changes in U.S. Cellular's internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, U.S. Cellular's internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

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

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

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

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

Period		Total Number of Shares Purchased	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 – 31, 2014		-	\$	-	-	4,128,875
February 1 – 28, 2014		-		-	-	4,128,875
March 1 – 31, 2014		58,789		39.13	58,789	4,070,086
Total for or as of the end of the quarter ended March 31, 2014		58,789	\$	39.13	58,789	4,070,086

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

- i. The date the program was announced was November 20, 2009 by Form 8-K.
- ii. The amount approved was up to 1,300,000 U.S. Cellular Common Shares on an annual basis in 2009 and continuing each year thereafter on a cumulative basis.

- iii. There is no expiration date for the program.
  
- iv. The authorization did not expire during the first quarter of 2014.
  
- v. U.S. Cellular did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the first quarter of 2014.

**Item 5. Other Information.**

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

U.S. Cellular did not borrow or repay any amounts under its revolving credit facility in the first quarter of 2014. U.S. Cellular had no borrowings outstanding under its revolving credit facility as of March 31, 2014.

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

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**Item 6. Exhibits.**

Exhibit 10.1 — Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Kenneth R. Meyers.

Exhibit 10.2 — Form of Long-Term Incentive Plan Stock Option Award Agreement for Kenneth R. Meyers.

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

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

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

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

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

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

Exhibit 101.INS — XBRL Instance Document

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE — XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL — XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB — XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

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



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**SIGNATURES**



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

UNITED STATES CELLULAR CORPORATION			
(Registrant)			
Date:	May 2, 2014		/s/ Kenneth R. Meyers
			Kenneth R. Meyers President and Chief Executive Officer (principal executive officer)
Date:	May 2, 2014		/s/ Steven T. Campbell
			Steven T. Campbell Executive Vice President-Finance, Chief Financial Officer and Treasurer (principal financial officer)
Date:	May 2, 2014		/s/ Douglas D. Shuma
			Douglas D. Shuma Chief Accounting Officer (principal accounting officer)
Date:	May 2, 2014		/s/ Kristin A. MacCarthy
			Kristin A. MacCarthy

			Vice President and Controller	
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